

AUDITING PROCEDURES REPORT

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

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: Fredonia Township		County Calhoun	
Audit Date June 30, 2003		Opinion Date December 20, 2004		Date Accountant Report Submitted To State:	

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

We affirm that:

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

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

You must check the applicable box for each item below:

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

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 750 Trade Centre Way, Suite 300	City Portage	State MI	ZIP 49002
Accountant Signature <i>Plante & Moran, PLLC</i>			

Township of Fredonia, Michigan

Financial Report
with Additional Information
June 30, 2003

Township of Fredonia, Michigan

Contents

Report Letter	1
Financial Statements	
Combined Balance Sheet - All Fund Types and Account Groups	2
Combined Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Fund Types	3
Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	4
Notes to Financial Statements	5-11
Report Letter	12
Additional Information	
Combining Balance Sheet - Debt Service Funds	13
Combining Statement of Revenue, Expenditures and Changes in Fund Balances - Debt Service Funds	14



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Independent Auditor's Report

To the Members of the Board
Township of Fredonia, Michigan

We have audited the accompanying general purpose financial statements of the Township of Fredonia, Michigan as of June 30, 2003, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Fredonia, Michigan as of June 30, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

December 20, 2004



A worldwide association of independent accounting firms

Township of Fredonia, Michigan

Combined Balance Sheet All Fund Types and Account Groups June 30, 2003

	Governmental Fund Type		Fiduciary Fund Type	Account Groups		Total (Memorandum Only)
	General	Debt Service	Agency	General Fixed Assets	General Long-term Debt	
Assets						
Cash (Note 2)	\$ 53,245	\$ 38,274	\$ 29,753	\$ -	\$ -	\$ 121,272
Investments (Note 2)	151,716	-	-	-	-	151,716
Receivables:						
Special assessments	-	365,825	-	-	-	365,825
Other receivables	7,500	6,000	-	-	-	13,500
Due from other governmental units	19,166	-	-	-	-	19,166
Due from other funds	-	34,587	-	-	-	34,587
Amount available in debt service funds	-	-	-	-	78,861	78,861
Amounts to be provided for retirement of general long-term debt	-	-	-	-	771,719	771,719
Property, plant and equipment (Note 4)	-	-	-	2,660,819	-	2,660,819
Total assets	\$ 231,627	\$ 444,686	\$ 29,753	\$ 2,660,819	\$ 850,580	\$ 4,217,465
Liabilities and Fund Equity						
Liabilities						
Due to other governmental units	\$ -	\$ -	\$ 1,282	\$ -	\$ -	\$ 1,282
Due to other funds	6,116	-	28,471	-	-	34,587
Accounts payable	2,717	-	-	-	-	2,717
Deferred revenue - Assessments	-	365,825	-	-	-	365,825
Long-term debt (Note 3)	-	-	-	-	850,580	850,580
Total liabilities	8,833	365,825	29,753	-	850,580	1,254,991
Fund Equity						
Investment in general fixed assets	-	-	-	2,660,819	-	2,660,819
Fund balances:						
Unreserved:						
Designated for debt service	-	78,861	-	-	-	78,861
Undesignated	222,794	-	-	-	-	222,794
Total fund equity	222,794	78,861	-	2,660,819	-	2,962,474
Total liabilities and fund equity	\$ 231,627	\$ 444,686	\$ 29,753	\$ 2,660,819	\$ 850,580	\$ 4,217,465

Township of Fredonia, Michigan

Combined Statement of Revenue, Expenditures and Changes in Fund Balances Governmental Fund Types Year Ended June 30, 2003

	General Fund	Debt Service Fund	Total (Memorandum Only)
Revenue			
Taxes	\$ 39,988	\$ 41,643	\$ 81,631
Licenses and permits	16,934	-	16,934
State sources	153,798	-	153,798
Contributions from other units	14,864	6,000	20,864
Interest and rental	2,696	13,527	16,223
Special assessments and other	6,786	87,169	93,955
Total revenue	235,066	148,339	383,405
Expenditures			
Legislative	30,173	-	30,173
General government	86,128	-	86,128
Public safety	57,827	-	57,827
Public works	3,839	-	3,839
Debt service:			
Principal	17,012	101,705	118,717
Interest	5,607	18,920	24,527
Total expenditures	200,586	120,625	321,211
Excess of Revenue Over Expenditures	34,480	27,714	62,194
Fund Balances - Beginning of year	188,314	51,147	239,461
Fund Balances - End of year	\$ 222,794	\$ 78,861	\$ 301,655

Township of Fredonia, Michigan

Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual General Fund Year Ended June 30, 2003

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
Taxes	\$ 35,000	\$ 39,988	\$ 4,988
Licenses, permits and fees	15,000	16,934	1,934
State sources	140,000	153,798	13,798
Contributions from other units	13,000	14,864	1,864
Interest and rental	9,000	2,696	(6,304)
Other	9,000	6,786	(2,214)
Total revenue	221,000	235,066	14,066
Expenditures			
Legislative	40,000	30,173	9,827
General government	89,881	86,128	3,753
Public safety	63,300	57,827	5,473
Public works	5,200	3,839	1,361
Debt service:			
Principal	17,012	17,012	-
Interest	5,607	5,607	-
Total expenditures	221,000	200,586	20,414
Excess of Revenue Over Expenditures	-	34,480	34,480
Fund Balances - Beginning of year	188,314	188,314	-
Fund Balances - End of year	\$ 188,314	\$ 222,794	\$ 34,480

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Township conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The Township is governed by an elected five-member Board of Trustees. The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service and special financing relationships. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

Fund Accounting

The accounts of the Township are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories as follows:

Governmental Funds

General Fund - The General Fund contains the records of the ordinary activities of the Township that are not accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue and other sources.

Debt Service Funds - The Debt Service Funds are used to account for the annual payment of principal, interest and expenses in connection with certain long-term debt.

Fiduciary Fund

Agency Fund - The Agency Fund is used to account for assets held by the Township in a trustee capacity or as an agent for individuals, organizations, other governments or other funds. Included in this category is the Tax Collection Fund. The fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Basis of Accounting

All governmental funds and the agency fund utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

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

Properties are assessed as of December 31 and the related property taxes are billed and become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls.

- b. Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year-end.
- c. Payments for most inventoriable types of supplies are recorded as expenditures at the time of purchase.
- d. Interest income on special assessments receivable is not accrued until its due date.
- e. Interest on bonded indebtedness and other long-term debt is not recorded as an expenditure until due.
- f. Normally, expenditures are not divided between years by the recording of prepaid expenses.

Fixed Assets and Long-term Liabilities

Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Account Group, rather than in the governmental funds. Such assets, which are recorded as expenditures at the time of purchase, do not include certain improvements such as roads, bridges, curbs and gutters, streets and sidewalks and lighting systems. No depreciation has been provided on general fixed assets.

All fixed assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

Township of Fredonia, Michigan

Notes to Financial Statements
June 30, 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-term Debt Account Group, not in the governmental funds.

The General Fixed Assets Account Group and the General Long-term Debt Account Group are not funds and do not involve the measurement of results of operations.

Investments - Investments are recorded at fair value based on quoted market prices.

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

Memorandum-only Totals - The total data presented is the aggregate of the fund types and account groups and is presented for analysis purposes only. No consolidating or other eliminations were made in arriving at the totals; therefore, they do not present consolidated information.

Other accounting policies are disclosed in other notes to financial statements.

Note 2 - Cash

The Township's cash and investments at June 30, 2003 consist solely of deposits with financial institutions. These deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$266,672, all of which was covered by federal depository insurance. Of these deposits, \$151,716 are certificates of deposit purchased with a maturity of greater than three months and have been presented as investments for financial reporting purposes.

Township of Fredonia, Michigan

Notes to Financial Statements June 30, 2003

Note 3 - Long-Term Debt

Outstanding Debt

Long-term debt at June 30, 2003, is comprised of the following:

1991 Calhoun County sewage disposal system bonds, due in annual installments of \$96,400 to \$103,100 through April 1, 2011, including interest at 2%	\$ 740,000
Note payable to bank, unsecured, payments are due in bi-annual installments of \$11,309 on March 1 and September 1 of each year through September 1, 2007, including interest at 5.77%	85,526
Note payable to credit union, unsecured, payments are due in monthly installments of \$4,235 through October 25, 2002, including interest at 6.8%	<u>25,054</u>
Total	<u>\$ 850,580</u>

Changes in Long-term Debt

The summary of debt transactions of the Township for the year ended June 30, 2003, is as follows:

	Sewage Disposal Bonds 1991	Note Payable to Bank	Note Payable to Credit Union	Total General Long-term Debt
Balance at July 1, 2002	\$ 820,000	\$ 102,538	\$ 46,759	\$ 969,297
Debt retired	<u>(80,000)</u>	<u>(17,012)</u>	<u>(21,705)</u>	<u>(118,717)</u>
Balance at June 30, 2003	<u>\$ 740,000</u>	<u>\$ 85,526</u>	<u>\$ 25,054</u>	<u>\$ 850,580</u>

Township of Fredonia, Michigan

Notes to Financial Statements June 30, 2003

Note 3 - Long-Term Debt (Continued)

Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2003, including both principal and interest, are as follows:

2004	\$	126,254
2005		110,870
2006		110,177
2007		111,358
2008		101,921
Remaining Years		<u>290,000</u>
Total	\$	<u>850,580</u>

Note 4 - General Fixed Assets

A summary of changes in general fixed assets is as follows:

	Balance July 1, 2002	Additions	Dispositions	Balance June 30, 2003
Land, buildings and improvements	\$ 296,626	\$ -	\$ -	\$ 296,626
Equipment and vehicles	795,768	9,393	-	805,161
Sewer system	<u>1,559,032</u>	<u>-</u>	<u>-</u>	<u>1,559,032</u>
	<u>\$ 2,651,426</u>	<u>\$ 9,393</u>	<u>\$ -</u>	<u>\$ 2,660,819</u>

Note 5 - Budget Information

The annual budget is prepared by the Township Supervisor and adopted by the Township Board; subsequent amendments are approved by the Township Board. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2003 has not been calculated.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. The budget statement (Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual expenditures to the General Fund budget, as adopted by the Township Board, can be obtained at the Township Hall.

Note 6 - Risk Management

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

Township of Fredonia, Michigan

Notes to Financial Statements
June 30, 2003

Note 7 - Construction Code Fees

The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the cumulative surplus plus activity since July 1, 2000 is as follows:

Beginning deficit	\$	(1,618)
Permit revenue		12,455
Related expenses:		
Direct costs		<u>13,390</u>
Net deficit	\$	<u>(2,553)</u>

Note 8 - Upcoming Reporting Change

For the year beginning July 1, 2003, the Township plans to adopt GASB Statement Number 34. This will dramatically revise the information being reported in these financial statements. Governmental activities will report information by individually significant funds, as well as in total on the full accrual basis of accounting. Information is not available to present pro-forma data that would show the effect of this future change.

Additional Information



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To the Members of the Board
Township of Fredonia, Michigan

We have audited the general purpose financial statements of the Township of Fredonia for the year ended June 30, 2003. Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Township of Fredonia. This information has been subjected to the procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Plante & Moran, PLLC

December 20, 2004

Township of Fredonia, Michigan

Combining Balance Sheet Debt Service Funds June 30, 2003

	Fire Truck Debt Fund	Sewer Bond Fund	Totals
Assets			
Cash	\$ 23,974	\$ 14,300	\$ 38,274
Due from General Fund	2,876	3,240	6,116
Due from Tax Account	28,471	-	28,471
Accounts receivable	6,000	-	6,000
Special assessments receivable	-	365,825	365,825
Total assets	<u>\$ 61,321</u>	<u>\$ 383,365</u>	<u>\$ 444,686</u>
Liabilities and Fund Equity			
Liabilities			
Deferred revenue	\$ -	\$ 365,825	\$ 365,825
Fund Equity			
Unreserved - designated for debt service	<u>61,321</u>	<u>17,540</u>	<u>78,861</u>
Total liabilities and fund equity	<u>\$ 61,321</u>	<u>\$ 383,365</u>	<u>\$ 444,686</u>

Township of Fredonia, Michigan

Combining Statement of Revenue, Expenditures and Changes in Fund Balances Debt Service Funds Year Ended June 30, 2003

	Fire Truck Debt Fund	Sewer Bond Fund	Total
Revenue			
Taxes	\$ 41,643	\$ -	\$ 41,643
Contributions from other units	6,000	-	6,000
Interest	365	13,162	13,527
Special assessments	-	87,169	87,169
Total revenue	48,008	100,331	148,339
Expenditures			
Debt service:			
Principal	21,705	80,000	101,705
Interest	2,520	16,400	18,920
Total expenditures	24,225	96,400	120,625
Excess of Revenue Over Expenditures	23,783	3,931	27,714
Fund Balances - Beginning of year	37,538	13,609	51,147
Fund Balances - End of year	\$ 61,321	\$ 17,540	\$ 78,861