

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 Rust Township	County Montmorency
Fiscal Year End 3/31/07	Opinion Date 6/18/07	Date Audit Report Submitted to State 6/25/07	

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"/>	Not applicable		
Certified Public Accountant (Firm Name) Robertson & Carpenter CPAs, P.C.		Telephone Number 989-826-5442		
Street Address P.O. Box 308		City Mio	State MI	Zip 48647
Authorizing CPA Signature		Printed Name Robert J. Carpenter		License Number 1101008247

**Rust Township
Montmorency County, Michigan
Financial Report
With Supplemental Information
March 31, 2007**

Rust Township
Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	2-7
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	10
Statement of Revenues, Expenditures and Changes in Fund Balances	11
Fiduciary Funds:	
Statement of Net Assets	12
Notes to Financial Statements	13-20
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	21
Budgetary Comparison Schedule - Fire and Ambulance Fund	22
Other Supplemental Information	
General Fund - Detail of Revenues - Budget and Actual	23
General Fund - Detail of Expenditures - Budget and Actual	24-25
Fire & Ambulance Fund - Statement of Revenues, Expenditures and Changes in Fund Balance	26
Statement of Changes in Assets and Liabilities - All Agency Funds	27



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INDEPENDENT AUDITOR'S REPORT

Township Board
Rust Township
Montmorency County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Rust Township 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 Rust Township's management. Our responsibility is to express opinions 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, each major fund, and the aggregate remaining fund information of Rust Township 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 page 2 through page 7 and pages 21-22 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rust Township's basic financial statements. The accompanying pages of other supplemental information, as listed in the table of contents, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Robertson & Carpenter CPAs P.C.
Certified Public Accountants
June 18, 2007

Management's Discussion and Analysis

As management of Rust Township (the "Township"), we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2007.

Financial Highlights

- The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$289,143 (*net assets*). Of this amount, \$150,958 (*unrestricted net assets*) may be used to meet the Township's ongoing obligations
- The Township's total net assets increased by \$8,878.
- As of the close of the current fiscal year, the Township's general fund, reported an ending fund balance of \$150,958, a decrease of \$17,200 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$150,958 or 150% percent of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements consist of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. This report also contains other supplemental 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.

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.

Both of the Government-wide financial statements present functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the Township include general government, public safety, public works, and other. The Township does not have any business-type activities as of and for the year ended March 31, 2007.

The Government-wide financial statements can be found on pages 8-9 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. 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 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 Township's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the Government-wide financial statements, 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 government'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 maintains two governmental funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, and Fire & Ambulance Funds.

The Township adopts an annual appropriated budget for its governmental funds. Budgetary comparison statements or schedules have been provided for the governmental funds herein to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 10-11 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are *not* reflected in the Government-wide financial statements because the resources of those funds are *not* available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 12 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 13-20 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the Township, assets exceeded its liabilities by \$289,143 at the close of the most recent fiscal year.

A portion of the Township’s net assets (48%) reflects its investment in capital assets (e.g., land, land improvements, buildings, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to the community; consequently, these assets are *not* available for future spending.

Township’s Net Assets

	<u>Governmental</u> <u>March 31, 2007</u>	<u>Activities</u> <u>March 31, 2006</u>
Current and Other Assets	\$ 151,138	\$ 170,323
Capital Assets, Net	<u>138,185</u>	<u>112,107</u>
Total Assets	<u>289,323</u>	<u>282,430</u>
Current Liabilities	180	180
Long Term Liabilities	<u>-0-</u>	<u>-0-</u>
Total Liabilities	<u>180</u>	<u>180</u>
Net Assets:		
Invested in Capital Assets	138,185	112,107
Unrestricted	<u>150,958</u>	<u>170,143</u>
Total Net Assets	\$ <u>289,143</u>	\$ <u>282,250</u>

The Township's net assets increased by \$6,893 during the current fiscal year. Unrestricted net assets—the part of net assets that can be used to finance day to day operations, decreased by \$19,185 or 17%, during fiscal year 2007.

Township's Changes in Net Assets

	Governmental	Activities
	March 31	March 31
	<u>2007</u>	<u>2006</u>
Revenue:		
Program Revenue:		
Charges for services	\$ 2,760	\$ 250
Operating Grants and Contributions	-	-
General Revenue:		
Property Taxes	47,534	45,792
State-Shared Revenues	40,875	41,939
Interest and Rent Earnings	5,373	6,047
Other	<u>227</u>	<u>6,777</u>
Total Revenue	96,769	100,805
Expenses:		
General Government	60,515	64,451
Public Safety	21,722	22,744
Community/Economic Development	514	2,119
Public Works	<u>5,140</u>	<u>2,700</u>
Total Expenses	<u>87,891</u>	<u>92,014</u>
Net Assets	8,878	8,791
Net Assets, Beginning of Year	<u>280,265</u>	<u>271,474</u>
Net Assets, End of Year	\$ <u><u>289,143</u></u>	\$ <u><u>280,265</u></u>

Governmental activities. The Township's total governmental revenues decreased by \$4,036 from last fiscal year. This was primarily attributed to less revenue from interest and royalties and other revenue. Expenses decreased by \$34,935. The decrease was primarily due to decreased Capital Outlay expenses.

Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$150,958, a decrease of \$17,200 in comparison with the prior year. The *undesignated fund balance*, which is available for spending at the Township's discretion, constitutes 100% of this total amount or \$150,958.

The primary governmental fund is the General Fund of the Township. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 150% and total fund balance represents 150% of total general fund expenditures.

The fund balance of the General Fund decreased by \$17,200 during the current fiscal year.

The Fire and Ambulance Fund was established during the year ended March 31, 2004. A .5000 mill property tax was levied, having been approved by the taxpayers. The millage rate was .4999 and .4999 for the years ended March 31, 2007 and 2006 respectively. The property tax generated \$13,629 and \$13,116 of revenue for the years ended March 31, 2007 and 2006 respectively. All of the funds were expended during the fiscal years.

Governmental Funds Budgetary Highlights

The Township's budgets are prepared in accordance with Michigan Law. The budgeted funds are the General and Fire and Ambulance Funds. None of the budgeted funds was amended during the year.

Capital Asset and Debt Administration

Capital assets. The Township's investment in capital assets for its governmental activities as of March 31, 2007, amounted to \$55,217 (net of accumulated depreciation). Investment in capital assets includes land, land improvements, buildings, equipment and infrastructure. Additions totaled \$31,985 for the fiscal year, including an increase of \$30,000 in infrastructure.

Township's Capital Assets (net of depreciation)

	March 31 <u>2007</u>	March 31 <u>2006</u>
Land	\$ 2,700	\$ 2,700
Land Improvements	1,653	1,767
Buildings	39,619	42,137
Equipment	1,688	-0-
Cemetery – Land Improvements	5,025	5,503
Cemetery - Equipment	-0-	-0-
Infrastructure	<u>87,500</u>	<u>60,000</u>
Total	\$ <u>138,185</u>	\$ <u>112,107</u>

Additional information on the Township's capital assets can be found in note 5 on page 18 of this report.

Factors Bearing on the Township's Future

The following factors were considered in preparing the Township's budget for the 2007-2008 fiscal year:

- The State of Michigan has made significant cuts in their operating budgets due to a downturn in the economy. The Township did receive less in State Shared Revenues this year than the prior fiscal year. We anticipate that overall revenues will be comparable to this year and that expenditures will be approximately \$30,000 less since we do not expect to contract for significant road improvements. Our budgets were prepared with these factors in mind and will need to be revised as needed.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Rust Township
P.O. Box 456
Hillman, Michigan 49746

Rust Township
Statement of Net Assets
March 31, 2007

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents (Note 3)	\$ 82,931
Receivables: (Note 4)	
Other	-
Intergovernmental	10,154
Due from Fiduciary Fund	785
Investments (Note 3)	57,268
Capital assets-net (Note 5)	<u>138,185</u>
 Total assets	 <u>289,323</u>
 Liabilities	
Current Liabilities:	
Accounts payable	180
Deferred revenue	-
Total current liabilities	<u>180</u>
 Total liabilities	 <u>180</u>
 Net Assets	
Invested in capital assets	138,185
Unrestricted	<u>150,958</u>
 Total net assets	 \$ <u><u>289,143</u></u>

See accompanying notes to financial statements.

Rust Township
Governmental Funds
Balance Sheet
March 31, 2007

	General Fund	Fire & Ambulance Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 82,931	\$ -	\$ 82,931
Investments	57,268	-	57,268
Due from other funds	785	-	785
Due from other governmental units	10,154	-	10,154
Total assets	\$ 151,138	\$ -	\$ 151,138
Liabilities			
Accounts payable	\$ 180	\$ -	\$ 180
Due to other funds	-	-	-
Due to other governments	-	-	-
Deferred revenue	-	-	-
Total liabilities	180	-	180
Fund balances			
Unreserved:			
Undesignated:			
General Fund	150,958	-	150,958
Special Revenue Funds	-	-	-
Total fund balances	150,958	-	150,958
Total liabilities and fund balances	\$ 151,138	\$ -	\$ 151,138

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

Fund Balances - Total Governmental Funds	\$ 150,958
Elimination of due to and due from governmental funds	
Due to	-
Due from	-
Capital assets used in governmental activities are not financial financial resources, and are not reported in the funds.	
The cost of capital assets is	188,616
Accumulated depreciation is	(50,431)
Net Assets of Governmental Activities	\$ 289,143

See accompanying notes to financial statements.

Rust Township
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended March 31, 2007

	<u>General Fund</u>	<u>Fire & Ambulance Fund</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes and penalties	\$ 33,905	\$ 13,629	\$ 47,534
Licenses and permits	180	-	180
State grants	40,875	-	40,875
Charges for services	2,580	-	2,580
Interest and rentals	5,373	-	5,373
Other revenue	227	-	227
Total revenues	<u>83,140</u>	<u>13,629</u>	<u>96,769</u>
Expenditures			
Current:			
General government	57,108	-	57,108
Public safety	8,093	13,629	21,722
Community/Economic development	514	-	514
Public works	2,640	-	2,640
Capital outlay	31,985	-	31,985
Total expenditures	<u>100,340</u>	<u>13,629</u>	<u>113,969</u>
Excess of Revenues Over (Under) Expenditures	(17,200)	-	(17,200)
Other Financing Sources (Uses)			
Operating transfers in	-	-	-
Operating transfers (out)	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(17,200)	-	(17,200)
Fund balance - April 1, 2006	<u>168,158</u>	<u>-</u>	<u>168,158</u>
Fund balance - March 31, 2007	<u>\$ 150,958</u>	<u>\$ -</u>	<u>\$ 150,958</u>

See accompanying notes to financial statements.

Rust Township
 Fiduciary Funds
 Statement of Net Assets
 March 31, 2007

		Agency Fund Type (Property Tax Collection Fund)
Assets		
Cash	\$	12,059
Due from other funds		-
Total assets	\$	12,059
 Liabilities		
Due to other funds	\$	785
Due to other governments		11,274
Total liabilities		12,059
 Net Assets	 \$	 -

See accompanying notes to financial statements.

Rust Township
Notes to Financial Statements
March 31, 2007

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Rust Township ("the Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the more significant policies used by the Township:

Reporting Entity

The Township is governed by an elected five member Township Board. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Township's reporting entity, and which organizations are legally separate, component units of the Township. Based on the application criteria, the Township does not contain any component units.

Government-wide and Fund Financial Statements

The Government-side financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are 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. All the Township's government-wide activities are considered governmental activities. The Township does not have any business-type activities.

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported 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 the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Government 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 Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, state-shared revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the cash is received by the Township.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund.

The Fire and Ambulance Fund is used to record property tax revenue restricted for providing fire protection and ambulance services.

Additionally, the Township reports the following funds:

The Tax Collection Fund accounts for property taxes collected and disbursed to other taxing authorities by the Township as required by law.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers for goods, services or privileges provided and (2) operating grants and contributions. General revenue includes all taxes.

Assets, Liabilities, and Net Assets or Equity

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. Investments are stated at fair value.

Rust Township
Notes to Financial Statements
March 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between fund that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The taxpayers of the Township have their properties assessed as of December 31 and the related property taxes are levied and become a lien on December 1 for 100% of the taxes which are due February 28. The 2006 taxable value of the Township was \$25,529,246. The 2006 tax levy was .9160 mills for general operating purposes raising \$24,973 for general operating purposes and .4999 mills for fire protection and ambulance services raising \$13,629 for fire protection purposes.

Capital Assets - Capital assets, which include land, buildings, equipment, and infrastructure assets (e.g., amounts paid to the Road Commission for the intangible right to use the roads), are reported in the governmental 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 \$500 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 the donation. Infrastructure assets acquired prior to implementation of GASB 34 are not included in the financial statements.

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

Infrastructure	20 years
Land Improvements	20 years
Buildings and additions	20-50 years
Equipment	5-20 years

Compensated Absences - There is no liability for compensated absences reported in the government-wide financial statements since no township employees are provided with sick or vacation pay benefits.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriating or are legally restricted by outside parties for use for a specific purpose. The Township did not have a reserved fund balance at March 31, 2007. Designations of fund balance represent tentative management plans that are subject to change. The Township did not have a designated fund balance at March 31, 2007.

Rust Township
Notes to Financial Statements
March 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Comparative Data/Reclassifications - Comparative data is not included in the Township's financial statements.

Note 2 - Stewardship, Compliance and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted account principles and state laws for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Township adopt its budgets by April 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits Townships to amend its budget during the year.

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until the receipt of materials or services. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances are reappropriated in the next year.

Excess of expenditures over appropriations in budgeted funds:

The Township incurred expenditures in excess of amounts budgeted as follows:

<u>Fund and Function</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Variance</u>
General:			
Current			
Assessor	\$ 10,500	\$ 11,451	\$ 951
Board of Review	800	949	149
Cemetery	6,000	6,120	120
Townhall	9,100	9,927	827
Capital Outlay	30,000	31,985	1,985

Rust Township
Notes to Financial Statements
March 31, 2007

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes the Township to make deposits and investments in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Township is also allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures 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 that are legal for direct investment by local units of government in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments in accordance with State statutory authority as listed above.

Rust Township's deposits are in accordance with statutory authority. The Township's investment policy has not been updated to conform to Governmental Accounting Standards Board statement #40.

At year-end, Rust Township's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Township Total
Cash and cash equivalents	\$ 82,931	\$ 12,059	\$ 94,990
Investments	57,268	-	57,268
Total	\$ 140,199	\$ 12,059	\$ 152,258

The breakdown between deposits and investments for the Township is as follows:

Deposits (checking, savings and CDs)	\$ 94,990
Investments	57,268
	\$ 152,258

The deposits of the Township were reflected in the accounts of one financial institution, of which \$94,990 is covered by federal depository insurance.

The investments are held by Linsco Private Ledger (LPL) Financial Services held in the Township's name and consist of mutual funds and government bonds.

Rust Township
Notes to Financial Statements
March 31, 2007

Note 4 - Receivables

Receivables as of year-end for the Township's major funds and fiduciary funds in the aggregate, including applicable allowances of uncollectible accounts, are as follows:

Receivables:	General Fund	Fire & Ambulance Fund	Tax Coll. Fund	Total
Other	\$ -	\$ -	\$ -	\$ -
Intergovernmental	10,154	-	-	10,154
	<u>\$ 10,154</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,154</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the Township did not have any deferred revenue.

Note 5 - Capital Assets

Capital assets activity of the Township's Governmental activities were as follows:

	Balance April 1, 2006	Additions	Deletions	Balance March 31, 2007
Capital assets not being depreciated:				
Land	\$ 2,700	\$ -	\$ -	\$ 2,700
Capital assets being depreciated:				
Land improvements	2,280	-	-	2,280
Buildings	76,111	-	-	76,111
Equipment	5,759	1,985	1,020	6,724
Cemetery - Land improvements	9,551	-	-	9,551
Cemetery - Equipment	1,250	-	-	1,250
Infrastructure	60,000	30,000	-	90,000
Subtotal	<u>154,951</u>	<u>31,985</u>	<u>1,020</u>	<u>185,916</u>
Accumulated Depreciation				
Land improvements	513	114	-	627
Buildings	33,974	2,518	-	36,492
Equipment	5,759	298	1,020	5,037
Cemetery - Land improvements	4,048	477	-	4,525
Cemetery - Equipment	1,250	-	-	1,250
Infrastructure	-	2,500	-	2,500
Subtotal	<u>45,544</u>	<u>5,907</u>	<u>1,020</u>	<u>50,431</u>
Net capital assets being depreciated	<u>109,407</u>	<u>26,078</u>	<u>-</u>	<u>135,485</u>
Governmental Activities				
Total Capital Assets net of Depreciation	<u>\$ 112,107</u>	<u>\$ 26,078</u>	<u>\$ -</u>	<u>\$ 138,185</u>

Rust Township
Notes to Financial Statements
March 31, 2007

Note 5 - Capital Assets (Continued)

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

Governmental activities:	
General government	\$ 3,407
Public works	2,500
Total governmental activities	<u>\$ 5,907</u>

Note 6 - Receivables, Payables and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>	<u>Amount</u>
General	\$ 785	Tax Collection	\$ 785
Total	<u>\$ 785</u>	Total	<u>\$ 785</u>
<u>Transfers In</u>		<u>Transfers Out</u>	
None	<u>\$ -</u>	None	<u>\$ -</u>

Note 7 - Risk Management

Rust Township is exposed to various risks of loss related to theft of , damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent insurance companies. Settled claims from these risks have not exceeded insurance coverage for the last three years.

Note 8 - Pension Plan

The Township has a defined contribution retirement plan that covers the five elected officials. The plan is administered by U.S. Financial Life Insurance Co. The Township contributes a flat amount per month per official with one amount being paid for the Supervisor, Clerk and Treasurer and one amount being paid for the Trustees. The officials also make contributions to the plan. The officials contributions for the year were \$650.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participant's benefits that may be allocated to such participant's account.

The Township's total payroll for the year ended March 31, 2007 was approximately \$22,019. The Township made the required contribution of \$1,950.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township. The plan held no securities of the Township or other related parties during the year or at the close of the year.

Note 8 - Perpetual Care Cemetery Trust Fund

The Township owns one half of the Perpetual Care Cemetery Trust Fund. Hillman Township owns the other half and maintains the records. The Township portion of the fund balance at March 31, 2006 is \$18,6075. The Township also owns one half of the cemetery capital assets. These capital assets have been included in Note 5.

The Township is billed for one half of the total cemetery expenditures less one half of the cemetery revenues for each fiscal year.

Note 9 - Joint Venture

Rust Township is a participant in an interlocal agreement with Hillman Township, Montmorency Township and the Village of Hillman to provide fire protection and ambulance services to the township and village residents. The Hillman Fire Board totals nine members, three from Hillman Township, three from Montmorency Township, two from Rust Township, and one from the Village of Hillman.

Rust Township paid a total of \$21,722 for fire and ambulance services during the fiscal year ended March 31, 2007.

Rust's equity interest is determined on a formula that includes both the state equalized valuation and the current population. The percentage was approximately 14.80% at December 31, 2004, the date of the most recent audited financial statements.

Complete financial statements for the year ended December 31, 2004 can be obtained from the administrative office at : Hillman Fire and Ambulance Board
131 W. Third Steet
Hillman, Michigan

Required Supplemental Information

Rust Township
 Budgetary Comparison Schedule - General Fund
 Year Ended March 31, 2007

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Over (Under)
	2007	2007		
	Original	Final		
Fund Balance - Beginning of year	\$ 25,743	\$ 25,743	\$ 168,158	\$ 142,415
Resources (Inflows)				
Taxes and fees	33,000	33,000	33,905	905
Licenses and permits	500	500	180	(320)
State grants	39,779	39,779	40,875	1,096
Charges for services	-	-	2,580	2,580
Interest and rentals	4,900	4,900	5,373	473
Other	3,500	3,500	227	(3,273)
Amounts available for appropriation	<u>81,679</u>	<u>81,679</u>	<u>83,140</u>	<u>1,461</u>
Charges to Appropriations (Outflows)				
General government	58,500	58,500	57,108	(1,392)
Public safety	9,722	9,722	8,093	1,629
Community/Economic development	1,200	1,200	514	686
Public works	3,000	3,000	2,640	(360)
Other	5,000	5,000	-	(5,000)
Capital outlay	30,000	30,000	31,985	1,985
Total charges to appropriations	<u>107,422</u>	<u>107,422</u>	<u>100,340</u>	<u>(2,452)</u>
Fund Balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 150,958</u>	<u>\$ 146,328</u>

Rust Township
 Budgetary Comparison Schedule - Fire & Ambulance Fund
 Year Ended March 31, 2007

	<u>Budgeted Amounts</u>		Actual Amounts Budgetary Basis	Variance with Final Budget Over (Under)
	<u>2007 Original</u>	<u>2007 Final</u>		
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows)				
Taxes and fees	12,000	12,000	13,629	1,629
Federal grants	-	-	-	-
State grants	-	-	-	-
Charges for services	-	-	-	-
Interest and rentals	-	-	-	-
Other	-	-	-	-
Amounts available for appropriation	<u>12,000</u>	<u>12,000</u>	<u>13,629</u>	<u>1,629</u>
Charges to Appropriations (Outflows)				
Public safety	12,000	12,000	13,629	1,629
Capital outlay	-	-	-	-
Total charges to appropriations	<u>12,000</u>	<u>12,000</u>	<u>13,629</u>	<u>1,629</u>
Fund Balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Supplemental Information

Rust Township
 General Fund
 Statement of Revenues - Budget and Actual
 Year Ended March 31, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
TAXES:			
Property taxes	\$	\$ 24,973	\$
Interest and penalties		213	
Property tax administration		8,719	
TOTAL TAXES	<u>33,000</u>	<u>33,905</u>	<u>905</u>
LICENSES AND PERMITS:			
Zoning permits	<u>500</u>	<u>180</u>	<u>(320)</u>
STATE GRANTS:			
State shared revenues		37,348	
Swamp tax		1,790	
Metro Act		1,737	
TOTAL STATE GRANTS	<u>39,779</u>	<u>40,875</u>	<u>1,096</u>
CHARGES FOR SERVICES			
State summer tax collection		2,570	
Land division fees		10	
TOTAL CHARGES FOR SERVICES	<u>-</u>	<u>2,580</u>	<u>2,580</u>
INTEREST AND RENTALS:			
Interest		4,127	
Rents and royalties		1,246	
TOTAL INTEREST AND RENTALS	<u>4,900</u>	<u>5,373</u>	<u>473</u>
OTHER REVENUE			
Reimbursements		-	
Miscellaneous		227	
TOTAL OTHER REVENUE	<u>3,500</u>	<u>227</u>	<u>(3,273)</u>
 TOTAL REVENUES	 \$ <u>81,679</u>	 \$ <u>83,140</u>	 \$ <u>1,461</u>

Rust Township
General Fund
Statement of Expenditures - Budget and Actual
Year Ended March 31, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
GENERAL GOVERNMENT			
Legislative			
Trustee wages	\$	\$ 1,785	\$
Per diem		810	
Social security & medicare		514	
Pension contribution		1,950	
Office supplies		400	
Postage		1,028	
Legal		-	
Conferences		465	
Printing & publishing		231	
Memberships & dues		613	
Mileage		109	
Miscellaneous		10	
Total Legislative	<u>10,100</u>	<u>7,915</u>	<u>2,185</u>
Supervisor			
Salary		5,500	
Per diem		-	
Mileage		-	
Total Supervisor	<u>5,700</u>	<u>5,500</u>	<u>200</u>
Elections			
Services & expenses		2,516	
Printing & publishing		-	
Total Elections	<u>2,700</u>	<u>2,516</u>	<u>184</u>
Assessor			
Professional services		7,182	
Contracted services		4,269	
Total Assessor	<u>10,500</u>	<u>11,451</u>	<u>(951)</u>
Clerk			
Salary		5,400	
Per diem		150	
Seminars		-	
Mileage		-	
Total Clerk	<u>5,800</u>	<u>5,550</u>	<u>250</u>
Board of Review			
Wages		949	
Printing & publishing		-	
Total Board of Review	<u>800</u>	<u>949</u>	<u>(149)</u>

Rust Township
General Fund
Statement of Expenditures - Budget and Actual
Year Ended March 31, 2007

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
GENERAL GOVERNMENT (Continued)			
Treasurer	\$	\$	\$
Salary		6,900	
Deputy wages		75	
Per diem		180	
Mileage		25	
Total Treasurer	<u>7,800</u>	<u>7,180</u>	<u>620</u>
Cemetery			
Contracted services	<u>6,000</u>	<u>6,120</u>	<u>(120)</u>
Townhall			
Wages		504	
Insurance		3,412	
Electricity		1,051	
Heat		3,001	
Telephone		424	
Repair & maintenance		1,535	
Total Townhall	<u>9,100</u>	<u>9,927</u>	<u>(827)</u>
TOTAL GENERAL GOVERNMENT	<u>58,500</u>	<u>57,108</u>	<u>1,392</u>
PUBLIC SAFETY			
Fire & Ambulance			
Contracted services		8,093	
TOTAL PUBLIC SAFETY	<u>9,722</u>	<u>8,093</u>	<u>1,629</u>
COMMUNITY/ECONOMIC DEVELOPMENT			
Zoning			
Wage		450	
Miscellaneous		64	
TOTAL COMMUNITY/ ECONOMIC DEVELOPMENT	<u>1,200</u>	<u>514</u>	<u>686</u>
PUBLIC WORKS			
Roads		2,640	
TOTAL PUBLIC WORKS	<u>3,000</u>	<u>2,640</u>	<u>360</u>
OTHER			
Contingency			
TOTAL OTHER	<u>5,000</u>	<u>-</u>	<u>5,000</u>
CAPITAL OUTLAY	<u>30,000</u>	<u>31,985</u>	<u>(1,985)</u>
TOTAL EXPENDITURES	<u>\$ 107,422</u>	<u>\$ 100,340</u>	<u>\$ 7,082</u>

Rust Township
 Fire & Ambulance Fund
 Statement of Revenues and Other Financing Sources, Expenditures and
 Changes in Fund Balance - Budget and Actual
 Year Ended March 31, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Property Tax	\$ 12,000	\$ 13,629	\$ 1,629
Total Revenues	<u>12,000</u>	<u>13,629</u>	<u>1,629</u>
EXPENDITURES			
Public Safety			
Fire and ambulance	<u>12,000</u>	<u>13,629</u>	<u>(1,629)</u>
Total Expenditures	<u>12,000</u>	<u>13,629</u>	<u>(1,629)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	-
FUND BALANCE - April 1, 2006	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - March 31, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Rust Township
Statement of Changes in Assets and Liabilities
All Agency Funds
March 31, 2007

		Current Tax Collection Fund			
		Balance April 1, 2006	Additions	Deductions	Balance March 31, 2007
Assets					
Cash	\$	947	\$ 823,699	\$ 812,587	\$ 12,059
Liabilities					
Due to other funds	\$	947	\$ 45,658	\$ 45,820	\$ 785
Due to county		-	314,738	314,738	-
Due to schools		-	463,221	451,947	11,274
Refunds		-	82	82	-
Total liabilities	\$	947	\$ 823,699	\$ 812,587	\$ 12,059



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Robert J. Carpenter, CPA
Rodney C. Robertson, CPA

June 18, 2007

Township Board
Rust Township
Montmorency County, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Rust 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 Rust Township's internal control over financial reporting 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 a governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit'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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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 Township'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 Township's financial statements that is more than inconsequential will not be prevented or detected by the Township's internal control. We consider the following deficiency to be a significant deficiency in internal control.

Lack of adequate controls to produce full-disclosure GAAP basis financial statements.

Requirement: All Michigan governmental units are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Township's management. The preparation of financial statements

in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

Condition: The Township, as is common with smaller and medium-sized entities, has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Township's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal controls.

Cause: This condition was caused by the Township's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Township to perform this task internally.

Effect: The result of this condition is that the Township lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of responsible officials: The Township has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Township to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

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

Robertson & Carpenter CPAs, P.C.
Certified Public Accountants
Mio, Michigan