

### 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<br><input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other |                               | Local Unit Name<br>Township of Ray                     | County<br>Macomb |
| Fiscal Year End<br>March 31, 2007  | Opinion Date<br>July 18, 2007 | Date Audit Report Submitted to State<br>August 3, 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.)

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)<br>Andrews Hooper & Pavlik, P.L.C.   |                                     | Telephone Number<br>(248) 340-6050         |                              |
| Street Address<br>3201 University Drive Suite 350  |                                     | City<br>Auburn Hills                       | State Zip<br>MI 48326        |
| Authorizing CPA Signature<br> CPA |                                     | Printed Name<br>Colleen P. Cavanaugh       | License Number<br>1101028252 |

**AUDITED FINANCIAL STATEMENTS**

**TOWNSHIP OF RAY  
MACOMB COUNTY, MICHIGAN**

*Year ended March 31, 2007  
with Report of Independent Auditors*

**TOWNSHIP OFFICIALS**

|            |                            |
|------------|----------------------------|
| Supervisor | Charles R. Bohm            |
| Clerk      | Ken Artman                 |
| Treasurer  | Rita Harman                |
| Trustees   | John Zoccola, Betty Grader |

**TOWNSHIP OF RAY  
MACOMB COUNTY, MICHIGAN**

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ANDREWS HOOPER & PAVLIK P.L.C.  
Certified Public Accountants

**REPORT OF INDEPENDENT AUDITORS**

To the Township Officials  
Township of Ray  
Macomb County  
Ray, Michigan 48096

We have audited the accompanying financial statements of the Township of Ray (the Township), Macomb County, Michigan, 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 opinion.

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

The Township of Ray has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the financial statements.

The budgetary comparison information listed in the table of contents is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Andrews Hooper & Pavlik P.L.C.*

Auburn Hills, Michigan  
July 18, 2007

**TOWNSHIP OF RAY**  
**MACOMB COUNTY, MICHIGAN**  
**STATEMENT OF NET ASSETS**  
March 31, 2007

|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| <b>Assets</b>                                   |                                    |
| Current assets:                                 |                                    |
| Cash and cash equivalents                       | \$ 1,263,084                       |
| Due from tax collection fund                    | 4,046                              |
| Due from other governments                      | <u>35,903</u>                      |
| Total current assets                            | 1,303,033                          |
| Noncurrent assets:                              |                                    |
| Capital assets, net                             | <u>880,098</u>                     |
| Total assets                                    | <u>2,183,131</u>                   |
| <b>Liabilities</b>                              |                                    |
| Current liabilities:                            |                                    |
| Accounts payable                                | 9,672                              |
| Accrued expenses                                | 35,956                             |
| Performance bonds payable                       | 2,992                              |
| Building bonds payable                          | 43,200                             |
| Current portion of long-term liabilities        | <u>51,522</u>                      |
| Total current liabilities                       | 143,342                            |
| Long-term liabilities:                          |                                    |
| Notes payable less current portion              | <u>158,689</u>                     |
| Total long-term liabilities                     | <u>158,689</u>                     |
| Total liabilities                               | <u>302,031</u>                     |
| <b>Net assets</b>                               |                                    |
| Invested in capital assets, net of related debt | 669,887                            |
| Unrestricted                                    | <u>1,211,213</u>                   |
| Total net assets                                | <u><u>\$ 1,881,100</u></u>         |

**TOWSHIP OF RAY**  
**MACOMB COUNTY, MICHIGAN**  
**STATEMENT OF ACTIVITIES**  
Year ended March 31, 2007

| Functions and Programs                              | Expenses     | Program Revenues        |                                     | Net (Expense) Revenue and<br>Changes in Net Assets |
|---|--------------|-------------------------|-------------------------------------|--|
|   |              | Charges for<br>Services | Capital Grants<br>and Contributions | Primary Government<br>Governmental<br>Activities   |
| Governmental activities                             |              |                         |                                     |  |
| Legislative   | \$ 12,564    |                         |                                     | \$ (12,564)  |
| General government                                  | 375,771      | \$ 26,550               | \$ 27,148                           | (322,073)  |
| Public safety                                       | 88,906       |                         |                                     | (88,906)   |
| Public works  | 37,102       |                         |                                     | (37,102)   |
| Library   | 1,742        | 312                     |                                     | (1,430)  |
| Fire department                                     | 426,399      | 3,761                   | 28,431                              | (394,207)  |
| Building department                                 | 43,508       | 39,369                  |                                     | (4,139)  |
| Recreations and culture                             | 41,113       |                         |                                     | (41,113)   |
| Total governmental activities                       | 1,027,105    | 69,992                  | 55,579                              | (901,534)  |
| Total primary government                            | \$ 1,027,105 | \$ 69,992               | \$ 55,579                           | (901,534)  |
| General revenues                                    |              |                         |                                     |  |
| Property taxes                                      |              |                         |                                     | 623,308  |
| Intergovernmental                                   |              |                         |                                     | 258,466  |
| Dividends, interest and rentals                     |              |                         |                                     | 96,151   |
| Other   |              |                         |                                     | 21,409   |
| Total general revenues, special items and transfers |              |                         |                                     | 999,334  |
| Change in net assets                                |              |                         |                                     | 97,800   |
| Net assets, beginning of year                       |              |                         |                                     | 1,783,300  |
| Net assets, end of year                             |              |                         |                                     | \$ 1,881,100                                       |

**TOWNSHIP OF RAY**  
**MACOMB COUNTY, MICHIGAN**  
**BALANCE SHEET AND RECONCILIATION TO STATEMENT OF NET ASSETS**  
**GOVERNMENTAL FUNDS**  
 March 31, 2007

|  | General             | Special Revenue     |                  |                  | Total<br>Governmental<br>Funds |
|--|---------------------|---------------------|------------------|------------------|--------------------------------|
|  |                     | Fire Fund           | Building Fund    | Library Fund     |                                |
| <b>Assets</b>  |                     |                     |                  |                  |                                |
| Cash and cash equivalents  | \$ 1,262,849        | \$ 100              |                  | \$ 135           | \$ 1,263,084                   |
| Due from other funds   |                     | 1,080,293           | \$ 57,657        | 56,281           | 1,194,231                      |
| Due from tax collection fund   | 4,046               |                     |                  |                  | 4,046                          |
| Due from other governments   | 35,903              |                     |                  |                  | 35,903                         |
| Total assets   | <u>\$ 1,302,798</u> | <u>\$ 1,080,393</u> | <u>\$ 57,657</u> | <u>\$ 56,416</u> | <u>\$ 2,497,264</u>            |
| <b>Liabilities and fund balances</b>   |                     |                     |                  |                  |                                |
| Liabilities  |                     |                     |                  |                  |                                |
| Accounts payable   | \$ 3,017            | \$ 1,975            |                  | \$ 4,680         | \$ 9,672                       |
| Accrued expenses   | 2,056               | 33,171              | \$ 236           | 493              | 35,956                         |
| Performance bonds payable  | 2,992               |                     |                  |                  | 2,992                          |
| Building bonds payable   |                     |                     | 43,200           |                  | 43,200                         |
| Due to other funds   | 1,194,231           |                     |                  |                  | 1,194,231                      |
| Total liabilities  | <u>1,202,296</u>    | <u>35,146</u>       | <u>43,436</u>    | <u>5,173</u>     | <u>1,286,051</u>               |
| Fund balances  |                     |                     |                  |                  |                                |
| Unreserved:  |                     |                     |                  |                  |                                |
| Undesignated   | 72,902              | 1,045,247           | 14,221           | 51,243           | 1,183,613                      |
| Board designated   | 27,600              |                     |                  |                  | 27,600                         |
| Total fund balances  | <u>100,502</u>      | <u>1,045,247</u>    | <u>14,221</u>    | <u>51,243</u>    | <u>1,211,213</u>               |
| Total liabilities and fund balances  | <u>\$ 1,302,798</u> | <u>\$ 1,080,393</u> | <u>\$ 57,657</u> | <u>\$ 56,416</u> | <u>\$ 2,497,264</u>            |
| Total governmental fund balances   |                     |                     |                  |                  | \$ 1,211,213                   |
| 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 are not reported in the funds |                     |                     |                  |                  |                                |
| The cost of capital assets is  |                     |                     |                  |                  | 1,794,173                      |
| Accumulated depreciation is  |                     |                     |                  |                  | (914,075)                      |
| The amount of debt related to capital assets is  |                     |                     |                  |                  | (210,211)                      |
| Net assets of governmental activities  |                     |                     |                  |                  | <u>\$ 1,881,100</u>            |

**TOWNSHIP OF RAY**  
**MACOMB COUNTY, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
Year ended March 31, 2007

|   | General           | Special Revenue     |                  |                  | Total<br>Governmental<br>Funds |
|---|-------------------|---------------------|------------------|------------------|--------------------------------|
|   |                   | Fire Fund           | Building Fund    | Library Fund     |                                |
| <b>Revenues</b>   |                   |                     |                  |                  |                                |
| Property taxes  | \$ 148,290        | \$ 417,505          |                  | \$ 57,513        | \$ 623,308                     |
| Licenses and permits                                    | 26,091            | 1,859               | \$ 39,369        | 312              | 67,631                         |
| Intergovernmental                                       | 258,466           |                     |                  |                  | 258,466                        |
| Charges for services                                    | 459               | 405                 |                  |                  | 864                            |
| Grants  | 27,148            | 28,431              |                  |                  | 55,579                         |
| Dividends, interest and rentals                         | 58,594            | 36,071              | 1,071            | 415              | 96,151                         |
| Other   | 21,124            | 1,547               |                  | 235              | 22,906                         |
| Total revenues  | <u>540,172</u>    | <u>485,818</u>      | <u>40,440</u>    | <u>58,475</u>    | <u>1,124,905</u>               |
| <b>Expenditures</b>                                     |                   |                     |                  |                  |                                |
| Current   |                   |                     |                  |                  |                                |
| Legislative   | 12,564            |                     |                  |                  | 12,564                         |
| General government                                      | 334,308           |                     |                  |                  | 334,308                        |
| Public safety   | 62,644            | 320,820             | 43,508           | 32,232           | 459,204                        |
| Public works  | 37,102            |                     |                  |                  | 37,102                         |
| Culture and recreation                                  | 41,113            |                     |                  |                  | 41,113                         |
| Capital outlay  | 38,288            |                     |                  |                  | 38,288                         |
| Debt service  |                   |                     |                  |                  |                                |
| Principal   | 7,976             | 53,304              |                  |                  | 61,280                         |
| Interest  |                   | 12,287              |                  |                  | 12,287                         |
| Total expenditures                                      | <u>533,995</u>    | <u>386,411</u>      | <u>43,508</u>    | <u>32,232</u>    | <u>996,146</u>                 |
| <b>Excess of revenues over<br/>(under) expenditures</b> | <u>6,177</u>      | <u>99,407</u>       | <u>(3,068)</u>   | <u>26,243</u>    | <u>128,759</u>                 |
| <b>Other financing sources (uses)</b>                   |                   |                     |                  |                  |                                |
| Transfers out   | <u>(25,000)</u>   |                     |                  | <u>25,000</u>    |                                |
| Total other financing sources (uses)                    | <u>(25,000)</u>   |                     |                  | <u>25,000</u>    |                                |
| <b>Changes in fund balance</b>                          | <u>(18,823)</u>   | <u>99,407</u>       | <u>(3,068)</u>   | <u>51,243</u>    | <u>128,759</u>                 |
| <b>Fund balance, beginning of year</b>                  | <u>119,325</u>    | <u>945,840</u>      | <u>17,289</u>    |                  | <u>1,082,454</u>               |
| <b>Fund balance, end of year</b>                        | <u>\$ 100,502</u> | <u>\$ 1,045,247</u> | <u>\$ 14,221</u> | <u>\$ 51,243</u> | <u>\$ 1,211,213</u>            |

**TOWNSHIP OF RAY**  
**MACOMB COUNTY, MICHIGAN**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
Year ended March 31, 2007

|  |                   |
|--|-------------------|
| <b>Net change in fund balances - total governmental funds</b>  | <b>\$ 128,759</b> |
| Amounts reported for governmental activities in the statement of activities are different because:   |                   |
| Governmental funds report capital outlays as expenditures while in the statement of activities these costs are allocated over the estimated useful lives as depreciation |                   |
| Capital asset purchases capitalized  | 65,289            |
| Depreciation expense   | (135,090)         |
|  | <u>(69,801)</u>   |
| Repayment of debt principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net assets                   |                   |
| Leased asset addition  | (22,438)          |
| Loan principal payments  | 53,304            |
| Lease principal payments   | 7,976             |
|  | <u>38,842</u>     |
| <b>Net change in net assets - government-wide statement of activities</b>  | <b>\$ 97,800</b>  |

**TOWNSHIP OF RAY**  
**MACOMB COUNTY, MICHIGAN**  
**STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUND**  
March 31, 2007

|                           | <u>Current Tax<br/>Collection Fund</u> |
|---------------------------|--|
| <b>Assets</b>             |  |
| Cash and cash equivalents | <u>\$ 4,561</u>                        |
| Total assets              | <u><u>\$ 4,561</u></u>                 |
| <b>Liabilities</b>        |  |
| Due to general fund       | \$ 4,046                               |
| Due to others             | <u>515</u>                             |
| Total liabilities         | <u><u>\$ 4,561</u></u>                 |

**TOWNSHIP OF RAY  
MACOMB COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
March 31, 2007**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Township of Ray (the "Township") complies with accounting principles generally accepted in the United States of America. The Township's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Private-sector standards of accounting (e.g., Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) Opinions issued prior to December 1, 1989 are generally followed in the government-wide financial statements to the extent those standards do not conflict with standards of the GASB.

**REPORTING ENTITY**

The Township of Ray, Michigan, established in 1827, is a public corporation created under the constitution and statutes of the State of Michigan. Located in Macomb County, the Township of Ray covers an area of approximately 36 square miles and is one of 12 townships in Macomb County, Michigan, each of which is a separate governmental entity. The Township operates under an elected Township Board, which consists of a Supervisor, Clerk, Treasurer and two Trustees, and provides services to its more than 3,700 residents in many areas including fire protection, law enforcement and recreation. In evaluating how to define the Township for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America, currently GASB Statement #14, *The Financial Reporting Entity* and GASB Statement #39, *Determining Whether Certain Organizations are Component Units*.

Based upon the application of these criteria, the basic financial statements of the Township contain all the funds controlled by the Township's Board of Officials as no other entity meets the criteria to be considered a blended component unit or a discretely presented component of the Township.

**BASIS OF PRESENTATION**

**Government-wide Financial Statements**

The statement of net assets and the statement of activities display information about the Township, the primary government, as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The Township currently has no business-type activities. Fiduciary funds, such as the Tax Collection Fund, are excluded from government-wide financial statements.

In the government-wide statement of net assets, the columns are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Township's net assets are reported in two parts: invested in capital assets, net of related debt and unrestricted net assets.

**TOWNSHIP OF RAY  
MACOMB COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The government-wide statement of activities demonstrates the degree to which the direct expenses (including depreciation) of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

In creating the government-wide financial statements the Township has eliminated interfund transactions. This government-wide focus is more on the sustainability of the Township as an entity and the change in the Township's net assets resulting from the current year's activities.

**Fund Financial Statements**

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Township or meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined.

The Township reports the following major governmental funds:

**Governmental Funds**

**General Fund** - The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The fund includes the general operating expenditures of the Township. Revenues are derived primarily from property taxes, state distributions, grants and other governmental revenues.

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of specific revenue sources other than special assessments that are legally or contractually restricted to expenditures for specific purposes. The following funds are included:

**TOWNSHIP OF RAY  
MACOMB COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

- Fire Protection

The Fire Protection Fund is a special revenue fund that is used to record the activity of the Township's fire protection activities.

- Building Department

The Building Department Fund is a special revenue fund that is used to record the activity of the Township's building department activities.

- Library

The Library Fund is a special revenue fund that is used to record the activity of the Township's library activities.

**Fiduciary Funds**

Agency Fund - Agency Funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The following fund is included:

- Current Tax Collection Fund

The Current Tax Collection Fund is used to account for taxes collected as an agent for other governmental units.

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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.

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 collected within 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 60 days of the end of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Expenditures are recorded when the related liability is incurred. Debt service expenditures, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

**TOWNSHIP OF RAY  
MACOMB COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Amounts reported as program revenue include: charges to customers or applicants for goods, services or privileges provided, operating grants and contributions and 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.

**POLICIES AND PRACTICES**

Michigan Compiled Laws, Section 129.91 authorizes the Township to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank, savings and loan association or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation or National Credit Union Administration, respectively. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Township's deposit and investment policy are in accordance with statutory authority.

**ASSETS, LIABILITIES AND FUND EQUITY**

Deposits and investments – The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Interfund receivables/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 fiscal year are referred to as "advances to/from other funds."

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the governmental funds balance sheet.

Capital Assets – The Township's capital assets include property, plant and equipment net of accumulated depreciation reported in the statement of activities. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000. All property and equipment are stated at historical cost or estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at their estimated fair value on the date donated. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

**TOWNSHIP OF RAY  
MACOMB COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Capital assets are depreciated using the straight-line method over the following useful lives:

|                            |            |
|----------------------------|------------|
| Land improvements          | 10 years   |
| Buildings and improvements | 7-50 years |
| Equipment                  | 5 years    |
| Vehicles                   | 5-10 years |
| Library books              | 4 years    |

Total depreciation expense for the Township for the year ended March 31, 2007 was \$135,090.

Long-term Obligations – long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Equity Classifications – in the statement of activities, equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted net assets – consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, contributors or laws and regulations of other governments or through constitutional provisions or enabling legislation.
- Unrestricted net assets – consists of all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

In the fund financial statements, designations of unreserved fund balances in the governmental funds indicate tentative plans for use of financial resources in a future period. Unreserved fund balances for governmental funds represent the amount available for budgeting future operations.

**USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires the Township’s officials to make estimates and assumptions that effect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

**ACCUMULATED UNPAID BENEFITS**

The Township does not allow employees to accumulate vacation or sick time from year to year therefore; no accumulated unpaid benefit liability is recorded.

**TOWNSHIP OF RAY  
MACOMB COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**BUDGET REQUIREMENTS, ACCOUNTING, AND REPORTING**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General and Special Revenue Funds. All annual appropriations lapse at the fiscal year end. Each fund's appropriated budget is prepared on a detailed line-item basis. The Township does not maintain a formalized encumbrance accounting system.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to March 31, the Supervisor submits to the Township Board, a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted at the Township's annual board meeting to obtain taxpayer comments.
3. Prior to April 1, the budget is legally adopted by a Township Board Resolution pursuant to the uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires the budget to be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred unless authorized in the budget or in excess of the amount appropriated. Any expenditure in violation of the budgeting act is disclosed as an unfavorable variance on the Budgetary Comparison Schedule – General and Major Special Revenue Fund Types. PA 621 of 1978, Section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.
4. The Supervisor is authorized to transfer budgeted amounts between line items within an activity. However, any revisions that alter the total expenditures of any activity must be approved by the Township Board.
5. The budget as presented has been amended. Supplemental appropriations were made during the year with the last one approved prior to March 31.
6. Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

**EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETED FUNDS**

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Township for these budgetary funds were adopted at the line-item level.

**TOWNSHIP OF RAY  
MACOMB COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)**

During the year ended March 31, 2007, the Township incurred expenditures in excess of the amounts appropriated, as follows:

| <u>Fund</u>   | <u>Total Appropriations</u> | <u>Amount of Expenditure</u> | <u>Budget Variance</u> |
|---------------|-----------------------------|------------------------------|------------------------|
| General fund: |                             |                              |                        |
| Debt service  | \$ -                        | \$ 7,976                     | \$ 7,976               |
| Fire fund:    |                             |                              |                        |
| Debt service  | 58,400                      | 65,591                       | 7,191                  |

**3. CASH AND CASH EQUIVALENT DEPOSITS – CUSTODIAL CREDIT RISK**

Cash deposits and pooled investments are carried at cost. Cash deposits and pooled investments of the Township are in the name of the Township at three banks and one other financial institution.

At March 31, 2007, the Township had three depository accounts and a pooled cash account. The Township does not have a deposit policy. The balance of the Township's pooled cash account was \$865,400 and the total balance was uninsured. The book value of the Township's bank deposits, consisting of three interest bearing checking accounts was \$401,359. Of the bank balance, \$300,000 was covered by Federal depository insurance and \$131,897 was uninsured and uncollateralized; therefore, subjecting the Township to custodial credit risk. Custodial risk is the risk that, in the event of a bank failure, the Township's deposits may not be returned. The Township does not have a deposit policy for custodial credit risk. However, 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. The pooled cash account is uninsured and held with another financial institution.

| <u>Depository Account</u>      | <u>Bank Balance</u> |
|--------------------------------|---------------------|
| Insured                        | \$ 300,000          |
| Uninsured and uncollateralized | <u>997,297</u>      |
| Total                          | <u>\$ 1,297,297</u> |

**TOWNSHIP OF RAY  
MACOMB COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**4. PROPERTY TAXES**

Property taxes are levied and become a lien on each December 1 on the taxable assessed value listed as of the prior December 31 and are due without penalty on or before February 28 for all real and business personal property located in the Township. The taxable value of the certified roll on December 31, 2006, upon which the levy for the 2007 fiscal year was based, was \$194,181,484. The collection of these taxes and remittance to the proper authority are accounted for in the Current Tax Collection Fund. Property taxes are recorded as revenue in the fiscal year beginning immediately subsequent to the tax levy date of December 1.

The tax rate assessed for the tax calendar year ended December 31, 2006 to finance General Fund operations and debt was .7573 per \$1,000 valuation.

**5. INTERFUND RECEIVABLES AND PAYABLES**

The amount of the interfund receivables and payables is as follows:

| Receivable<br>Fund | Payable<br>Fund          | Amount              |
|--------------------|--------------------------|---------------------|
| Fire fund          | General fund             | \$ 1,080,293        |
| Library fund       | General fund             | 56,281              |
| Building fund      | General fund             | <u>57,657</u>       |
|                    | Total governmental funds | <u>\$ 1,194,231</u> |
| General fund       | Tax collection fund      | <u>\$ 4,046</u>     |

**TOWNSHIP OF RAY  
MACOMB COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**6. CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity of the Township's governmental activities for the year ended March 31, 2007 was as follows:

|                                       | April 1,<br>2006  | Additions          | Disposals and<br>Adjustments | March 31,<br>2007 |
|---------------------------------------|-------------------|--------------------|------------------------------|-------------------|
| Capital assets not being depreciated: |                   |                    |                              |                   |
| Land                                  | \$ 19,000         |                    |                              | \$ 19,000         |
| Construction in Process               |                   | \$ 5,914           |                              | 5,914             |
|                                       | <u>19,000</u>     | <u>5,914</u>       |                              | <u>24,914</u>     |
| Capital assets being depreciated:     |                   |                    |                              |                   |
| Land improvements                     | 108,782           |                    |                              | 108,782           |
| Buildings                             | 297,486           | 25,969             |                              | 323,455           |
| Machinery, equipment and vehicles     | 25,551            | 22,438             | \$ (11,047)                  | 36,942            |
| Library books                         | 126,455           |                    |                              | 126,455           |
| Office furniture and equipment        | 44,746            |                    |                              | 44,746            |
| Fire buildings and improvements       | 162,000           |                    |                              | 162,000           |
| Fire equipment and vehicles           | 955,911           | 10,968             |                              | 966,879           |
|                                       | <u>1,720,931</u>  | <u>59,375</u>      | <u>(11,047)</u>              | <u>1,769,259</u>  |
| Less accumulated depreciation for:    |                   |                    |                              |                   |
| Land improvements                     | 57,559            | 11,197             |                              | 68,756            |
| Buildings                             | 58,244            | 9,961              |                              | 68,205            |
| Machinery, equipment and vehicles     | 25,551            | 2,992              | (11,047)                     | 17,496            |
| Library books                         | 121,230           | 1,742              |                              | 122,972           |
| Office furniture and equipment        | 18,775            | 6,035              |                              | 24,810            |
| Fire buildings and improvements       | 53,750            | 3,240              |                              | 56,990            |
| Fire equipment and vehicles           | 454,923           | 99,923             |                              | 554,846           |
|                                       | <u>790,032</u>    | <u>135,090</u>     | <u>(11,047)</u>              | <u>914,075</u>    |
| Net capital assets being depreciated  | <u>930,899</u>    | <u>(75,715)</u>    | <u>-</u>                     | <u>855,184</u>    |
| Capital assets - net                  | <u>\$ 949,899</u> | <u>\$ (69,801)</u> | <u>\$ -</u>                  | <u>\$ 880,098</u> |

Depreciation expense was charged to programs of the primary government as follows:

|                               |                   |
|-------------------------------|-------------------|
| Governmental activities:      |                   |
| General government            | \$ 29,087         |
| Library                       | 1,742             |
| Fire                          | 104,261           |
| Total governmental activities | <u>\$ 135,090</u> |

**TOWNSHIP OF RAY  
MACOMB COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**7. LONG-TERM DEBT LIABILITIES**

The following is a summary of the long-term obligations of the Township as of March 31, 2007:

On June 16, 2003, the Township secured a bank loan of \$350,500 to fund the purchase of a pumper truck. The note is secured by the pumper truck. The note bears interest at a rate of 2.81% per year and requires annual payments ranging in amount from approximately \$48,600 to \$54,400 until June 2010. \$ 195,749

On August 3, 2006, the Township entered into a lease agreement with Ford Motor Credit Company to lease a Ford F-250 pick-up truck for a period of three years. The lease requires annual payments of approximately \$7,976, including interest at 6.80% through August 2008. At the end of the lease term, the Township will receive title to the truck. The obligation has been treated as a capital lease in the financial statements. 14,462

|   |            |
|---|------------|
|   | 210,211    |
| Less current maturities of long-term debt | (51,522)   |
| Net long-term debt                        | \$ 158,689 |

A summary of changes of the long-term obligations is as follows:

|                    | Balance<br>April 1, 2006 | Additions | Reductions | Balance<br>March 31, 2007 |
|--------------------|--------------------------|-----------|------------|---------------------------|
| Rescue truck       | \$ 12,560                |           | \$ 12,560  |                           |
| Pumper fire truck  | 236,493                  |           | 40,744     | \$ 195,749                |
| Ford pick-up truck |                          | \$ 22,438 | 7,976      | 14,462                    |
|                    | \$ 249,053               | \$ 22,438 | \$ 61,280  | \$ 210,211                |

Annual aggregate maturities of principal and interest through maturity for all debts outstanding as of March 31, 2007:

| Fiscal<br>year ending | Principal  | Interest  | Total      |
|-----------------------|------------|-----------|------------|
| 2008                  | \$ 51,522  | \$ 6,449  | \$ 57,971  |
| 2009                  | 54,653     | 4,723     | 59,376     |
| 2010                  | 49,955     | 2,889     | 52,844     |
| 2011                  | 54,081     | 1,485     | 55,566     |
|                       | \$ 210,211 | \$ 15,546 | \$ 225,757 |

Interest expense for the year ended March 31, 2007 was \$12,287.

**TOWNSHIP OF RAY  
MACOMB COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**8. DESIGNATED FUND BALANCE**

The Township Board has designated \$27,600 of the unrestricted fund balance to be designated for the Recreation Department's future park development.

**9. RISK MANAGEMENT**

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Township carries commercial insurance for risks to cover these losses. The Township also continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

**10. CONTINGENCIES**

The Township is involved in various legal actions arising in the normal course of business. In the opinion of the Township Board, such matters will not have a material effect upon the financial position of the Township.

**REQUIRED SUPPLEMENTAL INFORMATION**

**TOWNSHIP OF RAY**  
**MACOMB COUNTY, MICHIGAN**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL AND MAJOR SPECIAL REVENUE FUND TYPES**  
Year ended March 31, 2007

|                                      | General Fund     |                  |                   |   | Fire Fund         |                   |                     |   | Building Fund    |                  |                  |   |
|--------------------------------------|------------------|------------------|-------------------|---|-------------------|-------------------|---------------------|---|------------------|------------------|------------------|---|
|                                      | Original Budget  | Amended Budget   | Actual            | Variance With Final Budget Over (Under) | Original Budget   | Amended Budget    | Actual              | Variance With Final Budget Over (Under) | Original Budget  | Amended Budget   | Actual           | Variance With Final Budget Over (Under) |
| <b>REVENUES</b>                      |                  |                  |                   |   |                   |                   |                     |   |                  |                  |                  |   |
| Property taxes                       | \$ 149,432       | \$ 149,432       | \$ 148,290        | \$ (1,142)                              | \$ 429,000        | \$ 429,000        | \$ 417,505          | \$ (11,495)                             |                  |                  |                  |   |
| Licenses and permits                 | 51,500           | 51,500           | 26,091            | (25,409)                                |                   |                   | 1,859               | 1,859                                   | \$ 76,900        | \$ 76,900        | \$ 39,369        | \$ (37,531)                             |
| Intergovernmental                    | 266,000          | 266,000          | 258,466           | (7,534)                                 |                   |                   |                     |   |                  |                  |                  |   |
| Charges for services                 | 1,000            | 1,000            | 459               | (541)                                   |                   |                   | 405                 | 405                                     |                  |                  |                  |   |
| Grants                               | 5,250            | 90,860           | 27,148            | (63,712)                                |                   |                   | 28,431              | 28,431                                  |                  |                  |                  |   |
| Interest                             | 5,700            | 5,700            | 58,594            | 52,894                                  | 6,000             | 6,000             | 36,071              | 30,071                                  | 100              | 100              | 1,071            | 971                                     |
| Other                                | 71,350           | 73,850           | 21,124            | (52,726)                                | 2,000             | 2,000             | 1,547               | (453)                                   |                  |                  |                  |   |
| Total revenues                       | <u>550,232</u>   | <u>638,342</u>   | <u>540,172</u>    | <u>(98,170)</u>                         | <u>437,000</u>    | <u>437,000</u>    | <u>485,818</u>      | <u>48,818</u>                           | <u>77,000</u>    | <u>77,000</u>    | <u>40,440</u>    | <u>(36,560)</u>                         |
| <b>EXPENDITURES</b>                  |                  |                  |                   |   |                   |                   |                     |   |                  |                  |                  |   |
| Legislative                          | 12,564           | 12,564           | 12,564            | -                                       |                   |                   |                     |   |                  |                  |                  |   |
| General government                   | 367,620          | 342,150          | 334,308           | (7,842)                                 |                   |                   | -                   | -                                       |                  |                  |                  |   |
| Public safety                        | 94,450           | 62,850           | 62,644            | (206)                                   | 412,300           | 411,900           | 320,820             | (91,080)                                | 77,000           | 77,000           | 43,508           | (33,492)                                |
| Public works                         | 29,500           | 41,870           | 37,102            | (4,768)                                 |                   |                   |                     |   |                  |                  |                  |   |
| Recreations and culture              | 94,125           | 94,125           | 41,113            | (53,012)                                |                   |                   |                     |   |                  |                  |                  |   |
| Capital outlay                       | 60,573           | 112,470          | 38,288            | (74,182)                                | 809,000           | 809,000           | -                   | (809,000)                               |                  |                  |                  |   |
| Debt service                         |                  |                  |                   |   |                   |                   |                     |   |                  |                  |                  |   |
| Principal and interest               |                  |                  | 7,976             | 7,976                                   | 58,000            | 58,400            | 65,591              | 7,191                                   |                  |                  |                  |   |
| Total expenditures                   | <u>658,832</u>   | <u>666,029</u>   | <u>533,995</u>    | <u>(132,034)</u>                        | <u>1,279,300</u>  | <u>1,279,300</u>  | <u>386,411</u>      | <u>(892,889)</u>                        | <u>77,000</u>    | <u>77,000</u>    | <u>43,508</u>    | <u>(33,492)</u>                         |
| Excess of revenues over expenditures | (108,600)        | (27,687)         | 6,177             | 33,864                                  | (842,300)         | (842,300)         | 99,407              | 941,707                                 | -                | -                | (3,068)          | (3,068)                                 |
| Other financing sources (uses)       |                  |                  |                   |   |                   |                   |                     |   |                  |                  |                  |   |
| Transfers out                        |                  |                  | (25,000)          | (25,000)                                |                   |                   |                     |   |                  |                  |                  |   |
| Fund balance, beginning of year      | 119,325          | 119,325          | 119,325           |   | 945,840           | 945,840           | 945,840             |   | 17,289           | 17,289           | 17,289           |   |
| Fund balance, end of year            | <u>\$ 10,725</u> | <u>\$ 91,638</u> | <u>\$ 100,502</u> | <u>\$ 8,864</u>                         | <u>\$ 103,540</u> | <u>\$ 103,540</u> | <u>\$ 1,045,247</u> | <u>\$ 941,707</u>                       | <u>\$ 17,289</u> | <u>\$ 17,289</u> | <u>\$ 14,221</u> | <u>\$ (3,068)</u>                       |

**TOWNSHIP OF RAY**  
**REPORT TO THE TOWNSHIP BOARD**  
**July 18, 2007**

**Andrews Hooper & Pavlik P.L.C.**  
**Certified Public Accountants**  
**3201 University Drive, Suite 350**  
**Auburn Hills, Michigan 48326**



ANDREWS HOOPER & PAVLIK P.L.C.  
Certified Public Accountants

Township Officials  
Township of Ray

In planning and performing our audit of the financial statements of the Township of Ray (the "Township") as 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 opinion 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.

However, during our audit, we became aware of certain matters that are opportunities for strengthening internal control and operating efficiency. These matters are summarized as follows:

**DUE TO/DUE FROM OTHER FUNDS**

We noted that the Due to and Due from Other Funds amounts have not been paid between funds and the balances have been increasing.

We recommend the Township allocate cash among the funds in the future to include paying off the Due to and Due from Other Fund amounts.

**EXPENSE CODING**

We noted during our testing of expenses that an invoice for attorney fees was incorrectly coded to the engineering fees account.

We recommend that expenses be coded to the expense account that best represents the type of expense that was incurred.

We would be pleased to discuss these matters in further detail at your convenience, to perform any study of these matters, or to assist you in implementing the recommendations.

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

Sincerely,

*Andrews Hooper & Pavlik P.L.C.*