

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 type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Unit Name		County	
Fiscal Year End		Opinion Date		Date Audit Report Submitted to State			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

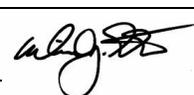
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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 type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 		Printed Name		License Number

Township of Scio
Washtenaw County, Michigan

Financial Report
with Supplemental Information
March 31, 2007

Township of Scio

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Independent Auditor's Report

To the Board of Trustees
Township of Scio
Washtenaw County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Township of Scio (the "Township") as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Scio's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Township of Scio as of March 31, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by 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 supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Trustees
Township of Scio
Washtenaw County, Michigan

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

Plante & Moran, PLLC

July 10, 2007

Township of Scio

Management's Discussion and Analysis

Our discussion and analysis of the Township of Scio's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2007. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2007:

- The Township continues to seek solutions to meet increasing public safety expenses under the sheriff contract. The county board withdrew its subsidy for the sheriff's road patrol in late 2005. A millage vote for public safety failed in August 2006. The Township has seen substantial increases for police services without additional operational revenue at the Township level.
- State-shared revenue, the Township's second largest revenue source, decreased only slightly in fiscal year 2007. The Township anticipates that further reductions will occur as Lansing seeks a means to end the state's revenue shortfall.
- Capital improvements are underway supported by DDA and utility funds. Capital improvements funded through General Fund revenues were on hold during 2007. The Jackson Road project and water system upgrades were designed during the year ending in 2007 and will occur in 2008.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets (deficit) and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

Township of Scio

Management's Discussion and Analysis (Continued)

It is important that the reader note that this report represents a snapshot of the financial position of the Township as of the close of business on March 31, 2007. The major financial resource - property tax collection - is seasonal, collected during the period from December to February, and the revenue generated from property tax occurs late in the budget year and can only be considered available for the third quarter revenue stream.

A major budgeted revenue - development fees - is cyclical and, although significant, can vary widely based upon economic factors external to the Township. Development fee revenues and expenditures mainly represent pass-through payments for consultant services.

The Township as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current assets	\$ 8,956	\$ 8,049	\$ 27,097	\$ 25,275	\$ 36,053	\$ 33,324
Noncurrent assets	<u>3,931</u>	<u>3,971</u>	<u>18,737</u>	<u>18,450</u>	<u>22,668</u>	<u>22,421</u>
Total assets	12,887	12,020	45,834	43,725	58,721	55,745
Liabilities						
Current liabilities	689	506	1,381	1,062	2,070	1,568
Long-term liabilities	<u>670</u>	<u>700</u>	<u>-</u>	<u>-</u>	<u>670</u>	<u>700</u>
Total liabilities	<u>1,359</u>	<u>1,206</u>	<u>1,381</u>	<u>1,062</u>	<u>2,740</u>	<u>2,268</u>
Net Assets						
Invested in capital assets - Net of related debt	3,256	3,169	18,737	18,450	21,993	21,619
Restricted	1,681	1,212	25,716	6,958	27,397	8,170
Unrestricted	<u>6,591</u>	<u>6,433</u>	<u>-</u>	<u>17,255</u>	<u>6,591</u>	<u>23,688</u>
Total net assets	<u>\$ 11,528</u>	<u>\$ 10,814</u>	<u>\$ 44,453</u>	<u>\$ 42,663</u>	<u>\$ 55,981</u>	<u>\$ 53,477</u>

Township of Scio

Management's Discussion and Analysis (Continued)

A significant portion of these assets is in-place capital improvements that are fixed assets and not readily transferable. The unrestricted net assets of governmental activities - the part of net assets that is available to finance day-to-day operations - were \$6,591,000 and \$6,433,000 as of March 31, 2007 and 2006, respectively. The current level of unrestricted net assets for our governmental activities is approximately 57 percent of total governmental activities net assets. Certain amounts are restricted for items such as land preservation, boulevard landscape maintenance, sewer and water operations, and capital projects.

The following table shows the changes of the net assets during the current year and compared to the prior year (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue						
Program revenue:						
Charges for services	\$ 372	\$ 491	\$ 4,534	\$ 4,666	\$ 4,906	\$ 5,157
Operating grants and contributions	36	14	-	-	36	14
Capital grants and contributions	-	-	767	1,295	767	1,295
General revenue:						
Property taxes	2,300	2,142	-	-	2,300	2,142
State-shared revenue	918	922	-	-	918	922
Unrestricted investment earnings	365	251	1,280	975	1,645	1,226
Franchise fees	188	169	-	-	188	169
Miscellaneous	31	32	-	-	31	32
Total revenue	4,210	4,021	6,581	6,936	10,791	10,957
Program Expenses						
General government	1,487	1,600	-	-	1,487	1,600
Public safety	1,410	1,382	-	-	1,410	1,382
Public works	483	45	-	-	483	45
Recreation and culture	58	37	-	-	58	37
Interest on long-term debt	58	46	-	-	58	46
Water	-	-	2,119	1,967	2,119	1,967
Sewer	-	-	2,672	2,093	2,672	2,093
Total program expenses	3,496	3,110	4,791	4,060	8,287	7,170
Change in Net Assets	\$ 714	\$ 911	\$ 1,790	\$ 2,876	\$ 2,504	\$ 3,787

Governmental Activities

The Township's total revenues from governmental activities increased slightly over the past year, up just 4.7 percent. The Township experienced reductions in both state-shared revenue and charges for services again this year. A General Fund deficit was averted by increased property tax revenue generated to a large extent by the expiration of the tax capture by the Dexter LDFA, increased revenue from cable franchise fees, the foregoing of capital expenditures from the General Fund, and a very strict oversight of all expenditures.

Township of Scio

Management's Discussion and Analysis (Continued)

Total expenses in the General Fund increased approximately 12 percent, due primarily to the increases in public safety expenditures and public works expenses relating to the Baker Road construction project. The operational cost of general government activities actually decreased in real dollars from the 2006 level.

Business-type Activities

The Township's business-type activities consist of the Water and Sewer Fund. All assets, liabilities, revenue, and expenses are restricted strictly for those operations. We provide water and sewage services to property owners within a defined district. The water supply and sewerage processing is through the City of Ann Arbor. The Township's operational responsibility is limited to the service lines located within the borders of the Township. However, the Township continues to review outstanding system improvements required in Ann Arbor under outstanding contracts with the City which will result in significant future expenditures from the Water and Sewer Fund. The Utilities Department has undertaken an adopted capital improvement program that will be implemented in future years. Many of the immediate capital improvement projects are driven by long-standing contractual obligations with the City of Ann Arbor.

The Township's Funds

Our analysis of the Township's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds include the General Fund, Sewer Fund, Water Fund, Open Space Land Preservation Fund, and Capital Projects Fund.

The General Fund pays for most of the Township's governmental services. The most significant expenditures are police and fire, which incurred expenses of approximately \$1,369,000 in 2007, up from \$472,000 in 1999, an increase of nearly 300 percent. Public safety expenditures are funded entirely by the General Fund.

The Open Space Land Preservation Fund was created to account for monies collected to be used for the permanent preservation of farmland, open space, wildlife, etc., and to provide new parks and recreational opportunities. Cooperative ventures with Washtenaw County, the City of Ann Arbor, and the State of Michigan have provided additional opportunities for acquisition of either land or rights to development land.

General Fund Budgetary Highlights

Over the course of the year, the Township amended the budget to take into account events during the year. At March 31, 2007, there were no budget overruns in any of the Township's major funds.

Township of Scio

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

At the end of 2007, the Township had approximately \$22.7 million invested in a broad range of capital assets, including buildings, fire equipment, and water and sewer lines. It is important to recognize that governmental assets are generally not easily transferred to cash equivalents.

The Township's Downtown Development Authority has a total debt obligation at the end of 2007 of approximately \$21.4 million. The proceeds that resulted from these debt issuances were used to finance the development of the Jackson Road corridor and are being paid from annual tax increment revenue collected by the Authority. The DDA amended its financing plan in the fall of 2006 to extend its life and fund phase III of the boulevard concept westerly to Dino Drive. A bond issue of \$9.7 million was sold in December 2006 to fund acquisition activities and the initial construction of phase III. Per the adopted DDA Financing Plan, all bond payments will be met through the capture of tax increment revenue by the DDA.

Economic Factors and Next Year's Budgets and Rates

The Township adopted a General Fund budget for fiscal year 2007-2008 in which planned expenditures will exceed projected revenue. This budget deficit will be met by transfers from the outstanding fund balance in the General Fund. This revenue shortfall is in spite of planning for no decline in state revenue-sharing funds, the effect of Proposal A capping taxable value on properties, the fact that the DDA captures 50 percent of new taxes in the Township's major non-residential area, and the mandated Headlee millage rollback. These revenue limitations occur in an environment of a growing Township where a majority of the current residents have moved into the community during the last eight years, bringing the current population to an estimated 19,300 in 2006. These new residents bring expectations of additional and improved municipal services.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors 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, we welcome you to contact the clerk's office.

Township of Scio

Statement of Net Assets (Deficit) March 31, 2007

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 8,170,108	\$ 26,274,350	\$ 34,444,458	\$ 16,379,141
Receivables - Net:				
Taxes	40,036	-	40,036	763
Customer	113,457	768,133	881,590	-
Interest	15,367	36,150	51,517	-
Special assessments	330,000	-	330,000	-
Prepaid expenses	-	-	-	430,356
Due from primary government (Note 6)	-	-	-	286,417
Due from component units (Note 6)	12,718	-	12,718	-
Due from other governmental units	274,294	18,345	292,639	-
Capital assets - Net (Note 5):				
Nondepreciated	572,764	92,554	665,318	-
Depreciated	3,358,118	18,644,081	22,002,199	-
Total assets	12,886,862	45,833,613	58,720,475	17,096,677
Liabilities				
Accounts payable	152,754	499,622	652,376	516,050
Accrued and other liabilities	148,666	382,988	531,654	409,412
Due to primary government (Note 6)	-	-	-	12,718
Due to component units (Note 6)	286,417	-	286,417	-
Due to other governmental units	-	497,911	497,911	2,053,865
Noncurrent liabilities (Note 7):				
Due within one year	101,195	-	101,195	1,100,000
Due in more than one year	669,690	-	669,690	20,300,000
Total liabilities	1,358,722	1,380,521	2,739,243	24,392,045
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	3,255,882	18,736,635	21,992,517	-
Restricted:				
Land preservation	1,680,848	-	1,680,848	-
Capital projects	-	25,716,457	25,716,457	-
Unrestricted (deficit)	6,591,410	-	6,591,410	(7,295,368)
Total net assets (deficit)	<u>\$ 11,528,140</u>	<u>\$ 44,453,092</u>	<u>\$ 55,981,232</u>	<u>\$ (7,295,368)</u>

Township of Scio

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 1,486,944	\$ 347,987	\$ -	\$ -
Public safety	1,410,178	23,510	35,886	-
Public works	483,190	-	-	-
Recreation and culture	57,596	-	-	-
Interest on long-term debt	57,810	-	-	-
Total governmental activities	<u>3,495,718</u>	<u>371,497</u>	<u>35,886</u>	<u>-</u>
Business-type activities:				
Water	2,118,786	1,621,755	-	249,024
Sewer	2,672,556	2,912,434	-	518,017
Total business-type activities	<u>4,791,342</u>	<u>4,534,189</u>	<u>-</u>	<u>767,041</u>
Total primary government	<u>\$ 8,287,060</u>	<u>\$ 4,905,686</u>	<u>\$ 35,886</u>	<u>\$ 767,041</u>
Component units:				
Downtown Development Authority	\$ 2,330,619	\$ -	\$ -	\$ -
Economic Development Corporation	-	-	-	-
Total component units	<u>\$ 2,330,619</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Miscellaneous				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended March 31, 2007

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (1,138,957)	\$ -	\$ (1,138,957)	\$ -
(1,350,782)	-	(1,350,782)	-
(483,190)	-	(483,190)	-
(57,596)	-	(57,596)	-
(57,810)	-	(57,810)	-
(3,088,335)	-	(3,088,335)	-
-	(248,007)	(248,007)	-
-	757,895	757,895	-
-	509,888	509,888	-
(3,088,335)	509,888	(2,578,447)	-
-	-	-	(2,330,619)
-	-	-	-
-	-	-	(2,330,619)
2,300,395	-	2,300,395	2,624,341
918,210	-	918,210	-
365,263	1,280,240	1,645,503	537,325
187,702	-	187,702	-
30,824	-	30,824	-
3,802,394	1,280,240	5,082,634	3,161,666
714,059	1,790,128	2,504,187	831,047
10,814,081	42,662,964	53,477,045	(8,126,415)
<u>\$ 11,528,140</u>	<u>\$ 44,453,092</u>	<u>\$ 55,981,232</u>	<u>\$ (7,295,368)</u>

Township of Scio

Governmental Funds Balance Sheet March 31, 2007

	General Fund	Open Space Land Preservation Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 4,479,121	\$ 1,646,309	\$ -	\$ 2,044,678	\$ 8,170,108
Receivables - Net:					
Taxes	30,071	9,965	-	-	40,036
Customer	113,457	-	-	-	113,457
Interest	14,113	-	-	1,254	15,367
Special assessments	-	-	330,000	-	330,000
Due from other funds (Note 6)	720	-	-	63,656	64,376
Due from component units (Note 6)	12,718	-	-	-	12,718
Due from other governmental units	85,803	31,687	-	-	117,490
	<u>85,803</u>	<u>31,687</u>	<u>-</u>	<u>-</u>	<u>117,490</u>
Total assets	<u>\$ 4,736,003</u>	<u>\$ 1,687,961</u>	<u>\$ 330,000</u>	<u>\$ 2,109,588</u>	<u>\$ 8,863,552</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 145,641	\$ 7,113	\$ -	\$ -	\$ 152,754
Other liabilities	133,322	-	-	-	133,322
Due to other funds (Note 6)	-	-	-	64,376	64,376
Due to component units (Note 6)	-	-	286,417	-	286,417
Deferred revenue (Note 4)	-	-	330,000	-	330,000
	<u>-</u>	<u>-</u>	<u>330,000</u>	<u>-</u>	<u>330,000</u>
Total liabilities	278,963	7,113	616,417	64,376	966,869
Fund Balances					
Reserved - Land preservation	-	1,680,848	-	-	1,680,848
Designated for subsequent year's expenditures	148,874	-	-	-	148,874
Undesignated, reported in:					
General Fund	4,308,166	-	-	-	4,308,166
Special Revenue Funds	-	-	-	2,045,212	2,045,212
Capital Projects Funds	-	-	(286,417)	-	(286,417)
	<u>-</u>	<u>-</u>	<u>(286,417)</u>	<u>-</u>	<u>(286,417)</u>
Total fund balances	4,457,040	1,680,848	(286,417)	2,045,212	7,896,683
Total liabilities and fund balances	<u>\$ 4,736,003</u>	<u>\$ 1,687,961</u>	<u>\$ 330,000</u>	<u>\$ 2,109,588</u>	
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					3,930,882
Deferred revenue is reported in the governmental funds, but not in the government-wide statements					330,000
Receivables which are not available in the current period and are not reported in the funds					156,804
Long-term liabilities are not due and payable in the current period and are not reported in the funds					(770,885)
Interest amounts on long-term liabilities are not payable until due in the funds					(15,344)
					<u>(15,344)</u>
Net assets of governmental activities					<u>\$ 11,528,140</u>

Township of Scio

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended March 31, 2007

	General Fund	Open Space Land Preservation Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue					
Property taxes	\$ 1,198,277	\$ 604,302	\$ -	\$ -	\$ 1,802,579
Locally raised	549,428	-	-	-	549,428
Federal grants	27,900	-	-	-	27,900
State-shared revenues	913,683	-	-	-	913,683
Special assessments	-	-	30,000	-	30,000
Interest, rentals, and other	734,330	54,326	20,183	102,819	911,658
	<u>3,423,618</u>	<u>658,628</u>	<u>50,183</u>	<u>102,819</u>	<u>4,235,248</u>
Total revenue	3,423,618	658,628	50,183	102,819	4,235,248
Expenditures					
Current:					
General government	1,092,561	-	-	17,954	1,110,515
Public safety	1,369,224	-	-	-	1,369,224
Public works	86,559	-	451,293	-	537,852
Boards and commissions	362,248	-	-	-	362,248
Recreation and culture	-	49,284	-	-	49,284
Capital outlay	31,003	8,312	-	-	39,315
Debt service	-	-	18,000	88,325	106,325
	<u>2,941,595</u>	<u>57,596</u>	<u>469,293</u>	<u>106,279</u>	<u>3,574,763</u>
Total expenditures	2,941,595	57,596	469,293	106,279	3,574,763
Excess of Revenue Over (Under) Expenditures	482,023	601,032	(419,110)	(3,460)	660,485
Other Financing Sources (Uses)					
Transfers in (Note 6)	-	-	-	151,981	151,981
Transfers out (Note 6)	(88,325)	-	-	(63,656)	(151,981)
	<u>(88,325)</u>	<u>-</u>	<u>-</u>	<u>88,325</u>	<u>-</u>
Total other financing sources (uses)	(88,325)	-	-	88,325	-
Net Change in Fund Balances	393,698	601,032	(419,110)	84,865	660,485
Fund Balances - Beginning of year	4,063,342	1,079,816	132,693	1,960,347	7,236,198
Fund Balances (Deficit) - End of year	<u>\$ 4,457,040</u>	<u>\$ 1,680,848</u>	<u>\$ (286,417)</u>	<u>\$ 2,045,212</u>	<u>\$ 7,896,683</u>

Township of Scio

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities Year Ended March 31, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ 660,485
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 recorded as capital assets	160,009
Governmental funds allocate the cost of capital assets over their estimated useful lives as depreciation	(178,682)
Loss on disposal on assets is not recorded in the governmental funds	(21,704)
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(30,000)
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	4,527
Repayment of long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	127,740
Decrease in accumulated employee sick and vacation pay is recorded when used in the statement of activities	(10,710)
Change in accrued interest on long-term debt is not recorded in the governmental funds	2,394
Change in Net Assets of Governmental Activities	<u><u>\$ 714,059</u></u>

Township of Scio

Proprietary Funds Statement of Net Assets March 31, 2007

	Enterprise Funds		
	Water	Sewer	Total
Assets			
Current assets:			
Cash and investments (Note 3)	\$ 7,534,854	\$ 18,739,496	\$ 26,274,350
Receivables - Net:			
Customers	229,133	539,000	768,133
Interest	3,895	32,255	36,150
Due from other governmental units	-	18,345	18,345
Total current assets	7,767,882	19,329,096	27,096,978
Noncurrent assets - Capital assets (Note 5)	9,059,796	9,676,839	18,736,635
Total assets	16,827,678	29,005,935	45,833,613
Liabilities - Current liabilities			
Accounts payable	335,794	163,828	499,622
Accrued and other liabilities	239,853	143,135	382,988
Due to other governmental units	396,557	101,354	497,911
Total current liabilities	972,204	408,317	1,380,521
Net Assets			
Investment in capital assets - Net of related debt	9,059,796	9,676,839	18,736,635
Restricted	6,795,678	18,920,779	25,716,457
Total net assets	<u>\$ 15,855,474</u>	<u>\$ 28,597,618</u>	<u>\$ 44,453,092</u>

Township of Scio

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2007

	Enterprise Funds		
	Water	Sewer	Total
Operating Revenue			
Charges for services	\$ 1,532,331	\$ 2,749,882	\$ 4,282,213
Other	89,425	162,552	251,977
Total operating revenue	1,621,756	2,912,434	4,534,190
Operating Expenses			
Water purchased	1,194,434	-	1,194,434
Sewage treatment	-	1,161,514	1,161,514
Operation and maintenance	223,548	463,408	686,956
General and administrative	480,809	747,199	1,228,008
Depreciation	219,995	300,436	520,431
Total operating expenses	2,118,786	2,672,557	4,791,343
Operating Income (Loss)	(497,030)	239,877	(257,153)
Nonoperating Revenue - Investment income	370,416	909,824	1,280,240
Income (Loss) - Before contributions	(126,614)	1,149,701	1,023,087
Capital Contributions			
Connection fees	112,139	298,507	410,646
Lines constructed by developers	136,885	219,510	356,395
Total capital contributions	249,024	518,017	767,041
Change in Net Assets	122,410	1,667,718	1,790,128
Net Assets - Beginning of year	15,733,064	26,929,900	42,662,964
Net Assets - End of year	<u>\$ 15,855,474</u>	<u>\$ 28,597,618</u>	<u>\$ 44,453,092</u>

Township of Scio

Proprietary Funds Statement of Cash Flows Year Ended March 31, 2007

	Enterprise Funds		
	Water	Sewer	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 1,615,321	\$ 2,849,125	\$ 4,464,446
Payments to suppliers	(1,696,140)	(2,115,647)	(3,811,787)
Payments to employees	(143,726)	(365,104)	(508,830)
Net cash (used in) provided by operating activities	(224,545)	368,374	143,829
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	(368,254)	(82,579)	(450,833)
Passthrough of connection fees	267,385	101,184	368,569
Collection of connection fees	112,139	298,507	410,646
Net cash provided by capital and related financing activities	11,270	317,112	328,382
Cash Flows from Investing Activities			
Purchase of investments	(289,897)	(2,664,399)	(2,954,296)
Interest received on investments	370,416	909,824	1,280,240
Net cash (used in) provided by investing activities	80,519	(1,754,575)	(1,674,056)
Net Decrease in Cash and Cash Equivalents	(132,756)	(1,069,089)	(1,201,845)
Cash and Cash Equivalents - Beginning of year	1,652,847	5,879,265	7,532,112
Cash and Cash Equivalents - End of year	\$ 1,520,091	\$ 4,810,176	\$ 6,330,267
Statement of Net Assets (Deficit) Classification of Cash and Cash Equivalents			
Cash and investments	\$ 7,534,854	\$ 18,739,496	\$ 26,274,350
Less amounts classified as investments	(6,014,763)	(13,929,320)	(19,944,083)
Total cash and cash equivalents	\$ 1,520,091	\$ 4,810,176	\$ 6,330,267
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ (497,030)	\$ 239,877	\$ (257,153)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	219,995	300,436	520,431
Changes in assets and liabilities:			
Receivables	(6,435)	(54,812)	(61,247)
Due to governmental units	-	(8,497)	(8,497)
Accounts payable	(62,813)	(12,887)	(75,700)
Accrued and other liabilities	121,738	(95,743)	25,995
Net cash (used in) provided by operating activities	\$ (224,545)	\$ 368,374	\$ 143,829

Noncash Investing, Capital, and Financing Activities - During the year ended March 31, 2007, the Water and Sewer Funds received \$136,885 and \$219,510, respectively, of lines donated by developers. These lines were recorded as capital assets.

Township of Scio

Fiduciary Funds Statement of Assets and Liabilities March 31, 2007

	Agency Funds		
	Current Tax Collection	Trust and Agency	Total
Assets - Cash and investments (Note 3)	<u>\$ 496,689</u>	<u>\$ 90,023</u>	<u>\$ 586,712</u>
Liabilities - Accrued and other liabilities	<u>\$ 496,689</u>	<u>\$ 90,023</u>	<u>\$ 586,712</u>

Township of Scio

Component Units Statement of Net Assets (Deficit) March 31, 2007

	Downtown Development Authority	Economic Development Corporation	Total
Assets			
Cash and investments	\$ 16,369,173	\$ 9,968	\$ 16,379,141
Receivables - Net - Taxes	763	-	763
Prepaid expenses	430,356	-	430,356
Due from primary government	286,417	-	286,417
Total assets	17,086,709	9,968	17,096,677
Liabilities			
Accounts payable	516,050	-	516,050
Accrued and other liabilities	409,412	-	409,412
Due to primary government	12,718	-	12,718
Due to other governmental units	2,053,865	-	2,053,865
Long-term debt	21,400,000	-	21,400,000
Total liabilities	24,392,045	-	24,392,045
Net Assets (Deficit) - Unrestricted	\$ (7,305,336)	\$ 9,968	\$ (7,295,368)

Township of Scio

	Expenses	Program Revenues	
		Charges for Services	Operating Grants/ Contributions
Downtown Development Authority - Public works	\$ 2,330,619	\$ -	\$ -
Economic Development Corporation - Public works	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 2,330,619</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues

Property taxes

Interest

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

**Component Units
Statement of Activities
Year Ended March 31, 2007**

Net (Expense) Revenue and Changes in Net Assets		
Downtown Development Authority	Economic Development Corporation	Total
\$ (2,330,619)	\$ -	\$ (2,330,619)
-	-	-
(2,330,619)	-	(2,330,619)
2,624,341	-	2,624,341
537,036	289	537,325
3,161,377	289	3,161,666
830,758	289	831,047
(8,136,094)	9,679	(8,126,415)
\$ (7,305,336)	\$ 9,968	\$ (7,295,368)

Note I - Summary of Significant Accounting Policies

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

Reporting Entity

The Township of Scio is governed by an elected seven-member board of trustees. The accompanying financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the Township's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Township (see discussion below for description).

- **Blended Component Units** - The Building Authority was created to provide for the financing of renovations to the Township Hall. The Building Authority's governing body, which consists of three individuals, was created during the fiscal year ended March 31, 1999. Building Authority operations consist of the issuance and repayment of debt and the construction of facilities. Although it is legally separate from the Township, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the Township's public buildings.

Discretely Presented Component Units

Downtown Development Authority - The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and promote economic growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the Township board. In addition, the Authority's budget is subject to approval by the Township board. Interim internal financial statements are prepared monthly and available at the Township Hall.

Economic Development Corporation - The Economic Development Corporation was created to provide a means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, construction, improving, or expanding within the Township so as to provide needed services and facilities of such enterprises to the residents of the Township. The Corporation's governing body, which consists of nine individuals, is selected by the Township board. Separate financial statements are not prepared.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise 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 proprietary fund, fiduciary fund, and component unit 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.

Note 1 - Summary of Significant Accounting Policies (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 Township considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

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.

The Township reports the following major governmental funds:

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

Open Space Land Preservation Fund - The Open Space Land Preservation Fund accounts for monies collected to be used for permanent preservation of farmland, open space, wildlife, etc. and to provide new parks and recreational opportunities.

Capital Projects Fund - The Capital Projects Fund is used to account for the monies collected and expended for capital improvements.

The Township reports the following major proprietary funds:

Water Fund - The Water Fund accounts for the activities of the water distribution system.

Sewer Fund - The Sewer Fund accounts for the activities of the sewage collection system.

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the Township reports the following fund types:

Agency Funds - The Agency Funds account for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer functions and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected to also follow private sector standards issued after November 30, 1989 for its business-type activities.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are due on February 14 with the final collection date of the last day of February before they are added to the county tax roll.

The Township's 2006 tax is levied and collectible on December 1, 2006 and is recognized as revenue in the year ended March 31, 2007, when the proceeds of the levy are budgeted and available for the financing of operations.

Note I - Summary of Significant Accounting Policies (Continued)

The 2006 taxable valuation of the Township totaled \$1,359,192,878 (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 0.9518 mills for operating purposes and 0.4942 mills for land preservation. This resulted in approximately \$1,200,000 for operating and approximately \$600,000 for open space land preservation. These amounts are recognized in the respective General Fund and Open Space Preservation Fund financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund is generally allocated to each fund based on relative participation in the pool.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are 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 and the business-type 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.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are recorded by the Township as appropriate, based on cost and useful life. 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Utility system	50 years
Sewer meters	25 years
Buildings	20 to 50 years
Land improvements	10 to 25 years
Machinery and equipment	5 to 25 years
Vehicles	5 years
Fire vehicles	20 years

Compensated Absences (Vacation and Sick Leave) - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. No liability for these amounts is reported in governmental funds as there were no employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type 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. 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Township does not collect construction code fees as allowed by the State's Construction Code Act. Accordingly, no separate reporting of this activity has been reflected in the financial statements.

Fund Deficits - As of March 31, 2007, the Capital Projects Fund has a fund deficit of \$286,417 resulting from the loan payable to the Downtown Development Authority for the Baker Road construction costs. This deficit will be resolved by the collection of special assessment revenue over the next 10 years.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated six particular banks for the deposit of its funds. The investment policy adopted by the Township board of trustees in accordance with Public Act 196 of 1943 has authorized investment in bonds and securities of the United States government and bank accounts, commercial paper, certificates of deposit, mutual funds, and repurchase agreements.

Note 3 - Deposits and Investments (Continued)

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$26,490,475 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized; the component units had \$20,607,960 that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Commercial paper - Avon Capital Corp.	\$ 1,391,524	27 days
Commercial paper - General Electric	1,594,235	45 days
U.S. government or agency bonds	20,430,455	460 days

Township of Scio

Notes to Financial Statements March 31, 2007

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Pooled investment	\$ 687,444	AAA-VI	Fitch
Commercial paper - General Electric	1,594,235	AI	S&P
Commercial paper - Avon Capital Corp.	1,391,524	AI	S&P
U.S. government or agency bonds	20,430,455	AAA	S&P

Concentration of Credit Risk

The Township places no limit on the amount the Township may invest in any one issuer. There are no investments in which more than 5 percent has been invested.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, total deferred revenue of \$330,000 represents future special assessment collections that are unavailable in the current period.

Township of Scio

Notes to Financial Statements March 31, 2007

Note 5 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

Governmental Activities	Balance	Additions	Disposals	Adjustments	Balance
	April 1, 2006				March 31, 2007
Capital assets not being depreciated -					
Land	\$ 572,764	\$ -	\$ -	\$ -	\$ 572,764
Capital assets being depreciated:					
Buildings	2,443,214	2,943	-	-	2,446,157
Land improvements	154,237	-	-	-	154,237
Equipment	802,105	157,066	(69,688)	(1,206)	888,277
Fire vehicles	826,121	-	-	1,206	827,327
Subtotal	4,225,677	160,009	(69,688)	-	4,315,998
Accumulated depreciation:					
Buildings	255,947	95,863	-	-	351,810
Land improvements	37,265	12,422	-	-	49,687
Equipment	319,789	29,031	(47,984)	-	300,836
Fire vehicles	214,181	41,366	-	-	255,547
Subtotal	827,182	178,682	(47,984)	-	957,880
Net capital assets being depreciated	3,398,495	(18,673)	(21,704)	-	3,358,118
Net capital assets	<u>\$ 3,971,259</u>	<u>\$ (18,673)</u>	<u>\$ (21,704)</u>	<u>\$ -</u>	<u>\$ 3,930,882</u>

Township of Scio

Notes to Financial Statements March 31, 2007

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance April 1, 2006	Additions	Disposals and Adjustments	Balance March 31, 2007
Capital assets not being depreciated:				
Land	\$ 17,579	\$ -	\$ -	\$ 17,579
Construction in progress	985,302	-	(910,327)	74,975
Subtotal	1,002,881	-	(910,327)	92,554
Capital assets being depreciated:				
Buildings	761,586	-	-	761,586
Utility system	23,304,945	1,697,444	-	25,002,389
Sewer meters	7,118	-	-	7,118
Machinery and equipment	415,784	20,111	(10,496)	425,399
Vehicles	56,649	-	-	56,649
Subtotal	24,546,082	1,717,555	(10,496)	26,253,141
Accumulated depreciation:				
Buildings	347,481	19,278	-	366,759
Utility system	6,432,214	475,775	-	6,907,989
Sewer meters	5,623	284	-	5,907
Machinery and equipment	260,867	21,420	(10,496)	271,791
Vehicles	52,940	3,674	-	56,614
Subtotal	7,099,125	520,431	(10,496)	7,609,060
Net capital assets being depreciated	17,446,957	1,197,124	-	18,644,081
Net capital assets	<u>\$ 18,449,838</u>	<u>\$ 1,197,124</u>	<u>\$ (910,327)</u>	<u>\$ 18,736,635</u>

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

Governmental activities:	
General government	\$ 83,867
Public safety	94,775
Public works	40
Total governmental activities	<u>\$ 178,682</u>
Business-type activities:	
Water	\$ 219,995
Sewer	300,436
Total business-type activities	<u>\$ 520,431</u>

Township of Scio

Notes to Financial Statements March 31, 2007

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Other governmental funds	\$ 720
Other governmental funds	Other governmental funds	<u>63,656</u>
	Total	<u>\$ 64,376</u>
Due to/from Primary Government and Component Units		
Primary government - General Fund	Component unit - Downtown Development Authority	\$ 12,718
Component unit - Downtown Development Authority	Primary government - Capital Projects Fund	<u>286,417</u>
	Total	<u>\$ 299,135</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Other governmental funds	\$ 88,325 (1)
Other governmental funds	Other governmental funds	<u>63,656 (2)</u>
	Total	<u>\$ 151,981</u>

(1) Transfer for debt service

(2) Transferred to the Public Safety Improvement Fund from the Public Improvement Fund to fund the purchase of a fire truck

Township of Scio

Notes to Financial Statements March 31, 2007

Note 7 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. Installment purchase agreements are also general obligations of the government. Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
General obligation bonds:						
1999 General Obligation Limited Tax Bonds: Amount of issue: \$900,000 Maturing through May 2017	4.90% - 5.65%	\$50,000 - \$75,000	\$ 725,000	\$ (50,000)	\$ 675,000	\$ 50,000
Installment purchase agreements: Amount of issue: \$643,295 Maturing through November 2006	5.50%	\$77,740	77,740	(77,740)	-	-
Compensated absences			85,175	10,710	95,885	51,195
Total governmental activities			<u>\$ 887,915</u>	<u>\$ (117,030)</u>	<u>\$ 770,885</u>	<u>\$ 101,195</u>
Component Unit						
General obligation bonds:						
1988 General Obligation Limited Tax Bonds: Amount of issue: \$1,500,000 Maturing through November 2008	7.40%	\$100,000 - \$125,000	\$ 350,000	\$ (100,000)	\$ 250,000	\$ 125,000
1990 General Obligation Limited Tax Bonds: Amount of issue: \$2,775,000 Maturing through November 2010	5.00%	\$175,000	875,000	(175,000)	700,000	175,000
1994 General Obligation Limited Tax Bonds: Amount of issue: \$8,000,000 Maturing through May 2014	5.00% - 8.00%	\$500,000 - \$700,000	5,400,000	(500,000)	4,900,000	500,000
2002 General Obligation Limited Tax Bonds: Amount of issue: \$7,000,000 Maturing through April 2018	4.25% - 6.25%	\$300,000 - \$700,000	6,150,000	(300,000)	5,850,000	300,000
2006 General Obligation Limited Tax Bonds: Amount of issue: \$9,700,000 Maturing through April 2025	4.00% - 4.00%	\$200,000 - \$1,000,000	-	9,700,000	9,700,000	-
Total component unit			<u>\$ 12,775,000</u>	<u>\$ 8,625,000</u>	<u>\$ 21,400,000</u>	<u>\$ 1,100,000</u>

Township of Scio

Notes to Financial Statements March 31, 2007

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Component Unit		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 50,000	\$ 35,576	\$ 85,576	\$ 1,100,000	\$ 937,154	\$ 2,037,154
2009	50,000	33,051	83,051	1,350,000	901,706	2,251,706
2010	50,000	30,476	80,476	1,375,000	822,950	2,197,950
2011	50,000	27,851	77,851	1,375,000	748,700	2,123,700
2012	50,000	25,176	75,176	1,350,000	672,675	2,022,675
2013-2017	350,000	73,208	423,208	6,800,000	2,362,839	9,162,839
2018-2022	75,000	2,119	77,119	4,450,000	1,173,063	5,623,063
2023-2025	-	-	-	3,600,000	376,000	3,976,000
Total	\$ 675,000	\$ 227,457	\$ 902,457	\$ 21,400,000	\$ 7,995,087	\$ 29,395,087

Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for property loss, torts, errors and omissions, and medical benefit claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Defined Benefit Pension Plan

Plan Description - The Township participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all full- and part-time firefighters of the Township, except the fire chief. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, Michigan 48917.

Township of Scio

Notes to Financial Statements March 31, 2007

Note 9 - Defined Benefit Pension Plan (Continued)

Funding Policy - The obligation to contribute to and maintain the MERS for these employees was established by negotiations with the Township's collective bargaining units and arbitration rulings under Michigan Public Act 312 of 1969. Under the bargaining agreement, the Township is required to contribute a fixed 8 percent of gross wages through April 30, 2012, after which the percent contribution may change. The balance of funding required beyond the Township's 8 percent will be contributed by the full- and part-time firefighters of the Township.

Annual Pension Costs - For the years ended March 31, 2007 and 2006, the Township's annual pension cost was approximately \$21,000 and \$23,400, respectively. The Township's participation in the plan commenced during the 2005 fiscal year. The annual required contribution was determined as part of an initial actuarial valuation performed by MERS at January 1, 2004 using the entry age normal actuarial method. Significant actuarial assumptions used include: (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent attributable to inflation, (c) additional salary increases of 0 percent to 8.40 percent per year, attributable to seniority/merit, and (d) the assumption that benefits will increase 4.5 percent per year annually after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on an open basis. The remaining amortization period is 29 years.

Three-year trend information as of March 31 follows:

	Fiscal Year Ended March 31		
	2005	2006	2007
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 11,400	\$ 23,400	\$ 21,000
Percentage of APC contributed	100%	100%	100%

Township of Scio

Notes to Financial Statements March 31, 2007

Note 9 - Defined Benefit Pension Plan (Continued)

	Actuarial Valuation as of	
	December 31	
	2005	2006
Actuarial value of assets	\$ 65,125	\$ 89,726
Actuarial accrued liability (AAL) (entry age)	\$ 140,173	\$ 176,243
Unfunded AAL (UAAL)	\$ 75,048	\$ 86,517
Funded ratio	46%	51%
Covered payroll	\$ 173,452	\$ 183,171
UAAL as a percentage of covered payroll	43%	47%

Note 10 - Defined Contribution Retirement Plan

The Township offers pension benefits to all of its full-time employees through a defined contribution plan. Effective January 1, 2005, the Township firefighters were transferred to the Municipal Employees' Retirement System of Michigan (MERS) plan referred to in Note 9. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate 90 days from the date of employment. As established by the board of trustees, the Township contributes 8 percent of an employee's approved pension earnings. Employee contributions are not required. In accordance with these requirements, the Township contributed approximately \$79,000 during the current year. The Township's contributions for each employee are fully vested upon entering service.

Note 11 - Other Postemployment Benefits

The Township has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The Township pays a portion of the cost of coverage for these benefits. The retirees pay the difference between the Township's portion and the actual cost. Also, retirees can purchase coverage for their dependents at the Township's group rates. Currently, four retirees are eligible for postemployment health benefits. For the fiscal year ended March 31, 2007, the Township made payments for postemployment health benefit premiums of approximately \$24,900, of which \$9,000 was reimbursed to the Township by retirees. Expenditures for postemployment health care benefits will be recognized as the insurance premiums become due.

Note 11 - Other Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending March 31, 2010.

Required Supplemental Information

Township of Scio

Required Supplemental Information Note to Budgetary Comparison Schedule - General Fund Year Ended March 31, 2007

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and all Special Revenue Funds except that operating transfers and the proceeds of long-term financing have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).”

The annual budget is prepared by the Township’s department heads and finance department. It is approved by the Township budget committee and adopted by the Township board; subsequent amendments are approved by the Township board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at March 31, 2007 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of the actual results of operations to the budgeted amounts (at the level of control adopted by the Township board) for the General Fund, Open Space Land Preservation Fund, and the Public Improvement Fund is presented as required supplemental information. Information comparing other Special Revenue Fund activity to the respective budgets can be obtained at the Township hall.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Township did not have any expenditure budget variances.

Township of Scio

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues	\$ 3,117,450	\$ 3,309,557	\$ 3,423,618	\$ 114,061
Expenditures				
General government	809,850	739,650	679,310	60,340
Elections	53,650	53,705	52,308	1,397
Assessor	396,400	378,950	360,943	18,007
Buildings and grounds	48,225	43,800	31,857	11,943
Health and safety	852,600	742,143	741,621	522
Fire	850,575	693,607	682,305	11,302
Boards and commissions	418,375	401,000	362,248	38,752
Debt service	88,326	88,326	88,325	1
Capital outlay	30,000	31,453	31,003	450
Total expenditures	<u>3,548,001</u>	<u>3,172,634</u>	<u>3,029,920</u>	<u>142,714</u>
Net Change in Fund Balance	(430,551)	136,923	393,698	256,775
Fund Balance - Beginning of year	<u>4,063,342</u>	<u>4,063,342</u>	<u>4,063,342</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 3,632,791</u>	<u>\$ 4,200,265</u>	<u>\$ 4,457,040</u>	<u>\$ 256,775</u>

Township of Scio

Required Supplemental Information Budgetary Comparison Schedule Open Space Land Preservation Fund Year Ended March 31, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues	\$ 573,000	\$ 573,000	\$ 658,628	\$ 85,628
Expenditures	<u>76,460</u>	<u>96,710</u>	<u>57,596</u>	<u>39,114</u>
Net Change in Fund Balances	496,540	476,290	601,032	124,742
Fund Balance - Beginning of year	<u>1,079,816</u>	<u>1,079,816</u>	<u>1,079,816</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 1,576,356</u>	<u>\$ 1,556,106</u>	<u>\$ 1,680,848</u>	<u>\$ 124,742</u>

Other Supplemental Information

Township of Scio

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds March 31, 2007

	Special Revenue Funds			Debt Service	Total Nonmajor
	Public	Budget	Public Safety	Funds -	Governmental
	Improvement	Stabilization	and	Building	Funds
	Fund	Fund	Improvement	Authority	Funds
	Fund	Fund	Fund	Fund	Funds
Assets					
Cash and investments	\$ 683,429	\$ 86,991	\$ 1,274,258	\$ -	\$ 2,044,678
Interest receivable	1,254	-	-	-	1,254
Due from other funds	63,656	-	-	-	63,656
	<u>63,656</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,656</u>
Total assets	<u>\$ 748,339</u>	<u>\$ 86,991</u>	<u>\$ 1,274,258</u>	<u>\$ -</u>	<u>\$ 2,109,588</u>
Liabilities and Fund Balances					
Liabilities - Due to other funds	\$ -	\$ 300	\$ 64,076	\$ -	\$ 64,376
Fund Balances - Unreserved	748,339	86,691	1,210,182	-	2,045,212
	<u>748,339</u>	<u>86,691</u>	<u>1,210,182</u>	<u>-</u>	<u>2,045,212</u>
Total liabilities and fund balances	<u>\$ 748,339</u>	<u>\$ 86,991</u>	<u>\$ 1,274,258</u>	<u>\$ -</u>	<u>\$ 2,109,588</u>

Township of Scio

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended March 31, 2007

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Public Improvement Fund	Budget Stabilization Fund	Public Safety and Improvement Fund	Debt Service Funds - Building Authority Fund	
Revenue - Interest, rentals, and other	\$ 34,777	\$ 4,247	\$ 63,795	\$ -	\$ 102,819
Expenditures					
General government	17,594	150	210	-	17,954
Debt service	-	-	-	88,325	88,325
Total expenditures	<u>17,594</u>	<u>150</u>	<u>210</u>	<u>88,325</u>	<u>106,279</u>
Excess of Revenue Over (Under) Expenditures	17,183	4,097	63,585	(88,325)	(3,460)
Other Financing Sources					
Transfers in	63,656	-	-	88,325	151,981
Transfers out	-	-	(63,656)	-	(63,656)
Total other financing sources (uses)	<u>63,656</u>	<u>-</u>	<u>(63,656)</u>	<u>88,325</u>	<u>88,325</u>
Net Change in Fund Balances	80,839	4,097	(71)	-	84,865
Fund Balances - Beginning of year	<u>667,500</u>	<u>82,594</u>	<u>1,210,253</u>	<u>-</u>	<u>1,960,347</u>
Fund Balances - End of year	<u>\$ 748,339</u>	<u>\$ 86,691</u>	<u>\$ 1,210,182</u>	<u>\$ -</u>	<u>\$ 2,045,212</u>



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July 10, 2007

To the Members of the
Township Board of Trustees
Scio Township
827 North Zeeb Road
Ann Arbor, MI 48103

Dear Trustees:

We have recently completed our audit of the financial statements of Scio Township (the "Township") for the year ended March 31, 2007. As part of our audit, and in addition to the financial report, we offer the following comments and recommendations for your consideration. Before we discuss our specific comments and recommendations, we would like to compliment the Township's staff, in particularly Mrs. Sandy Egeler, for the overall positive condition of the financial records and related documentation for the fiscal year ended March 31, 2007 and the assistance provided to us during the audit.

Internal Control and Accounting Considerations

During the audit, we noted the following items:

- We noted that some of the controller's reconciliations are not reviewed by another Township employee. While the Township has adequate segregation of duties in place, which are designed to prohibit access to cash receipting and cash disbursements by a person in this position, we suggest that review of the work is still warranted.
- During our review of the Township's property taxes, we noted that the Township was not timely in remittance of winter taxes to the other governmental units. We would encourage the Township to develop a system to track tax collections payable to other taxing units and disburse these funds on a timely basis.
- It was noted, as in the previous year, that there was not an investment report given to the board of trustees as required by the Township's investment policy for the year ended March 31, 2006. It is our understanding that the required report has been given to the Township board for the year ended March 31, 2007.

Property Assessment Cap

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

<u>Year</u>	<u>Percentage</u>
2007	3.7
2006	3.3
2005	2.3
2004	2.3
2003	1.5
2002	3.2
2001	3.2
2000	1.9
1999	1.6
1998	2.7
1997	2.8

As indicated above, growth in existing property taxes can be significantly limited due to Proposal A. This factor should be considered when the Township is involved in long-term financial planning.

Property Tax Legislation

A series of House bills were introduced in 2007 dealing with the treatment of the uncapping of value on sale or transfer of property. With the passage of Proposal A in 1994, changes to the taxable value of an individual property are limited to the lesser of the rate of inflation or 5 percent until the property is sold or transferred. The difference between the capped taxable value amount and state equalized value at the time of transfer is referred as the “uncapped” value or the “pop-up” value. As several published studies and reports have demonstrated, the treatment of “uncapped” values or the “pop-up” amount when a property is transferred or sold as growth on existing property subject to the Headlee rollback calculation has resulted in continued downward pressure on millage rates. This treatment is due to definitional changes made to the General Property Tax Act in 1994.

The three bills in the package are House Bills 4440, 4441, and 4442 and would propose to do the following:

- **House Bill 4440** - This bill establishes an 18-month moratorium on the “pop-up” or “uncapping” of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the time frame of the moratorium would continue to pay property taxes at the previous taxable value amount. The “pop-up” or “uncapping” of taxable value would be delayed until the property was sold or transferred in later years.
- **House Bill 4441** - This bill increases the real estate transfer tax by .10 percent and earmarks the money to be returned to local government for potential loss in revenue occurring from House Bill 4440.
- **House Bill 4442** - This bill would change the General Property Tax Act to exempt the “pop-up” or “uncapped” value from the Headlee rollback calculation. If this legislation were enacted, increases in taxable value resulting from property sales or transfers would be treated as “additions” to taxable value or new growth versus growth on existing property.

House Bills 4440 and 4441 passed the House on March 14 (HB 4440 has been assigned to the Senate Finance Committee). House Bill 4442 has not been voted on yet in the House. The bills are not tie barred.

Municipal Finance Act Revisions

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old 10-day “exemption from prior approval” process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months following the end of the Township’s year ended March 31, 2007 and is good for one year thereafter. The Township should consider the need to file a qualifying statement for each of its component units.

New Cable Franchise Legislation

The governor signed cable franchise legislation (House Bill 6456) into law effective January 1, 2007. The new law (Public Act 480 of 2006) creates the "Uniform Video Services Local Franchise Act," which provides a statewide framework for franchising agreements instead of individual community agreements. This Act requires video service providers to obtain a local franchise, good for 10 years, from the franchising entity (the local unit of government). As part of the local franchise, the provider is required to pay an annual video service provider fee, not to exceed 5 percent of gross revenue, as well as an annual fee for the costs of the PEG access facilities, not to exceed 2 percent of gross revenue. The Act allows providers to terminate the current franchise contracts before their expiration date, in order to enter into this new local franchise agreement under the statewide framework.

Local units of government will be impacted in the following ways:

- Under the Act, no additional fees or charges other than those stipulated under the Act may be written into the local franchise agreements.
- To the extent existing cable franchise agreements provided more funding than provided for under the new Act, municipalities will see reduced fees from these new local franchise agreements.
- A credit, based on annual maintenance fees paid for use of public rights of way, to video service providers is allowed under the Act. This credit could eliminate or significantly reduce any revenue the local unit might receive under the bill's franchise fee.
- Audits of the video service providers' calculation of gross revenue is limited to once every two years.

We strongly encourage you to review the May 2007 payment compared to payments previously received and follow up with your provider as required.

Funding of Postemployment Benefit Obligations

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care benefits. The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. Although the statement will not be effective until the Township's 2010 calendar year, the Township should consider performing an actuarial valuation in the near future to provide an estimate as to what these annual costs may amount to. In addition, the Township should consider creating a pre-funding plan and budgeting for contributions to it. The cost of health care currently paid each year as premiums become due has been increasing and the trend is expected to continue.

To the Members of the
Township Board of Trustees
Scio Township

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July 10, 2007

Again, we would like to thank the Township board and all Township personnel for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "M. J. Swartz", with a large, stylized flourish at the end.

Michael J. Swartz

A handwritten signature in black ink, appearing to read "Brian J. Camiller", with a large, stylized flourish at the end.

Brian J. Camiller