

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 Tuscola Township	County Tuscola
Fiscal Year End 03-31-07	Opinion Date 8-29-07	Date Audit Report Submitted to State 9-7-07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

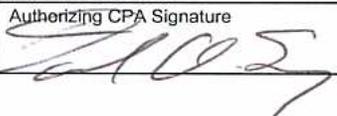
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input checked="" type="checkbox"/>	
The letter of Comments and Recommendations	<input type="checkbox"/>	
Other (Describe)	<input checked="" type="checkbox"/>	SAS 112 LETTER
Certified Public Accountant (Firm Name) Weinlander Fitzhugh	Telephone Number 989-893-5577	
Street Address 1600 Center Ave	City Bay City	State Mi
		Zip 48707
Authorizing CPA Signature 	Printed Name David Quimby	License Number 1101015265

TOWNSHIP OF TUSCOLA
TUSCOLA COUNTY, MICHIGAN

FINANCIAL STATEMENTS
MARCH 31, 2007

INDEX

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3a-3k
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS	4
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 BALANCE	8
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	9
FIDUCIARY FUNDS:	
STATEMENT OF NET ASSETS	10
NOTES TO FINANCIAL STATEMENTS	11-17
REQUIRED SUPPLEMENTAL INFORMATION	
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND	18
BUDGETARY COMPARISON SCHEDULE – REFUSE FUND	19
BUDGETARY COMPARISON SCHEDULE – FIRE FUND	20
BUDGETARY COMPARISON SCHEDULE – AMBULANCE FUND	21

INDEPENDENT AUDITORS' REPORT

August 29, 2007

Township Board
Township of Tuscola
Tuscola County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Township of Tuscola, Tuscola 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 index. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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, each major fund and the aggregate remaining fund information of the Township of Tuscola as of March 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

Township Board
Township of Tuscola
August 29, 2007
Page 2

The accompanying management's discussion and analysis and budgetary comparison information as noted in the index are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Township of Tuscola
Management's Discussion & Analysis
For the Year Ended March 31, 2007

Our discussion and analysis of the Township of Tuscola's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2007.

Financial Highlights

State shared revenues were \$148,187 or 34% of the Township's total revenues. The General Fund reported an increase in fund balance of \$38,017.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Township of Tuscola financially as a whole. The *government-wide financial statements* provide information about the activities of the whole Township, presenting both an aggregate view of the Township's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending.

The fund financial statements look at the Township's operations in more detail than the government-wide financial statements by providing information about the Township's significant funds – the General Fund and all Special Revenue Funds. The statement of fiduciary net assets, presents financial information about activities for which the Township acts solely as an agent or trustee.

The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Budgetary Information for the General Fund, Refuse Fund, Fire Fund and the Ambulance Fund
(Required Supplemental Information)

Township of Tuscola
Management's Discussion & Analysis
For the Year Ended March 31, 2007

Reporting the Township as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the Township's finances is, "Is the Township better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Township as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the Township's net assets as a way to measure the Township's financial position. The change in net assets provides the reader a tool to assist in determining whether the Township's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base, and facility conditions in arriving at their conclusion regarding the overall health of the Township.

In the Statement of Net Assets and the Statement of Activities, the Township is combined into one kind of activity:

- Governmental activities – Most of the Township's basic services are reported here, including the fire, refuse, ambulance and general administration. Sales taxes (stated shared revenues) and property taxes finance most of these activities.

Reporting the Township's Most Significant Funds

Fund Financial Statements

The Township's fund financial statements provide detailed information about the most significant funds – not the Township as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue.

Township of Tuscola
Management's Discussion & Analysis
For the Year Ended March 31, 2007

Governmental Funds

Most of the Township's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Township's general operations and the basic services it provides.

Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the Township's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

Fiduciary Funds

The Township is the trustee, or fiduciary, for tax collections and (other funds). The Township's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We exclude these activities from the Township's other financial statements because the assets cannot be utilized by the Township to finance its operations.

Township-wide Financial Analysis

Financial position - The statement of net assets provides the perspective of the Township as a whole. Exhibit A provides a summary of the Township's net assets as of March 31, 2007 and 2006.

Township of Tuscola
 Management's Discussion & Analysis
For the Year Ended March 31, 2007

Exhibit A

	Governmental Activities	
	<u>2007</u>	<u>2006</u>
Assets		
Current and other assets	\$ 315,817	\$ 266,564
Capital assets - net of accumulated depreciation	330,236	322,057
Total assets	646,053	588,621
Liabilities		
Current liabilities	8,629	8,254
Net Assets		
Invested in property and equipment - net of related debt	330,236	322,057
Unrestricted	307,188	258,310
Total net assets	\$ 637,424	\$ 580,367

Exhibit A focuses on net assets. The Township's total net assets were \$637,424 at March 31, 2007. Capital assets net of related debt, totaling \$330,236 compares the original costs, less depreciation of the Township's capital assets to long-term debt used to finance the acquisition of those assets.

The \$307,188 of unrestricted net assets of Governmental represents the *accumulated* results of all past years' operations. The operating results of the General and Special Revenue Funds will have a significant impact on the change in unrestricted assets from year to year.

Results of operations - The results of this year's operations for the Township as a whole are reported in the statement of activities, which shows the changes in net assets for the year ended March 31, 2007 and 2006. Exhibit B provides a summary of the Township's operations for 2007 and 2006.

Township of Tuscola
Management's Discussion & Analysis
For the Year Ended March 31, 2007

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
<u>Exhibit B</u>		
Revenue		
Program revenue:		
Charges for services	\$ 5,150	\$ 6,163
General revenue:		
Taxes	245,566	228,943
State shared revenue	148,187	148,907
Investment earnings	7,852	4,454
Other	<u>30,060</u>	<u>21,745</u>
Total revenue	<u>436,815</u>	<u>410,212</u>
Function/Program Expenses		
General government	137,417	129,724
Public safety	41,950	44,197
Public works	175,139	181,482
Other	16,607	21,340
Recreation and culture	<u>8,645</u>	<u>4,668</u>
Total expenses	<u>379,758</u>	<u>381,411</u>
Increase in Net Assets	<u><u>\$57,057</u></u>	<u><u>\$28,801</u></u>

Township of Tuscola
 Management's Discussion & Analysis
For the Year Ended March 31, 2007

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$379,758. Certain activities were partially funded by \$5,150 from those who benefited from the programs. We paid for the remaining "public benefit" portion of our governmental activities with \$245,566 in taxes, \$148,187 in state shared revenue, and with our other revenues, such as interest and miscellaneous revenues.

The Township experienced an increase in net assets of \$57,057, mainly due to actual expenses being less than anticipated. This was due in part to \$45,000 that was budgeted for grant matches which did not materialize during this fiscal year. There were no significant revenue increases this year. The increase in net assets differs from the change in fund balance and a reconciliation appears in the financial statements.

The Township's Funds

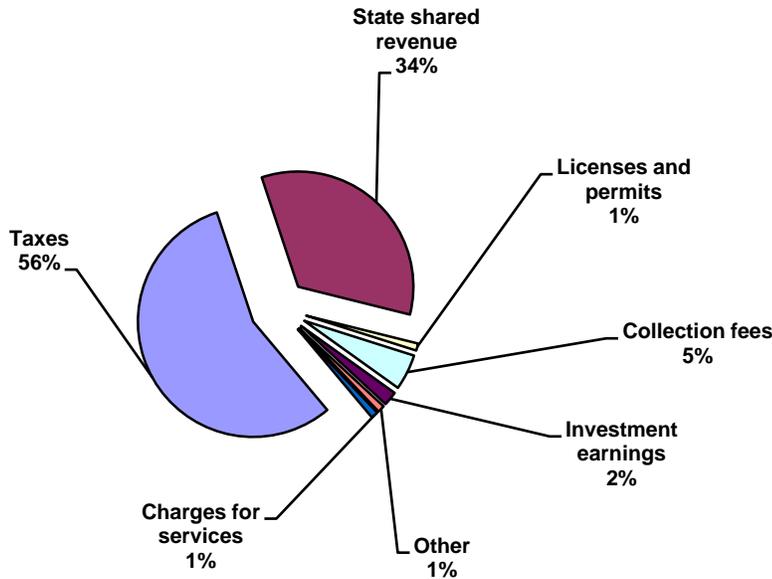
The Township uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Township is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Township's overall financial health.

The Township's Governmental funds reported a combined fund balance of \$307,188, which is above last year's total of \$258,310. The schedule below details the fund balance and the total change in fund balances as of March 31, 2007.

	Fund Balance March 31, 2007	Fund Balance March 31, 2006	Increase (Decrease)
General fund	\$ 174,364	\$ 136,347	\$ 38,017
Special Revenue funds	132,824	121,963	10,861
Total	<u>\$ 307,188</u>	<u>\$ 258,310</u>	<u>\$ 48,878</u>

Township of Tuscola
 Management's Discussion & Analysis
 For the Year Ended March 31, 2007

The graph below details the major sources of the Township's total governmental revenues.



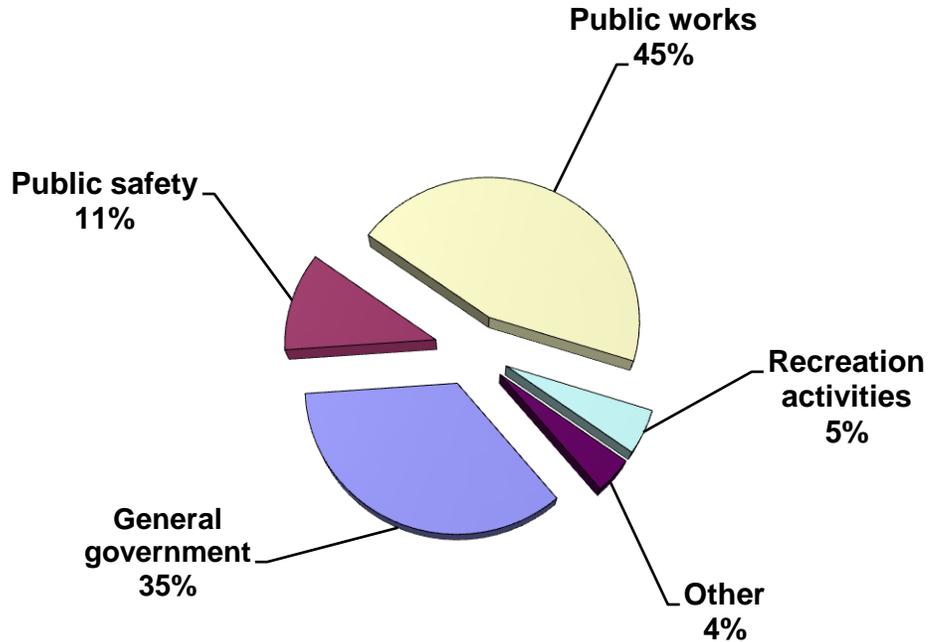
The chart below compares current year revenues with last year.

<i>Revenues by Function</i>	2007	2006	Percentage Change
Taxes	\$ 245,566	\$ 228,943	7%
Collection fees	21,028	16,602	27%
State shared revenue	148,187	148,907	0%
Charges for services	5,150	6,163	-16%
Investment earnings	7,852	4,454	76%
Licenses and permits	1,273	240	430%
Other	7,759	4,903	58%
Total	\$ 436,815	\$ 410,212	6.5%

Overall, 2007 revenues were up approximately \$27,000 or 6.5% mainly due to the increase of tax revenues and investment earnings. The current tax collection amount budgeted was \$75,000 and the actual was \$90,505. The interest earned amount budgeted was \$1,900 and the actual was \$5,395.

Township of Tuscola
 Management's Discussion & Analysis
 For the Year Ended March 31, 2007

The graph below details the Township's total governmental expenditure categories.



The chart below compares current year expenditures with last year.

<i>Expenditures by Function</i>	2007	2006	Percentage Change
General government	\$ 135,011	\$ 152,563	-12%
Public safety	41,950	44,197	-5%
Public works	175,139	181,482	-3%
Recreation and cultural	19,230	4,668	312%
Other	16,607	21,340	-22%
Total	\$ 387,937	\$ 404,250	-4%

Township of Tuscola
Management's Discussion & Analysis
For the Year Ended March 31, 2007

Expenditures are down approximately \$16,000 or 4% from the prior year mostly due to road expense which was budgeted at \$85,000 and the actual spent was \$70,004.

General Fund Budgetary Highlights

Over the course of the year, the Township revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Township's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenues and expenditures did not change during 2007.
- Actual revenues were \$40,885 more than anticipated during the fiscal year. This was mainly a result of property taxes and tax administration fee totaling \$25,189 more than was budgeted and sale of cemetery lots resulted in an actual amount of \$5,150 more than was budgeted. Also, interest was budgeted at \$1,900 and was actually \$5,395.
- Actual expenditures for the year were \$98,600 less than the budget. This was mainly due to monies budgeted in the amount of \$45,000 for grant matches to purchase additional land north of existing parking lot. This did not occur this fiscal year. Also, capital improvements were budgeted in the amount of \$27,000 for the new parking lot and this actual amount was \$12,426. The balance of \$41,174 is the result of spending less in several smaller expense accounts than was budgeted.

Township of Tuscola
Management's Discussion & Analysis
For the Year Ended March 31, 2007

Capital Assets

At March 31, 2006, the Township had \$330,236 invested in a broad range of capital assets, including land, buildings, improvements, furniture and fixtures, machinery and equipment and office equipment. This amount represents an increase of \$8,179 from last year.

	Governmental Activities	
	2007	2006
Land	\$ 46,414	\$ 46,414
Construction in progress	14,023	0
Buildings and improvements	300,600	300,600
Land improvements	10,585	0
Furniture and fixtures	41,211	41,211
Machinery and equipment	29,855	29,855
Office equipment	23,151	23,151
 Total capital assets	 465,839	 441,231
 Less accumulated depreciation	 135,603	 119,174
 Net capital assets	 \$ 330,236	 \$ 322,057

We present more detailed information about our governmental activities capital assets in the notes to the financial statements. We anticipate capital additions next year will be as follows: approximately \$152,803 to MacFarlane Excavating for the building of the township hall's parking lot adjacent to the township hall.

Township of Tuscola
Management's Discussion & Analysis
For the Year Ended March 31, 2007

Debt

At the end of this year, the Township had no long-term debt outstanding.

Factors Expected to Have an Effect on Future Operations

Tuscola Township, at this time, does not foresee any changes in state revenue sharing but cost of operation could continue to increase, for example fuel costs for cemetery, insurance premiums and perhaps other costs that are not under the direct control of the township. The township is committed to providing the same quality services that our citizens have experienced in the past.

Contacting The Township's Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, contact the Township Clerk's Office at Box 12, Tuscola, MI 48769.

TOWNSHIP OF TUSCOLA
Statement of Net Assets
March 31, 2007

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and investments	\$ 297,986
Taxes receivable	17,831
Capital assets - less accumulated depreciation of \$135,603	330,236
	330,236
Total Assets	646,053
<u>Liabilities</u>	
Accounts payable	8,629
	8,629
Total Liabilities	8,629
<u>Net Assets</u>	
Invested in capital assets net of related debt	330,236
Unrestricted	307,188
	307,188
Total Net Assets	\$ 637,424

See accompanying notes to financial statements

TOWNSHIP OF TUSCOLA
Statement of Activities
For the Year Ended March 31, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Primary government:			
General government	\$ 137,417	\$ 5,150	\$ (132,267)
Public safety	41,950	0	(41,950)
Public works	175,139	0	(175,139)
Other	16,607	0	(16,607)
Recreation and culture	8,645	0	(8,645)
	<u>\$ 379,758</u>	<u>\$ 5,150</u>	<u>(374,608)</u>
Total primary government	<u>\$ 379,758</u>	<u>\$ 5,150</u>	<u>(374,608)</u>

General Revenues:

Property taxes	245,566
State shared revenue	148,187
Investment earnings	7,852
Tax administration fee	21,028
Miscellaneous	9,032
	<u>431,665</u>
Total general revenues	<u>431,665</u>
Change in net assets	57,057
Net assets - beginning of year	<u>580,367</u>
Net assets - end of year	<u>\$ 637,424</u>

See accompanying notes to financial statements

TOWNSHIP OF TUSCOLA
Governmental Funds
Balance Sheet
March 31, 2007

	<u>General Fund</u>	<u>Refuse Fund</u>	<u>Fire Fund</u>	<u>Ambulance Fund</u>	<u>Total</u>
<u>Assets</u>					
Cash and cash equivalents	\$ 168,536	\$ 71,367	\$ 35,402	\$ 22,681	\$ 297,986
Taxes receivable	5,844	8,556	1,706	1,725	17,831
Total Assets	<u>\$ 174,380</u>	<u>\$ 79,923</u>	<u>\$ 37,108</u>	<u>\$ 24,406</u>	<u>\$ 315,817</u>
<u>Liabilities</u>					
Accounts payable	\$ 16	\$ 8,613	\$ 0	\$ 0	\$ 8,629
Total liabilities	<u>16</u>	<u>8,613</u>	<u>0</u>	<u>0</u>	<u>8,629</u>
<u>Fund Balances</u>					
Unreserved	<u>174,364</u>	<u>71,310</u>	<u>37,108</u>	<u>24,406</u>	<u>307,188</u>
Total fund balance	<u>174,364</u>	<u>71,310</u>	<u>37,108</u>	<u>24,406</u>	<u>307,188</u>
Total Liabilities and Fund Balance	<u>\$ 174,380</u>	<u>\$ 79,923</u>	<u>\$ 37,108</u>	<u>\$ 24,406</u>	<u>\$ 315,817</u>

See accompanying notes to financial statements

TOWNSHIP OF TUSCOLA
 Reconciliation of Balance Sheet of Governmental Funds
 to the Statement of Net Assets
March 31, 2007

Total fund balance - governmental funds		\$	307,188
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds:			
Cost of capital assets		\$	465,839
Accumulated depreciation			<u>330,236</u>
			<u>(135,603)</u>
Total net assets - governmental activities		\$	<u><u>637,424</u></u>

See accompanying notes to financial statements

TOWNSHIP OF TUSCOLA
Governmental Funds
Statement of Revenues, Expenditures and
Changes in Fund Balance
For the Year Ended March 31, 2007

	General Fund	Refuse Fund	Fire Fund	Ambulance Fund	Total
<u>Revenues</u>					
State shared revenue	\$ 148,187	\$ 0	\$ 0	\$ 0	\$ 148,187
Property taxes	95,661	104,348	24,782	20,775	245,566
Licenses and permits	1,273	0	0	0	1,273
Tax administration fee	21,028	0	0	0	21,028
Sale of cemetery lots	5,150	0	0	0	5,150
Interest	5,395	843	601	1,013	7,852
Other revenue	7,759	0	0	0	7,759
	<u>284,453</u>	<u>105,191</u>	<u>25,383</u>	<u>21,788</u>	<u>436,815</u>
Total revenues					
<u>Expenditures</u>					
Current:					
General government	135,011	0	0	0	135,011
Public safety	828	0	23,906	17,216	41,950
Public works	74,760	100,379	0	0	175,139
Recreation and cultural	19,230	0	0	0	19,230
Other	16,607	0	0	0	16,607
	<u>246,436</u>	<u>100,379</u>	<u>23,906</u>	<u>17,216</u>	<u>387,937</u>
Total expenditures					
Excess (deficiency) of revenues over expenditures	38,017	4,812	1,477	4,572	48,878
Fund balance - beginning of year	<u>136,347</u>	<u>66,498</u>	<u>35,631</u>	<u>19,834</u>	<u>258,310</u>
Fund balance - end of year	<u>\$ 174,364</u>	<u>\$ 71,310</u>	<u>\$ 37,108</u>	<u>\$ 24,406</u>	<u>\$ 307,188</u>

See accompanying notes to financial statements

TOWNSHIP OF TUSCOLA
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended March 31, 2007

Net change in fund balance - total governmental funds	\$ 48,878
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	(16,429)
Capital outlay	<u>24,608</u>
Change in net assets of governmental activities	<u>\$ 57,057</u>

See accompanying notes to financial statements

TOWNSHIP OF TUSCOLA
Fiduciary Fund
Statement of Net Assets
March 31, 2007

	<u>Current Tax Fund</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 45
<u>Liabilities</u>	
Due to other governmental units	\$ 45

See accompanying notes to financial statements.

Township of Tuscola
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Tuscola conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township of Tuscola:

Reporting Entity

The Township of Tuscola is governed by an elected board and provides such services as public safety, highways and streets, and sanitation to approximately 2,200 residents. The accompanying financial statements present the financial position and results of operations for the Township.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program 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 and other items not properly included among program revenues are reported instead as general revenue.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Township of Tuscola
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

The Township reports the following major governmental funds:

General Fund - The General Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

Refuse Fund – The Garbage and Rubbish Collection Fund is used to record transactions relative to the collection and disposal of garbage and rubbish.

Fire Fund – The Fire Fund is used to record transactions relative to the fire services provided to the Township.

Ambulance Fund – The Ambulance Fund is used to record transactions relative to the ambulance services provided to the Township.

Township of Tuscola
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Assets or Equity

Cash and Investments – Cash and investments are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as “internal balances”.

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Capital Assets – Capital assets, which include land, buildings, equipment and infrastructure assets are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of 5 years. 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. Costs of normal repair and maintenance that do not add value or materially extend asset lives are not capitalized.

Land, building, equipment and infrastructure are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	40 Years
Land improvements	10 Years
Furniture and fixtures	5 to 7 Years
Machinery and equipment	5 to 7 Years
Office equipment	5 to 7 Years

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period.

Township of Tuscola
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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.

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 – BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of governments prior to the expenditure of monies in a fiscal year.

The Township of Tuscola follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Township's supervisor submits to the Board a proposed budget prior to April 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board) for the General Fund, Refuse Fund, Fire Fund and Ambulance Fund are presented as Required Supplemental Information.

Township of Tuscola
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 2 – BUDGETS (CONTINUED)

Excess of Expenditures Over Appropriations in Budgeted Funds – During the year, the Township of Tuscola incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Fund/Function</u>	<u>Total Appropriation</u>	<u>Amount of Expenditure</u>	<u>Budget Variance</u>
Refuse Fund:			
Public works	\$97,597	\$100,379	\$2,782

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in 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 obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rates within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Township's deposits are in accordance with statutory authority.

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

Governmental activities	\$ 297,986
Fiduciary funds	<u>45</u>
Total	<u><u>\$ 298,031</u></u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	<u><u>\$ 298,031</u></u>
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Township of Tuscola
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Township’s deposits may not be returned to it. As of March 31, 2007, \$199,563 of the Township’s bank balance of \$299,563 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Township’s investment policy does not identify interest rate risk, foreign currency risk or concentration of credit risk.

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the Township for the current year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Ending Balance</u>
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 46,414	\$ 0	\$ 0	\$ 46,414
Construction in progress	0	14,023	0	14,023
Subtotal	<u>46,414</u>	<u>14,023</u>	<u>0</u>	<u>60,437</u>
Capital assets being depreciated:				
Buildings and improvements	300,600	0	0	300,600
Land improvements	0	10,585	0	10,585
Furniture and fixtures	41,211	0	0	41,211
Machinery and equipment	29,855	0	0	29,855
Office equipment	23,151	0	0	23,151
Subtotal	<u>394,817</u>	<u>10,585</u>	<u>0</u>	<u>405,402</u>
Less accumulated depreciation for:				
Buildings and improvements	46,129	7,066	0	53,195
Land improvements	0	618	0	618
Furniture and fixtures	24,953	6,238	0	31,191
Machinery and equipment	25,641	1,806	0	27,447
Office equipment	22,451	701	0	23,152
Subtotal	<u>119,174</u>	<u>16,429</u>	<u>0</u>	<u>135,603</u>
Net capital assets being depreciated	<u>275,643</u>	<u>(5,844)</u>	<u>0</u>	<u>269,799</u>
Governmental activities, total capital assets - net of depreciation	<u>\$ 322,057</u>	<u>\$ 8,179</u>	<u>\$ 0</u>	<u>\$ 330,236</u>

Township of Tuscola
Notes to Financial Statements
For the Year Ended March 31, 2007

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions as follows:

Governmental activities:

General government	<u>\$ 16,429</u>
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NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

There were no inter-fund receivable or payable balances at March 31, 2007, nor any transfers made during the year ended March 31, 2007.

TOWNSHIP OF TUSCOLA
 Required Supplemental Information
 Budgetary Comparison Schedule - General Fund
For the Year Ended March 31, 2007

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
State shared revenue	\$ 145,000	\$ 145,000	\$ 148,187	\$ 3,187
Property taxes	80,000	80,000	95,661	15,661
Licenses and permits	1,268	1,268	1,273	5
Tax administration fee	11,500	11,500	21,028	9,528
Sale of cemetery lots	0	0	5,150	5,150
Other revenue	3,900	3,900	7,759	3,859
Interest	1,900	1,900	5,395	3,495
	<u>243,568</u>	<u>243,568</u>	<u>284,453</u>	<u>40,885</u>
<u>Expenditures</u>				
General government	161,238	165,388	135,011	30,377
Public safety	1,080	1,080	828	252
Public works	99,200	92,500	74,760	17,740
Recreation and cultural	15,000	19,750	19,230	520
Other	68,518	66,318	16,607	49,711
	<u>345,036</u>	<u>345,036</u>	<u>246,436</u>	<u>98,600</u>
Excess (deficiency) of revenues over expenditures	(101,468)	(101,468)	38,017	139,485
Fund balance - beginning of year	<u>136,347</u>	<u>136,347</u>	<u>136,347</u>	<u>0</u>
Fund balance - end of year	<u>\$ 34,879</u>	<u>\$ 34,879</u>	<u>\$ 174,364</u>	<u>\$ 139,485</u>

TOWNSHIP OF TUSCOLA
 Required Supplemental Information
 Budgetary Comparison Schedule - Refuse Fund
For the Year Ended March 31, 2007

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variances with Final Budget Favorable (Unfavorable)</u>
<u>Revenues</u>				
Property taxes	\$ 99,032	\$ 99,032	\$ 104,348	\$ 5,316
Interest	0	0	843	843
Total revenues	<u>99,032</u>	<u>99,032</u>	<u>105,191</u>	<u>6,159</u>
<u>Expenditures</u>				
Public works	<u>97,597</u>	<u>97,597</u>	<u>100,379</u>	<u>(2,782)</u>
Total expenditures	<u>97,597</u>	<u>97,597</u>	<u>100,379</u>	<u>(2,782)</u>
Excess of revenues over expenditures	1,435	1,435	4,812	3,377
Fund balance - beginning of year	<u>66,498</u>	<u>66,498</u>	<u>66,498</u>	<u>0</u>
Fund balance - end of year	<u><u>\$ 67,933</u></u>	<u><u>\$ 67,933</u></u>	<u><u>\$ 71,310</u></u>	<u><u>\$ 3,377</u></u>

TOWNSHIP OF TUSCOLA
 Required Supplemental Information
 Budgetary Comparison Schedule - Fire Fund
For the Year Ended March 31, 2007

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variances with Final Budget Favorable (Unfavorable)</u>
<u>Revenues</u>				
Property taxes	\$ 23,503	\$ 23,503	\$ 24,782	\$ 1,279
Interest	0	0	601	601
Total revenues	<u>23,503</u>	<u>23,503</u>	<u>25,383</u>	<u>1,880</u>
<u>Expenditures</u>				
Public safety	<u>26,613</u>	<u>26,613</u>	<u>23,906</u>	<u>2,707</u>
Total expenditures	<u>26,613</u>	<u>26,613</u>	<u>23,906</u>	<u>2,707</u>
Excess (deficiency) of revenues over expenditures	(3,110)	(3,110)	1,477	4,587
Fund balance - beginning of year	<u>35,631</u>	<u>35,631</u>	<u>35,631</u>	<u>0</u>
Fund balance - end of year	<u>\$ 32,521</u>	<u>\$ 32,521</u>	<u>\$ 37,108</u>	<u>\$ 4,587</u>

TOWNSHIP OF TUSCOLA
 Required Supplemental Information
 Budgetary Comparison Schedule - Ambulance Fund
For the Year Ended March 31, 2007

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Property taxes	\$ 17,216	\$ 17,216	\$ 20,775	\$ 3,559
Interest	0	0	1,013	1,013
Total revenues	<u>17,216</u>	<u>17,216</u>	<u>21,788</u>	<u>4,572</u>
<u>Expenditures</u>				
Public safety	<u>17,216</u>	<u>17,216</u>	<u>17,216</u>	<u>0</u>
Total expenditures	<u>17,216</u>	<u>17,216</u>	<u>17,216</u>	<u>0</u>
Excess of revenues over expenditures	0	0	4,572	4,572
Fund balance - beginning of year	<u>19,834</u>	<u>19,834</u>	<u>19,834</u>	<u>0</u>
Fund balance - end of year	<u><u>\$ 19,834</u></u>	<u><u>\$ 19,834</u></u>	<u><u>\$ 24,406</u></u>	<u><u>\$ 4,572</u></u>



WEINLANDER FITZHUGH

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August 29, 2007

Township Board
Township of Tuscola
Tuscola County, Michigan

In planning and performing our audit of the financial statements of Township of Tuscola (Township) as of and for the year ended March 31, 2007, in accordance with U.S. generally accepted auditing standards. We considered Township of Tuscola's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. 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 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 deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. 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. We consider the following control deficiencies to be significant deficiencies:

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OFFICES: BAY CITY, CLARE,
GLADWIN AND WEST BRANCH

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WEINLANDER FITZHUGH

Township Board
Township of Tuscola
August 29, 2007

Financial Reporting

As part of our consideration of the internal control over financial reporting, we as auditors are not allowed to be considered to be part of Township of Tuscola internal controls. In taking this required position, we must consider whether the Township has the ability, on its own, to monitor and report financial activity in accordance with our professional standards without auditor intervention.

The Township uses accounting software as a management tool to monitor the financial status of the government, to facilitate the preparation and amendment of budgets and to compare budgeted amounts to actual results. In addition, the Township demonstrates the ability to report fund level activities, monitor tax collection activities and report on certain fund level note disclosures. Due to the complexity of the required government-wide financial statements and related note disclosures in accordance with GASB 34, the Township does not maintain personnel who can report and monitor in accordance with U.S. generally accepted accounting principles without auditor intervention.

Cemetery Activities

Cemetery activities are conducted as part of the General Fund. These activities are recorded in the financial statements as part of the year-end audit process and not as part of accounting procedures implemented by the Township during the year.

We recommend the Township implement the recording of this activity before the commencement of the year end audit process to reflect all Township General Fund activity as it is incurred.

A material weakness is a significant deficiency, or 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. We consider the following significant deficiency to be a material weaknesses.

Segregation of Duties

One of the strongest controls in an internal control system is known a “segregation of duties”. This means that there are different individuals performing different duties within a specific accounting function. Having multiple individuals performing duties in the same accounting area acts as a check and balance.



WEINLANDER FITZHUGH

Township Board
Township of Tuscola
August 29, 2007

As is common in many small organizations, there is often only a few people, sometimes only one person, performing the accounting and financial functions. And it is also common to have these individuals concentrate their efforts in one area. While this is usually more efficient, it lends to a weakened internal control system. There are generally insufficient checks and balances in place.

This is the situation with the Township. Due to a limited staff size, the Township has a lack of segregation of duties with respect to the cash collection, deposit and related accounting function for the tax fund because the duties are centralized with one individual.

The above comments are not intended to reflect on the performance or capability of any Township employee.

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