

TOWNSHIP OF FAYETTE
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 FAYETTE	County HILLSDALE
Fiscal Year End 3/31/2007	Opinion Date 3/17/2008	Date Audit Report Submitted to State 3/24/08	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

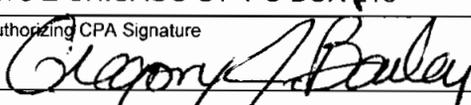
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. 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.
2. 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.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. 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.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. 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).
10. 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.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. 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) 849-241		
Street Address 479 E CHICAGO ST PO BOX 215		City JONESVILLE	State MI	Zip 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

To the Supervisor and
Members of the Township Board
Township of Fayette
Jonesville, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Township of Fayette 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 Fayette 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 6 and pages 19 through 20, 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Fayette's 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 general purpose financial statements taken as a whole.

Bailey, Hodshire + Company, P.C.

March 17, 2008

Jonesville, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS TOWNSHIP OF FAYETTE

The following discussion and analysis of the financial performance for the Township of Fayette (the "Township") provides an overview of the Township's financial activities for 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 following represents the most significant financial highlights for the year ended March 31, 2007:

- The assets of the Township exceeded its liabilities at March 31, 2007 by \$799,767 (net assets). Of this amount, \$561,700 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Township's total net assets increased by \$5,433 during the year.
- As of March 31, 2007, the Township's governmental funds reported combined ending fund balances of \$648,600, an increase of \$9,129. The amount available for spending at the government's discretion (unreserved fund balance) is \$561,700.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township of Fayette's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements - The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business and, therefore, are prepared using the accrual basis of accounting. These statements provide a longer-term view of the Township's finances and whether taxpayers have funded the full cost of providing government services. The first two statements are government-wide and include the following:

- The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.
- The *statement of activities* presents information showing how the Township's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and state shared revenues).

The government-wide financial statements can be found on pages 7 - 8 of this report.

Fund financial statements - A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township of Fayette, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the Township's operations in more detail than the government-wide financial statements. These statements present a short-term view and tell how taxpayer resources were spent during the year. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the

MANAGEMENT'S DISCUSSION AND ANALYSIS TOWNSHIP OF FAYETTE

government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Township's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township of Fayette maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Cemetery Perpetual Care Permanent Fund.

The Township adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 9 - 10 of this report.

- **Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the government, such as the Tax Fund where property taxes are collected and disbursed on behalf of and to other local units of government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Township of Fayette's own programs.

The basic fiduciary fund financial statement can be found on page 11 of this report.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12 - 17 of this report.

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>2005-06</u>	<u>2006-07</u>
Assets:		
Current Assets	\$ 641,113	\$ 654,714
Capital Assets	<u>154,863</u>	<u>151,167</u>
Total Assets	<u>\$ 795,976</u>	<u>\$ 805,881</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
TOWNSHIP OF FAYETTE

Liabilities:		
Current Liabilities	\$ 1,641	\$ 6,114
Long-term Liabilities	<u>0</u>	<u>0</u>
Total Liabilities	<u>\$ 1,641</u>	<u>\$ 6,114</u>
Net Assets:		
Invested in Capital Assets, net of related debt	\$ 154,863	\$ 151,167
Restricted	95,571	86,900
Unrestricted	<u>543,901</u>	<u>561,700</u>
Total Net Assets	<u>\$ 794,335</u>	<u>\$ 799,767</u>
Total Liabilities and Net Assets	<u>\$ 795,976</u>	<u>\$ 805,881</u>

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

TABLE 2 - CHANGE IN NET ASSETS

Program Revenue:		
Charges for services	\$ 54,929	\$ 60,342
Operating grants and contributions	0	0
Capital grants and contributions	15,800	0
General Revenue:		
Property tax	100,034	104,005
State shared revenue	69,286	69,451
Unrestricted investment income	8,192	11,301
Miscellaneous	<u>12,324</u>	<u>7,686</u>
Total Revenue	<u>\$ 260,565</u>	<u>\$ 252,785</u>
Expenses:		
General Government	\$ 152,435	\$ 169,551
Public Safety	29,140	25,920
Public Works	27,580	46,422
Depreciation - Unallocated	<u>5,487</u>	<u>5,459</u>
Total Expenses	<u>\$ 214,642</u>	<u>\$ 247,352</u>
INCREASE IN NET ASSETS	<u>\$ 45,923</u>	<u>\$ 5,433</u>

Governmental Activities

The Township's governmental revenue decreased approximately 3% during the year. Expenses increased 15% due to the completion of the Moore Road bridge project.

The Township's Funds

The Township's major funds include the General Fund and the Cemetery Fund. The General Fund pays for most of the Township's governmental services. The most significant are road work, cemetery, and fire protection. These areas incurred expenses of approximately \$116,230 for the fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS TOWNSHIP OF FAYETTE

General Fund Budgetary Highlights

The Township Board amended the budget for certain items at the March 12, 2007 meeting. A few line items ended up over budget, otherwise the budget was met for the year of 2007.

Capital Asset and Debt Administration

At the end of the fiscal year 2007, the Township had \$151,167 (net of depreciation) invested in land, buildings, and equipment. There is no related infrastructure reported in the year end net capital investment 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. The Township has no outstanding debt.

Economic Factors and Next Year's Budgets and Rates

Road projects will be down for 2007-08 and 2008-09 due to minimal projected increases in State Revenue Sharing for both the Township and the County Road Commission. The Township has no major projects forecast for the next few years.

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 Township office.

BASIC FINANCIAL STATEMENTS

TOWNSHIP OF FAYETTE
STATEMENT OF NET ASSETS
MARCH 31, 2007

	Governmental <u>Activities</u>	<u>Total</u>
ASSETS		
Cash & investments	\$ 577,932	\$ 577,932
Taxes receivable	54,598	54,598
Accounts receivable	22,184	22,184
Capital assets - net	<u>151,167</u>	<u>151,167</u>
Total assets	<u>\$ 805,881</u>	<u>\$ 805,881</u>
 LIABILITIES		
Accounts payable	\$ 6,114	\$ 6,114
Long-term debt	<u>0</u>	<u>0</u>
Total liabilities	<u>\$ 6,114</u>	<u>\$ 6,114</u>
 NET ASSETS		
Investment in capital assets, net of related debt	\$ 151,167	\$ 151,167
Restricted:		
Perpetual care	86,900	86,900
Unrestricted	<u>561,700</u>	<u>561,700</u>
Total net assets	<u>\$ 799,767</u>	<u>\$ 799,767</u>
Total liabilities and net assets	<u>\$ 805,881</u>	<u>\$ 805,881</u>

The accompanying notes are an integral part of this statement.

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

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary Government:					
Governmental Activities:					
General Government	\$ 169,551	\$ 59,007	\$ 0	\$ 0	\$(110,544)
Public Safety	25,920	1,335	0	0	(24,585)
Public Works	46,422	0	0	0	(46,422)
Depreciation - Unallocated	<u>5,459</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(5,459)</u>
Total Governmental Activities	<u>\$ 247,352</u>	<u>\$ 60,342</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$(187,010)</u>
 Total Primary Government	 <u>\$ 247,352</u>	 <u>\$ 60,342</u>	 <u>\$ 0</u>	 <u>\$ 0</u>	 <u>\$(187,010)</u>
 Change in net assets:					
Net (expense) revenue					<u>\$(187,010)</u>
 General revenue:					
Property taxes levied for general purposes					\$ 104,005
State shared revenue					69,451
Unrestricted investment income					11,301
Miscellaneous					<u>7,686</u>
Total general revenue					<u>\$ 192,443</u>
Change in net assets					\$ 5,433
Net assets - beginning					<u>794,334</u>
Net assets - ending					<u>\$ 799,767</u>

The accompanying notes are an integral part of this statement.

TOWNSHIP OF FAYETTE
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2007

	General Fund	Permanent Fund Cemetery	Total Governmental Funds
ASSETS			
Cash & investments	\$ 491,032	\$ 86,900	\$ 577,932
Taxes receivable	9,033	0	9,033
Due from other governmental units	22,184	0	22,184
Due from other funds	<u>45,565</u>	<u>0</u>	<u>45,565</u>
Total assets	<u>\$ 567,814</u>	<u>\$ 86,900</u>	<u>\$ 654,714</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 6,114	\$ 0	\$ 6,114
Due to other funds	<u>0</u>	<u>0</u>	<u>0</u>
Total liabilities	<u>\$ 6,114</u>	<u>\$ 0</u>	<u>\$ 6,114</u>
Fund Balances:			
Reserved for cemetery care	\$ 0	\$ 86,900	\$ 86,900
Unreserved/Undesignated	<u>561,700</u>	<u>0</u>	<u>561,700</u>
Total fund balances	<u>\$ 561,700</u>	<u>\$ 86,900</u>	<u>\$ 648,600</u>
Total liabilities and fund balances	<u>\$ 567,814</u>	<u>\$ 86,900</u>	<u>\$ 654,714</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	\$ 648,600
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	\$ 193,514
Deduct: Accumulated depreciation	<u>(42,347)</u>
Net assets of governmental activities	<u>\$ 799,767</u>

The accompanying notes are an integral part of this statement.

TOWNSHIP OF FAYETTE
STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
MARCH 31, 2007

	General Fund	Permanent Fund Cemetery	Total Governmental Funds
REVENUE			
Property taxes	\$ 104,005	\$ 0	\$ 104,005
Administration fees	45,735	0	45,735
State shared revenue	69,451	0	69,451
Cemetery fees	10,707	0	10,707
Charges for services	3,450	0	3,450
Reimbursements	6,077	0	6,077
Licenses and permits	450	0	450
Interest	9,822	1,479	11,301
Miscellaneous	<u>1,165</u>	<u>0</u>	<u>1,165</u>
Total revenue	<u>\$ 250,862</u>	<u>\$ 1,479</u>	<u>\$ 252,341</u>
EXPENDITURES			
General Government	\$ 166,724	\$ 0	\$ 166,724
Public Safety-Fire	25,920	0	25,920
Public Works -Roads	46,422	0	46,422
Capital Outlay	<u>4,146</u>	<u>0</u>	<u>4,146</u>
Total expenditures	<u>\$ 243,212</u>	<u>\$ 0</u>	<u>\$ 243,212</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ 11,750	\$ 1,600	\$ 13,350
Transfers Out	<u>(1,600)</u>	<u>(11,750)</u>	<u>(13,350)</u>
Total Other Financing Sources (Uses)	<u>\$ 10,150</u>	<u>\$ (10,150)</u>	<u>\$ 0</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES			
	\$ 17,800	\$ (8,671)	\$ 9,129
FUND BALANCES - April 1, 2006	<u>543,900</u>	<u>95,571</u>	<u>639,471</u>
FUND BALANCES - March 31, 2007	<u>\$ 561,700</u>	<u>\$ 86,900</u>	<u>\$ 648,600</u>

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	\$ 9,129
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	4,146
Gain from sale of fixed assets	444
Deduct: Depreciation expense	<u>(8,286)</u>
Change in net assets of governmental activities	<u>\$ 5,433</u>

The accompanying notes are an integral part of this statement.

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

ASSETS

Cash	\$ 288,680
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LIABILITIES

Due to Township general fund	\$ 45,565
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Due to other governmental units	<u>243,115</u>
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	<u>\$ 288,680</u>
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NOTES TO THE FINANCIAL STATEMENTS

TOWNSHIP OF FAYETTE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township of Fayette is located in Hillsdale County, Michigan, and comprises a population of approximately 1,013 residents. It is governed by a board consisting of 5 members with a supervisor as its head.

The accounting policies of the Township of Fayette conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

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

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) report information about the Township as a whole. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. These statements include the financial activities of the primary government, except for fiduciary funds.

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

TOWNSHIP OF FAYETTE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 measurable 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. General Fund activities are financed by revenue from general property taxes and state-shared revenue. The general fund balance is available for any purpose provided it is expended or transferred according to the laws of the State of Michigan.

Permanent Fund - accounts for resources that are legally restricted to the extent that only earnings, not principal, may be used for perpetual care of cemetery lots.

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.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Assets, Liabilities, and Net Assets

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year is referred to as "advances to/from other funds." All property tax receivables are considered to be fully collectible.

TOWNSHIP OF FAYETTE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets - Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	39 years
Equipment	5 to 15 years

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could 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 activity 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 FAYETTE
 NOTES TO FINANCIAL STATEMENTS
 MARCH 31, 2007

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

During the year, the Township incurred expenditures in the general fund which were in excess of the amounts appropriated, as follows:

<u>Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Government			
Assessor	17,752	18,400	648
Township Hall	3,451	3,574	123
Elections	2,189	2,549	360
Cemetery	35,500	43,888	8,388
Public Works			
Roads	40,632	46,422	5,790
Capital Outlay	0	4,146	4,146
Transfers Out	1,368	1,600	232

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.

Deposits

Following are the components of the Township's bank deposits at March 31, 2007:

Checking Accounts	\$ 322,811
Savings Accounts	6,290
Certificates of Deposit	<u>355,100</u>
Total	<u>\$ 684,201</u>

Investments

Following are the components of the Township's investments at March 31, 2007:

Federated Automated Government Money Trust	<u>\$ 182,411</u>
--	-------------------

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 puts no further limits on its investment choices.

TOWNSHIP OF FAYETTE
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

As of March 31, 2007, the Township's investment in the Federated Automated Government Money Trust was rated AAAM by Standard & Poor's and Aaa by Moody's.

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 \$684,201 and the bank's balance was \$683,815. Of the total bank balance, \$193,492 was covered by federal depository insurance and \$490,323 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.

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 and are considered collectible in full.

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Township's governmental activities was as follows:

	Balance <u>April 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>March 31, 2007</u>
Primary Government:				
Capital assets not being depreciated				
Land	\$ 25,000	\$ 0	\$ 0	\$ 25,000
Capital assets being depreciated				
Buildings & Improvements	\$ 127,895	\$ 0	\$ 0	\$ 127,895
Equipment	37,066	6,146	(2,593)	40,619
Total capital assets being depreciated	\$ 164,961	\$ 6,146	\$ (2,593)	\$ 168,514
Less: accumulated depreciation:				
Buildings & Improvements	\$ (22,757)	\$ (3,594)	\$ 0	\$ (26,351)
Equipment	(12,341)	(4,692)	1,037	(15,996)
Total accumulated depreciation	\$ (35,098)	\$ (8,286)	\$ 1,037	\$ (42,347)
Total capital assets being depreciated - net	\$ 129,863	\$ (2,140)	\$ (1,556)	\$ 126,167
Total capital assets, net	<u>\$ 154,863</u>	<u>\$ (2,140)</u>	<u>\$ (1,556)</u>	<u>\$ 151,167</u>

TOWNSHIP OF FAYETTE
 NOTES TO FINANCIAL STATEMENTS
 MARCH 31, 2007

NOTE 5 - CAPITAL ASSETS (continued)

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

General Government - Cemetery	\$ 2,827
Unallocated	<u>5,459</u>
Total	<u>\$ 8,286</u>

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	\$ 45,565	Tax Collection Fund	<u>45,565</u>

Interfund transfers during the year consisted of the following:

Transfer from Tax Collection Fund to General Fund	\$ 167,124
Transfer from General Fund to Permanent Fund-Cemetery	1,600
Transfer from Permanent Fund-Cemetery to General Fund	11,750

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.

Transfers from General Fund to Permanent Fund - Cemetery are for the portion of cemetery lot sales to be set aside for cemetery care. Transfers from Permanent Fund - Cemetery to General Fund were for improvements made to the Cemetery during the year.

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 .9011 mills for general operations on a total state taxable valuation of approximately \$105,758,000. A portion of this tax (\$23,039 in 2006-07) is captured by the Village of Jonesville's Local Development Finance Authority (LDFA) and Downtown Development Authority (DDA). 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 Insurance 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.

REQUIRED SUPPLEMENTARY INFORMATION

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

	Original Budget	Final Amended Budget	Actual	Variance With Amended Budget
Beginning of year fund balance	\$ 543,900	\$ 543,900	\$ 543,900	\$ 0
Resources (inflows)				
Township Tax Levy	\$ 150,000	\$ 150,000	\$ 80,580	\$ (69,420)
425 Agreement	28,000	28,000	22,525	(5,475)
Mobile Home Site Tax	600	600	900	300
Administration Fees	0	0	45,735	45,735
State Shared Revenue	64,543	64,543	69,451	4,908
Charges for Services	2,500	2,500	2,115	(385)
Cemetery Fees	10,000	10,000	10,707	707
Licenses and Permits	400	400	450	50
Fire Run Charges	1,500	1,500	1,335	(165)
Interest Earnings	2,000	2,000	9,822	7,822
Reimbursements	6,000	6,000	6,077	77
Miscellaneous	440	440	1,165	725
Transfers in	<u>0</u>	<u>0</u>	<u>11,750</u>	<u>11,750</u>
Amounts available for appropriation	<u>\$ 809,883</u>	<u>\$ 809,883</u>	<u>\$ 806,512</u>	<u>\$ (3,371)</u>
Charges to appropriations (outflows)				
General Government				
Supervisor	\$ 5,600	\$ 5,600	\$ 5,600	\$ 0
Clerk	17,030	17,030	17,030	0
Deputy Clerk	3,774	3,774	3,629	(145)
Treasurer	11,600	11,600	11,600	0
Deputy Treasurer	500	263	263	0
Assessor	17,752	17,752	18,400	648
Trustees	2,600	2,600	2,560	(40)
Planning Commission	600	600	375	(225)
Planning Administrator	2,500	2,500	2,448	(52)
Buildings and grounds	1,000	1,000	816	(184)
Township Hall	4,500	3,451	3,574	123
Legal fees	4,000	10,677	8,004	(2,673)
Elections	1,500	2,189	2,549	360
Township Board	54,385	52,385	45,988	(6,397)
Cemetery	35,500	35,500	43,888	8,388
Public Safety				
Fire Services Contract	30,000	25,920	25,920	0
Public Works				
Roads	40,000	40,632	46,422	5,790
Capital Outlay	0	0	4,146	4,146
Transfers Out	<u>2,000</u>	<u>1,368</u>	<u>1,600</u>	<u>232</u>
Total charges to appropriations	<u>\$ 234,841</u>	<u>\$ 234,841</u>	<u>\$ 244,812</u>	<u>\$ 9,971</u>
End of year fund balance	<u>\$ 575,042</u>	<u>\$ 575,042</u>	<u>\$ 561,700</u>	<u>\$ (13,342)</u>

OTHER SUPPLEMENTARY INFORMATION

TOWNSHIP OF FAYETTE
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	\$ 255,829	\$ 4,061,706	\$ 4,028,855	\$ 288,680
LIABILITIES				
Due to Other Funds	\$ 57,056	\$ 155,634	\$ 167,125	\$ 45,565
Due to Schools	0	2,036,220	2,036,220	0
Due to Village of Jonesville	0	349,072	189,803	159,269
Due to County	0	1,208,022	1,326,850	(118,828)
Due to District Library	0	110,084	110,084	0
Due to State of Michigan	<u>198,773</u>	<u>202,674</u>	<u>198,773</u>	<u>202,674</u>
	<u>\$ 255,829</u>	<u>\$ 4,061,706</u>	<u>\$ 4,028,855</u>	<u>\$ 288,680</u>

The accompanying notes are an integral part of this statement.

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

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JONESVILLE, MI 49250

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March 17, 2008

Fayette Township
Hillsdale County, Michigan

In planning and performing our audit of the financial statements of Fayette 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.

General Ledger

The Township utilizes hand ledgers to record its cash receipts and disbursements, as opposed to an accounting software program. While this method is acceptable, there are not currently procedures in place to ensure that the figures are complete (all receipts and disbursements have been recorded) and that they balance (beginning cash + receipts - disbursements = ending cash). We recommend that the Township begin either posting a balanced general ledger or utilizing computer software.

State Chart of Accounts

State statutes require all governments to use a standard chart of accounts in maintaining financial records. Although the Township is utilizing the standard chart of accounts, we recommend that it be used more thoroughly, for both budgeting and transaction recording purposes. Too many items are currently being posted to the general account "Township Board".

Budget

There were expenditures that exceeded the budgeted amounts for the year. We further recommend that the budget be monitored carefully and amended when necessary to avoid any over-expenditure. We further recommend that the budget amendments be fully documented in the minutes of the Township Board meetings.

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 Hodstine + Company, P.C.

Jonesville, Michigan

March 17, 2008