

TOWNSHIP OF SCIOTA  
Shiawassee County, Michigan

FINANCIAL REPORT WITH  
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2007

# AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		<b>Local Government Name</b> Township of Sciota	<b>County</b> Shiawassee
<b>Audit Date</b> March 31, 2007	<b>Opinion Date</b> June 5, 2007	<b>Date Accountant Report Submitted to State:</b> June 11, 2007	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- yes  no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- yes  no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- yes  no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- yes  no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- yes  no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- yes  no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- yes  no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- yes  no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- yes  no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

<b>We have enclosed the following:</b>	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

<b>Certified Public Accountant (Firm Name)</b> Campbell, Kusterer & Co., P.C.				
<b>Street Address</b> 512 N. Lincoln, Suite 100, P.O. Box 686		<b>City</b> Bay City	<b>State</b> MI	<b>Zip</b> 48707
<b>Accountant Signature</b> <i>Campbell, Kusterer &amp; Co., P.C.</i>				

TOWNSHIP OF SCIOTA  
Shiawassee County, Michigan

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-3
Basic Financial Statements:	
Government-wide Financial Statements:	
Government-wide Statement of Net Assets	4
Government-wide Statement of Activities	5
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	6
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Assets	7
Statement of Revenues, Expenditures, and Changes in Fund Balances	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	9
Notes to Financial Statements	10-15
Required Supplemental Information:	
Budgetary Comparison Schedule – General Fund	16
Other supporting information:	
General Fund Expenditures by Detailed Account	17-18
Current Tax Collection Fund – Statement of Changes in Assets and Liabilities	19

# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

June 5, 2007

To the Township Board  
Township of Sciota  
Shiawassee County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Sciota, Shiawassee County, Michigan as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Sciota's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Sciota, Shiawassee County, 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 and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

TOWNSHIP OF SCIOTA  
Shiawassee County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2007

The Management's Discussion and Analysis report of the Township of Sciota covers the Township's financial performance during the year ended March 31, 2007.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2007, totaled \$199,751.27 for governmental activities.

Overall revenues were \$289,066.73 from governmental activities. Governmental activities had a \$10,028.88 increase in net assets with major road improvements of \$109,356.91.

Taxable value increase by approximately \$3,516,075.00 or 8.1%.

The Township did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. This includes the General Fund and the Current Tax Collection Fund.

TOWNSHIP OF SCIOTA  
Shiawassee County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2007

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental funds: All of the Township's activities are included in the governmental category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental activities include the General Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Our cash position in the governmental activities remains strong.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for most of the Township's governmental services. The most significant are highways and streets which incurred expenses of \$109,356.91, and fire protection which incurred expenses of \$45,316.36.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$0.00 in capital assets.

The Township's governmental activities paid \$11,930.00 of principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income. We continue to grow in taxable values with little demand for infrastructure, except good roads.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Townships finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact the Township Clerk at 517-651-5540 or the Township Treasurer at 517-651-5788.

TOWNSHIP OF SCIOTA  
Shiawassee County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
March 31, 2007

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	155 592 45
Taxes receivable	<u>10 419 82</u>
Total Current Assets	<u>166 012 27</u>
NON-CURRENT ASSETS:	
Capital Assets	159 011 52
Less: Accumulated Depreciation	<u>(23 867 52)</u>
Total Non-current Assets	<u>135 144 00</u>
TOTAL ASSETS	<u><u>301 156 27</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES	
Total Current Liabilities	<u>-</u>
NON-CURRENT LIABILITIES	
Loan Payable	<u>101 405 00</u>
Total Non-current Liabilities	<u>101 405 00</u>
Total Liabilities	<u>101 405 00</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	33 739 00
Unrestricted	<u>166 012 27</u>
Total Net Assets	<u>199 751 27</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>301 156 27</u></u>

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

TOWNSHIP OF SCIOTA  
Shiawassee County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
Year ended March 31, 2007

		Program Revenue		Governmental Activities
	Expenses	Charges for Services	Capital Grants - Contributions	Net (Expense) Revenue and Changes in Net Assets
<b>FUNCTIONS/PROGRAMS</b>				
Governmental Activities:				
Legislative	8 762 02	-	-	(8 762 02)
General government	60 366 05	5 939 04	-	(54 427 01)
Public safety	80 646 51	31 095 00	2 500 00	(47 051 51)
Public works	111 035 14	29 050 00	-	(81 985 14)
Culture and recreation	4 000 00	-	-	(4 000 00)
Other	9 207 50	-	-	(9 207 50)
Interest on long-term debt	4 960 63	-	-	(4 960 63)
<b>Total Governmental Activities</b>	<b>278 977 85</b>	<b>66 084 04</b>	<b>2 500 00</b>	<b>(210 393 81)</b>
General Revenues:				
Property taxes				85 845 01
State revenue sharing				126 547 19
Interest				3 151 96
Miscellaneous				4 878 53
<b>Total General Revenues</b>				<b>220 422 69</b>
Change in net assets				10 028 88
Net assets, beginning of year				189 722 39
Net Assets, End of Year				<b>199 751 27</b>

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



TOWNSHIP OF SCIOTA  
Shiawassee County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS  
March 31, 2007

	<u>Total (General)</u>
<u>Assets</u>	
Cash in bank	149 209 00
Taxes receivable	10 419 82
Due from other funds	<u>6 383 45</u>
Total Assets	<u>166 012 27</u>
<u>Liabilities and Fund Equity</u>	
Liabilities	<u>-</u>
Total liabilities	<u>-</u>
Fund equity:	
Fund balances:	
Unreserved:	
Undesignated	<u>166 012 27</u>
Total fund equity	<u>166 012 27</u>
Total Liabilities and Fund Equity	<u>166 012 27</u>

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

TOWNSHIP OF SCIOTA  
Shiawassee County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS

March 31, 2007

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	166 012 27
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	159 011 52
Accumulated depreciation	(23 867 52)
Long-term debt liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds	
Loan payable	<u>(101 405 00)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>199 751 27</u>

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

TOWNSHIP OF SCIOTA  
Shiawassee County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
Year ended March 31, 2007

	Total (General)
Revenues:	
Property taxes	85 845 01
Licenses and permits	2 991 70
State revenue sharing	126 547 19
State grant	2 500 00
Charges for services	2 947 34
Interest	3 151 96
Special assessments	60 145 00
Miscellaneous	4 878 53
Total revenues	289 006 73
Expenditures:	
Legislative:	
Township Board	8 762 02
General government:	
Supervisor	9 542 25
Elections	2 734 95
Assessor	9 448 64
Clerk	9 785 13
Board of Review	2 338 64
Treasurer	13 143 87
Building and grounds	9 221 05
Cemetery	2 837 52
Public safety:	
Fire protection	45 316 36
Ambulance	31 095 00
Planning Commission	4 235 15
Public works:	
Highways and streets	109 356 91
Drains	1 678 23
Culture and recreation:	
Library	4 000 00
Other:	
Insurance	6 117 00
Pension	3 090 50
Capital outlay	16 890 63
Total expenditures	289 593 85
Excess (deficiency) of revenues over expenditures	(587 12)
Fund balance, April 1	166 599 39
Fund Balance, March 31	166 012 27

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

TOWNSHIP OF SCIOTA  
Shiawassee County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year ended March 31, 2007

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS (587 12)

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

Governmental funds report capital outlays as expenditures; in the Statement of Activities,  
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(1 314 00)
Capital Outlay	-

Repayment of debt principal is an expenditure in the governmental funds, the  
repayment does not have an effect in the statement of activities but does reduce  
the debt balance in the statement of net assets.

Principal payments on long-term debt	<u>11 930 00</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>10 028 88</u></u>
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The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF SCIOTA  
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2007

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Sciota, Shiawassee County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Sciota. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Joint Venture

The Township is a member of the LSW Emergency Services Authority. The Township appoints one member to the joint venture's governing board, which then approves the annual budget. Financial information of the joint venture may be obtained from the Authority at 607 E. Grand River in Laingsburg, Michigan.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

TOWNSHIP OF SCIOTA  
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2007

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers 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, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2006 tax roll millage rate was 1.8400 mills, and the taxable value was \$46,727,510.00.

TOWNSHIP OF SCIOTA  
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2007

Note 1 – Summary of Significant Accounting Policies (continued)

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$500.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Building	20 years
Furniture and equipment	8-10 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

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.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.

TOWNSHIP OF SCIOTA  
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2007

Note 2 – Budgets and Budgetary Accounting – (continued)

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

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

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>155 592 45</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	100 000 00
Uninsured and Uncollateralized	<u>58 245 37</u>
Total Deposits	<u>158 245 37</u>

The Township of Sciota did not have any investments as of March 31, 2007.



TOWNSHIP OF SCIOTA  
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2007

**Note 4 – Capital Assets**

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	<u>Balance 4/1/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/07</u>
<b><u>Governmental Activities:</u></b>				
Land and improvements	124 300 00	-	-	124 300 00
Building	19 739 52	-	-	19 739 52
Equipment	<u>14 972 00</u>	<u>-</u>	<u>-</u>	<u>14 972 00</u>
<b>Total</b>	<b>159 011 52</b>	<b>-</b>	<b>-</b>	<b>159 011 52</b>
Accumulated Depreciation	<u>(22 553 52)</u>	<u>(1 314 00)</u>	<u>-</u>	<u>(23 867 52)</u>
<b>Net Capital Assets</b>	<b><u>136 458 00</u></b>	<b><u>(1 314 00)</u></b>	<b><u>-</u></b>	<b><u>135 144 00</u></b>

**Note 5 – Changes in Governmental Long-Term Debt**

A summary of changes in long-term debt follows:

	<u>Balance 4/1/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/07</u>
Loan payable - land purchase	<u>113 335 00</u>	<u>-</u>	<u>11 930 00</u>	<u>101 405 00</u>

**Note 6 – Loan Payable – Land Purchase**

On July 11, 2005, the Township obtained a loan in the amount of \$119,300.00 to fund the purchase of land. The loan requires semi-annual payments for ten years in the amount of \$5,965.00 including interest at the rate of 4.50% per annum. As of March 31, 2007, the principal balance outstanding was \$101,405.00.

**Note 7 – Pension Plan**

The Township has a defined contribution pension plan covering substantially all full-time employees. The Township contributes an amount of each employee's annual salary to the plan. Pension expense for the fiscal year ended March 31, 2007, was \$3,090.50.

**Note 8 – Deferred Compensation Plan**

The Township does not have a deferred compensation plan.

**Note 9 – Risk Management**

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**Note 10 – Building Permits**

The Township of Sciota does not issue building permits. Building permits are issued by the County of Shiawassee.

TOWNSHIP OF SCIOTA  
Shiawassee County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2007

Note 11 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>6 383 45</u>	Current Tax Collection	<u>6 383 45</u>

Note 12 – Budget Variances

During the fiscal year ended March 31, 2007, Township expenditures exceeded the budgeted amounts in the activities as follows:

	<u>Total Budget</u>	<u>Total Expenditures</u>	<u>Excess Expenditures</u>
General Fund Activity:			
Fire protection	41 300 00	45 316 36	4 016 36
Ambulance	30 200 00	31 095 00	895 00

TOWNSHIP OF SCIOTA  
Shiawassee County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
Year ended March 31, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	82 020 00	82 520 00	85 845 01	3 325 01
Licenses and permits	2 350 00	2 150 00	2 991 70	841 70
State revenue sharing	173 000 00	171 000 00	126 547 19	(44 452 81)
State grant	-	-	2 500 00	2 500 00
Charges for services:				
Other	2 450 00	2 450 00	2 947 34	497 34
Interest	800 00	1 500 00	3 151 96	1 651 96
Special assessments	55 200 00	59 200 00	60 145 00	945 00
Miscellaneous	800 00	700 00	4 878 53	4 178 53
Total revenues	316 620 00	319 520 00	289 006 73	(30 513 27)
Expenditures:				
Legislative:				
Township Board	12 461 00	12 664 39	8 762 02	(3 902 37)
General government:				
Supervisor	9 555 00	9 780 00	9 542 25	(237 75)
Elections	3 300 00	3 562 09	2 734 95	(827 14)
Assessor	9 500 00	9 707 00	9 448 64	(258 36)
Clerk	10 505 00	10 505 00	9 785 13	(719 87)
Board of Review	900 00	2 415 58	2 338 64	(76 94)
Treasurer	13 105 00	13 359 78	13 143 87	(215 91)
Building and grounds	11 650 00	11 650 00	9 221 05	(2 428 95)
Cemetery	2 000 00	2 838 12	2 837 52	(60)
Public safety				
Fire protection	41 300 00	41 300 00	45 316 36	4 016 36
Ambulance	30 200 00	30 200 00	31 095 00	895 00
Planning Commission	4 850 00	5 000 00	4 235 15	(764 85)
Public works:				
Highways and streets	195 118 00	195 118 50	109 356 91	(85 761 59)
Drains	4 000 00	4 000 00	1 678 23	(2 321 77)
Culture and recreation:				
Library	4 000 00	4 000 00	4 000 00	-
Other:				
Insurance	6 750 00	6 750 00	6 117 00	(633 00)
Pension	4 000 00	4 000 00	3 090 50	(909 50)
Contingency	68 845 00	65 189 60	-	(65 189 60)
Debt service	16 896 00	16 896 00	16 890 63	(5 37)
Total expenditures	448 935 00	448 936 06	289 593 85	(159 342 21)
Excess (deficiency) of revenues over expenditures	(132 315 00)	(129 416 06)	(587 12)	128 828 94
Fund balance, April 1	132 315 00	158 744 84	166 599 39	7 854 55
Fund Balance, March 31	-	29 328 78	166 012 27	136 683 49

TOWNSHIP OF SCIOTA  
Shiawassee County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year ended March 31, 2007

Township Board:	
Salaries and per diem	2 664 55
Payroll taxes	959 24
Audit	2 200 00
Membership and dues	888 39
Miscellaneous	2 049 84
	<u>8 762 02</u>
Supervisor:	
Salary	7 026 00
Deputy	1 390 20
Miscellaneous	1 126 05
	<u>9 542 25</u>
Elections:	
Wages	1 917 83
Miscellaneous	817 12
	<u>2 734 95</u>
Assessor:	
Contracted services	8 407 00
Miscellaneous	1 041 64
	<u>9 448 64</u>
Clerk:	
Salary	7 026 00
Deputy	1 390 20
Miscellaneous	1 368 93
	<u>9 785 13</u>
Board of Review	
	<u>2 338 64</u>
Treasurer:	
Salary	7 026 00
Deputy	390 20
Miscellaneous	4 727 67
	<u>13 143 87</u>
Building and grounds	
	<u>9 221 05</u>
Cemetery:	
Repairs and maintenance	2 837 52
	<u>2 837 52</u>
Fire protection:	
Contracted services	45 316 36
	<u>45 316 36</u>
Ambulance	
	<u>31 095 00</u>
Planning Commission	
	<u>4 235 15</u>
Highways and streets:	
Contracted services	109 356 91
	<u>109 356 91</u>
Drains	
	<u>1 678 23</u>
Library	
	<u>4 000 00</u>

TOWNSHIP OF SCIOTA  
Shiawassee County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year ended March 31, 2007

Insurance	<u>6 117 00</u>
Pension	<u>3 090 50</u>
Debt service	<u>16 890 63</u>
Total Expenditures	<u><u>289 593 85</u></u>

TOWNSHIP OF SCIOTA  
Shiawassee County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
Year ended March 31, 2007

	<u>Balance</u> <u>4/1/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/07</u>
<u>Assets</u>				
Cash in Bank	<u>5 506 87</u>	<u>1 310 815 21</u>	<u>1 309 938 63</u>	<u>6 383 45</u>
<u>Liabilities</u>				
Due to other funds	5 506 87	67 959 28	67 082 70	6 383 45
Due to other taxing units	<u>-</u>	<u>1 242 855 93</u>	<u>1 242 855 93</u>	<u>-</u>
Total Liabilities	<u>5 506 87</u>	<u>1 310 815 21</u>	<u>1 309 938 63</u>	<u>6 383 45</u>

# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

June 5, 2007

To the Township Board  
Township of Sciota  
Shiawassee County, Michigan

We have audited the financial statements of the Township of Sciota for the year ended March 31, 2007. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Sciota in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board  
Township of Sciota  
Shiawassee County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2007.

#### **SUMMARY**

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants