

**INTERIOR TOWNSHIP
ONTONAGON COUNTY
FINANCIAL REPORT
With Supplemental Information**

March 31, 2007

Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Interior Township	County Ontonagon
Fiscal Year End 3/31/2007	Opinion Date 11/30/2007	Date Audit Report Submitted to State 12/17/2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

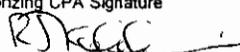
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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) Roger J. Kolehmainen PC CPA		Telephone Number (906) 932-3600	
Street Address 1445 East Cloverland Drive		City Ironwood	State Zip MI 49938
Authorizing CPA Signature 		Printed Name Roger J. Kolehmainen	License Number 1617066

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MANAGEMENT'S DISCUSSION AND ANALYSIS
INTERIOR TOWNSHIP
(Unaudited)

Fund Financial Statements

The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. In the basic financial statements, the emphasis of the fund financial statements is on major funds. All of the funds of the Township can be divided into three categories: governmental funds, proprietary 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. This information may be useful in evaluating the 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. In order to provide the reader with information to better understand the long-term impact of the government's near-term financing decisions, a reconciliation between the government-wide financial statements is included as part of the basic financial statements.

The Township maintains several governmental funds. Information is presented separately in the government fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance for the general, road and fire funds (considered major funds) and the special revenue funds of liquor and building inspection funds (considered non-major funds).

Individual fund data for each fund is presented separately in the "Other Financial Information" section of this report.

The Township adopts an annual budget for its general fund. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general fund and is included in the "Required Supplemental Information" section of this report. Other governmental funds budgetary comparisons are included in the "Other Financial Information" section of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
 INTERIOR TOWNSHIP
 (Unaudited)

Proprietary Funds

Proprietary Funds provide services for which the Township charges customers a fee. The Township has two proprietary fund types- enterprise funds. The enterprise funds of the Township are used to report the same functions as the business-type activities in the government-wide financial statements. The Water and Sewer Funds is presented in both the government-wide financial statements and the fund financial statements and is considered a major fund. Enterprise funds are used to account for operations very similar to business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefits of parties outside the government. The fiduciary funds for the Township are the Tax Collection Fund and Pension Fund. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. This fund is presented separately in the fund financial statements section of the basic financial statements. The various pension reports on vested Board members were not retained for all participants; therefore, the changes in pension holdings are not presented as part of the financial statements as required.

Notes to Financial Statements

Notes to the financial statements are included in the financial statements, and provide additional information that is essential for a full understanding of the data provide in the government-wide and the fund financial statements.

Government-wide Financial Statements-Condensed Financial Information

Statement of Net Assets

The following tables show the condensed statements of net assets for the years ended March 31, 2007 and 2006, as follows:

ASSETS	Primary Government- March 31, 2007		
	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Current Assets:			
Cash and other assets	\$217,987	\$161,303	\$379,290
Other assets	41,635	32,203	73,838
Non-current Assets			
Restricted cash		15,342	15,342
Capital Assets, net	85,234	1,212,071	1,297,305
TOTAL ASSETS	\$344,856	\$1,420,919	\$1,765,775

MANAGEMENT'S DISCUSSION AND ANALYSIS
 INTERIOR TOWNSHIP
 (Unaudited)

Primary Government – March 31, 2007

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
LIABILITIES			
Current Liabilities	\$51,428	\$33,544	\$84,972
Non-current Liabilities		189,000	189,000
TOTAL LIABILITIES	51,428	222,544	273,972
NET ASSETS			
Investment in capital assets net of related debt	85,234	1,018,071	1,103,305
Restricted		15,342	15,342
Unrestricted	208,194	164,962	373,156
Total Net Assets	293,428	1,198,375	1,491,803
TOTAL LIABILITIES AND NET ASSETS	\$344,856	\$1,420,919	\$1,765,775

For governmental activities, net assets decreased by \$7,962 during the fiscal year. For business-type activities, net assets decreased by \$27,877 during the year.

Primary Government – March 31, 2006

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and other assets	\$210,371	\$133,216	\$343,587
Other assets	44,119	28,510	72,629
Non-current Assets			
Restricted cash		36,820	36,820
Capital Assets, net	61,083	1,232,706	1,293,789
TOTAL ASSETS	\$315,573	\$1,431,252	\$1,746,825
LIABILITIES			
Current Liabilities	\$14,183	\$11,000	\$25,183
Non-current Liabilities		194,000	194,000
TOTAL LIABILITIES	14,183	205,000	\$219,183
NET ASSETS			
Investment in capital assets net of related debt	61,083	1,033,706	1,094,789
Restricted		36,820	36,820
Unrestricted	240,307	155,726	396,033
Total Net Assets	301,390	1,226,252	1,527,642
TOTAL LIABILITIES AND NET ASSETS	\$315,573	\$1,431,252	\$1,746,825

MANAGEMENT'S DISCUSSION AND ANALYSIS
 INTERIOR TOWNSHIP
 (Unaudited)

Results of Operations

The following represents the changes in net assets for both governmental and business-type activities for the years ended March 31, 2007 and 2006. The following statements reflect a condensed statement of activities with the respective changes in net assets for the periods reported.

	Primary Government – March 31, 2007		
	Governmental	Business-Type	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
REVENUES			
Program Revenue:			
Charges for services	\$13,686	\$52,712	\$66,398
General Revenue:			
Property taxes	28,176		28,176
Other income	12,252	8,399	20,651
Donations	1,921		1,921
Restricted grants	7,848		7,848
Unrestricted grants	29,763		29,763
Total Revenue	93,646	61,111	154,757
EXPENSES:			
General Government	65,169		65,169
Public Safety	15,404		15,404
Public Works	10,689		10,689
Economic development	724		724
Recreation and Culture	254		254
Other Expenses	9,368		9,368
Total Expenses	101,608		101,608
Business-Type			
Activities:			
Water & Sewer Expenses		88,988	88,988
Increase (Decrease) in Net Assets	(7,962)	(27,877)	(35,839)
Net Assets, Beginning of Year	301,390	1,226,252	1,527,642
Net Assets, End of Year	\$293,428	\$1,198,375	\$1,491,803

MANAGEMENT'S DISCUSSION AND ANALYSIS
 INTERIOR TOWNSHIP
 (Unaudited)

Primary Government – March 31, 2006

REVENUES	Governmental Activities	Business-Type Activities	Total
Program Revenue:			
Charges for services	\$4,504	\$51,035	\$55,539
General Revenue:			
Property taxes	31,093		31,093
Other income	15,188	7,005	22,193
Donations	22,069		22,069
Restrictive grant	9,744		9,744
Unrestricted grants	32,326		32,326
Total Revenue	114,924	58,040	172,964
 EXPENSES:			
General Government	44,537		44,537
Public Safety	13,064		13,064
Public Works	7,779		7,779
Economic development	5,542		5,542
Recreation and Culture	1,283		1,283
Other Expenses	775		775
Total Expenses	72,980		72,980
 Business-Type Activities:			
Water & Sewer Exp.		93,365	93,365
Increase (Decrease) in Net Assets	41,944	(35,325)	6,619
Net Assets, Beginning of Year	259,446	1,261,577	1,521,023
Net Assets, Year End	\$301,390	\$1,226,252	\$1,527,642

Governmental Activities

Property taxes and other tax revenues comprise \$35,078 or approximately 37% (percent) of total governmental revenues. The Township reported \$27,831 in grants not restricted for specific purposes and \$10,931 in Federal and State proceeds for restricted purposes. These amounts were due to revenue sharing from the State of Michigan and Federal Government, comprising 41% (percent) of total governmental revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS
INTERIOR TOWNSHIP
(Unaudited)

The Township expended \$125,759 on governmental programs and services. One of the largest expense categories were for legislative and general government amounting to \$64,059 or 51% (percent) of the reported expenditures. The Township incurred capital outlay expenditures of \$31,522. Major items noted, were the construction of a new fire department garage and road improvements.

Business-Type Activities

Business-type activities decreased the Township's net assets by \$27,877. Charges for services for water and sewer activities for the year were \$52,712 and expenditures amounted to \$88,988 (including depreciation expense of 49,674).

Financial Analysis of Governmental Funds

As previously noted, the Township uses fund accounting to ensure and demonstrate compliance with finance-related requirement.

Governmental Funds

The focus of the Township's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year. The Township's governmental funds reported combined ending fund balances of \$208,194 which is unreserved and available for spending at the government's discretion towards general government, roads and fire department activities.

On the budgetary basis of accounting, the Township's General Fund ended the year with revenues being \$55,928 (32% lower than amount budgeted) with expenditures being \$95,584 (78% of the amount budgeted) resulting in \$39,656 being taken from previous year fund balance. The balance adjusted fund balance reflecting the operating results of 2006/2007 is now \$24,623.

Proprietary Fund

The Township's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the Water and Sewer Funds as of March 31, 2007 were \$74,108 and \$90,854 respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS
INTERIOR TOWNSHIP
(Unaudited)

Capital Assets and Debt Administration

The Township's investment in capital assets, net of accumulated depreciation for its governmental and business-type activities as of March 31, 2007 was \$1,297,305. The major additions to capital assets were for road improvements, construction of a new fire department station and sewer system expansion project.

The Water Fund is making debt service payments on a revenue bond issuance with a balance of \$194,000. The current year principal amount due is \$5,000. The Township has been making timely debt service payments as they become due.

Other Economic Factors and Next Years Budget

Economic Factors

Currently, the State of Michigan is experiencing a severe budgetary crisis. As such, it is anticipated that future state cuts will likely translate into strategic reductions of Township expenses to maintain a sound budget. Despite the poor outlook of the state's budget, the Township will continue to strive to provide good social and cultural conditions that support healthy families and maintain a safe and clean community in which to live.

Request for Information

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

Township Supervisor
Interior Township
PO Box 8
Trout Creek, MI 49967

Roger J. Kolehmainen CPA PC
1445 East Cloverland Drive
Ironwood, MI 49938
(906) 932-3600

INDEPENDENT AUDITOR'S REPORT

Supervisor and Members of the Board
Township of Interior
Trout Creek, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Interior 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 Township's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 the audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, with the exception of Pension Fund Activities not included in the Fiduciary Fund Statements; the respective financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Interior Township as of March 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated November 30, 2007, on our consideration of Interior Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis are not a required part of the basic financial statements but is supplemental 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 supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Interior Township's basic financial statements. The accompanying "Other Financial Information" is presented for purposes of additional analysis and is 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 financial statements taken as a whole.



Roger J. Kolehmainen PC
Certified Public Accountant

Ironwood, Michigan
November 30, 2007

INTERIOR TOWNSHIP
STATEMENT OF NET ASSETS
March 31, 2007

	Government Activities	Business – type Activities	Totals
ASSETS			
Current Assets:			
Cash and cash equivalents	\$217,987	\$161,303	\$379,290
Accounts receivable-net	12,152	11,579	23,731
Delinquent taxes receivable	3,250		3,250
Due from other funds	14,500	17,188	31,688
Accrued interest income		1,072	1,072
Deferred charges	11,733	2,364	14,097
TOTAL CURRENT ASSETS	259,622	193,506	453,128
RESTRICTED ASSETS:			
Restricted cash		15,342	15,342
NON-CURRENT ASSETS:			
Capital assets	234,946	2,188,338	2,423,284
Accumulated depreciation	(149,712)	(1,005,305)	(1,155,017)
Work in progress		29,038	29,038
TOTAL NON-CURRENT ASSETS	85,234	1,212,071	1,297,305
TOTAL ASSETS	\$344,856	\$1,420,919	\$1,765,775
LIABILITIES			
Current Liabilities:			
Accounts payable	\$26,509	\$24,273	\$50,782
Accrued wages/taxes	3,903	1,036	4,939
Accrued interest payable		3,235	3,235
Due to other funds	17,188		17,188
Due to other units of government	3,828		3,828
Current maturity on long-term debt		5,000	5,000
TOTAL CURRENT LIABILITIES	51,428	33,544	84,972
NON-CURRENT LIABILITIES			
Bonds payable		194,000	194,000
Current maturity on long-term debt		(5,000)	(5,000)
TOTAL NON-CURRENT LIABILITIES		189,000	189,000
TOTAL LIABILITIES	51,428	222,544	273,972
NET ASSETS			
Investment in capital assets, net of related debt	85,234	1,018,071	1,103,305
Reserved		15,342	15,342
Unreserved	208,194	164,962	373,156
TOTAL NET ASSETS	293,428	1,198,375	1,491,803
TOTAL LIABILITIES & NET ASSETS	\$344,856	\$1,420,919	\$1,765,775

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
STATEMENT OF ACTIVITIES
Year Ended MARCH 31, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expense) Revenue</u>
Governmental Activities			
General government	\$65,169	\$6,902	(\$58,267)
Public safety	15,404	3,111	(12,293)
Public works	10,689	3,673	(7,016)
Economic development	724		(724)
Recreation and culture	254		(254)
Other	9,368		(9,368)
Total Governmental Activities	<u>\$101,608</u>	<u>\$13,686</u>	<u>(\$87,922)</u>
Business-type Activities			
Water	\$49,613	\$46,258	(\$3,355)
Sewer	39,375	6,454	(32,921)
Total Business – type Activities	<u>88,988</u>	<u>52,712</u>	<u>(36,276)</u>
Total	<u>\$190,596</u>	<u>\$66,398</u>	<u>(\$124,198)</u>
Changes in Net Assets			
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>
Net (Expense) Revenue	(\$87,922)	(\$36,276)	(\$124,198)
General Revenues:			
Property taxes	\$28,176		\$28,176
Federal Shared revenues	7,848		7,848
State-Shared revenues	29,763		29,763
Investment income	6,352	5,106	11,458
Special assessments		3,293	3,293
Land lease income	3,282		3,282
Miscellaneous	2,618		2,618
Donations	1,921		1,921
Total General Revenues and Transfers	<u>\$79,960</u>	<u>\$8,399</u>	<u>\$88,359</u>
Changes in Net Assets	(\$7,962)	(\$27,877)	(\$35,839)
Net Assets at Beginning of Year	301,390	1,226,252	1,527,642
Net Assets at End of Year	<u>\$293,428</u>	<u>\$1,198,375</u>	<u>\$1,491,803</u>

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
BALANCE SHEET
GOVERNMENTAL FUNDS
March 31, 2007

	<u>General Fund</u>	<u>Road Fund</u>	<u>Fire Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Current Assets:					
Cash and cash equivalents	\$106,646	\$77,831	\$33,510	\$	\$217,987
Accounts receivable-net	12,152				12,152
Delinquent taxes receivable	1,162	756	1,332		3,250
Due from other funds		69,121	24,790		93,911
Deferred charges	6,955		4,778		11,733
TOTAL CURRENT ASSETS	126,915	147,708	64,410		339,033
NON-CURRENT ASSETS					
Restricted cash					
TOTAL NON-CURRENT ASSETS					
TOTAL ASSETS	\$126,915	\$147,708	\$64,410	\$	\$339,033
LIABILITIES					
Current Liabilities					
Accounts payable	\$7,881	\$18,628	\$	\$	\$26,509
Accrued wages/taxes	3,903				3,903
Due to other funds	87,193		9,406		96,599
Due to other units of government	3,315	513			3,828
TOTAL CURRENT LIABILITIES	102,292	19,141	9,406		130,839
TOTAL LIABILITIES	102,292	19,141	9,406		130,839
FUND BALANCES					
Reserved					
Unreserved	24,623	128,567	55,004		208,194
TOTAL FUND BALANCES	24,623	128,567	55,004		208,194
TOTAL LIABILITIES AND FUND BALANCES	\$126,915	\$147,708	\$64,410	\$	\$339,033

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total Fund Balances for Governmental Funds \$208,194

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of : 85,234

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$293,428

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year ended March 31, 2007

	<u>General Fund</u>	<u>Road Fund</u>	<u>Fire Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:					
Taxes	\$7,635	\$7,233	\$12,758	\$	\$27,626
Other taxes	550				550
Tax administrative fees	6,902				6,902
Federal shared revenues		7,848			7,848
State shared revenues	27,831	1,932		1,151	30,914
Charges for services	3,673			1,960	5,633
Interest	1,777	3,692	883		6,352
Lease income	3,282				3,282
Donations	995		926		1,921
Other revenue	2,618				2,618
	<hr/> 55,263	<hr/> 20,705	<hr/> 14,567	<hr/> 3,111	<hr/> 93,646
EXPENDITURES					
Legislative	35,073				35,073
General government	28,986				28,986
Public safety	6,070		1,733	2,446	10,249
Public works	9,649	146			9,795
Economic development	724				724
Recreation and culture	42				42
Other	9,368				9,368
Capital outlay	5,672	18,628	7,222		31,522
	<hr/> 95,584	<hr/> 18,774	<hr/> 8,955	<hr/> 2,446	<hr/> 125,759
EXCESS OF REVENUES (EXPENDITURES)	(40,321)	1,931	5,612	665	(32,113)
OTHER FINANCING SOURCES (USES)					
Transfers to/from other funds	665			(665)	
EXCESS OF REVENUES (EXPENDITURES) AND OTHER FINANCING USES	<hr/> (39,656)	<hr/> 1,931	<hr/> 5,612	<hr/> (665)	<hr/> (32,113)
Fund Balance at 3/31/2006	64,279	126,636	49,392		240,307
FUND BALANCE 3/31/2007	<hr/> \$24,623	<hr/> \$128,567	<hr/> \$55,004	<hr/> \$	<hr/> \$208,194

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
RECONCILIATION OF THE GOVERNMENTAL FUND TYPE STATEMENT
OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
WITH THE STATEMENT OF ACTIVITIES

GOVERNMENTAL FUNDS
Year ended March 31, 2007

Continued

Reconciliation of the change in fund balances – Total Governmental Funds to the changes in net assets of governmental activities:

Net change in fund balances – Total Governmental Funds (\$32,113)

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

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized	31,522
Depreciation expense	(7,371)
Change in Net Assets of Governmental Activities	<u>(\$7,962)</u>

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

March 31, 2007

	<u>Business type Activities- Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$52,856	\$108,447	\$161,303
Accounts receivable-net	10,683	896	11,579
Due from other funds	12,601	7,696	20,297
Accrued interest income	392	680	1,072
Deferred charges	1,663	701	2,364
TOTAL CURRENT ASSETS	<u>\$78,195</u>	<u>\$118,420</u>	<u>\$196,615</u>
RESTRICTED ASSETS			
Cash	15,342		15,342
TOTAL RESTRICTED ASSETS	<u>\$15,342</u>	<u>\$</u>	<u>\$15,342</u>
NONCURRENT ASSETS:			
Property, plant and equipment	1,057,106	1,131,232	2,188,338
Accumulated depreciation	(356,690)	(648,615)	(1,005,305)
Work in progress		29,038	29,038
TOTAL NON-CURRENT ASSETS	<u>\$700,416</u>	<u>\$511,655</u>	<u>\$1,212,071</u>
TOTAL ASSETS	<u>\$793,953</u>	<u>\$630,075</u>	<u>\$1,424,028</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable	\$216	\$24	\$240
Contractor accounts payable		24,033	24,033
Accrued wages/taxes	636	400	1,036
Accrued interest payable	3,235		3,235
Due to other funds		3,109	3,109
Current maturity on long-term debt	5,000		5,000
TOTAL CURRENT LIABILITIES	<u>\$9,087</u>	<u>\$27,566</u>	<u>\$36,653</u>
LONG TERM LIABILITIES			
Revenue bonds payable	194,000		194,000
Less current maturity on long-term debt	(5,000)		(5,000)
TOTAL LONG TERM LIABILITIES	<u>\$189,000</u>		<u>\$189,000</u>
TOTAL LIABILITIES	<u>\$198,087</u>	<u>\$27,566</u>	<u>\$225,653</u>
NET ASSETS:			
Investment in capital assets, net of related debt	506,416	511,655	1,018,071
Reserved	15,342		15,342
Unreserved	74,108	90,854	164,962
TOTAL NET ASSETS	<u>\$595,866</u>	<u>\$602,509</u>	<u>\$1,198,375</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$793,953</u>	<u>\$630,075</u>	<u>\$1,424,028</u>

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
FUND NET ASSETS - PROPRIETARY FUNDS TYPE
Year ended March 31, 2007

Business type Activities - Enterprise Funds

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$46,258	\$6,454	\$52,712
Total Operating Revenues	\$46,258	\$6,454	\$52,712
Operating expenses:			
Wages and benefits	\$9,344	\$7,446	\$16,790
Contractual cost	1,571	832	2,403
Provision for depreciation	21,317	28,357	49,674
Operating supplies/maintenance	387	41	428
Communications	510		510
Utilities	2,109		2,109
Insurance	2,857	1,202	4,059
Office supplies	392	319	711
Professional fees	1,000	1,000	2,000
Miscellaneous	259	178	437
Total Operating Expenses	\$39,746	\$39,375	\$79,121
Operating income (loss)	\$6,512	(\$32,921)	(\$26,409)
Non-operating revenues (expenses)			
Interest income	\$1,726	\$3,380	\$5,106
Special assessments		3,293	3,293
Interest expense	(9,867)		(9,867)
Total non-operating revenues (expenses)	(\$8,141)	\$6,673	(\$1,468)
Change in Net Assets	(\$1,629)	(\$26,248)	(\$27,877)
Net Assets - March 31, 2006	597,495	628,757	1,226,252
NET ASSETS – MARCH 31, 2007	\$595,866	\$602,509	\$1,198,375

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS TYPE
Year ended March 31, 2007

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$51,182	\$5,861	\$57,043
Payments to supplies	(16,960)	(4,603)	(21,563)
Payments to employees	(10,151)	(7,246)	(17,397)
Net Cash Provided (Used) by Operating Activities	\$24,071	(\$5,988)	\$18,083
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Special assessments	\$	\$3,293	\$3,293
System improvements		(5,006)	(5,006)
Principal paid on bonds payable	(5,000)		(5,000)
Interest paid on bonds payable	(9,867)		(9,867)
Net Cash Provided (Used) for Capital and Related Financing Activities	(\$14,867)	(\$1,713)	(\$16,580)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received on investments	1,726	3,380	5,106
Net Cash Provided (Used) by Investing Activities	\$1,726	\$3,380	\$5,106
Net Increase (Decrease) in Cash	\$10,930	(\$4,321)	\$6,609
Cash and Cash Equivalents, March 31, 2006	57,268	112,768	170,036
CASH AND CASH EQUIVALENTS, MARCH 31, 2007	\$68,198	\$108,447	\$176,645
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	\$6,512	(\$32,921)	(\$26,409)
Adjustments to reconcile income (loss) to net cash provided (used) by operating activities:			
Depreciation/amortization	21,317	28,357	49,674
Change in assets and liabilities:			
Accounts receivable	4,924	(593)	4,331
Due from other funds	(7,239)	(306)	(7,545)
Accrued interest income	(273)	(150)	(423)
Deferred charges	(56)		(56)
Accounts payable	(225)	(575)	(800)
Accrued wages	(807)	200	(607)
Accrued interest payable	(82)		(82)
Net Cash Provided by Operating Activities	\$24,071	(\$5,988)	\$18,083

Noncash investing, capital and financing activities: None

The accompanying notes are an integral part of the financial statements

INTERIOR TOWNSHIP
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
 Year ended March 31, 2007

Agency Funds

		Tax Collection Fund
ASSETS		
Cash on deposit		\$14,500
	TOTAL ASSETS	<u>\$14,500</u>
LIABILITIES		
Due to township		\$14,500
Due to others		
	TOTAL LIABILITIES	<u>\$14,500</u>
NET ASSETS		
Net assets		
	TOTAL NET ASSETS	<u>\$</u>
	TOTAL LIABILITES AND NET ASSETS	<u>\$14,500</u>

The accompanying notes are an integral part of the financial statements

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The Township of Interior operates with an elected board of trustees, which includes a supervisor, clerk and treasurer. The Township provides to its residents, services in many areas including public safety, highways and streets, sanitation, culture and recreation, planning and zoning, and general administrative services.

The Township complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds. Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Township the option of electing to apply FASB pronouncements issued after November 30, 1989. The Township has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

Reporting Entity

In accordance with accounting principles generally (GAAP) accepted in the United States of America and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present the Local Unit (primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on these criteria, the Township has no component units.

Basis of Presentation

The Statement of Net Assets and Statement of Activities display information about the reporting 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 and services.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is place on major funds within the governmental and proprietary categories. A fund is considered major if it's 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 10 percent of the corresponding total for all funds in that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

GOVERNMENTAL FUNDS

General Fund - is the primary operating fund of the Township and always classified as a major fund. This fund is used to account for all financial resources except those legally or administratively required to be accounted for in another fund.

Special Revenue Funds – are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes such as roads, fire capital outlays, building inspection and liquor law enforcement activities.

PROPRIETARY FUNDS

Enterprise Funds - Enterprise Funds report operations that provide services, which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes. The funds are used to account for utility operations in a manner similar to private business enterprises. The intent of the Township is to recover operating expenses, including depreciation, through user charges.

INTERIOR TOWNSHIP
 NOTES TO FINANCIAL STATEMENTS
 March 31, 2007

FIDUCIARY FUND TYPE (Not included in government-wide statements)

Agency Funds - These funds are used to account for assets held by the Township in a trustee capacity or as an agent for other governments and/or other funds. They include the Tax Collection Fund and the Pension Fund. These funds are custodial in nature and do not involve measurement of results of operations. The Pension Fund is a trust fund used to account for the accumulation of resources deposited into a defined contribution pension plan payable to retired board members. However, due to incomplete records, the Statement Fiduciary Net Assets and Statement Changes of Net Assets for pension activities are not included in the financial statements as required.

MAJOR AND NONMAJOR FUNDS

The governmental and enterprise funds of the Township are further classified as major and nonmajor funds as follows:

<u>Fund</u>	<u>Brief Description</u>
<u>MAJOR FUNDS</u>	
1. General	See above for description.
Special Revenue Funds	
2. Roads	Account for improvements made to roads, bridges, and sidewalks.
3. Fire	Account for fire department operating and Capital outlays.
Enterprise Funds	
4. Water	Account for revenues and expenses of providing water services to the public.
5. Sewer	Account for revenues and expenses of providing sewer services to the public.
<u>NONMAJOR FUNDS</u>	
Special Revenue Funds	
6. Building Inspection	Account for revenues and expenditures of Building inspection activities.
7. Liquor Law Enforcement	Account for enforcement of compliance with liquor law operations.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end with the exception of state shared revenues. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic assets used.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Assets, “cash, including time deposits” includes all demand, savings accounts, and certificates of deposits of the Township. For the purpose of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds.” Short-term interfund loans are reported as “interfund receivables and payables.” Long-term interfund loans (noncurrent portion) are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the government-wide financial statements. Exceptions to this general rule are charges between the government’s water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. See Note G for details of interfund transactions, including receivables and payable at year-end.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes; delinquent real property taxes; and tax administrative fees. No allowance for uncollectible accounts has been recognized in the financial statements. Business-type activities report utilities earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include service revenue accruals since they are usually both measurable and available. Interest and investment earnings are recorded when accrued. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable compose of small proprietary fund customers. Delinquent account balances can be placed on tax rolls and can be a lien against real property. Receivables are considered fully collectable.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Inventories

Inventories of Governmental Fund and Proprietary Fund types operating supplies are considered to be immaterial and are not recognized in the financial statements.

Fixed Assets

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets are defined by the government as assets with initial individual costs of \$500 in capital betterments and equipment additions and with a useful life of three years or more. All fixed assets are valued at historical cost or estimated cost, except for donated fixed assets which are recorded at their estimated fair value at date of donation. Capital assets for proprietary funds are recognized on assets costing over \$100 and with a useful life of over three years.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets for governmental funds. Depreciation of exhaustible fixed assets used by proprietary funds is charged as an expense against operations, and accumulated depreciation is reported on the proprietary funds' statement of net assets. Depreciation has been provided over the useful lives using the straight-line method of depreciation. The estimated useful lives for each major class of depreciable fixed assets are as follows:

Land	Not depreciated
Buildings and improvements	40-50 Years
Utility Plant	40-50 Years
Software	5 Years
Equipment	5-10 Years
Vehicles	5-10 Years
Infrastructure – roads right of way	15 Years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Restricted Assets

Proprietary Fund Types Funds, because of certain bond covenants, are required to establish and maintain prescribed amounts of cash that can be used only to service outstanding debt and to pay for repairs and maintenance of the utility systems. The Township has deposited monies in compliance with the minimal amounts required per covenants.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations of proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of revenue bonds outstanding. There was no long-term debt for governmental funds which would need to be reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Property Taxes

Property taxes attach as an enforceable lien on property as of December 31. Taxes are levied on the ensuing December 1. The Township bills and collects its own property taxes and also collects current rolls for the County and School District. The Township records delinquent real property taxes as revenue upon levy; since the County will sell tax notes and remits monies to the various units of government shortly after year end.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Budgets

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

1. Prior to April 1, the proposed budget for each budgetary fund is submitted to the Township Board for consideration. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is held at the annual Township Board meeting to obtain taxpayers comments.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted prior to the fiscal year by the majority vote of the Township Board.
5. The budgets are adopted on the full accrual basis of accounting.
6. Any revisions to the budgeted amounts must be approved by a majority vote of the Township Board.
7. Budget appropriations lapse at the end of each fiscal year.
8. Budgeted amounts presented in the financial statements are as originally adopted and amended by the Township Board.
Formal budgets for special revenue funds and proprietary funds were adopted in a similar manner as the General Fund.

Equity Classifications

Government-wide Statements

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 the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statement

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. The unreserved fund equity for governmental funds represents the amount available for budgeting future operations. Proprietary fund equity is classified the same as in the government-wide statements.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods, and/or services. It also includes all revenue and expenses, not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds – By Character:	Current (further classified by function)
	Debt Service
	Capital Outlay

Proprietary Fund – By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

INTERIOR TOWNSHIP
 NOTES TO FINANCIAL STATEMENTS
 March 31, 2007

Interest Expense

Interest on bonded indebtedness is recorded as expenditure as accrued.

Interest Receivables

Interest on investments is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

Due to and Due from Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

NOTE B – BALANCE SHEET - CASH AND INVESTMENTS

Deposits are carried at cost. Deposits are in several financial institutions in the name of the Township. Michigan Compiled Laws authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations. Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; bankers' acceptance of the United States banks; commercial paper rated within the three highest classifications by not less than two standard ratings services which mature not more than 270 days after the date of purchase and which involve no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Township's deposits are in accordance with statutory authority. Furthermore, certificates of deposits values approximate market value. In accordance with GASB Statement No. 3, risk disclosure for bank deposits at March 31, 2007 are:

a.	Insured or collateralized with securities held by the entity or by its agent in the entities name.	\$313,942
b.	Collateralized with securities held by the pledging trust department or agent in the entity's name.	
c.	Uncollateralized (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name.	91,667
d.	Cash on hand	4,112
	Subtotal	409,721
	Less outstanding checks	(588)
	Balance at March 31, 2007	\$409,133

Pension Trust Fund year end financial amounts and reports was unavailable for disclosure.

INTERIOR TOWNSHIP
 NOTES TO FINANCIAL STATEMENTS
 March 31, 2007

NOTE C - RECEIVABLES

Accounts receivable and related allowances for uncollectible are as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>
General Fund	\$13,314	\$	\$13,314
Water Fund	\$10,683	\$	\$10,683
Sewer Fund	\$896	\$	\$896
SRF-Road Fund	\$756	\$	\$756
-Fire Fund	\$1,332	\$	\$1,332

General Fund - generally consists of delinquent tax monies, tax administrative fees, state shared revenues and insurance refunds to be remitted to Township after year-end.

Special Revenue (SRF) Funds – generally relate to delinquent tax monies.

Proprietary Funds - customer unpaid balances. Delinquent accounts balances are placed on tax rolls and can be a lien against real property. Receivables are considered to be fully collectible and accordingly, there is not allowance for doubtful accounts.

Customer billing for the month of March 2007	\$4,171
Delinquent billings	<u>7,408</u>
Total	<u>\$11,579</u>

Delinquent account balances are placed on tax rolls and can be a lien against real property. Receivables are considered to be fully collectible.

NOTE D - SUMMARY OF TAX ROLL

Following is a summary of the 2006 property tax roll:

	<u>Levy</u>	<u>Taxes Returned Delinquent</u>	<u>Net Tax Collected</u>
Real/Personal Property taxes:			
County	\$155,393	\$14,261	\$141,132
School/SET	174,615	14,516	160,099
Township	31,446	3,490	27,956
CFR	898	176	722
Special Assessments/Delinquent utilities	8,308	4,674	3,634
Totals:	<u>\$370,660</u>	<u>\$37,117</u>	<u>\$333,543</u>

INTERIOR TOWNSHIP
 NOTES TO FINANCIAL STATEMENTS
 March 31, 2007

Taxable Valuation – (excludes DNR and lease land taxes):	
Real property	\$7,673,007
Personal property	<u>567,019</u>
Total	<u><u>\$8,240,026</u></u>

NOTE E – DELINQUENT TAX RECEIVABLE

The County of Ontonagon purchases the delinquent real property taxes of the Township for the 2006 levied. The County intends to sell tax notes, the proceeds of which will be used to pay the Township for these delinquent taxes shortly after year end. The delinquent real property taxes are recorded as current year tax revenues.

NOTE F – PUBLIC ACT 275 OF 1980 DISCLOSURE

The Township had no deficits in any funds as of March 31, 2007, which would require specific disclosure.

NOTE G – INTERFUND RECEIVABLES AND PAYABLE

The amounts of interfund receivables and payable at March 31, 2007, are as follows:

<u>Funds</u>	<u>Interfund Receivable</u>	<u>Funds</u>	<u>Interfund Payable</u>
Fire Fund-		Tax Fund-	
Tax Fund	\$11,412	Fire Fund	\$11,412
General Fund	13,378	Road Fund	3,088
Road Fund-		Sewer Fund-	
Tax Fund	3,088	Water Fund	3,109
General Fund	56,627	Fire Fund-	
Fire Fund	9,406	Road Fund	9,406
Sewer Fund-		General Fund-	
General Fund	7,696	Fire Fund	13,378
Water Fund-		Road Fund	56,627
General Fund	9,492	Sewer Fund	7,696
Sewer Fund	3,109	Water Fund	9,492
Totals	<u>\$114,208</u>	Totals	<u>\$114,208</u>

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

NOTE H – CAPITAL ASSETS

A summary of changes in general fixed assets follow:

Governmental Activities	Balance at March 31, 2006	Additions	Deletions	Balance at March 31, 2007
Capital Assets not Depreciated				
Land	\$23,326			\$23,326
Capital Assets being Depreciated				
Buildings and improvements	\$59,235	\$11,399	\$	\$70,634
Equipment and furniture	56,020			56,020
Software		1,495		1,495
Vehicles	51,436			51,436
Infrastructure-roads	13,407	18,628		32,035
	\$203,424	\$31,522	\$	\$234,946
Less Accumulated Depreciation	(142,341)	(7,371)		(149,712)
Net	\$61,083	\$24,151	\$	\$85,234

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

Governmental Activities:

General Government	\$1,110	Public Works	\$894
Public Safety	\$5,155	Recreation & Culture	\$212

NOTE I – ENTERPRISE FUNDS – CAPITAL ASSETS

A summary of proprietary fund type property, plant and equipment follows:

Business-Type Activities	Water Fund			Balance at March 31, 2007
	Balance at March 31, 2006	Additions	Deletions	
Capital Assets being Depreciated				
Utility plant	\$1,055,100	\$	\$	\$1,055,100
Equipment	2,006			2,006
Subtotals	\$1,057,106	\$	\$	\$1,057,106
Less Accumulated Depreciation	(335,373)	(21,317)		(356,690)
Net	\$721,733	(\$21,317)	\$	\$700,416

Depreciation is computed using the straight-line method.

Depreciation Expense 2006/2007	\$21,317
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INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Business-Type Activities	Sewer Fund			Balance at March 31, 2007
	Balance at March 31, 2006	Additions	Deletions	
Capital Assets being Depreciated				
Utility plant	\$1,128,058	\$	\$	\$1,128,058
Equipment	3,174			3,174
Subtotals	\$1,131,232	\$	\$	\$1,131,232
Less Accumulated Depreciation	(620,259)	(28,356)		(648,615)
Work in Progress		29,038		29,038
Net	\$510,973	\$682	\$	\$511,655

Depreciation is computed using the straight-line method.
Depreciation Expense 2006/2007 \$28,356

NOTE J – LIQUOR LICENSE REBATES

Liquor license monies totaling \$1,151 were received during the year and were used to pay \$540 in enforcement expenses with the balance transferred to the General Fund.

NOTE K – ACCOUNTS PAYABLE

The General Fund account payables were for normal expenditures at year-end with the exception of tax monies due to an ambulance company amounting to \$3,315. The Enterprise Fund type (Water) and special revenue funds (exception road fund) account payable balances were for normal expenditures payable at year end. The Township Board authorized road improvements amounting to \$18,628 which has been recognized as an account payable in the Special Revenue Fund- Road Fund, at year end. The Sewer Fund recognizes a system improvement contractual work being preformed and related supplies being installed in the amount of \$24,033, payable at year end.

NOTE L – LONG-TERM DEBT

A summary of the changes in general long-term debt follows:

	Balance at March 31, 2006	Additions (Deletions)	Balance at March 31, 2007
Water Bonds	\$199,000	(\$5,000)	\$194,000

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

NOTE M – ENTERPRISE FUNDS – REVENUE BONDS

On May 24, 1990, the Township issued \$235,000 in water revenue bonds to partially finance the cost of acquiring and constructing the water system. The bonds bear interest at the rate of 5% per annum, which is payable semi-annually on June 1 and December 1 of each year. The bonds are recorded in the Water Fund. As of March 31, 2007, \$194,000 of the bonds remained outstanding as follows:

Debt service charges until maturity are:

<u>Year Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$5,000	\$9,700	\$14,700
2009	5,000	9,450	14,450
2010	6,000	9,200	15,200
2011	6,000	8,900	14,900
2012	6,000	8,600	14,600
2013	6,000	8,300	14,300
2014	7,000	8,000	15,000
2015	7,000	7,650	14,650
2016	7,000	7,300	14,300
2017	8,000	6,950	14,950
2018	8,000	6,550	14,550
2019	9,000	6,150	15,150
2020	9,000	5,700	14,700
2021	9,000	5,250	14,250
2022	9,000	4,800	13,800
2023	9,000	4,350	13,350
2024	10,000	3,900	13,900
2025	10,000	3,400	13,400
2026	10,000	2,900	12,900
2027	11,000	2,400	13,400
2028	12,000	1,850	13,850
2029	12,000	1,250	13,250
2030	13,000	650	13,650
	<u>\$194,000</u>	<u>\$133,200</u>	<u>\$327,200</u>

Bonds are subject to redemption prior to maturity on any interest payment date in inverse numerical order. Debt service schedules reflecting interest due each year was unavailable for disclosure. These revenue bonds are self-liquidating bonds and are not a general obligation of the Township of Interior, but are payable solely from the revenues of Water System.

INTERIOR TOWNSHIP
 NOTES TO FINANCIAL STATEMENTS
 March 31, 2007

NOTE N – DEFINED CONTRIBUTION PENSION PLAN

The Township has a defined contribution pension plan administered by Municipal Retirement Systems, Inc., with the Township Clerk being the plan trustee. The Township contributes pension proceeds equal to twelve percent of Board members salaries (\$22,260 for 06/07), which are immediately vested in Gleaner’s Life Insurance and Travelers Life and Annuity funds. Pension expense for the fiscal year ended March 31, 2007 was \$2,856, which included an administrative fee of \$185. All financial documentation was not on file in allowing for complete disclosure and reporting.

NOTE O – SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Township provides sewage services. Segment information as of March 31, 2007, follows:

	Water Fund	Sewer Utility Fund
Operating revenues	\$46,258	\$6,454
Depreciation/amortized expense	\$21,317	\$28,357
Operating income (loss)	\$6,512	(\$32,921)
Restrictive donations/grants	0	0
Operating transfers	0	0
Tax revenues	0	0
Increase (decrease) in		
Net Asset	(\$1,629)	(\$26,248)
Current capital contribution	0	0
Increase (decrease) in		
Fixed assets	0	\$29,038
Long-term debt payable		
From operating revenues	\$194,000	0
Net Assets		
Unreserved (deficit)	\$74,108	\$90,854

INTERIOR TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

NOTE P – RISK MANAGEMENT

The Township is exposed to various risks of losses related to torts; theft or, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township has obtained coverage from commercial insurance companies. The Township has comprehensive general liability coverage of \$2,000,000 per occurrence and a \$4,000,000 aggregate limit, with no deductible amount.

All risk management activities are accounted for in the General Fund, Special Revenue Funds and Enterprise Funds of the Township. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonable estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. One zoning case is pending a hearing before District Court relating to alleged improper hearings and procedures followed by the Township Board in rezoning request. Management has hired representation and is of opinion that if any potential settlement will have an immaterial impact on the financial statement. Therefore, no loss contingency is reflected in the financial statements.

Management estimates that the amount of actual or potential claims against the Township as of March 31, 2007, will not materially affect the financial condition of the Township. Therefore, the General Fund contains no provision for estimated claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four years.

NOTE Q - RESTRICTED CASH ACCOUNTS

The Proprietary Fund (Water Fund) have established and funded (\$15,342) a cash account in fulfilling their bond reserve covenant agreement. The Township invested monies in certificates of deposit as set aside monies for bond and interest payments should monies be needed. Surplus monies are being held in the Operation and Maintenance account to meet current and future cash flow needs.

The Township adopted ordinances before Water System Bonds were issued which required certain bank accounts be established and funded periodically.

Receiving Account- All receipts are initially deposited into this account

Operation and Maintenance Accounts-Quarterly transfers are to be made to cover upcoming operating expenses

Bond and Interest Redemption Account-Quarterly transfers are to be made equal to 1/2 of the next interest payment due plus 1/4 of the next principal payment due

Bond Reserve Accounts-Excess funds of up to \$350 per quarter are to be transferred to this account until \$14,000 is accumulated

REQUIRED SUPPLEMENTAL
FINANCIAL INFORMATION

INTERIOR TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE- BUDGET TO ACTUAL
MAJOR GOVERNMENTAL FUND - GENERAL FUND
 For the Year ended March 31, 2007

	<u>Budgeted Amounts</u>			
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES				
Taxes	\$8,200	\$8,200	\$7,635	(\$565)
Other taxes	805	805	550	(255)
Tax administrative fees	6,045	6,045	6,902	857
State shared revenues	28,451	28,451	27,831	(620)
Charges for services	3,800	3,150	3,673	523
Interest	500	500	1,777	1,277
Lease income	1,875	1,875	3,282	1,407
Donations	11,450	11,450	995	(10,455)
Other revenue	20,378	21,228	2,618	(18,610)
	<u>\$81,504</u>	<u>\$81,704</u>	<u>\$55,263</u>	<u>(\$26,441)</u>
EXPENDITURES				
Legislative	\$27,784	\$35,884	\$35,073	\$811
General government	38,995	38,795	28,986	9,809
Public safety	8,910	8,030	6,070	1,960
Public works	8,200	8,200	9,649	(1,449)
Economic development	15,850	15,850	724	15,126
Recreation and culture	2,250	2,250	42	2,208
Other		12,300	9,368	2,932
Capital outlay	1,400	1,400	5,672	(4,272)
	<u>\$103,389</u>	<u>\$122,709</u>	<u>\$95,584</u>	<u>\$27,125</u>
EXCESS OF REVENUES (EXPENDITURES)	(21,885)	(41,005)	(40,321)	684
OTHER FINANCING SOURCES (USES)				
Transfers to/from other funds	(800)	(800)	665	1,465
EXCESS OF REVENUES (EXPENDITURES) AND OTHER FINANCING USES	<u>(\$22,685)</u>	<u>(\$41,805)</u>	<u>(\$39,656)</u>	<u>\$2,149</u>
Fund Balance at 3/31/2006	64,279	64,279	64,279	
FUND BALANCE MARCH 31, 2007	<u>\$41,594</u>	<u>\$22,474</u>	<u>\$24,623</u>	<u>\$2,149</u>

The accompanying notes are an integral part of the financial statements.

OTHER FINANCIAL
INFORMATION

INTERIOR TOWNSHIP
 MAJOR GOVERNMENTAL FUNDS
 GENERAL FUND
 DETAIL OF EXPENDITURES AND COMPARISON WITH BUDGET
 Year ended March 31, 2007

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
LEGISLATIVE				
Township Board:				
Salaries			\$3,381	
Retirement			2,856	
Office supplies			2,397	
Communications			547	
Professional fees			10,775	
Printing and publications			2,518	
Insurance			7,506	
Dues			311	
Training			388	
Land purchases			2,979	
Charge backs			392	
Miscellaneous			1,023	
TOTAL LEGISLATIVE	\$27,784	\$35,884	\$35,073	\$811
GENERAL GOVERNMENT				
Supervisor:				
Salaries			\$5,500	
Office supplies			28	
Transportation			210	
Miscellaneous			47	
TOTAL SUPERVISOR	\$6,185	\$6,185	\$5,785	\$400
ELECTION	\$820	\$1,520	\$1,484	\$36
Assessor:				
Wages			\$2,400	
Office supplies			235	
Contractual costs			1,725	
TOTAL ASSESSOR	\$4,750	\$4,750	\$4,360	\$390

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
 MAJOR GOVERNMENTAL FUNDS
 GENERAL FUND
 DETAIL OF EXPENDITURES AND COMPARISON WITH BUDGET
 Year ended March 31, 2007

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Clerk:				
Salary			\$1,935	
Deputy wages			8	
Office supplies			78	
Transportation			32	
Miscellaneous			97	
TOTAL CLERK	\$6,010	\$6,010	\$2,150	\$3,860
TOTAL BOARD OF REVIEW	\$1,000	\$1,000	\$1,253	(\$253)
Treasurer:				
Salary			\$1,935	
Deputy wages			390	
Office supplies			319	
Transportation			364	
Miscellaneous			255	
TOTAL TREASURER	\$8,580	\$8,580	\$3,263	\$5,317
Cemetery:				
Wages			\$240	
Contract costs			480	
TOTAL CEMETERY	\$2,500	\$1,600	\$720	\$880
Township Properties:				
Wages			\$2,955	
Supplies			491	
Utilities			5,382	
Repairs & maintenance			319	
Miscellaneous			824	
	\$9,150	\$9,150	\$9,971	(\$821)
TOTAL GENERAL GOVERNMENT	\$38,995	\$38,795	\$28,986	\$9,804

The accompanying notes are an integral part of the financial statements

INTERIOR TOWNSHIP
 MAJOR GOVERNMENTAL FUNDS
 GENERAL FUND
 DETAIL OF EXPENDITURES AND COMPARISON WITH BUDGET
 Year ended March 31, 2007

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
PUBLIC SAFETY				
Fire Protection:				
Salary			\$1,540	
Insurance			1,239	
Utilities			180	
Repairs and maintenance			439	
Miscellaneous			143	
TOTAL FIRE	\$4,700	\$4,700	\$3,541	\$1,159
TOTAL ZONING	\$1,040	\$960	\$624	\$336
TOTAL PLANNING	\$3,170	\$2,370	\$1,905	\$465
TOTAL PUBLIC SAFETY	\$8,910	\$8,030	\$6,070	\$1,960
PUBLIC WORKS				
Street lights	\$5,800	\$5,800	\$4,965	\$835
Sanitation	2,400	2,400	4,684	(2,284)
TOTAL PUBLIC WORKS	\$8,200	\$8,200	\$9,649	(\$1,449)
TOTAL ECONOMIC DEVELOPMENT	\$15,850	\$15,850	\$724	\$15,126
TOTAL RECREATION & CULTURE	\$2,250	\$2,250	\$42	\$2,208
TOTAL OTHER	\$	\$12,300	\$9,368	\$2,932
TOTAL CAPITAL OUTLAY	\$1,400	\$1,400	\$5,672	(\$4,272)

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
MAJOR GOVERNMENTAL FUNDS
GENERAL FUND
DETAIL OF EXPENDITURES AND COMPARISON WITH BUDGET

Year ended March 31, 2007

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
TOTAL EXPENDITURES	\$108,389	\$122,709	\$95,584	\$27,125

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
 BUDGET AND ACTUAL
 MAJOR FUND
 ROAD FUND

Year ended March 31, 2007
 Special Revenue Fund

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUES				
Property tax revenues	\$8,200	\$8,200	\$7,233	(\$967)
Federal shared revenues	7,200	7,200	7,848	648
State shared revenues			1,932	1,932
Interest income	1,080	1,080	3,692	2,612
	<u>\$16,480</u>	<u>\$16,480</u>	<u>\$20,705</u>	<u>\$4,225</u>
EXPENDITURES				
Contract outlay	\$16,000	\$16,000	\$18,628	(\$2,628)
Repairs and maintenance			146	(146)
	<u>\$16,000</u>	<u>\$16,000</u>	<u>\$18,774</u>	<u>(\$2,774)</u>
Excess of Revenues over (under) Expenditures	480	480	1,931	1,451
Other Financing Sources (Uses):				
Transfers from other funds				
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	480	480	1,931	1,451
Fund Balance 3/31/2006	<u>126,636</u>	<u>126,636</u>	<u>126,636</u>	
FUND BALANCE 3/31/2007	<u>\$127,116</u>	<u>\$127,116</u>	<u>\$128,567</u>	<u>\$1,451</u>

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE --
 BUDGET AND ACTUAL
 MAJOR FUND
 FIRE FUND

Year ended March 31, 2007
 Special Revenue Fund

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUES				
Property tax revenues	\$14,450	\$14,450	\$12,758	(\$1,692)
Interest income	290	290	883	593
Donations	15,000	15,000	926	(14,074)
	<u>\$29,740</u>	<u>\$29,740</u>	<u>\$14,567</u>	<u>(\$15,173)</u>
EXPENDITURES				
Insurance	\$	\$	\$1,733	(\$1,733)
Capital outlay			7,222	(7,222)
	<u>\$</u>	<u>\$</u>	<u>\$8,955</u>	<u>(\$8,955)</u>
Excess of Revenues over (under) Expenditures	29,740	29,740	5,612	(24,128)
Other Financing Sources (Uses):				
Transfers from other funds				
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	<u>29,740</u>	<u>29,740</u>	<u>5,612</u>	<u>(24,128)</u>
Fund Balance 3/31/2006	<u>49,392</u>	<u>49,392</u>	<u>49,392</u>	
FUND BALANCE 3/31/2007	<u>\$79,132</u>	<u>\$79,132</u>	<u>\$55,004</u>	<u>(\$24,128)</u>

The accompanying notes are an integral part of the financial statements.

COMBINING BALANCE SHEET – GOVERNMENTAL FUNDS
NON-MAJOR FUNDS
INTERIOR TOWNSHIP

March 31, 2007

Special Revenue Funds

	<u>Liquor Law Enforcement</u>	<u>Building Inspections</u>	<u>Totals</u>
ASSETS			
Cash in bank	\$	\$	\$
Accounts receivable			
Allowance for doubtful accounts			
Prepaid expenses			
Accrued interest income			
TOTAL ASSETS	\$	\$	\$
LIABILITIES			
Accounts payable	\$	\$	\$
TOTAL LIABILITIES			
FUND BALANCE			
Fund balance-unreserved	\$	\$	
TOTAL FUND BALANCE			
TOTAL LIABILITIES AND FUND BALANCE	\$	\$	\$

The accompanying notes are an integral part of the financial statements.

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE - GOVERNMENTAL FUNDS
NON-MAJOR FUNDS
INTERIOR TOWNSHIP

Year ended March 31, 2007

Special Revenue Funds

	<u>Liquor Law Enforcement</u>	<u>Building Inspections</u>	<u>Totals</u>
REVENUES			
State grants	\$1,151	\$	\$1,151
Charges for services		1,960	1,960
Total Revenues	\$1,151	\$1,960	\$3,111
EXPENDITURES			
Public safety	\$540	\$1,906	\$2,446
Miscellaneous			
Total Expenditures	\$540	\$1,906	\$2,446
Excess (Deficiency) of Revs over Expenditures	\$611	\$54	\$665
Other financing sources (use)- Operating Transfers	(611)	(54)	(665)
Excess (Deficiency) of Revenues and Other Financing Source Over Expenditures and Other Financing Use			
Fund Balance 3/31/2006			
FUND BALANCE 3/31/2007	\$	\$	\$

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL
 NON-MAJOR FUND - LIQUOR FUND

Year ended March 31, 2007

Special Revenue Fund

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUES				
State Shared Revenues	\$1,150	\$1,150	\$1,151	\$1
Interest income				
	1,150	1,150	1,151	1
EXPENDITURES				
Enforcement costs	\$800	\$800	\$540	\$260
	800	800	540	260
Excess of Revenues over (under) Expenditures	350	350	611	261
Other Financing Sources (Uses):				
Operating transfers out	(350)	(350)	(611)	(261)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses				
Fund Balance 3/31/2006	\$	\$	\$	\$
FUND BALANCE 3/31/2007	\$	\$	\$	\$

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL
 NON-MAJOR FUND-BUILDING INSPECTION FUND

Year ended March 31, 2007

Special Revenue Fund

	<u>BUDGETED AMOUNTS</u>			
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES				
Permit fees	\$2,300	\$2,300	\$1,960	(\$340)
Interest income				
	2,300	2,300	1,960	(340)
EXPENDITURES				
Enforcement costs	\$3,450	\$3,450	\$1,906	\$1,544
	3,450	3,450	1,906	1,544
Excess of Revenues over (under) Expenditures	(1,150)	(1,150)	54	1,204
Other Financing Sources (Uses):				
Operating transfers in (out)	1,150	1,150	(54)	(1,204)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses				
Fund Balance 3/31/2006	\$	\$	\$	\$
FUND BALANCE 3/31/2007	\$	\$	\$	\$

The accompanying notes are an integral part of the financial statements

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Supervisor and Members of the Board
Interior Township
Ontonagon County
Trout Creek, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Interior Township as of and for the year ended March 31, 2007, which collectively comprise the Township of Interior basic financial statements and have issued our report thereon dated November 30, 2007. We conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Township of Interior's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing the audit, we considered the Township of Interior's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgment, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with assertions of management in the financial statements.

Reportable condition noted in our review is described as follows:

Our review of the various accounting records and procedures identified numerous deficiencies as described below;

- The general ledgers for the various funds were incomplete; posted in error or not posted at all. The general fund had posting that pertained to unrelated funds which required corrections to both funds. Numerous adjusting entries were required in posting activities to the correct funds.
- Revenues for various funds were deposited into wrong funds requiring accounting corrections.
- Revenues deposited were not always formally receipted by the Township Treasurer in determining accuracy and completeness of postings to various funds.
- Certificates of deposits were cashed and monies were deposited into another banking institution without being formally recorded in the accounting records
- Township Treasurer deposits are not timely. Monies can be held for more than 30 days exposing the Township to various types of risks and losses.
- Township Treasurer has not been disbursing delinquent tax monies to another entity upon receipt. A separate tax levy in the support of area ambulance services has not received their full share of the authorized tax levies for the past several years.
- Township Treasurer has not prepared formal accounting records in documenting the cash flows for the various funds.
- There is no written documentation of the Township Treasurer preparing monthly bank reconciliations and providing copies to the Township Clerk. Our review identified large journal entries prepared to force books into balance with bank accounts without investigating the reason.
- Bank statements and cancelled checks are not being retained in one central area and filed according to bank account. Furthermore, deposit tickets and copies of cancelled checks are no longer being received by the Township. The local banking institution provides a CD in support of such transactions at a small charge. We recommend the purchase of such CD (s).
- Water and Sewer billing and collection procedures need strengthen. A complete set of collection cards are not available to support actual collections and deposits. Actual weekly collections are retained on file and commingled with other weekly collections, making it difficult to reconcile to accounting records. The need for weekly deposits supported by payment cards are recommended to provide for adequate accounting and oversight of collection process.
- A complete set of utility billing reports were unavailable for audit purposes. It is recommended that a duplicate copy be printed and retained by the Supervisor.
- As a result of depositing monies into wrong funds, large interfund receivables and payables exist this may be misleading if reliance to financial decisions are based upon bank balances. We recommend that the Township begin to repay funds as monies become available to allow for adequate cash flows for the various funds involved.

- Allocation of Treasurer and Clerk time to the Utility Funds should be based upon actual time efforts in relationship to total duties performed. Also time sheets need to be prepared on behalf of billing clerk and meter reader services provided to the utility funds.
- Our review of payroll records identified reporting errors and overpayment of payroll taxes and related penalties and interest to the IRS. The Township Board being covered under a pension plan is exempt from social security taxes which have not been properly reflected on Form 941's and W-3's and W-2's prepared. Due to the reporting errors, the Township has been overpaying taxes for a period of time besides receiving additional assessments by the IRS making all wages fully taxable for social security purposes. We recommend that besides amending the most current period of incorrect 941's and year end wage reports to received refunds, the Township should pursue refunds for the over paid tax assessments for prior periods in revising the related reports with the IRS and Social Security Administration.
- Pension files have not been maintained to support all contributions and growth of individuals participating in the pension plan. While some records were located, there is not a systematic method of filing of individuals quarterly statements.
- There is no evidence of budget to actual reports being presented to the Board for review for the various types of funds.
- The Township needs to prepare an accurate and complete inventory of all items under their control. A complete and formal listing was unavailable in support of the amount being reported for Governmental type assets holding.
- Safeguarding of important papers, certificates of deposit, accounting records, unused checks, backup files, etc., should be kept in a fireproof vault. Currently, files are safeguard in unsecured file cabinets and computer utility billing program is not password protected nor data backup procedures are performed in safeguarding against unauthorized access or loss.

The multitude of weaknesses identified illustrates the need for greater supervision and the need for staff training and possibly, the hiring of an accounting firm to assist in maintaining adequate accounting records until skills are acquired by Township's staff.

A material weakness is a reportable condition in which the design or operation of one of more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable conditions described above are believed to be a material weakness.

This report is intended solely for the use of management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Members of the Board, is a matter of public record.



Roger J. Kolehmainen PC
Certified Public Accountant

November 30, 2007