

**TOWNSHIP OF KRAKOW
PRESQUE ISLE COUNTY, MICHIGAN**

FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
FOR THE FISCAL YEAR ENDED MARCH 31, 2008

JOHNSON & SCHULZE PC

**TOWNSHIP OF KRAKOW
PRESQUE ISLE COUNTY, MICHIGAN
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Auditing Procedures Report V1.04

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issued under Public Act 2 of 1968, as amended.

Unit Name	KRAKOW TOWNSHIP	County	PRESQUE ISLE	Type	TOWNSHIP	MuniCode	71-1-060
Opinion Date-Use Calendar	Jul 31, 2008	Audit Submitted-Use Calendar	Aug 14, 2008	Fiscal Year-Use Drop List	2008		

If a local unit of government (authorities & 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, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

- 1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
- 2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
- 3. Were the local unit's actual expenditures within the amounts authorized in the budget?
- 4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
- 5. Did the local unit adopt a budget for all required funds?
- 6. Was a public hearing on the budget held in accordance with State statute?
- 7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
- 8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
- 9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
- 10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
- 11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
- 12. Is the local unit free of repeated reported deficiencies from previous years?
- 13. Is the audit opinion unqualified? 14. If not, what type of opinion is it?
- 15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
- 16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
- 17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
- 18. Are there reported deficiencies? 19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 157,427.00
General Fund Expenditure:	\$ 106,379.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 129,109.00
Governmental Activities Long-Term Debt (see instructions):	\$ 0.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	KRISTY	Last Name	SCHULZE	Ten Digit License Number	1101025896				
CPA Street Address	1223 S. STATE STREET	City	ALPENA	State	MI	Zip Code	49707	Telephone	+1 (989) 354-8707
CPA Firm Name	JOHNSON & SCHULZE PC	Unit's Street Address	BOLTON ROAD	City	POSEN		LU Zip	49776	

TOWNSHIP OF KRAKOW
Presque Isle County, Michigan

BOARD MEMBERS

SUPERVISOR:	KEVIN C. PRZYBYLA
CLERK:	ELAINE M. MISIAK
DEPUTY CLERK:	LORRAINE ORBAN
TREASURER:	ARTHUR R. MUCCIANTE
DEPUTY TREASURER:	DIANE MUCCIANTE
TRUSTEE:	HARRY JAKUBIAK
TRUSTEE:	CAROLE J. ROBARGE

Independent Auditor's Report

To the Township Board
Township of Krakow
Presque Isle County, Michigan

We have audited the accompanying general purpose financial statements of the governmental activities of Krakow Township as of and for the year ended March 31, 2008, which collectively comprise the basic financial statements of Krakow 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Krakow Township as of March 31, 2008, and the respective changes in financial position of those activities and funds, and the budgetary comparison for the general fund for the year ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2008 on our consideration of Krakow Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Krakow Township's basic financial statements. The accompanying combined and individual financial statements, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying required supplemental and other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The combined and individual financial statements have 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 as a whole.

Johnson & Schulze, P.C.
July 31, 2008

SHANNA M. JOHNSON, CPA

KRISTY L. SCHULZE, CPA

KRAKOW TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended March 31, 2008. Please read it in conjunction with the financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township as a whole and present a long-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

FINANCIAL HIGHLIGHTS

Assets at March 31, 2008 totaled \$227,559 for governmental activities. Of the total, \$94,002 represents capital assets, net of depreciation.

Revenues derived from all activities were \$157,427. Overall expenditures for the Township's governmental activities were \$106,379.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: (1) Management's Discussion and Analysis (MD&A), (2) the basic financial statements, and (3) required supplemental information. The basic financial statements include two different kinds of statements that present different views of the Township.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities and/or business-type activities. There were no business-type activities for the fiscal year ended March 31, 2008.

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

The Notes to Financial Statements explain some of the information in the statements and provide more detailed data.

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the Township as a whole, using accounting methods used by private companies. The Statement of Net Assets includes all of the Township's assets and liabilities. The Statement of Activities records all of the current year's revenues and expenditures, regardless of when received or paid.

KRAKOW TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

To assess the overall health of the Township, additional factors such as tax base changes, facility conditions, and personnel changes may be considered.

Most of the activities of the Township are reported as governmental activities. These would include the operations recorded in the General Fund.

FUND FINANCIAL STATEMENTS

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

The Township has the following types of funds:

Governmental Funds

Most of the Township's activities are included in the governmental fund category. This fund is presented on the modified accrual basis, which is designed to show short-term financial information. You will note the differences between the Township's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them.

The Township maintains only one individual governmental fund, a General Fund, which we consider to be a major fund. This fund is financed primarily by property tax revenue and state shared revenues.

Fiduciary Funds

The Township acts as a trustee or fiduciary and is responsible for insuring that the assets of these activities are collected and disbursed to the respective entities to which the funds belong. The Township maintains these funds and is responsible for insuring that the assets of these activities are spent for their intended purpose and at the direction of those individuals or organizations to which the funds belong. These activities do not appear in the Township's government-wide financial statements since the assets do not belong to the Township. The Township maintains a Tax Collection Fund in this category.

KRAKOW TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

FUND ANALYSIS OF THE TOWNSHIP AS A WHOLE

Net Assets

The Township's governmental activities net assets increased \$41,945 during the year, to total \$223,111.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

Governmental Activities

The general activities remained consistent, and the Township continued to provide the same services to its residents: administrative, assessing, elections, township hall maintenance, road maintenance, tax collection, street lighting, ambulance service and fire protection.

Capital Asset Administration

At March 31, 2008, the Township had \$154,680 in capital assets, including the town hall, land, computers and other office equipment. The net book value is \$94,002 at March 31, 2008.

CONTACTING VILLAGE MANAGEMENT

The financial report is designed to provide our citizens, creditors, investors, and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for revenues it receives. If you have any questions concerning this report, or need additional information, please contact the Township Clerk at (989) 766-8804.

TOWNSHIP OF KRAKOW
Presque Isle County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2008

ASSETS:	Governmental Activities
<hr/>	
CURRENT ASSETS:	
Cash in bank	\$ 3,410
Investments	119,440
Taxes receivable	6,259
Special assessments receivable	7,137
	<hr/>
Total Current Assets	136,246
	<hr/>
NON-CURRENT ASSETS:	
Capital Assets	154,680
Less Accumulated Depreciation	(60,678)
	<hr/>
Total Non-current Assets	94,002
	<hr/>
TOTAL ASSETS	\$ 230,248
	<hr/> <hr/>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES	
Deferred revenue	7,137
Total Current Liabilities	<hr/> 7,137
	<hr/>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	94,002
Unrestricted	129,109
	<hr/>
Total Net Assets	223,111
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 230,248
	<hr/> <hr/>

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

TOWNSHIP OF KRAKOW
Presque Isle County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the year ended March 31, 2008

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities</u>
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities:			
Legislative	\$ 20,478		\$ (20,478)
General government	33,884	15,955	\$ (17,929)
Public safety	16,091	578	\$ (15,513)
Public works	<u>45,029</u>	<u>18,866</u>	<u>\$ (26,163)</u>
Total Governmental Activities	<u>\$ 115,482</u>	<u>\$ 35,399</u>	<u>\$ (80,083)</u>
General Revenues:			
Property taxes			\$ 60,150
Other taxes			6,004
State revenue sharing			45,363
Interest			2,672
Miscellaneous			<u>7,839</u>
Total General Revenues			<u>122,028</u>
Change in Net Assets			41,945
Net Assets, Beginning of year			<u>181,166</u>
Net Assets, End of Year			<u>\$ 223,111</u>

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

TOWNSHIP OF KRAKOW
Presque Isle County, Michigan

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 March 31, 2008

	General
<u>Assets</u>	
Cash in bank	\$ 3,410
Investments	119,440
Taxes receivable	6,259
Special assessment receivable	7,137
Total Assets	\$ 136,246
<u>Liabilities and Fund Equity</u>	
Liabilities:	
Deferred revenue	7,137
Total liabilities	7,137
Fund equity:	
Fund Balances	
Unreserved:	
Undesignated	129,109
Total fund equity	129,109
Total Liabilities and Fund Equity	\$ 136,246

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

TOWNSHIP OF KRAKOW
Presque Isle County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
For the year ended March 31, 2008

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	<u>\$ 129,109</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 therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	154,680
Accumulated depreciation	<u>(60,678)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u><u>\$ 223,111</u></u>

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

TOWNSHIP OF KRAKOW
Presque Isle County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the year ended March 31, 2008

Revenues:	General
Property Taxes	\$ 58,349
Other taxes	6,004
Licenses and permits	1,038
State revenue sharing	45,363
Charges for services	
Property tax administration	15,955
Transfer station	18,406
Interest	2,672
Special assessments	1,801
Miscellaneous	7,839
Total Revenues	157,427
Expenditures:	
Legislative:	
Township Board	19,495
General government:	
Supervisor	7,004
Elections	1,920
Assessor	14,000
Clerk	8,240
Board of Review	1,380
Treasurer	8,496
Building and grounds	6,991
Public safety	
Ordinance officer	600
Fire protection	14,767
Planning and zoning	3,050
Public works	
Highways and streets	2,000
Street lighting	883
Sanitation	17,553
Total Expenditures	106,379
Excess (Deficiency) of Revenues over Expenditures	51,048
Fund Balance, April 1	78,061
Fund Balance, March 31	\$ 129,109

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

TOWNSHIP OF KRAKOW
Presque Isle County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the year ended March 31, 2008

NET CHANGE IN FUND BALANCES- TOTAL GOVERNMENTAL FUNDS	\$ 51,048
Amounts reported for governmental activities in the Statement of Activities are different because: Government funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(12,034)
Capital Outlay	<u>2,931</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 41,945</u>

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

TOWNSHIP OF KRAKOW
PRESQUE ISLE COUNTY, MICHIGAN
Notes to Financial Statements
March 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Local Governmental Unit 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 Local Governmental Unit:

A. Reporting Entity

The Township of Krakow is located in Presque Isle County, Michigan. The Local Governmental Unit is governed by an elected board. The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non fiduciary activities of the primary government. 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. Krakow Township does not have any business-type activities reported in proprietary funds.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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 operations 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.

Typically, separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, Krakow Township does not have any proprietary funds to report.

Governmental Funds

Governmental funds are those funds through which most governmental functions typically are financed. The acquisition, use and balances of the government's expendable financial resources and the related current liabilities are accounted for through governmental funds. The Government reports the following major fund:

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

TOWNSHIP OF KRAKOW
PRESQUE ISLE COUNTY, MICHIGAN
Notes to Financial Statements
March 31, 2008

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

Among reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

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

Property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value and consist of certificates of deposit as of March 31, 2008.

Receivables and Payables

Property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding

**TOWNSHIP OF KRAKOW
PRESQUE ISLE COUNTY, MICHIGAN
Notes to Financial Statements
March 31, 2008**

December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased or estimated historical cost if constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over its' estimated useful life.

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

	<u>Balance</u> <u>4/1/2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>3/31/2008</u>
Governmental Activities:				
Land and Land Imp.	26,221	908	-	27,129
Buildings & Building Imp.	68,900	2,681	-	71,581
Equipment	<u>44,924</u>	<u>11,046</u>	<u>-</u>	<u>55,970</u>
 Total	 140,045	 14,635	 -	 154,680
Accumulated Depreciation	<u>(48,644)</u>	<u>(12,034)</u>	<u>-</u>	<u>(60,678)</u>
 Net Capital Assets	 <u>91,401</u>	 <u>2,601</u>	 <u>-</u>	 <u>94,002</u>

NOTE 2 - COMPENSATED ABSENCES (SICK AND VACATION LEAVE)

There are no compensated absences provided by the Township which would require disclosure under GASB regulations.

NOTE 3 - LONG-TERM OBLIGATIONS

The Township has no long-term obligations.

**TOWNSHIP OF KRAKOW
PRESQUE ISLE COUNTY, MICHIGAN
Notes to Financial Statements
March 31, 2008**

NOTE 4 - 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 of a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. As of March 31, 2008, the Township has not reserved any portion of the fund balance.

NOTE 5 - COMPARATIVE DATA/RECLASSIFICATIONS

Comparative total data for the prior year has not been presented in the fund financial statements.

NOTE 6 - ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township. Commitments outstanding at year end are charged against the subsequent year's appropriation once received and approved.

NOTE 7 - USE OF ESTIMATES

The preparation 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; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

NOTE 8 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State law for all Government Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Government to have its budget in place by the beginning of its fiscal year. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits governments to amend their budgets during the year. During the year, the budget was amended in a permissible manner. There were no significant amendments during the year.

**TOWNSHIP OF KRAKOW
PRESQUE ISLE COUNTY, MICHIGAN
Notes to Financial Statements
March 31, 2008**

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended, (MCL 141.421 et seq.), provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated.

During the year, the Township did not incur expenditures which were in excess of the amounts budgeted.

Accumulated Fund Deficits

The Township did not have any accumulated fund balance deficits in any individual funds as of March 31, 2008.

NOTE 9 - DEPOSITS AND INVESTMENTS

Deposits

The Government's cash accounts consist of various interest bearing checking and savings accounts. At year-end, the carrying amount of the Township's deposits was \$3,410 and the bank balance was \$5,000.

Investments

State statutes authorize the Government to invest in obligations of the U.S. Treasury and U.S. agencies, deposit agreements with federally insured financial institutions within the State of Michigan, high grade commercial paper, repurchased obligations of the U.S. government and U.S. agencies, banker's acceptances of U.S. banks and mutual funds. As of March 31, 2008, the Township investments consisted of certificates of deposit, which the carrying amount and the bank balance was \$119,440.

The total Township's cash and investments amounted to \$122,850 as of March 31, 2008. \$100,000 was covered by Federal Depository Insurance.

NOTE 10 - RECEIVABLES

Receivables as of year end represent unpaid taxes to be received by Presque Isle County.

NOTE 11 – CONTINGENT LIABILITIES

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; injuries to employees; and natural disasters. The Township has obtained commercial insurance to handle its risk of loss.

**TOWNSHIP OF KRAKOW
PRESQUE ISLE COUNTY, MICHIGAN
Notes to Financial Statements
March 31, 2008**

NOTE 12 – DEFERRED COMPENSATION PLAN

The Township does not have a deferred compensation plan.

NOTE 13 – PENSION PLAN

The Township has a defined contribution pension plan covering all full time employees. The Township contributes an amount of each employee's annual salary to the plan. Pension expense for the fiscal year ended March 31, 2008 was \$1,295.

NOTE 14 – BUILDING PERMITS

The Township of Krakow does not issue building permits. Building permits are issued by Presque Isle County.

TOWNSHIP OF KRAKOW
Presque Isle County, Michigan

REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL
For the year ended March 31, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	\$ 44,000	\$ 53,000	\$ 58,349	\$ 5,349
Other taxes	6,000	6,000	6,004	4
Licenses and permits	500	400	1,038	638
State revenue sharing	44,000	41,000	45,363	4,363
Charges for services:				
Property tax administration	13,500	13,500	15,955	2,455
Transfer station	17,000	17,000	18,406	1,406
Special assessments	2,000	2,000	2,672	672
Interest	1,200	1,200	1,801	601
Miscellaneous	4,450	4,550	7,839	3,289
Total revenues	\$ 132,650	\$ 138,650	\$ 157,427	\$ 18,777
Expenditures:				
Legislative:				
Township Board	21,155	22,155	18,433	3,722
General government:				
Supervisor	7,250	7,250	7,004	246
Elections	4,050	4,050	1,920	2,130
Assessor	15,200	15,200	14,000	1,200
Clerk	8,500	8,500	8,240	260
Board of Review	1,100	1,100	716	384
Treasurer	9,210	9,210	8,496	714
Insurance and Bonds	2,500	2,500	1,982	518
Building and grounds	6,400	7,400	6,991	409
Public Safety:				
Ordinance officer	600	600	600	-
Fire protection	19,000	19,000	14,767	4,233
Planning and zoning	5,500	5,500	2,794	2,706
Public Works:				
Highways and streets	2,000	2,000	2,000	-
Street lighting	1,000	1,000	883	117
Sanitation	21,175	25,675	17,553	8,122
Capital Improvements	6,500			
Other:				
Contingency	25,000	25,000	-	25,000
Total expenditures	\$ 156,140	\$ 156,140	\$ 106,379	\$ 49,761
Excess (deficiency) of revenues over expenditures	\$ (23,490)	\$ (17,490)	\$ 51,048	\$ (30,984)
Fund balance, April 1	78,061	78,061	78,061	78,061
Fund balance, March 31	\$ 54,571	\$ 60,571	\$ 129,109	\$ 47,077

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

TOWNSHIP OF KRAKOW
Presque Isle County, Michigan

ADDITIONAL SUPPLEMENTAL INFORMATION
GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
For the year ended March 31, 2008

Township Board:	
Salaries	\$ 3,120
Pension	1,295
Social Security	1,079
Postage	1,959
Telephone	384
Mileage	136
Printing and publishing	2,012
Insurance and bonds	1,982
Dues	1,866
Legal	2,400
Office Supplies	643
Miscellaneous	2,619
Total Township Board	19,495
Supervisor:	
Salary	6,840
Mileage	124
Deputy	40
Total Supervisor	7,004
Elections:	
Wages	1,672
Supplies	61
Mileage	166
Postage	21
Total Elections	1,920
Assessor:	
Salary	14,000
Miscellaneous	150
Total Assessor	14,000
Clerk:	
Salary	7,480
Deputy	160
Pension and FICA administration	600
Mileage	-
Total Clerk	8,240
Board of Review:	
Wages	1,294
Printing and publishing	86
Total Board of Review	1,380
Treasurer:	
Salary	7,460
Deputy	160
Mileage	876
Total Treasurer	8,496
Building and grounds	
Salary	1,100
Operating Supplies	325
Utilities	2,297
Repairs and maintenance	2,911

(CONTINUED ON NEXT PAGE)

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

TOWNSHIP OF KRAKOW
Presque Isle County, Michigan

ADDITIONAL SUPPLEMENTAL INFORMATION
GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
For the year ended March 31, 2008

(CONTINUED FROM PREVIOUS PAGE)

Building and grounds - continued	
Miscellaneous	\$ 358
Total Building and grounds	<u>6,991</u>
Ordinance officer:	
Wages	600
Total Ordinance officer	<u>600</u>
Fire protection:	
Contracted services	14,767
Total Fire protection	<u>14,767</u>
Planning and zoning:	
Salaries	2,794
Mileage	106
Supplies	150
Total Planning and zoning	<u>3,050</u>
Highways and streets:	
Contracted services	2,000
Total Highways and streets	<u>2,000</u>
Street Lighting:	
Utilities	883
Repairs and maintenance	-
Total Street Lighting	<u>883</u>
Sanitation:	
Wages	5,070
Contracted services	9,696
Utilities	412
Telephone	386
Insurance and bonds	1,401
Miscellaneous	588
Total Sanitation	<u>17,553</u>
Total Expenditures	<u>\$ 106,379</u>

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

TOWNSHIP OF KRAKOW
Presque Isle County, Michigan

ADDITIONAL SUPPLEMENTAL INFORMATION
CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Year ended March 31, 2008

	Balance 4/1/2007	Additions	Deductions	Balance 3/31/2008
Assets				
Cash in bank	\$ -	\$ 1,034,377	\$ 1,034,377	\$ -
Liabilities				
Due to other funds	-	62,859	62,859	-
Due to other taxing units	-	971,518	971,518	-
Total Liabilities	\$ -	\$ 1,034,377	\$ 1,034,377	\$ -

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

To the Township Board
Township of Krakow
Presque Isle County, MI

We have audited the financial statements of the governmental activities and each major fund of Krakow Township as of and for the year ended March 31, 2008, which collectively comprise Krakow Township's basic financial statements and have issued our report thereon dated July 31, 2008. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 17, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with the U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township of Krakow are described in Note 1 to the financial statements. No new policies were adopted and the application of the existing policies was not changed during the fiscal year. We noted no transactions entered into by the Township of Krakow during the year for which there is a lack of authoritative guidance of consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Township of Krakow's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

Disagreements with Management

For the purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased that no such disagreements arose during the course of our audit.

Management Representation

We have requested certain representations from management that are included in the management representation letter associated with the audit for the year ended March 31, 2008.

Other Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township of Krakow's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the Township of Krakow as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Township of Krakow's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Township of Krakow's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering

significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we would consider to be a significant deficiency or a material weakness, as defined below.

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

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

This communication is intended solely for the information and use of the Township of Krakow, Presque Isle County, MI and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Johnson & Schulze, PC
July 31, 2008