

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 Wales Township | County St. Clair |
| Fiscal Year End March 31, 2007 | Opinion Date September 11, 2007 | Date Audit Report Submitted to State September 25, 2007 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

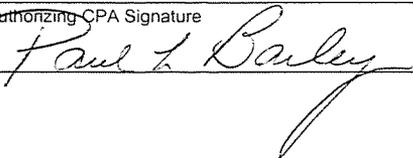
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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) Stewart, Beauvais & Whipple | | Telephone Number 810-984-3829 | | |
| Street Address 1979 Holland Ave. | | City Port Huron | State MI | Zip 48060 |
| Authorizing CPA Signature  | | Printed Name Paul L. Bailey | | License Number 1101014088 |

WALES TOWNSHIP, MICHIGAN

**ANNUAL FINANCIAL STATEMENTS
with Supplementary Information**

**FOR THE YEAR ENDED
MARCH 31, 2007**



WALES TOWNSHIP, MICHIGAN

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Township Board
Wales Township
St. Clair County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Wales Township, Michigan, as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Wales 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control over financial reporting. Accordingly, we express no such opinion. 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 Wales Township, Michigan, 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 on pages 2 through 5, and schedules of budgetary comparisons on pages 22-23 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States. 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 Wales Township's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stewart, Beauvais & Whipple
Certified Public Accountants

September 11, 2007

OVERVIEW OF THE FINANCIAL STATEMENTS

Wales Township's 2007 annual report is presented in conformity with the requirements of GASB 34. This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information, which presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the Township. The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the Township's government, reporting the Township's operations in more detail than the government-wide statements.

Government-wide Financial Statements

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid (full accrual).

The two government-wide statements report the Township's net assets and how they have changed. Net assets, defined as the difference between the Township's assets and liabilities, are one way to measure the Township's financial health or position.

Fund Financial Statements

The fund financial statements provide more detailed information about the Township's most significant funds; not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The Township Board establishes other funds to control and manage money for particular purposes.

The Township has two kinds of funds:

Governmental Funds – Most of the Township's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs.

Fiduciary Funds – The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Township's fiduciary activities are reported in a separate statement of assets and liabilities. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

FINANCIAL OVERVIEW (Government-wide financial analysis)

The Township has combined total net assets of \$779,368. This is an increase of \$118,536 over 2006. In a condensed format, the table below shows net assets as of March 31, 2007 and 2006.

| | <u>Governmental Activities</u> | |
|------------------------------|--------------------------------|-------------------|
| | <u>2007</u> | <u>2006</u> |
| Assets | | |
| Current assets | \$ 566,164 | \$ 515,077 |
| Restricted assets | 32,378 | 28,595 |
| Noncurrent assets | <u>317,225</u> | <u>220,942</u> |
| Total assets | <u>915,767</u> | <u>764,614</u> |
| Liabilities | | |
| Current liabilities | <u>136,399</u> | <u>103,782</u> |
| Net Assets | | |
| Invested in capital assets – | | |
| Net of related debt | 317,225 | 220,942 |
| Restricted | 35,332 | 39,363 |
| Unrestricted | <u>426,811</u> | <u>400,527</u> |
| Total net assets | <u>\$ 779,368</u> | <u>\$ 660,832</u> |

The Township governmental activities experienced a net change in assets of \$118,536.

The following table shows the changes in net assets for 2007 and 2006.

| | <u>Governmental Activities</u> | |
|------------------------------------|--------------------------------|-------------------|
| | <u>2007</u> | <u>2006</u> |
| Revenue | | |
| Program revenue: | | |
| Charges for services | \$ 80,810 | \$ 113,452 |
| Operating grants and contributions | 16,983 | 12,423 |
| Capital grants and contributions | - | 149,240 |
| General revenue: | | |
| Property taxes | 117,106 | 110,397 |
| State-shared revenue | 203,135 | 204,095 |
| Interest income | 16,379 | 11,101 |
| Extraordinary item: | | |
| Insurance proceeds | <u>94,997</u> | <u>-</u> |
| Total Revenue | <u>529,410</u> | <u>600,708</u> |
| Program Expenses | | |
| General government | 203,733 | \$ 169,738 |
| Public safety | 119,231 | 121,344 |
| Public works | <u>87,910</u> | <u>117,278</u> |
| Total Program Expenses | <u>410,874</u> | <u>408,360</u> |
| Changes in net assets | <u>\$ 118,536</u> | <u>\$ 192,348</u> |

Governmental Activities

Revenues for governmental activities totaled \$529,410 in 2007. Of this amount, \$117,106 was from property taxes, \$203,135 from state shared revenues and \$94,997 from insurance proceeds (extraordinary item). The decrease of total revenue of \$71,298 from a prior year donation to purchase park property for \$75,000 not received in the current year.

FINANCIAL ANALYSIS OF MAJOR TOWNSHIP FUNDS AND BUDGETS

Governmental Fund

The General Fund ended 2007 with a fund balance of \$414,909, with \$3,709 reserved for the inspection department. The remaining fund balance of \$411,200 is unreserved and undesignated. This is an increase of \$96,418 from the prior year mainly as a result of recognizing a grant of \$72,883 for the purchase of land that was purchased in fiscal 2006.

The General Fund budget was amended throughout the year as deemed necessary, primarily to prevent over expenditure. The most significant amendments were to reflect repairing and remodeling the Township Hall as a result of an arson fire of \$17,000 and road maintenance which increased expenditures by \$52,774. The original budget estimated that the General Fund would have an excess of revenues over expenditures of \$1,200. The final budget estimated that the General Fund would have excess of expenditures over revenues of \$81,809. Actual revenues exceeded expenditures by \$96,418, mainly as a result of recognizing a grant of \$72,883 for the purchase of land that was purchased in fiscal 2006.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Township adopted a capitalization policy of \$5,000, as a result only assets with an individual value of more than that are capitalized with all items under that value expensed in the year of purchase. As of March 31, 2007 the Township had \$317,225 invested in capital assets (net of accumulated depreciation). During the year the Township added building improvements of \$94,309 and equipment for \$5,441.

Many of the Townships assets, including land were either donated to the Township or were purchased in the late 1800's or early 1900's therefore are fully depreciated.

Additional information on the Township's capital assets can be found in Note 7.

Long-Term Debt

The Township did not have any long-term debt at March 31, 2007.

ECONOMIC FACTORS AND NEXT YEARS BUDGET

For fiscal 2008, the Wales Township Board adopted a budget with estimated revenue and expenditures of \$471,566.

We anticipate the budget may be affected by:

- State legislation that may severely reduce income at the Township level.
- Rising costs in the fire department contracts.
- Rising costs in road maintenance and repair projects.

CONTACTING THE TOWNSHIP

This financial report is designed to provide a general overview of the Township's finances and to our residents and other interested parties in understanding the Township's financial condition. If you have questions about this report or need additional financial information, please contact the Township at (810) 325-1517.

BASIC FINANCIAL STATEMENTS

WALES TOWNSHIP
St. Clair County, Michigan

STATEMENT OF NET ASSETS
MARCH 31, 2007

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS: | |
| Cash and cash equivalents | \$ 426,715 |
| Receivables | 129,916 |
| Prepaid expenses | 9,533 |
| Restricted Assets - | |
| Cash and cash equivalents | 2,478 |
| Investments | 29,900 |
| Capital Assets (net of accumulated depreciation) - | |
| Assets not being depreciated | 216,408 |
| Assets being depreciated | <u>100,817</u> |
| Total Assets | <u>915,767</u> |
| LIABILITIES: | |
| Payables and accrued liabilities | 104,649 |
| Bond deposits payable | <u>31,750</u> |
| Total Liabilities | <u>136,399</u> |
| NET ASSETS: | |
| Investment in capital assets, net of related liabilities | 317,225 |
| Net Assets | |
| Restricted - | |
| Other | 35,332 |
| Unrestricted | <u>426,811</u> |
| Total Net Assets | <u>\$ 779,368</u> |

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

WALES TOWNSHIP
St. Clair County, Michigan

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2007

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Change in Net Assets |
|--|------------|-------------------------|--|--|---|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government Governmental Activities |
| Primary Government | | | | | |
| Governmental activities: | | | | | |
| General Government | \$ 203,733 | \$ 17,926 | \$ - | \$ - | \$(185,807) |
| Public Safety | 119,231 | 54,438 | 1,100 | - | (63,693) |
| Public Works | 87,910 | 8,446 | 4,079 | - | (75,385) |
| Recreation and Culture | - | - | 11,804 | - | 11,804 |
| Total Primary Government | 410,874 | 80,810 | 16,983 | - | (313,081) |
| General revenues: | | | | | |
| Property taxes | | | | | 117,106 |
| Grants and contribution not - restricted to specific programs | | | | | 203,135 |
| Unrestricted investment income | | | | | 16,379 |
| Total general revenues | | | | | 336,620 |
| Extraordinary item: | | | | | |
| Insurance proceeds | | | | | 94,997 |
| Change in net assets | | | | | 118,536 |
| Net assets at beginning of year | | | | | 660,832 |
| Net assets at end of year | | | | | \$ 779,368 |

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

WALES TOWNSHIP
St. Clair County, Michigan

BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2007

| | General | Liquor Enforcement | Cemetery Perpetual Care | Total Governmental Funds |
|-------------------------------------|-------------------|-----------------------|-------------------------------|--------------------------------|
| ASSETS | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$ 426,715 | \$ - | \$ - | \$ 426,715 |
| Receivable | | | | |
| Taxes | 10,458 | - | - | 10,458 |
| Other | 86,107 | - | - | 86,107 |
| Due from other governmental units - | | | | |
| State | 33,351 | - | - | 33,351 |
| Due from other funds | - | 963 | - | 963 |
| Restricted Assets - | | | | |
| Cash and cash equivalents | | | 2,478 | 2,478 |
| Investments | - | - | 29,900 | 29,900 |
| | <u>\$ 556,631</u> | <u>\$ 963</u> | <u>\$ 32,378</u> | <u>\$ 589,972</u> |
| Total Assets | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 104,649 | \$ - | \$ - | \$ 104,649 |
| Bond deposits payable | 31,750 | - | - | 31,750 |
| Due to other funds | 963 | - | - | 963 |
| Deferred revenue | 4,360 | - | - | 4,360 |
| | <u>141,722</u> | <u>-</u> | <u>-</u> | <u>141,722</u> |
| Total Liabilities | | | | |
| Fund Balances: | | | | |
| Reserved - | | | | |
| Inspection Department | 3,709 | - | - | 3,709 |
| Perpetual Care | - | - | 30,660 | 30,660 |
| Unreserved - | | | | |
| Undesignated - | | | | |
| General Fund | 411,200 | - | - | 411,200 |
| Special Revenue Funds | - | 963 | 1,718 | 2,681 |
| Total Equity | <u>414,909</u> | <u>963</u> | <u>32,378</u> | <u>448,250</u> |
| | <u>\$ 556,631</u> | <u>\$ 963</u> | <u>\$ 32,378</u> | <u>\$ 589,972</u> |
| Total Liabilities and Fund Equity | | | | |

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

WALES TOWNSHIP
St. Clair County, Michigan

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS
MARCH 31, 2007**

| | |
|---|--------------------------|
| Fund Balances - total governmental funds | \$ 448,250 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Prepaid expenses recorded in the funds on the purchase method | 9,533 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | |
| Capital assets | 321,258 |
| Accumulated depreciation | (4,033) |
| Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | <u>4,360</u> |
| Net Assets of governmental activities | <u><u>\$ 779,368</u></u> |

The notes to the financial statements are an integral part of this statement.

WALES TOWNSHIP
St. Clair County, Michigan

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

| | General | Liquor Enforcement | Cemetery Perpetual Care | Total Governmental Funds |
|---|------------|-----------------------|-------------------------------|--------------------------------|
| Revenues: | | | | |
| Taxes | \$ 117,106 | \$ - | \$ - | \$ 117,106 |
| Licenses and permits | 35,157 | - | - | 35,157 |
| Intergovernmental - | | | | |
| Federal/State | 280,097 | 1,100 | - | 281,197 |
| Local | 11,804 | - | - | 11,804 |
| Charges for services | 32,410 | - | 3,200 | 35,610 |
| Interest and rent | 15,796 | - | 583 | 16,379 |
| Other | 15,340 | - | - | 15,340 |
| Total Revenues | 507,710 | 1,100 | 3,783 | 512,593 |
| Expenditures: | | | | |
| Current - | | | | |
| General Government | 299,885 | - | - | 299,885 |
| Public Safety | 118,494 | 737 | - | 119,231 |
| Public Works | 87,910 | - | - | 87,910 |
| Total Expenditures | 506,289 | 737 | - | 507,026 |
| Excess of revenues over expenditures | 1,421 | 363 | 3,783 | 5,567 |
| Extraordinary Item: | | | | |
| Proceeds from insurance | 94,997 | - | - | 94,997 |
| Excess of revenues and extraordinary item over expenditures | 96,418 | 363 | 3,783 | 100,564 |
| Fund Balances at beginning of year | 318,491 | 600 | 28,595 | 347,686 |
| Fund Balances at end of year | \$ 414,909 | \$ 963 | \$ 32,378 | \$ 448,250 |

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

WALES TOWNSHIP
St. Clair County, Michigan

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
MARCH 31, 2007**

| | |
|--|--------------------------|
| Net change in fund balances - total governmental funds | \$ 100,564 |
| Change in prepaid expenses recorded in the funds on the purchase method | (131) |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. | |
| Capital outlay | 99,750 |
| Depreciation expense | (3,467) |
| Revenue reported in the statement of activities that does not provide current financial resources and are not reported as revenue in the governmental funds. | <u>(78,180)</u> |
| Change in net assets of governmental activities | <u><u>\$ 118,536</u></u> |

The notes to the financial statements are an integral part of this statement.

WALES TOWNSHIP
St. Clair County, Michigan

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
MARCH 31, 2007

| | <u>Agency Funds</u> |
|---------------------------|--------------------------|
| ASSETS: | |
| Cash and cash equivalents | <u>\$ 1,069</u> |
| | |
| LIABILITIES: | |
| Due to others | <u>\$ 1,069</u> |

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

WALES TOWNSHIP, MICHIGAN

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

Wales Township, Michigan, a Municipal Corporation, was organized as a Township in 1841. The Township is one of twenty-three Townships in St. Clair County and covers an area of approximately 36 square miles. The Township operates under an elected Township Board, which consists of a Supervisor, Clerk, Treasurer, and two (2) Trustees, and provides services to its more than 3,000 residents in many areas including fire protection, health and safety, planning and zoning, and economic development.

B. Government-wide and fund financial statements -

The government-wide 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 primary government and its component unit. 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.

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 or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not property included among program revenues are reported instead as *general revenues*.

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 a separate column in the fund financial statements.

C. 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are intended to finance (the December 2006 levy in the year ended March 31, 2007). Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

WALES TOWNSHIP, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government 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 claims and judgment are recorded only when payment is due.

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes, which are levied and collected in December of each year, are budgeted and treated as revenue in the current year. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The Township reports the following major governmental funds:

General Fund – is the Township’s primary operating fund. It is used to account for all financial resources of the general governments except those required to be accounted for in another fund.

The Township reports the following fund types:

Special Revenue Fund – is used to account for the proceeds from the State of Michigan requiring separate accounting because of legal, regulatory provisions or administrative action.

Agency Funds – are used to account for assets held by the Township as an agent for other governments and other funds.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activity subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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

WALES TOWNSHIP, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

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

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources, as they are needed.

D. Assets, Liabilities and Net Assets or Equity -

Deposits and Investments –

The Township's cash and cash equivalents are considered to be cash on hand and demand deposits.

Investments are stated at fair value, which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates; (c) investments that do not have established market values are reported at estimated fair value; and (d) cash deposits are reported at carrying amount which reasonable approximates fair value.

State statutes authorize the Township to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

Receivables and Payables –

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible.

Prepaid Items –

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items in the statement of net assets.

Property Tax Calendar –

The Township's property tax is levied each December 1 on the taxable value of property located in the Township as of the preceding December 31. Property taxes are recognized as revenues in the year they were intended to finance. The December 2006 levy is recognized as revenue for the year ended March 31, 2007.

The Township also collects taxes for various other municipalities and school districts. The collection and remittance of these taxes are accounted for in the Tax Collection Fund.

WALES TOWNSHIP, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Capital Assets –

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of a year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

As permitted by GASB Statement No. 34, the Township has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to April 1, 2004.

Property, plant, and equipment of the primary government, is depreciated using the straight line method over the following estimated useful lives:

| | |
|-------------------------|-------------|
| Building improvements | 40-50 years |
| Machinery and equipment | 18 |

Fund Equity –

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

Estimates –

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information –

The Township Supervisor prepares and submits the proposed operating budgets for the year commencing April 1. The budgets include proposed expenditures and resources to finance them.

Prior to March 31, the proposed budget is presented to the Township Board. The Board holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through the passage of a Township Resolution. After the budget is adopted, all amendments must be approved by the Township Board.

WALES TOWNSHIP, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (cont'd):

The Township's approved budgets were adopted at the function level. However, for control purposes, all budgets are maintained at the object (account) level.

The Township does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year end.

Michigan Public Act 621 of 1978, Section 18, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated.

During the fiscal year ended March 31, 2007, the Township incurred expenditures in the General Fund, which were in excess of the amount appropriated as follows:

| Function/Activity | Total Appropriations | Amount Expended | Budget Variance |
|--------------------|-------------------------|--------------------|--------------------|
| General Fund – | | | |
| General Government | \$ 208,702 | \$ 299,885 | \$ 91,183 |

NOTE 3 - DEPOSITS AND INVESTMENTS:

As of March 31, 2007, the carrying amount of the deposits and investments is as follows:

| | Primary Government | Fiduciary Fund | Total |
|--|-----------------------|-------------------|-------------------|
| Deposits - | | | |
| Cash on hand – | | | |
| Petty Cash | \$ 500 | \$ - | \$ 500 |
| Deposits with Financial Institutions - | | | |
| Checking/Money Market | 382,890 | 20 | 382,910 |
| Savings/Certificates of Deposit | <u>75,703</u> | <u>1,049</u> | <u>76,752</u> |
| Total Deposits | <u>\$ 459,093</u> | <u>\$ 1,069</u> | <u>\$ 460,162</u> |
| Reconciliation To Combined Balance Sheet | | | |
| Reported as Cash and Cash Equivalents - | | | |
| Petty Cash | \$ 500 | \$ - | \$ 500 |
| Cash in Checking/Money Market | <u>428,693</u> | <u>1,069</u> | <u>429,762</u> |
| Total Cash and Cash Equivalents | 429,193 | 1,069 | 430,262 |
| Reported as Investments - | | | |
| Certificates of Deposit | <u>29,900</u> | - | <u>29,900</u> |
| Grand Total Combined Balance Sheet | <u>\$ 459,093</u> | <u>\$ 1,069</u> | <u>\$ 460,162</u> |

WALES TOWNSHIP, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):

Deposits –

The Township's investment policy and Act 217 PA 1982, as amended, authorizes the Township to deposit in certificates of deposit, savings accounts, deposit accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of March 31, 2007, the bank balance of the Township's deposits were \$472,194 of which \$176,956 was FDIC insured with the balance \$295,238 exposed to credit risk because they are uninsured and uncollateralized.

The Township's investment policy primary objectives, in order of priority, are safety, return on investment liquidity, and diversification. The Township Treasurer is responsible for the investment program.

Investments –

Act 20 PA 1994, as amended by Act 1997 PA 1999, authorizes the Township to invest surplus funds in bonds, securities and other direct obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase, are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the surplus funds investment pool act, 1982 PA 365, 129.111 to 129.118; investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Custodial Credit Risk – is the risk that in the event of a bank failure, the Township's deposit or investments may not be returned. The Township investment policy does not address credit risk.

Interest Rate Risk – is the risk that in the event that the market value of securities in the Township portfolio will fall due to changes in the market interest increases. The Township attempts to minimize interest rate by maintaining liquidity to meet all operating requirements without the need to sell securities prior to maturity and investing operating funds primarily in short-term securities, money markets mutual funds, or similar public investment pools. The Township's investments have the following range of maturity dates:

WALES TOWNSHIP, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):

| Investment Type | Fair Value | Maturity (Years) | | |
|-------------------------|------------|------------------|------|------|
| | | <1 | 1-3 | 3-5 |
| Certificates of Deposit | \$ 29,900 | \$ 29,900 | \$ - | \$ - |

Credit Risk – is the risk that in an issuer or other counterparty to an investment will not fulfill its obligation. State laws and Township policy limit the types of investments the Township can purchase, however, there is no additional restriction specified in the Township’s investment policy.

Concentration of Credit Risk – is the risk of loss attributed to the magnitude of the Township’s investment in a single issuer. The Township’s policy specifies that investments will be diversified by security type and institution in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

NOTE 4 - TAXES:

The Township property taxes are levied each December on the assessed valuation of the property located in the Township as of the preceding December 31. On December 1, the property tax attachment is an enforceable lien on property and is payable by the last day of the following February.

Assessed values are established annually by the Township and are equalized by the State at an estimated percentage of the current market value. Real and personal property in the Township for the 2007 levy has a State Equalized Value (SEV) of \$151,261,074 and a taxable value of \$107,159,390.

The millage rate levied by the Township was .7168 for General Operating.

The County of St. Clair has established a Tax Collection Revolving Fund whereby all local units of government are paid for the delinquent real property taxes each year.

NOTE 5 - RECEIVABLES:

Receivables in the governmental activities are as follows:

| | Governmental Activities |
|---|----------------------------|
| Taxes | \$ 10,458 |
| Accounts | 86,107 |
| Due from other governmental units – State | 33,351 |
| | \$ 129,916 |

Governmental fund report deferred revenue in connection with receivables for revenues 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 earned or are received in advance of the period they are intended to finance. At the end of the current fiscal year the components of deferred revenue and unearned revenue reported in the governmental funds was as follows:

WALES TOWNSHIP, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 5 - RECEIVABLES – (cont'd):

| | <u>Unavailable</u> | <u>Unearned</u> |
|--|--------------------|-----------------|
| General Fund - | | |
| Fire run invoices not received within 60 days of year end | <u>\$ 4,360</u> | <u>\$ -</u> |

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

The composition of interfund balances as of March 31, 2007:

Due To/From Other Funds –

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|-------------------------|---------------------|---------------|
| Liquor Enforcement Fund | General Fund | <u>\$ 963</u> |

NOTE 7 - CAPITAL ASSETS:

Primary Government

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

| | <u>April 1, 2006 Balance</u> | <u>Additions</u> | <u>Deletions/ Adjustments</u> | <u>March 31, 2007 Balance</u> |
|---|----------------------------------|------------------|-----------------------------------|-----------------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 216,408 | \$ - | \$ - | \$ 216,408 |
| Capital assets, being depreciated: | | | | |
| Equipment | 5,100 | 5,441 | - | 10,541 |
| Building and improvements | - | 94,309 | - | 94,309 |
| Total capital assets being depreciated: | <u>5,100</u> | <u>99,750</u> | <u>-</u> | <u>104,850</u> |
| Less accumulated depreciation for: | | | | |
| Equipment | 566 | 1,371 | - | 1,937 |
| Building and improvements | - | 2,096 | - | 2,096 |
| Total accumulated depreciation: | <u>566</u> | <u>3,467</u> | <u>-</u> | <u>4,033</u> |
| Total capital assets being depreciated, net | <u>4,534</u> | <u>96,283</u> | <u>-</u> | <u>100,817</u> |
| Total capital assets, net | <u>\$ 220,942</u> | <u>\$ 96,283</u> | <u>\$ -</u> | <u>\$ 317,225</u> |

Depreciation expense was charged to function/program of the primary government as follows:

| | |
|--------------------------|-----------------|
| Governmental activities: | |
| General Government | <u>\$ 3,467</u> |

WALES TOWNSHIP, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 8 - DEFINED CONTRIBUTION PENSION PLAN:

The Township provides pension benefits to substantially all employees through a deferred contribution plan. In a deferred contribution plan, benefits depend solely on amounts contributed to the plan plus any investment earnings. The Township contributes 7.5% of the employee's base compensation. All contributions, both employer and employee, become 100% vested at the time of the contribution.

For the year ended March 31, 2007, the Township contributed \$8,154, and the employees contributed \$7,503.

NOTE 9 - RESTRICTED ASSETS:

The restricted assets of \$32,378 in the Cemetery Perpetual Care Fund are for perpetual care purposes.

NOTE 10 - RESERVED FUND BALANCE:

Fund Balance has been reserved in the various fund types to indicate that a portion of the Fund Balance is not available but reserved for a specific purpose. The following is a summary of the reserved Fund Balance at March 31, 2007:

| | |
|-------------------------|------------------|
| General Fund – | |
| Inspection Department | \$ 3,709 |
| Permanent Fund – | |
| Cemetery Perpetual Care | <u>30,660</u> |
| | <u>\$ 34,369</u> |

NOTE 11 - RISK MANAGEMENT:

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, injuries to employees, medical benefits provided to employees, etc. The Township has purchased insurance coverage for each of these types of losses; however, would be responsible should limit of coverages be exceeded.

REQUIRED SUPPLEMENTARY INFORMATION

WALES TOWNSHIP

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2007**

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|----------------------------|--------------------|-----------------|----------------|---|
| Revenues: | | | | |
| Taxes | \$ 101,000 | \$ 101,000 | \$ 117,106 | \$ 16,106 |
| Licenses and permits | 63,000 | 63,000 | 35,157 | (27,843) |
| Intergovernmental - | | | | |
| State | 202,000 | 202,000 | 280,097 | 78,097 |
| Local | - | - | 11,804 | 11,804 |
| Charges for services | 20,000 | 20,000 | 32,410 | 12,410 |
| Interest and rents | 15,000 | 15,000 | 15,796 | 796 |
| Other | 14,100 | 14,100 | 15,340 | 1,240 |
| | <u>415,100</u> | <u>415,100</u> | <u>507,710</u> | <u>92,610</u> |
| Expenditures: | | | | |
| General Government - | | | | |
| Legislative | 4,000 | 4,000 | 4,966 | (966) |
| Supervisor | 16,325 | 16,325 | 18,616 | (2,291) |
| Assessor | 17,909 | 17,909 | 17,909 | - |
| Clerk | 23,143 | 23,143 | 25,747 | (2,604) |
| Treasurer | 22,643 | 22,643 | 25,463 | (2,820) |
| Board of Review | 1,545 | 1,854 | 2,020 | (166) |
| Cemetery | 6,800 | 6,800 | 5,392 | 1,408 |
| Attorney | 15,000 | 15,000 | 6,881 | 8,119 |
| General Expenses | 31,500 | 36,010 | 39,205 | (3,195) |
| Building and Grounds | 42,618 | 61,018 | 149,290 | (88,272) |
| Elections | 4,000 | 4,000 | 4,396 | (396) |
| | <u>185,483</u> | <u>208,702</u> | <u>299,885</u> | <u>(91,183)</u> |
| Public Safety - | | | | |
| Fire Department | 66,291 | 66,291 | 62,069 | 4,222 |
| Zoning | 3,100 | 5,200 | 2,956 | 2,244 |
| Planning Commission | 6,000 | 6,000 | 10,874 | (4,874) |
| Inspectors | 63,000 | 63,000 | 42,595 | 20,405 |
| | <u>138,391</u> | <u>140,491</u> | <u>118,494</u> | <u>21,997</u> |
| Public Works - | | | | |
| Department of Public Works | 2,500 | 2,500 | 5,009 | (2,509) |
| Roads | 79,226 | 132,000 | 73,879 | 58,121 |
| Street Lights | 8,300 | 9,043 | 9,022 | 21 |
| | <u>90,026</u> | <u>143,543</u> | <u>87,910</u> | <u>55,633</u> |

Continued

WALES TOWNSHIP

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2007**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|----------------------------|--------------------------|--------------------------|---|
| Recreational and Cultural - Parks | \$ - | \$ 4,173 | \$ - | \$ 4,173 |
| Total Expenditures | <u>413,900</u> | <u>496,909</u> | <u>506,289</u> | <u>(9,380)</u> |
| Excess of revenues over expenditures | 1,200 | (81,809) | 1,421 | 83,230 |
| Extraordinary Item: | | | | |
| Proceeds from insurance | <u>-</u> | <u>-</u> | <u>94,997</u> | <u>94,997</u> |
| Excess of revenues and extraordinary item over expenditures | 1,200 | (81,809) | 96,418 | 178,227 |
| Fund Balance at beginning of year | <u>318,491</u> | <u>318,491</u> | <u>318,491</u> | <u>-</u> |
| Fund Balance at end of year | <u><u>\$ 319,691</u></u> | <u><u>\$ 236,682</u></u> | <u><u>\$ 414,909</u></u> | <u><u>\$ 178,227</u></u> |

Concluded

OTHER SUPPLEMENTARY INFORMATION

WALES TOWNSHIP
St. Clair County, Michigan

LIQUOR ENFORCEMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2007

| | <u>Original Budget</u> | <u>Amended Budget</u> | <u>Actual</u> | <u>Variance with Amended Budget Positive (Negative)</u> |
|---|----------------------------|---------------------------|----------------------|---|
| Revenues: | | | | |
| Intergovernmental - State | \$ 1,200 | \$ 1,200 | \$ 1,100 | \$(100) |
| Expenditures: | | | | |
| Public Safety | <u>1,200</u> | <u>1,200</u> | <u>737</u> | <u>463</u> |
| Excess of revenues over expenditures | - | - | 363 | 363 |
| Fund Balance at beginning of year | <u>-</u> | <u>-</u> | <u>600</u> | <u>-</u> |
| Fund Balance at end of year | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 963</u></u> | <u><u>\$ 363</u></u> |

FIDUCIARY FUNDS

WALES TOWNSHIP
St. Clair County, Michigan

AGENCY FUNDS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED MARCH 31, 2007

TOTAL ALL AGENCY FUNDS

| | <u>Balance</u> <u>April 1, 2006</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>March 31, 2007</u> |
|---------------------------------|--|------------------|-------------------|---|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 524 | \$ 2,870,158 | \$ 2,869,613 | \$ 1,069 |
| | <u>524</u> | <u>2,870,158</u> | <u>2,869,613</u> | <u>1,069</u> |
| LIABILITIES | | | | |
| Due to other governmental units | \$ 20 | \$ 2,869,613 | \$ 2,869,613 | \$ 20 |
| Performance bonds payable | 504 | 545 | - | 1,049 |
| | <u>524</u> | <u>2,870,158</u> | <u>2,869,613</u> | <u>1,069</u> |

CURRENT TAX FUND

| | <u>Balance</u> <u>April 1, 2006</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>March 31, 2007</u> |
|---------------------------------|--|------------------|-------------------|---|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 20 | \$ 2,869,613 | \$ 2,869,613 | \$ 20 |
| | <u>20</u> | <u>2,869,613</u> | <u>2,869,613</u> | <u>20</u> |
| LIABILITIES | | | | |
| Due to other governmental units | \$ 20 | \$ 2,869,613 | \$ 2,869,613 | \$ 20 |
| | <u>20</u> | <u>2,869,613</u> | <u>2,869,613</u> | <u>20</u> |

PERFORMANCE BOND FUND

| | <u>Balance</u> <u>April 1, 2006</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>March 31, 2007</u> |
|---------------------------|--|------------------|-------------------|---|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 504 | \$ 545 | \$ - | \$ 1,049 |
| | <u>504</u> | <u>545</u> | <u>-</u> | <u>1,049</u> |
| LIABILITIES | | | | |
| Performance bonds payable | \$ 504 | \$ 545 | - | \$ 1,049 |
| | <u>504</u> | <u>545</u> | <u>-</u> | <u>1,049</u> |



To the Supervisor and
Members of the Township Board
Wales Township
St. Clair County, Michigan

In planning and performing our audit of the financial statements of Wales 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 Wales Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control.

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

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

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

The following deficiency in internal control is considered to be material weakness:

Preparation of Financial Statements In Accordance with Generally Accepted Accounting Principles. (New Comment)

Management routinely prepares internal financial information to assess operations and the financial position of the Township on an ongoing basis. Although the internal financial information is useful to management, it is not presented in accordance with generally accepted accounting principles. The Township contracts with us, the auditors, to prepare adjustments to convert the financial statements from a modified cash basis to the modified accrual or accrual basis, to record the information necessary for the GASB 34 adjustments, and to draft the financial statements, including all necessary notes, in accordance with generally accepted accounting principles. (During our audit we proposed various audit entries, some of which were significant to the financial statements.)

This is considered to be a control deficiency since errors could occur in the preparation of the financial statements that would result in material deviation from generally accepted accounting principles and the Township would not be in a position to detect them.

The following deficiency in internal control is considered to be significant deficiency:

Cash accounts should be reconciled to the general ledger on a timely basis (Repeat Comment).

The Township's bank statements were not reconciled to the general ledger throughout the entire year. Failure to reconcile the cash accounts in a timely manner leaves opportunity for misstatements on the general ledger to occur.

We recommend that the function of reconciling cash be performed in a timely manner, such as within six weeks of month-end.

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

Sincerely,

A handwritten signature in cursive script, reading "Stewart, Beauvais & Whipple".

September 11, 2007

MANAGEMENT LETTER

To the Supervisor and Members
of the Township Board
Wales Township
St. Clair County, Michigan

As you know, we have recently completed our audit of the basic financial statements of Wales Township, as of and for the year ended March 31, 2007. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the Township's recordkeeping system or compliance with laws and regulations. These suggestions are a result of our evaluation of internal accounting controls and procedures and our discussions with management. As noted in our *Report on Internal Accounting Controls*, these weaknesses were not considered significant deficiencies in relation to the basic financial statements of Wales Township.

A detailed subsidiary ledger should be maintained for fire runs and the billings should be prepared by someone other than the individuals responsible for cash receipting.

The Township currently bills for reimbursement of fire runs. The bills are generated by the Clerk's department, which are also the same individuals who receive money either over the counter or via the mail.

To increase controls a subsidiary ledger should be created to document all fire runs billed, amounts collected and turned over for collection. The billing process should be segregated from the receipting process to avoid inaccurate or fraudulent financial reporting.

On a periodic basis, a listing should be prepared of performance bonds held by the Township, which should then be reconciled to the general ledger.

While a detailed listing is currently maintained for all of the activity in the performance bond accounts, there is not a summary listing prepared on a periodic basis of the bonds held as of that date.

We recommend that on a periodic basis, a schedule be prepared of the performance bonds held, listing name, amount and the deposit date. That schedule should be reconciled to the general ledger liability account. The Township should then follow-up on all old performance bonds to see if they should be refunded or used to pay costs.

Fees received for the sale of cemetery lots should be collected by the Township Hall.

At the current time, fees for the sale of cemetery lots are collected by the Township's contracted sexton. To increase controls over the sale of lots, we recommend that all revenue be collected by the Township Hall.

All permits should be prenumbered and collected at the Township hall.

At the current time the permits issued are not prenumbered nor is the sequence of the permits accounted for on a routine basis. To increase controls we recommend that all permits be issued after an application is approved. The permits issued should be prenumbered and periodically reconciled by a person not involved in the issuing receipting process.

A formal procurement policy should be adopted.

We recommend that the Board establish a written procurement policy indicating a dollar amount to which items purchased have to follow a proper bidding process.

Donating of office furniture and equipment should be reviewed.

During the audit it was noted that office furniture and equipment (with no value assigned) was donated to various nonprofit organizations and governmental units. It is our understanding that Michigan compiled laws do not permit governmental units to make donations to nonprofit organizations. In the future, we recommend that the Township refrain from donating items to nonprofit organizations, or consult with legal counsel regarding the donations.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the March 31, 2007 financial statements. We have not considered internal control since the date of our report. It is important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended solely for the information of the audit committee, administration and the Township Board of Wales Township and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss any or all of these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,



September 11, 2007