

TOWNSHIP OF ADAMS
HILLSDALE COUNTY, MICHIGAN

AUDIT REPORT

MARCH 31, 2007

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name TOWNSHIP OF ADAMS	County HILLSDALE
Fiscal Year End 3-31-2007	Opinion Date 9-10-2007	Date Audit Report Submitted to State 9-11-2007	

We affirm that:

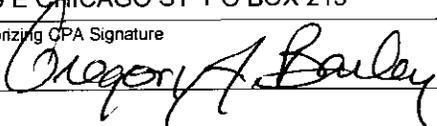
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO **Check each applicable box below.** (See instructions for further detail.)
- All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - The local unit has adopted a budget for all required funds.
 - A public hearing on the budget was held in accordance with State statute.
 - The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - The local unit only holds deposits/investments that comply with statutory requirements.
 - The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - The local unit is free of repeated comments from previous years.
 - The audit opinion is UNQUALIFIED.
 - The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - The board or council approves all invoices prior to payment as required by charter or statute.
 - To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) BAILEY, HODSHIRE & COMPANY, PC		Telephone Number (517) 849-2410	
Street Address 479 E CHICAGO ST PO BOX 215		City JONESVILLE	State Zip MI 49250
Authorizing CPA Signature 		Printed Name GREGORY J BAILEY	License Number 1101022915

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Bailey, Hodshire
& Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Adams Township Board
Township of Adams
North Adams, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Township of Adams as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Adams as of March 31, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 5 and pages 18 through 22, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Township of Adams' basic financial statements. The individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Bailey, Hodshire + Company, P.C.

September 10, 2007
Jonesville, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
TOWNSHIP OF ADAMS**

This section of Adams Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended March 31, 2007. Please read it in conjunction with the Township's financial statements which follow this section.

Financial Highlights

- The Township's total combined net assets increased by \$58,902 between April 1, 2006 and March 31, 2007
- The general fund reported a fund balance of \$464,238, which is an increase of \$35,185 from the prior year fund balance.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

The Township as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Township as a whole and about its activities in a way that helps explain the condition of the Township. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. In a condensed format, the table below shows the net assets of the Township as of the end of the year:

TABLE 1 - NET ASSETS

	<u>2006</u>	<u>2007</u>
Assets:		
Current Assets	\$ 489,339	\$ 533,831
Capital Assets (net of depreciation)	<u>50,511</u>	<u>65,356</u>
Total Assets	<u>\$ 539,850</u>	<u>\$ 599,187</u>
Liabilities:		
Current Liabilities	\$ 69	\$ 504
Long-term Liabilities	<u>0</u>	<u>0</u>
Total Liabilities	<u>\$ 69</u>	<u>\$ 504</u>
Net Assets:		
Invested in Capital Assets, net of related debt	\$ 50,511	\$ 65,356
Restricted	0	0
Unrestricted	<u>489,270</u>	<u>533,327</u>
Total Net Assets	<u>\$ 539,781</u>	<u>\$ 598,683</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS
TOWNSHIP OF ADAMS**

The following table shows the changes in the net assets during the year:

TABLE 2 - CHANGE IN NET ASSETS

	<u>2006</u>	<u>2007</u>
Program Revenue:		
Charges for services	\$ 73,780	\$ 72,448
Operating grants and contributions	800	800
General Revenue:		
Property tax	50,132	52,750
State shared revenue	133,996	136,023
Unrestricted investment earnings	6,473	5,932
Other	<u>17,821</u>	<u>12,598</u>
Total Revenue	<u>\$ 283,002</u>	<u>\$ 280,551</u>
Expenses:		
General Government	\$ 111,026	\$ 116,682
Public Safety	25,000	19,500
Public Works	141,226	75,107
Culture & Recreation	<u>11,000</u>	<u>10,360</u>
Total Expenses	<u>\$ 288,252</u>	<u>\$ 221,649</u>
INCREASE IN NET ASSETS	<u>\$ (5,250)</u>	<u>\$ 58,902</u>

The Township's net assets continue to remain healthy.

Governmental Activities

Total revenues for the year decreased slightly. Expenses increased due to an increase in the contract with the assessor, and the road chloride was more than anticipated. The General Fund was adjusted accordingly. During the year, the Township continued to monitor the revenues and expenditures.

The Township's Funds

The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Township's major funds include the General Fund, the Northlawn Cemetery Fund, the Inland Lake Improvement Fund, and the Recreation Fund.

The General Fund pays for most of the Township's governmental services. The most significant are road work, road stabilization (dust control on all dirt roads) and fire protection; these areas incurred expenses of \$64,067 in 2007 and \$121,107 in 2006. The fire protection is partially supported by the reimbursement of fire calls by the residents and their insurance companies.

MANAGEMENT'S DISCUSSION AND ANALYSIS TOWNSHIP OF ADAMS

General Fund Budgetary Highlights

Over the course of the year, the Township Board amended the budgets to take into account events during the year. The most significant was the increase in the General Fund fund balance due to the road project for Rumsey Road. The project was not completed in the Fall of 2006; therefore, the balance of the advance payment to the Hillsdale County Road Commission was returned in the amount of \$17,663.00. The project is expected to be completed in the summer of 2007.

Capital Asset and Debt Administration

The Township purchased approximately five acres on the south side of the Northlawn Cemetery for future expansion of the cemetery and to construct a new town hall.

There was a continued investment in the roads within the Township. The road work is done with the cooperation of the Hillsdale County Road Commission which performs (or contracts) the work and shares the costs. This infrastructure is not reported on the Township's financial statements because the roads are not the property of the Township. Details of the Township's capital assets are continued in the notes to the financial statements on page 16.

Economic Factors and Next Year's Budgets and Rates

The Township budget for 2007-08 has road work scheduled in the amount of \$86,325. The Township Board is considering building a new town hall on the property that was purchased south of the Northlawn Cemetery. The Inland Lake Board continues to work on the dredging project at Lake BelAir.

Contacting the Township's Management

This Financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

BASIC FINANCIAL STATEMENTS

TOWNSHIP OF ADAMS
STATEMENT OF NET ASSETS
MARCH 31, 2007

ASSETS	
Cash & investments	\$ 460,211
Taxes receivable	19,968
Accounts receivable	53,652
Capital assets - net	<u>65,356</u>
Total assets	<u>\$ 599,187</u>
LIABILITIES	
Accounts payable	<u>\$ 504</u>
NET ASSETS	
Investment in capital assets, net of related debt	\$ 65,356
Unrestricted	<u>533,327</u>
Total net assets	<u>\$ 598,683</u>
Total liabilities and net assets	<u>\$ 599,187</u>

The accompanying notes are an integral part of this statement.

TOWNSHIP OF ADAMS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
General Government	\$ 116,682	\$ 28,598	\$ 800	\$ 0	\$ (87,284)
Public Safety	19,500	1,850	0	0	(17,650)
Public Works	75,107	32,000	0	0	(43,107)
Culture & Recreation	<u>10,360</u>	<u>10,000</u>	<u>0</u>	<u>0</u>	<u>(360)</u>
Total	<u>\$ 221,649</u>	<u>\$ 72,448</u>	<u>\$ 800</u>	<u>\$ 0</u>	<u>\$(148,401)</u>

General Revenues:

Property tax, levied for general purposes	\$ 52,750
State shared revenue	136,023
Unrestricted investment earnings	5,932
Other	<u>12,598</u>
Total General Revenues	<u>\$ 207,303</u>
Change in Net Assets	\$ 58,902
Net Assets - Beginning (restated, see Note 11)	<u>539,781</u>
Net Assets - Ending	<u>\$ 598,683</u>

The accompanying notes are an integral part of this statement.

TOWNSHIP OF ADAMS
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2007

	General Fund	Northlawn Cemetery Fund	Inland Lake Improvement Fund	Recreation Fund	Total Governmental Funds
ASSETS					
Cash & investments	\$ 326,558	\$ 32,234	\$ 35,003	\$ 66,416	\$ 460,211
Taxes receivable	5,696	0	1,434	0	7,130
Accounts receivable	10,204	0	0	0	10,204
Due from other governments	43,448	0	0	0	43,448
Due from other funds	65,998	0	0	0	65,998
Due from agency fund	<u>12,838</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>12,838</u>
Total assets	<u>\$ 464,742</u>	<u>\$ 32,234</u>	<u>\$ 36,437</u>	<u>\$ 66,416</u>	<u>\$ 599,829</u>
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ 504	\$ 0	\$ 0	\$ 0	\$ 504
Due to other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>65,998</u>	<u>65,998</u>
Total liabilities	<u>\$ 504</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 65,998</u>	<u>\$ 66,502</u>
Fund Equity:					
Fund Balance					
Reserved	\$ 0	\$ 0	\$ 0	\$ 418	\$ 418
Unreserved/Undesignated	<u>464,238</u>	<u>32,234</u>	<u>36,437</u>	<u>0</u>	<u>532,909</u>
Total fund equity	<u>\$ 464,238</u>	<u>\$ 32,234</u>	<u>\$ 36,437</u>	<u>\$ 418</u>	<u>\$ 533,327</u>
Total liabilities and fund equity	<u>\$ 464,742</u>	<u>\$ 32,234</u>	<u>\$ 36,437</u>	<u>\$ 66,416</u>	<u>\$ 599,829</u>

**Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to the Net Assets of Governmental Activities on the Statement of Net Assets**

Fund Balances - total governmental funds	\$ 533,327
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: Capital assets	94,652
Deduct: Accumulated depreciation	<u>(29,296)</u>
Net assets of governmental activities	<u>\$ 598,683</u>

The accompanying notes are an integral part of this statement.

TOWNSHIP OF ADAMS
 STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED MARCH 31, 2007

	General Fund	Northlawn Cemetery Fund	Inland Lake Improvement Fund	Recreation Fund	Total Governmental Funds
REVENUE					
Property taxes	\$ 52,750	\$ 0	\$ 32,000	\$ 0	\$ 84,750
Administration fees	14,113	0	0	0	14,113
State shared revenue	136,023	0	0	0	136,023
Charges for services	1,970	14,365	0	0	16,335
Rent - Township Hall	10,000	0	0	0	10,000
Licenses, permits, franchise fees	3,347	0	0	0	3,347
Interest income	5,008	615	91	218	5,932
Miscellaneous	<u>9,226</u>	<u>825</u>	<u>0</u>	<u>0</u>	<u>10,051</u>
Total revenue	<u>\$ 232,437</u>	<u>\$ 15,805</u>	<u>\$ 32,091</u>	<u>\$ 218</u>	<u>\$ 280,551</u>
EXPENDITURES					
General Government	\$ 92,759	\$ 18,650	\$ 0	\$ 0	\$ 111,409
Public Safety	19,500	0	0	0	19,500
Public Works	49,525	0	25,582	0	75,107
Recreation and Culture	10,350	0	0	10	10,360
Capital Outlay	<u>20,118</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>20,118</u>
Total expenditures	<u>\$ 192,252</u>	<u>\$ 18,650</u>	<u>\$ 25,582</u>	<u>\$ 10</u>	<u>\$ 236,494</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>\$ 40,185</u>	<u>—(2,845)</u>	<u>\$ 6,509</u>	<u>\$ 208</u>	<u>\$ 44,057</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	\$ 0	\$ 5,000	\$ 0	\$ 0	\$ 5,000
Operating transfers out	<u>(5,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(5,000)</u>
Total other financing sources (uses)	<u>\$ (5,000)</u>	<u>\$ 5,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
NET CHANGES IN FUND BALANCES	<u>\$ 35,185</u>	<u>\$ 2,155</u>	<u>\$ 6,509</u>	<u>\$ 208</u>	<u>\$ 44,057</u>
FUND BALANCES - April 1, 2006*	<u>429,053</u>	<u>30,079</u>	<u>29,928</u>	<u>210</u>	<u>489,270</u>
FUND BALANCES - March 31, 2007	<u>\$ 464,238</u>	<u>\$ 32,234</u>	<u>\$ 36,437</u>	<u>\$ 418</u>	<u>\$ 533,327</u>

*General Fund restated (see Note 11)

The accompanying notes are an integral part of this statement.

TOWNSHIP OF ADAMS
Reconciliation of Statement of Revenue, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities

Net changes in fund balances - total governmental funds \$ 44,057

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	20,118
Deduct: depreciation expense	<u>(5,273)</u>

Change in net assets of governmental activities \$ 58,902

The accompanying notes are an integral part of this statement.

TOWNSHIP OF ADAMS
STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUND
MARCH 31, 2007

ASSETS

Cash	\$ 12,838
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LIABILITIES

Due to Township General Fund	\$ 12,838
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The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

TOWNSHIP OF ADAMS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township of Adams is located in Hillsdale County, Michigan, and comprises a population of approximately 1,984 residents. It is governed by a board consisting of 5 members with a supervisor as its head.

The following is a summary of significant accounting policies used by the Township of Adams:

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the Township consists of all funds, departments, boards and agencies that are not legally separate from the Township.

Component units are legally separate organizations for which the Township is financially accountable. Component units may also include organizations that are fiscally dependent on the Township in that the Township approves their budget, the issuance of their debt, or the levying of taxes. The Township has no component units.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. For the most part, the effect of interfund activity has been removed from these statements.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Township's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Property taxes, state shared revenue, and other items not properly included among program revenues are reported as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Township.

Fund Financial Statements - Fund financial statements report detailed information about the Township. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds (if any) are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Measurement Focus and Basis of Accounting

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TOWNSHIP OF ADAMS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measureable and available. Revenue is considered to be available if it is to be collected with the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting.

Under the modified accrual basis, property taxes, state shared revenue, interest, and grants are considered to be both measurable and available at fiscal year-end. All other revenue items are considered to be available only when cash is received by the Township.

Financial Statement Presentation

The Township uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Township functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

The Township reports the following major governmental funds:

General Fund - used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the laws of the State of Michigan.

Northlawn Cemetery Fund - established as a special revenue fund to account for the revenue and expenditures associated with the operation and maintenance of Northlawn Cemetery.

Inland Lake Improvement Fund - established as a special revenue fund to account for the revenue and expenditures associated with weed control at Lake Bel Air.

Recreation Fund - established as a capital projects fund to account for the revenue and expenditures associated with the construction of a recreation project in conjunction with surrounding municipalities.

Additionally, the Township reports the following fund type:

Fiduciary Fund/Trust and Agency Fund

Tax Collection Fund - used to account for property taxes collected from residents on behalf of the Township along with other governmental units in the county. This fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Assets, Liabilities, and Net Assets

Bank Deposits and Investments - Cash and investments are reported at cost.

Capital Assets - General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

TOWNSHIP OF ADAMS
 NOTES TO FINANCIAL STATEMENTS
 MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets (continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Township maintains a capitalization threshold of \$1,000. The Township does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings & Improvements	50 years
Furniture & Fixtures	20 years
Cemetery Equipment	15 years
Technology	5 years

Interfund Balances - On fund financial statements, receivables and payables resulting from short-term interfund loans are reported as “due to/from other funds.” These amounts are eliminated on the government-wide statement of net assets.

Interfund Activity - Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information - The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The legal level of budgetary control has been established by the Township Board at the line-item level. Any budgetary modifications may only be made by resolution of the Township Board. All annual appropriations lapse at fiscal year end.

The Township follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements:

- 1) Prior to March 31, the Clerk submits to the Township Board a proposed operating budget for the fiscal year commencing on April 1.
- 2) A public hearing is conducted during March to obtain taxpayer comments.
- 3) Prior to March 31, the budget is legally enacted through passage of a resolution.
- 4) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

TOWNSHIP OF ADAMS
 NOTES TO FINANCIAL STATEMENTS
 MARCH 31, 2007

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

During the year, the Township incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund	General Government - Miscellaneous	1,000	2,411	1,411
General Fund	Assessor - Contract services	10,800	10,868	68
General Fund	Public Works - Drains	400	843	443
General Fund	Capital Outlay	0	20,118	20,118
Recreation	Miscellaneous	0	10	10

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes authorize the Township to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. As of March 31, 2007, the Township's deposits are in accordance with statutory authority.

The Township's deposits and investments are subject to several types of risk, which are examined in more detail as follows:

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Township minimizes credit risk by limiting investments to the types of securities allowed by State law. The Township's investment policy further limits its investments to include only the following: checking accounts, savings accounts, certificates of deposit, money market accounts, and United States Savings Bonds.

Concentration of Credit Risk - The Township places no limit on the amount the Township may invest in any one issuer.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Township does not have a formal policy for custodial credit risk. At March 31, 2007, the carrying amount of the Township's bank deposits was \$478,504 and the bank's balance was \$478,646. Of the total bank balance, \$314,565 was covered by federal depository insurance and \$164,081 was uninsured. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township has no policy that specifically identifies interest rate risk.

TOWNSHIP OF ADAMS
 NOTES TO FINANCIAL STATEMENTS
 MARCH 31, 2007

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

Foreign Currency Risk - The Township is not authorized to invest in investments which have this type of risk.

NOTE 4 - RECEIVABLES

Receivables at March 31, 2007, consist of property taxes, special assessments, and fire run charges, and are considered collectible in full.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended March 31, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 17,000	\$ 20,118	\$ 0	\$ 37,118
Capital assets being depreciated				
Buildings & Improvements	\$ 24,802	\$ 0	\$ 0	\$ 24,802
Furniture & Equipment*	<u>32,732</u>	<u>0</u>	<u>0</u>	<u>32,732</u>
Subtotal	\$ 57,534	\$ 0	\$ 0	\$ 57,534
Less accumulated depreciation for				
Buildings & Improvements	\$ (18,063)	\$ (600)	\$ 0	\$ (18,663)
Furniture & Equipment	<u>(5,960)</u>	<u>(4,673)</u>	<u>0</u>	<u>(10,633)</u>
Subtotal	\$ (24,023)	\$ (5,273)	\$ 0	\$ (29,296)
Total capital assets being depreciated, net	\$ 33,511	\$ (5,273)	\$ 0	\$ 28,238
Total capital assets, net	<u>\$ 50,511</u>	<u>\$ 14,845</u>	<u>\$ 0</u>	<u>\$ 65,356</u>

Depreciation expense was charged to functions/programs of the Township as follows:

General Government	<u>\$ 5,273</u>
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*Restated, see Note 11

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances at March 31, 2007, is as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 12,838	Tax Collection Fund	\$ 12,838
General Fund	<u>65,998</u>	Recreation Fund	<u>65,998</u>
	<u>\$ 78,836</u>		<u>\$ 78,836</u>

TOWNSHIP OF ADAMS
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES (continued)

Interfund transfers during the year consisted of the following:

Transfers from Tax Collection Fund to General Fund	\$ 150,521
Transfers from Tax Collection Fund to Inland Lake Improvement Fund	31,139
Transfers from Tax Collection Fund to Northlawn Cemetery Fund	800
Transfer from General Fund to Northlawn Cemetery Fund	5,000

The amount due to General Fund from the Tax Collection Fund represents Township property taxes that have been collected but not yet transferred to General Fund. The amount due to General Fund from the Recreation Fund represents advances to the Recreation Fund for completion of the recreation area project.

NOTE 7 - PROPERTY TAXES

Real estate and personal property taxes are recorded as revenue in an amount equal to the total taxes levied. There are no provisions made for possible uncollectible taxes. The total levy for 2006 was .9333 mills for general operations on a total state taxable valuation of approximately \$56,596,000. The Township properties are assessed as of December 31 (the lien date), taxes levied December 1 of the succeeding year and due without interest to March 1. After March 1, the delinquent taxes real portion are turned over to the County Treasurer for collection. The personal properties continue to be collectible by the Township Treasurer.

NOTE 8 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Township has purchased commercial insurance for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, buildings and contents), workers compensation, and other appropriate coverages. There has been no significant reduction in insurance coverages, and settled claims have not exceeded the amount of insurance coverage in any of the past 3 years.

NOTE 9 - UNEMPLOYMENT TAXES

The Township is a reimbursing employer to the Michigan Unemployment Agency and as such is responsible to pay the Agency for those benefits paid and charged to its account. As of March 31, appropriate liabilities have been recorded for all claims paid by the Agency. However, no provision has been made for future payments that might result from claims in process or unfiled.

NOTE 10 - COMMITMENTS

At its March, 2007 meeting, the Township Board approved various contracts with the Hillsdale County Road Commission totaling \$61,900 (Township share) for road projects to be completed in the 2007-08 fiscal year.

NOTE 11 - RESTATEMENTS

The balance of capital assets was understated in the prior year financial statements by \$5,528 (the Township received a new voting machine as the result of a Federal Grant). The beginning balances for capital assets and net assets have been restated by this amount.

Beginning fund balance and net assets have also been restated to correctly reflect the specific State Revenue Sharing payments allocable to the fiscal year (an increase of \$42,795).

REQUIRED SUPPLEMENTARY INFORMATION

TOWNSHIP OF ADAMS
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED MARCH 31, 2007

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Beginning of year fund balance	\$ 386,258	\$ 386,258	\$ 429,053	\$ 42,795
Resources (inflows)				
Property taxes	40,000	40,000	52,750	12,750
Administration fees	10,000	10,000	14,113	4,113
State shared revenue	133,000	133,000	136,023	3,023
Charges for services	2,200	2,200	1,970	(230)
Rent - Township Hall	10,500	10,500	10,000	(500)
Licenses, permits, franchise fees	2,630	2,630	3,347	717
Interest income	1,000	1,000	5,008	4,008
Miscellaneous	<u>9,000</u>	<u>9,000</u>	<u>9,226</u>	<u>226</u>
Amounts available for appropriation	<u>\$ 594,588</u>	<u>\$ 594,588</u>	<u>\$ 661,490</u>	<u>\$ 66,902</u>
Charges to appropriations (outflows)				
General Government				
Township Board				
Salaries	2,733	2,733	2,733	0
Dues and subscriptions	1,500	1,500	1,225	(275)
Mileage	1,000	1,000	651	(349)
Conferences	2,500	2,500	2,448	(52)
Office equipment	2,900	2,900	4	(2,896)
Computer software	1,500	1,900	1,849	(51)
Attorney	2,000	2,000	111	(1,889)
Communications	1,100	1,300	1,113	(187)
Payroll tax	3,500	3,500	2,862	(638)
Printing and publishing	1,000	1,000	396	(604)
Insurance and bonds	13,000	13,000	11,817	(1,183)
Miscellaneous	1,000	1,000	2,411	1,411
Supervisor				
Salary	5,347	5,347	5,347	0
Supplies	250	250	34	(216)
Zoning Administrator	1,661	1,661	1,661	0
Clerk				
Salary	13,721	13,721	13,721	0
Deputy	250	250	0	(250)
Supplies	2,500	2,500	597	(1,903)
Audit	2,000	2,000	1,650	(350)

TOWNSHIP OF ADAMS
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED MARCH 31, 2007

	Original <u>Budget</u>	Amended <u>Budget</u>	<u>Actual</u>	Variance With Amended <u>Budget</u>
Board of Review	1,000	1,000	776	(224)
Treasurer				
Salary	12,214	12,214	12,214	0
Deputy	250	250	0	(250)
Dog license fees	150	150	100	(50)
Site tax	1,000	1,000	770	(230)
Supplies	3,000	3,000	2,567	(433)
Printing	4,000	4,000	2,638	(1,362)
Assessor				
Contract services	10,800	10,800	10,868	68
Supplies	2,000	3,100	2,105	(995)
Elections	2,000	2,300	2,126	(174)
Building and grounds				
Utilities	800	800	444	(356)
Repairs	5,000	5,000	1,121	(3,879)
Cemetery				
Clerical salary	1,730	1,730	1,730	0
Maintenance	5,000	5,000	3,300	(1,700)
Planning Commission/Board of Appeals	6,000	6,000	1,370	(4,630)
Public Safety				
Fire contracts	30,000	30,000	19,500	(10,500)
Public Works				
Roads	95,500	95,500	24,617	(70,883)
Road chloride	18,240	20,040	19,950	(90)
Street lights	500	500	315	(185)
Drains	400	400	843	443
Transfer station	6,000	6,000	3,800	(2,200)
Culture and Recreation				
Library	10,850	10,850	10,350	(500)
Capital Outlay	0	0	20,118	20,118
Transfers to other funds	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>0</u>
Total charges to appropriations	<u>\$ 280,896</u>	<u>\$ 284,696</u>	<u>\$ 197,252</u>	<u>\$ (87,444)</u>
End of year fund balance	<u>\$ 313,692</u>	<u>\$ 309,892</u>	<u>\$ 464,238</u>	<u>\$ 154,346</u>

TOWNSHIP OF ADAMS
 BUDGETARY COMPARISON SCHEDULE
 NORTHLAWN CEMETERY FUND
 FOR THE YEAR ENDED MARCH 31, 2007

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Beginning of year fund balance	\$ 30,079	\$ 30,079	\$ 30,079	\$ 0
Resources (inflows)				
Charges for services	11,000	11,000	14,365	3,365
Interest income	75	75	615	540
Miscellaneous	900	900	825	(75)
Transfers from other funds	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>0</u>
Amounts available for appropriation	<u>\$ 47,054</u>	<u>\$ 47,054</u>	<u>\$ 50,884</u>	<u>\$ 3,830</u>
Charges to appropriations (outflows)				
General Government				
Cemetery				
Burials	\$ 5,000	\$ 5,000	\$ 4,550	\$ (450)
Foundations	7,000	7,000	2,150	(4,850)
Mowing	10,992	10,992	10,992	0
Electricity	130	130	96	(34)
Flags	600	600	600	0
Snow removal	700	700	125	(575)
Tree trimming	1,000	1,000	0	(1,000)
Tractor repair	1,100	1,100	0	(1,100)
Grass seed & gravel	1,000	1,000	115	(885)
Miscellaneous	<u>500</u>	<u>500</u>	<u>22</u>	<u>(478)</u>
Total charges to appropriations	<u>\$ 28,022</u>	<u>\$ 28,022</u>	<u>\$ 18,650</u>	<u>\$ (9,372)</u>
End of year fund balance	<u>\$ 19,032</u>	<u>\$ 19,032</u>	<u>\$ 32,234</u>	<u>\$ 13,202</u>

TOWNSHIP OF ADAMS
 BUDGETARY COMPARISON SCHEDULE
 INLAND LAKE IMPROVEMENT FUND
 FOR THE YEAR ENDED MARCH 31, 2007

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Beginning of year fund balance	\$ 29,928	\$ 29,928	\$ 29,928	\$ 0
Resources (inflows)				
Property taxes	32,000	32,000	32,000	0
Interest income	100	100	91	(9)
Miscellaneous	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Amounts available for appropriation	<u>\$ 62,028</u>	<u>\$ 62,028</u>	<u>\$ 62,019</u>	<u>\$ (9)</u>
Charges to appropriations (outflows)				
Public Works				
Weed control	\$ 30,000	\$ 30,000	\$ 24,400	\$ (5,600)
Engineering fees	13,000	13,000	382	(12,618)
Permits	800	800	800	0
Advertising	500	500	0	(500)
Supplies	<u>100</u>	<u>100</u>	<u>0</u>	<u>(100)</u>
Total charges to appropriations	<u>\$ 44,400</u>	<u>\$ 44,400</u>	<u>\$ 25,582</u>	<u>\$ (18,818)</u>
End of year fund balance	<u>\$ 17,628</u>	<u>\$ 17,628</u>	<u>\$ 36,437</u>	<u>\$ (18,809)</u>

TOWNSHIP OF ADAMS
 BUDGETARY COMPARISON SCHEDULE
 RECREATION FUND
 FOR THE YEAR ENDED MARCH 31, 2007

	Original <u>Budget</u>	Amended <u>Budget</u>	<u>Actual</u>	Variance With Amended <u>Budget</u>
Beginning of year fund balance	\$ 210	\$ 210	\$ 210	\$ 0
Resources (inflows)				
Interest income	200	200	218	18
Contributions from other governments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Amounts available for appropriation	\$ 410	\$ 410	\$ 428	\$ 18
Charges to appropriations (outflows)	<u>0</u>	<u>0</u>	<u>10</u>	<u>10</u>
End of year fund balance	<u>\$ 410</u>	<u>\$ 410</u>	<u>\$ 418</u>	<u>\$ 8</u>

OTHER SUPPLEMENTARY INFORMATION

TOWNSHIP OF ADAMS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
CURRENT TAX COLLECTION FUND
FOR THE YEAR ENDED MARCH 31, 2007

	Balance <u>April 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>March 31, 2007</u>
ASSETS				
Cash	\$ 91,014	\$ 1,330,257	\$ 1,408,433	\$ 12,838
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
LIABILITIES				
Due to Other Funds	\$ 91,014	\$ 108,676	\$ 186,852	\$ 12,838
Due to County	0	683,848	683,848	0
Due to Schools	<u>0</u>	<u>537,733</u>	<u>537,733</u>	<u>0</u>
	<u>\$ 91,014</u>	<u>\$ 1,330,257</u>	<u>\$ 1,408,433</u>	<u>\$ 12,838</u>

The accompanying notes are an integral part of this statement.

Bailey, Hodshire
& Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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P.O. BOX 215
JONESVILLE, MI 49250

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September 10, 2007

Adams Township
North Adams, Michigan

In planning and performing our audit of the financial statements of Adams Township of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control.

Financial Statement Preparation

The Township does not have procedures in place to prepare financial statements in accordance with accounting principles generally accepted in the United States of America, including procedures to record accruals for revenue and expenditures, to track changes in capital assets, and to present required financial statement disclosures. We recognize the time and expense that would be required to obtain the necessary training and expertise to perform this task internally. We recommend that you continue to carefully review the draft financial statements and notes prepared by your external auditors prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Township's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we do consider the significant deficiency described above to be a material weakness.

In addition, we noted other matters involving the internal control and its operation that we did not consider to be significant deficiencies or material weaknesses.

Annual Budget

Notice of the required annual public hearing on the budget is being published in the paper and you have indicated that the hearing is being conducted, but there is no direct reference to the hearing in the minutes of the Board meetings. We recommend that the Board minutes specifically mention the public hearing and include a general description of any comments made by the public.

We further recommend that the budget be monitored carefully and amended when necessary to avoid any over-expenditure.

This communication is intended solely for the information and use of the Township Board and others within the Township, and is not intended to be and should not be used by anyone other than these specified parties.

Bailey Hodskire + Company, P.C.

Jonesville, Michigan
September 10, 2007