

### 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 Hanover Township	County Wexford
Fiscal Year End June 30, 2007	Opinion Date November 5, 2007	Date Audit Report Submitted to State November 21, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number (231) 775-9789	
Street Address 134 West Harris Street		City Cadillac	State Zip MI 49601
Authorizing CPA Signature 	Printed Name Steven C. Arends, C.P.A.		License Number 1101013211

**HANOVER TOWNSHIP, WEXFORD COUNTY**

**BUCKLEY, MICHIGAN**

**JUNE 30, 2007**

*Baird, Cotter and Bishop, P.C.*

**CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

[www.bcbcpa.com](http://www.bcbcpa.com)

HANOVER TOWNSHIP, WEXFORD COUNTY  
BUCKLEY, MICHIGAN

JUNE 30, 2007

TABLE OF CONTENTS

	<u>PAGES</u>
<b>Independent Auditors' Report</b>	i-ii
<b>Management's Discussion and Analysis</b>	iii-ix
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds	
Balance Sheet	3
Reconciliation of the Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures and Changes in Fund Balance	5
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balance to the Statement of Activities	6
Fiduciary Funds	
Statement of Fiduciary Net Assets	7
Notes to Financial Statements	8-17
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule - Major Governmental Fund	18
<b>Major Governmental Funds</b>	
<u>General Fund</u>	
Balance Sheet	19
Schedule of Revenues, Expenditures and Changes In Fund Balance - Budget and Actual	20
<b>Agency Fund</b>	
Statement of Changes in Assets and Liabilities - Current Tax Collection Fund	21
<b>Other Information</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	22-24
Letter of Comments and Recommendations	25

# *Baird, Cotter and Bishop, P.C.*

## CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
PHONE: 231-775-9789 FAX: 231-775-9749  
www.bcbcpa.com

November 5, 2007

### INDEPENDENT AUDITORS' REPORT

To the Township Board  
Hanover Township  
Wexford County  
Buckley, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hanover Township, Wexford County, Buckley, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express 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, each major fund, and the aggregate remaining fund information of Hanover Township, Wexford County, Buckley, Michigan, as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through ix and budgetary comparison information on page 18 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hanover Township, Wexford County, Buckley, Michigan's basic financial statements. The individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

HANOVER TOWNSHIP, WEXFORD COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2007

Hanover Township, a general law township located in Wexford County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Hanover Township board's discussion and analysis of the financial results for the fiscal year ended June 30, 2007.

**Financial Highlights**

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$190,844. Of this amount, \$84,462 may be used to meet the township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's general fund reported an ending fund balance of \$84,462, a decrease of \$17,752 in comparison with the prior year.
- ◆ The Township's total debt decreased by \$34,065 during the fiscal year.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements** The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

HANOVER TOWNSHIP, WEXFORD COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2007

**Fund Financial Statements**

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

**Governmental Funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**Proprietary Funds** – Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township does not maintain any proprietary funds.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information**

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

**Government-Wide Financial Analysis**

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township’s financial position over time. The Net Assets of the Township are \$190,844 at June 30, 2007, meaning the Township’s assets were greater than its liabilities by this amount.

HANOVER TOWNSHIP, WEXFORD COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2007

**Hanover Township**  
**Net Assets as of June 30, 2007**

	Governmental Activities
<b>Assets</b>	
Current Assets	\$ 85,298
Non Current Assets	
Capital Assets	238,436
Less: Accumulated Depreciation	<u>(29,860)</u>
Total Non Current Assets	<u>208,576</u>
<b>Total Assets</b>	<u><u>\$ 293,874</u></u>
<b>Liabilities</b>	
Current Liabilities	\$ 34,901
Noncurrent Liabilities	<u>68,129</u>
Total Liabilities	<u>103,030</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	106,382
Unrestricted	<u>84,462</u>
<b>Total Net Assets</b>	<u>190,844</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 293,874</u></u>

The most significant portions of the Township's Net Assets are cash and investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others) less any related debt that is outstanding that the Township used to acquire the asset. The Township has \$84,462 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Township policies regarding their use.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental activities.

HANOVER TOWNSHIP, WEXFORD COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2007

The total net assets of the Township increased by \$11,486 or 6.4% in this fiscal year, which is an indicator that the Township experienced positive financial growth during the year. As a result, the Township ended the fiscal year in better condition than when the year began.

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

**Hanover Township  
Change in Net Assets  
for the Fiscal Year Ended June 30, 2007**

	<u>Governmental Activities</u>
<b><u>Revenues</u></b>	
<b>Program Revenues</b>	
Charges for Services	\$ 7,869
Operating Grants and Contributions	1,387
<b>General Revenues</b>	
Property Taxes	68,117
State Shared Revenue	44,563
Investment Earnings	2,551
Other	2,250
<b>Total Revenues</b>	<u>126,737</u>
<b><u>Expenses</u></b>	
Legislative	3,552
General Government	75,217
Public Safety	16,681
Public Works	7,516
Community and Economic Development	1,200
Interest	4,565
Other Functions	6,520
<b>Total Expenses</b>	<u>115,251</u>
Changes in Net Assets	11,486
<u>NET ASSETS</u> - Beginning of Year	<u>179,358</u>
<u>NET ASSETS</u> - End of Year	<u>\$ 190,844</u>

HANOVER TOWNSHIP, WEXFORD COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2007

**Governmental Activities**

During the fiscal year ended June 30, 2007, the Township's net assts increased by \$11,486 or 6.4% in the governmental funds. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This is true despite the fact that GASB 34 now requires the Township to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

The most significant part of the revenue for all governmental activities of Hanover Township comes from property taxes. The Township levied 0.9939 mills for operating purposes.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation. In 2007, the amount of state shared revenue received by the Township trended downward, representing declining sales tax collections and discretionary reductions by the State in revenue sharing payments.

The Township's governmental activities expenses are dominated by general governmental expenses that total 65.26% of total expenses. The Township spent \$75,217 in fiscal year 2007 on general governmental expenses. Public Safety represented the next largest expense at \$16,681, or 14.47% of total expenses. Expenses for salaries represent a large portion of the General Administrative expenses at \$37,904. Depreciation expense added another \$4,827.

**Business-Type Activities**

The Township does not maintain any Business-Type Activities.

**Financial Analysis of the Government's Funds**

**Governmental Activities** The focus of Hanover Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**General Fund** – The General Fund decreased its fund balance by \$17,752 which brings the fund balance to \$84,462. The General Fund's fund balance is unreserved. Property tax revenues were \$68,117. State shared revenues were \$44,563.

**Proprietary Fund** The Township does not maintain any proprietary funds.

HANOVER TOWNSHIP, WEXFORD COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2007

**Capital Assets and Debt Administration**

**Capital Assets.** The Township's investment in capital assets for governmental activities as of June 30, 2007, amounted to \$208,576 net of accumulated depreciation. The total net decrease in the Township's investment in capital assets for the current fiscal year was 2.28% or \$4,827.

Capital assets summarized below include any items purchased with a cost greater than \$300 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

**Hanover Township**  
**Capital Assets as of June 30, 2007**

	Governmental Activities
Land	\$ 11,747
Infrastructure	170,322
Buildings and Improvements	54,172
Machinery and Equipment	2,195
	238,436
Less Accumulated Depreciation	(29,860)
<b>Net Capital Assets</b>	<b>\$ 208,576</b>

There were no major capital asset events during the current fiscal year.

**Long-Term Debt** At the end of the current fiscal year, the Township had total installment debt outstanding of \$102,194. Additional information on the Township's long-term debt can be found in the notes to the financial statements.

**Economic Condition and Outlook**

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential further reductions in state-shared revenues. The Township's millage rate was reduced again by the Headlee Amendment rollback for general operating purposes.

These factors were considered in preparing the Township's budgets for the 2007-08 fiscal year.

HANOVER TOWNSHIP, WEXFORD COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2007

**Request for Information**

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Hanover Township at 4910 Squaw Trail, Buckley, MI 49620.

HANOVER TOWNSHIP, WEXFORD COUNTY  
BUCKLEY, MICHIGAN

STATEMENT OF NET ASSETS  
JUNE 30, 2007

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
Cash	\$ 72,034
Receivables	
External Parties (Fiduciary Funds)	6,289
Accounts	6,975
	<hr/>
Total Current Assets	85,298
	<hr/>
<u>CAPITAL ASSETS</u>	
Land	11,747
Infrastructure	170,322
Building and Improvements	54,172
Machinery and Equipment	2,195
	<hr/>
	238,436
Less Accumulated Depreciation	29,860
Net Capital Assets	208,576
	<hr/>
TOTAL ASSETS	\$ 293,874
	<hr/> <hr/>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Payroll Withholdings Payable	\$ 836
Revenue Bonds Payable - Current Portion	34,065
	<hr/>
Total Current Liabilities	34,901
<u>LONG-TERM LIABILITIES</u>	
Revenue Bonds Payable - Net of Current Portion	68,129
	<hr/>
TOTAL LIABILITIES	103,030
	<hr/>
<u>NET ASSETS</u>	
Invested in Capital Assets Net of Related Debt	106,382
Unrestricted	84,462
	<hr/>
TOTAL NET ASSETS	190,844
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 293,874
	<hr/> <hr/>

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

HANOVER TOWNSHIP, WEXFORD COUNTY  
BUCKLEY, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007

FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
					TOTAL GOVERNMENTAL ACTIVITIES
<u>PRIMARY GOVERNMENT</u>					
<u>GOVERNMENTAL ACTIVITIES</u>					
Legislative	\$ 3,552	\$ 0	\$ 0	\$ 0	\$ (3,552)
General Government	75,217	7,869	0	0	(67,348)
Public Safety	16,681	0	0	0	(16,681)
Public Works	7,516	0	1,387	0	(6,129)
Community and Economic Development	1,200	0	0	0	(1,200)
Interest	4,565	0	0	0	(4,565)
Other Functions	6,520	0	0	0	(6,520)
Total	\$ 115,251	\$ 7,869	\$ 1,387	\$ 0	(105,995)

GENERAL REVENUES

Property Tax	68,117
State Shared Revenue	44,563
Investment Earnings	2,551
Other	2,250
Total General Revenues	117,481
Change in Net Assets	11,486
<u>NET ASSETS</u> - Beginning of Year	179,358
<u>NET ASSETS</u> - End of Year	\$ 190,844

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

HANOVER TOWNSHIP, WEXFORD COUNTY  
BUCKLEY, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET  
JUNE 30, 2007

	<u>GENERAL FUND</u>
<u>ASSETS</u>	
Cash	\$ 72,034
Accounts Receivable	6,975
Due from Other Funds	<u>6,289</u>
 TOTAL ASSETS	 <u>\$ 85,298</u>
 <u>LIABILITIES AND FUND BALANCE</u>	
<u>LIABILITIES</u>	
Payroll Withholdings Payable	\$ 836
 <u>FUND BALANCE</u>	
Unreserved	
Undesignated	<u>84,462</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 85,298</u>

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

HANOVER TOWNSHIP, WEXFORD COUNTY  
BUCKLEY, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2007

Total Fund Balance for Governmental Funds	\$	84,462
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Land	\$	11,747
Infrastructure		170,322
Buildings and Improvements		54,172
Machinery and Equipment		2,195
Accumulated Depreciation		<u>(29,860)</u>
		<u>208,576</u>
Long term liabilities are not due and payable in the current period and are not recorded in the funds		
Bonds Payable		<u>(102,194)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>190,844</u></u>

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

HANOVER TOWNSHIP, WEXFORD COUNTY  
BUCKLEY, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2007

	<u>GENERAL FUND</u>
<u>REVENUES</u>	
Taxes	\$ 68,117
State Grants	45,950
Charges for Services	7,469
Interest and Rents	2,951
Other Revenues	2,250
	<hr/>
Total Revenues	126,737
	<hr/>
<u>EXPENDITURES</u>	
Legislative	3,552
General Government	70,390
Public Safety	16,681
Public Works	7,516
Community and Economic Development	1,200
Debt Service	38,630
Other Functions	6,520
	<hr/>
Total Expenditures	144,489
	<hr/>
Net Change in Fund Balance	(17,752)
	<hr/>
<u>FUND BALANCE</u> - Beginning of Year	102,214
	<hr/>
<u>FUND BALANCE</u> - End of Year	\$ 84,462
	<hr/> <hr/>

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

HANOVER TOWNSHIP, WEXFORD COUNTY  
BUCKLEY, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
JUNE 30, 2007

Net change in Fund Balance - Total Governmental Funds	\$ (17,752)
Amounts reported for governmental 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	(4,827)
Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)	<u>34,065</u>
 <b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	 <b><u><u>\$ 11,486</u></u></b>

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



HANOVER TOWNSHIP, WEXFORD COUNTY  
BUCKLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

Hanover Township is a general law township located in Wexford County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

**B. Government-wide and Fund Financial Statements**

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

*Invested in Capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

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 revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

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

HANOVER TOWNSHIP, WEXFORD COUNTY  
BUCKLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

related cash flows. Property taxes are recognized as revenues 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained is consistent with legal and managerial requirements.

Hanover Township reports the following major governmental funds:

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

Additionally, Hanover Township reports the following fund types:

*Agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

## **D. Assets, Liabilities and Equity**

### ***1. Deposits and Investments***

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

HANOVER TOWNSHIP, WEXFORD COUNTY  
BUCKLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

The Investment Policy adopted by the Township delegates authority for investments to the Township Treasurer. The policy states that the Township Treasurer is limited to investments authorized by PA 20 of 1943, as amended, and may invest in the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository of a financial institution. Authorized depositories shall be designated by the Hanover Township Board at the Board's organizational meeting after each regular election of board members.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in (a).
- e. Bankers' acceptances of United States banks.
- f. Investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.512.
- g. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.

**2. *Receivables and Payables***

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

**3. *Property Taxes***

Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes, two-thirds of county taxes, and 50% of Cadillac Area Public School's taxes are levied and due July 1, and become delinquent after September 14. All other taxes are levied and due December 1, and become delinquent after February 14. Collections of school and county taxes are remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

HANOVER TOWNSHIP, WEXFORD COUNTY  
BUCKLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

The 2006 taxable valuation of Hanover Township totaled \$34,367,700, on which ad valorem taxes levied consisted of .9939 mills for Hanover Township operating purposes. This levy raised approximately \$34,158 for operating purposes.

**4. *Inventories and Prepaid Items***

Inventories are not significant and are expensed as required.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**5. *Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$300 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>ASSETS</u>	<u>YEARS</u>
Infrastructure	50
Buildings and Improvements	20 - 50
Machinery and Equipment	5-10

Hanover Township qualifies as a phase 3 governmental unit in regards to the implementation of GASB 34. Phase 3 governmental units are not required to retroactively capitalize infrastructure. As a result, the Township will capitalize and depreciate infrastructure beginning July 1, 2003, in accordance with the Township's capitalization policy.

**6. *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. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

HANOVER TOWNSHIP, WEXFORD COUNTY  
BUCKLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

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 on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**7. 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.

**8. Use of Estimates**

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

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act". A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budget amounts are as originally adopted on June 12, 2006, or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

HANOVER TOWNSHIP, WEXFORD COUNTY  
BUCKLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**B. Funds with Expenditures in Excess of Appropriations were as follows:**

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
Election	\$ 1,613	\$ 2,450
Board of Review	1,500	1,767
Treasurer	21,000	22,300
Building and Grounds	5,924	8,062
Public Works	4,000	7,516

These overages were funded by greater than anticipated revenues and available fund balance.

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**A. Deposits and Investments**

The Township's deposits are on deposit with Honor State Bank in Buckley, Michigan.

*Investment rate risk.* The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

*Foreign currency risk.* The Township is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in Section 5 of the Township's investment policy.

*Concentration of credit risk.* The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2007, none of the government's bank balance of \$78,483 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township's investments are categorized to

HANOVER TOWNSHIP, WEXFORD COUNTY  
BUCKLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At year end, the Township held no investments.

**B. Receivables**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

No deferred revenue was recorded in any of the funds at the end of the current fiscal year.

**C. Capital Assets**

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 11,747	\$ 0	\$ 0	\$ 11,747
Capital assets, being depreciated				
Infrastructure	170,322	0	0	170,322
Buildings and Improvements	54,172	0	0	54,172
Machinery and Equipment	2,195	0	0	2,195
Total capital assets, being depreciated	226,689	0	0	226,689
Less accumulated depreciation for:				
Infrastructure	3,406	3,406	0	6,812
Buildings and Improvements	20,267	1,195	0	21,462
Machinery and Equipment	1,360	226	0	1,586
Total accumulated depreciation	25,033	4,827	0	29,860
Total capital assets, being depreciated, net	201,656	(4,827)	0	196,829
Governmental activities capital assets, net	\$ 213,403	\$ (4,827)	\$ 0	\$ 208,576

HANOVER TOWNSHIP, WEXFORD COUNTY  
BUCKLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

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

Governmental activities:

General Government	<u>\$ 4,827</u>
--------------------	-----------------

Construction Commitments:

The government has no outstanding construction commitments as of June 30, 2007.

**D. Interfund Receivables, Payables and Transfers**

Individual fund interfund receivable and payable balances at June 30, 2007, were:

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 6,289	\$ 0
Fiduciary Funds		
Current Tax Collection Fund	0	6,289
	<u>\$ 6,289</u>	<u>\$ 6,289</u>

**E. Long-Term Debt**

The following is a summary of the long-term debt transactions of the Township of Hanover for the year ended June 30, 2007:

Governmental activities:

	<u>GENERAL OBLIGATION BONDS</u>
Long-Term Debt Payable	
At July 1, 2006	\$ 136,259
New Debt Incurred	0
Payments on Debt	(34,065)
 LONG-TERM DEBT PAYABLE	
AT JUNE 30, 2007	\$ 102,194
 Amount due within one year	\$ 34,065

HANOVER TOWNSHIP, WEXFORD COUNTY  
BUCKLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

Debt payable at June 30, 2007 consisted of the following individual issues:

Governmental Activities

4 Road West of Buckley to M37

The long-term debt at June 30, 2007, consists of a bond payable to Wexford County Road commission for the paving of 4 Road west of Buckley to M37. The bond is being repaid in annual installments of \$14,172 through June 25, 2010, including interest at 3.30% to 3.50%. \$ 42,515

4 Road Between 15 1/2 Road and 17 Road

The long-term debt at June 30, 2007, consists of a bond payable to Wexford County Road Commission for the paving of 4 Road between 15 1/2 Road and 17 Road. The bond is being repaid in annual installments of \$6,845 through June 25, 2010, including interest at 3.30% to 3.50%. 20,534

12 Road Overlay Project

The long-term debt at June 30, 2007, consists of a bond payable to Wexford County Road Commission for the paving of 12 Road. The bond is being repaid in annual installments of \$3,625 through June 25, 2010, including interest at 3.30% to 3.50%. 10,876

Gitchegumee Drive

The long-term debt at June 30, 2007, consists of a bond payable to Wexford County Road Commission for the paving of Gitchegumee Drive. The bond is being repaid in annual installments of \$9,423 through June 25, 2010, including interest at 3.30% to 3.50%. 28,269

\$ 102,194

The annual requirements to amortize debt outstanding as of June 30, 2007 are as follows:

	Principal	Interest	Amounts Payable
Year Ending June 30,			
2008	\$ 34,065	\$ 3,475	\$ 37,540
2009	34,065	2,350	36,415
2010	34,064	1,192	35,256
	<u>\$ 102,194</u>	<u>\$ 7,017</u>	<u>\$ 109,211</u>

HANOVER TOWNSHIP, WEXFORD COUNTY  
BUCKLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**IV. OTHER INFORMATION**

**A. Risk Management**

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, errors and omissions insurance and workers' compensation. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

**B. Retirement Plan**

The Township has a defined contribution pension plan with Municipal Retirement Systems, Inc. which covers Township employees other than appointed boards, commissions, part-time and seasonal employees. Each employee becomes eligible for coverage on the first policy anniversary date after which the employee reaches age 18. All participants are 100% vested upon entering the plan. An employee's normal retirement date is age 65 or the 5<sup>th</sup> anniversary of the first day of the plan year in which participation in the plan commenced.

The formula for determining contributions is based on an employee's annual compensation. The Township has elected to contribute 10% of compensation to the plan annually. Past service credit is calculated as 3% of current compensation for each year of past service to a maximum of 10 years.

Township contributions to the plan for 2006-07 amounted to \$3,790. In addition, the Township paid a \$185 administration fee to Municipal Retirement Systems, Inc. For 2006-07, wages for those covered by the Pension Plan amounted to \$37,904 and total wages for all employees were \$37,904.

**C. Fire Protection Contracts**

An agreement was entered into between the Village of Buckley and the Township for fire protection. The Township paid \$13,883 to the Village for fire protection from January 1, 2007 to December 31, 2007. Also, a fire protection contract is in effect between the Township and Springville Township, and \$2,763 was paid on this contract for the period July 1, 2006 to June 30, 2007.

HANOVER TOWNSHIP, WEXFORD COUNTY  
BUCKLEY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUND

YEAR ENDED JUNE 30, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Taxes	\$ 42,000	\$ 42,000	\$ 68,117
State Grants	50,000	50,000	45,950
Charges for Services	6,000	6,000	7,469
Interest and Rents	1,500	1,500	2,951
Other Revenues	6,000	6,000	2,250
Total Revenues	105,500	105,500	126,737
<u>EXPENDITURES</u>			
Legislative			
Township Board	4,000	4,000	3,552
General Government			
Supervisor	9,000	9,000	7,964
Election	1,500	1,613	2,450
Assessor	16,000	16,000	15,064
Clerk	12,000	12,000	11,946
Board of Review	1,500	1,500	1,767
Treasurer	21,000	21,000	22,300
Building and Grounds	5,000	5,924	8,062
Cemetery	1,000	1,000	837
Public Safety	18,000	18,000	16,681
Public Works	4,000	4,000	7,516
Community and Economic Development	1,500	1,500	1,200
Recreation and Cultural	500	500	0
Debt Service	38,700	38,700	38,630
Other Functions	11,750	10,713	6,520
Total Expenditures	145,450	145,450	144,489
Excess (Deficiency) of Revenues Over Expenditures	(39,950)	(39,950)	(17,752)
<u>FUND BALANCE</u> - Beginning of Year	75,839	75,839	102,214
<u>FUND BALANCE</u> - End of Year	\$ 35,889	\$ 35,889	\$ 84,462

HANOVER TOWNSHIP, WEXFORD COUNTY  
BUCKLEY, MICHIGAN

GENERAL FUND

BALANCE SHEET  
JUNE 30, 2007

ASSETS

Cash	\$ 72,034
Due from Other Governments	6,975
Due from Other Funds	<u>6,289</u>
 TOTAL ASSETS	 <u><u>\$ 85,298</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Payroll Withholdings Payable	\$ 836
------------------------------	--------

FUND BALANCE

Unreserved	<u>84,462</u>
------------	---------------

TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 85,298</u></u>
------------------------------------	-------------------------

HANOVER TOWNSHIP, WEXFORD COUNTY  
BUCKLEY, MICHIGAN

GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2007

	BUDGET	ACTUAL
<u>REVENUES</u>		
Taxes	\$ 42,000	\$ 68,117
State Grants	50,000	45,950
Charges for Services	6,000	7,469
Interest and Rents	1,500	2,951
Other Revenues	6,000	2,250
	105,500	126,737
 <u>EXPENDITURES</u>		
Legislative		
Township Board	4,000	3,552
General Government		
Supervisor	9,000	7,964
Election	1,613	2,450
Assessor	16,000	15,064
Clerk	12,000	11,946
Board of Review	1,500	1,767
Treasurer	21,000	22,300
Building and Grounds	5,924	8,062
Cemetery	1,000	837
Public Safety	18,000	16,681
Public Works	4,000	7,516
Community and Economic Development	1,500	1,200
Recreation and Cultural	500	0
Debt Service	38,700	38,630
Other Functions	10,713	6,520
	145,450	144,489
Excess (Deficiency) of Revenues Over Expenditures	(39,950)	(17,752)
<u>FUND BALANCE</u> - Beginning of Year	75,839	102,214
<u>FUND BALANCE</u> - End of Year	\$ 35,889	\$ 84,462

HANOVER TOWNSHIP, WEXFORD COUNTY  
BUCKLEY, MICHIGAN

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
YEAR ENDED JUNE 30, 2007

	BALANCE		DEDUCTIONS	BALANCE
	7/1/2006	ADDITIONS		6/30/2007
<u>ASSETS</u>				
Cash	\$ 4,711	\$ 931,505	\$ 929,927	\$ 6,289
<u>LIABILITIES</u>				
Accounts Payable	\$ 0	\$ 1,067	\$ 1,067	\$ 0
Due to Other Governments	0	881,914	881,914	0
Due to Other Funds	4,711	49,151	47,573	6,289
	<u>\$ 4,711</u>	<u>\$ 932,132</u>	<u>\$ 930,554</u>	<u>\$ 6,289</u>

# *Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

www.bcbcpa.com

November 5, 2007

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

To the Township Board  
Hanover Township  
Wexford County  
Buckley, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Hanover Township, Wexford County, Buckley, Michigan as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Hanover Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly we do not express an opinion on the effectiveness of the governmental unit'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 material weaknesses.

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

1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

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

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P. C.

*Baird, Cotter & Bishop, P.C.*

*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
PHONE: 231-775-9789 FAX: 231-775-9749  
www.bcbcpa.com

November 5, 2007

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Township Board  
Hanover Township  
Wexford County  
Buckley, Michigan

During the course of our audit of the basic financial statements of Hanover Township for the year ended June 30, 2007, we noted the following:

Budgeting

Several General Government accounts had expenditures in excess of appropriations. The budget should be amended during the year before incurring expenditures in excess of appropriations.

We would like to thank the board for its continued confidence in our firm and to thank the township clerk and treasurer for their cooperation.

If you have any questions relative to the above items or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*