

# 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, 2005	Opinion Date November 22, 2005	Date Accountant Report Submitted To State: February 10, 2006	

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 checked="" type="checkbox"/> yes | <input 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 checked="" type="checkbox"/> yes | <input 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 checked="" type="checkbox"/>	<input type="checkbox"/>	<input 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): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 750 Trade Centre Way Suite 300	City Portage	State MI	ZIP 49002
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

# **Township of Fredonia, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2005**

# Township of Fredonia, Michigan

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## Independent Auditor's Report

To the Supervisor and Members of  
the Township Board  
Township of Fredonia, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Township of Fredonia, Michigan as of and for the year ended June 30, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Fredonia, Michigan'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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Fredonia, Michigan as of June 30, 2005 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 and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Supervisor and Members of  
the Township Board  
Township of Fredonia, Michigan

As described in Note 8, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2004.

*Plante & Moran, PLLC*

November 22, 2005

# **Township of Fredonia, Michigan**

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## **Management's Discussion and Analysis**

Our discussion and analysis of the Township of Fredonia, Michigan's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the Township's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- State-shared revenue, our largest revenue source, was reduced by the State of Michigan by approximately \$25,000 this year. The Township reacted by closely monitoring expenditures.
- During the year, the Township purchased a new fire truck for approximately \$314,000, by financing \$310,000 of the cost.

### **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 longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

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

# Township of Fredonia, Michigan

## Management's Discussion and Analysis (Continued)

### The Township as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2005. In future years, when prior year information is available, comparative data will be presented.

	<u>Governmental Activities</u>
<b>Assets</b>	
Current assets	\$ 551,673
Noncurrent assets	<u>1,599,042</u>
Total assets	2,150,715
<b>Liabilities</b>	
Current liabilities	192,341
Long-term liabilities	<u>737,906</u>
Total liabilities	<u>930,247</u>
<b>Net Assets</b>	
Invested in capital assets - Net of related debt	702,721
Restricted - Debt service	63,956
Unrestricted	<u>453,791</u>
Total net assets	<u><b>\$ 1,220,468</b></u>

### Governmental Activities

The Township's total governmental revenue decreased by approximately \$13,000. The decrease, which represents 4 percent, was primarily due to the decrease in state revenue sharing.

Expenditures increased by \$14,000 during the year. Increases were due to additional costs in the police and fire departments.

# Township of Fredonia, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the year ended June 30, 2005. In future years, when prior year information is available, comparative data will be presented.

	<u>Governmental Activities</u>
<b>Revenue</b>	
Program revenue:	
Charges for services	\$ 27,840
Operating grants	23,120
General revenue:	
Property taxes	90,990
State-shared revenue	120,379
Unrestricted investment earnings and miscellaneous	<u>21,038</u>
Total revenue	283,367
<b>Program Expenses</b>	
General government	137,686
Public safety	88,868
Public works	42,968
Other	<u>21,996</u>
Total program expenses	<u>291,518</u>
<b>Change in Net Assets</b>	<b><u>\$ (8,151)</u></b>

### The Township's Funds

Our analysis of the Township's major funds begins on page 9, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Township's major funds for 2005 include the General Fund, the Fire Truck Debt Fund, and the Sewer Bond Fund.

The General Fund pays for most of the Township's governmental services. The most significant is public safety, which incurred expenditures of approximately \$46,400.



# **Township of Fredonia, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **General Fund Budgetary Highlights**

Over the course of the year, the Township amended the budget to take into account events during the year. The most significant change was to increase the estimated general government expenditures by \$30,000 for a new roof and other capital expenditures. Departmental expenditures overall were under budget by approximately \$29,000. The General Fund's fund balance decreased from \$238,000 a year ago to \$225,000 at June 30, 2005.

### **Capital Asset and Debt Administration**

At the end of 2005, the Township purchased a new fire truck for \$314,000 through an installment purchase plan for \$310,000.

### **Economic Factors and Next Year's Budgets and Rates**

The Township anticipates that revenue-sharing amounts will continue to be uncertain and are therefore budgeting conservatively.

### **Contacting the Township's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

# Township of Fredonia, Michigan

## Statement of Net Assets June 30, 2005

	Primary Government Governmental Activities
<b>Assets</b>	
Cash and cash equivalents (Note 3)	\$ 305,854
Due from State	17,985
Special assessment receivable	227,834
Capital assets - Net (Note 4)	<u>1,599,042</u>
Total assets	2,150,715
<b>Liabilities</b>	
Accounts payable	3,926
Due to other governmental units	30,000
Noncurrent liabilities:	
Due within one year	158,415
Due in more than one year	<u>737,906</u>
Total liabilities	930,247
<b>Net Assets</b>	
Invested in capital assets - Net of related debt	702,721
Restricted - Debt service	63,956
Unrestricted	<u>453,791</u>
Total net assets	<u><u>\$ 1,220,468</u></u>

# Township of Fredonia, Michigan

## Statement of Activities Year Ended June 30, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
				Primary Government
	Expenses	Charges for Services	Operating Grants and Contributions	Total Governmental Activities
<b>Functions/Programs</b>				
Primary government - Governmental activities:				
General government	\$ 137,686	\$ 27,840	\$ -	\$ (109,846)
Public safety	88,868	-	23,120	(65,748)
Public works	42,968	-	-	(42,968)
Other	21,996	-	-	(21,996)
Total primary government	<u>\$ 291,518</u>	<u>\$ 27,840</u>	<u>\$ 23,120</u>	(240,558)
General revenues:				
Property taxes				90,990
State-shared revenues				120,379
Unrestricted investment earnings				9,455
Miscellaneous				11,583
Total general revenues				<u>232,407</u>
<b>Change in Net Assets</b>				(8,151)
<b>Net Assets - Beginning of year</b>				<u>1,228,619</u>
<b>Net Assets - End of year</b>				<u>\$ 1,220,468</u>

# Township of Fredonia, Michigan

## Governmental Funds Balance Sheet June 30, 2005

	Major Funds			Total Governmental Funds
	Debt Service			
	General Fund	Fire Truck Debt Fund	Sewer Bond Fund	
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 211,443	\$ 85,806	\$ 8,605	\$ 305,854
Due from State	17,985	-	-	17,985
Special assessment receivable	-	-	227,833	227,833
Due from other funds (Note 6)	4,055	3,600	-	7,655
<b>Total assets</b>	<b>\$ 233,483</b>	<b>\$ 89,406</b>	<b>\$ 236,438</b>	<b>\$ 559,327</b>
<b>Liabilities and Fund Balances (Deficit)</b>				
<b>Liabilities</b>				
Accounts payable	\$ 3,925	\$ -	\$ -	\$ 3,925
Due to other governmental units	-	-	30,000	30,000
Due to other funds (Note 6)	3,600	-	4,055	7,655
Deferred revenue	-	-	227,833	227,833
<b>Total liabilities</b>	<b>7,525</b>	<b>-</b>	<b>261,888</b>	<b>269,413</b>
<b>Fund Balances (Deficit) - Unreserved, reported in</b>				
General Fund	225,958	-	-	225,958
Debt Service Funds	-	89,406	(25,450)	63,956
<b>Total fund balances (deficit)</b>	<b>225,958</b>	<b>89,406</b>	<b>(25,450)</b>	<b>289,914</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 233,483</b>	<b>\$ 89,406</b>	<b>\$ 236,438</b>	
Amounts reported for governmental activities in the statement of net assets are different because:				
Long-term liabilities not due and payable in the current period and are not reported in the funds				(896,321)
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures				227,833
Capital assets used in governmental activities are not financial resources and are not reported in the funds				1,599,042
<b>Net assets of governmental activities</b>				<b>\$ 1,220,468</b>

# Township of Fredonia, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2005

	Major Funds			Total Governmental Funds
	General Fund	Fire Truck Debt Fund	Sewer Bond Fund	
<b>Revenue</b>				
Property taxes	\$ 43,748	\$ 47,242	\$ -	\$ 90,990
Licenses and permits	13,790	-	-	13,790
State-shared revenues and grants	120,379	-	-	120,379
Contribution from other units	23,120	-	-	23,120
Charges for services	14,050	-	-	14,050
Interest	108	678	8,669	9,455
Special assessments	-	-	67,073	67,073
Other	5,640	-	-	5,640
	<u>220,835</u>	<u>47,920</u>	<u>75,742</u>	<u>344,497</u>
<b>Total revenue</b>	220,835	47,920	75,742	344,497
<b>Expenditures - Current</b>				
General government	154,634	-	-	154,634
Public safety	46,437	314,920	-	361,357
Public works	9,703	-	-	9,703
Debt service:				
Principal	20,757	24,889	90,000	135,646
Interest	1,862	6,606	13,528	21,996
	<u>233,393</u>	<u>346,415</u>	<u>103,528</u>	<u>683,336</u>
<b>Total expenditures</b>	233,393	346,415	103,528	683,336
<b>Deficiency of Revenue Over Expenditures</b>	(12,558)	(298,495)	(27,786)	(338,839)
<b>Other Financing Sources - Debt proceeds</b>	<u>-</u>	<u>310,000</u>	<u>-</u>	<u>310,000</u>
<b>Net Change in Fund Balances</b>	(12,558)	11,505	(27,786)	(28,839)
<b>Fund Balances - Beginning of year</b>	<u>238,516</u>	<u>77,901</u>	<u>2,336</u>	<u>318,753</u>
<b>Fund Balances (Deficit) - End of year</b>	<u><u>\$ 225,958</u></u>	<u><u>\$ 89,406</u></u>	<u><u>\$ (25,450)</u></u>	<u><u>\$ 289,914</u></u>

# Township of Fredonia, Michigan

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## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

**Net Change in Fund Balances - Total Governmental Funds** \$ (28,839)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Asset purchases	340,744
Depreciation	(84,573)

Debt proceeds are reported as revenue in the governmental funds, but not in the statement of activities (where it increases long-term debt) (310,000)

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end (61,129)

Repayment of debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 135,646

**Change in Net Assets of Governmental Activities** **\$ (8,151)**

# Township of Fredonia, Michigan

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**Notes to Financial Statements  
June 30, 2005**

## **Note I - Summary of Significant Accounting Policies**

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

### **Reporting Entity**

The Township of Fredonia, Michigan is governed by an elected five-member board. The accompanying financial statements present the Township. 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.

### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

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

Financial statements are provided for governmental funds and major individual governmental funds and are reported as separate columns in the fund financial statements.

### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

# Township of Fredonia, Michigan

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## Notes to Financial Statements June 30, 2005

### Note 1 - Summary of Significant Accounting Policies (Continued)

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. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

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

**Fire Truck Debt Fund** - The Fire Truck Debt Fund accounts for property taxes levied to cover public safety debt.

**Sewer Bond Fund** - The Sewer Bond Fund accounts for special assessments received and the debt payments made on the sewer system.

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

#### **Property Tax Revenue**

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.



# Township of Fredonia, Michigan

## Notes to Financial Statements June 30, 2005

### Note 1 - Summary of Significant Accounting Policies (Continued)

The Township's 2004 tax is levied and collectible on December 1, 2004 and is recognized as revenue in the year ended June 30, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2004 taxable valuation of the Township totaled \$46.4 million, on which taxes levied consisted of .8413 mills for operating purposes and 1.00 mills for debt service. This resulted in \$39,000 for operating, which is recognized in the General Fund, and \$47,000 for debt service, which is recognized in the Fire Truck Debt Fund financial statements as tax revenue.

#### Assets, Liabilities, and Net Assets or Equity

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Capital Assets** - Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$500 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 the date of donation.

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

Buildings and building improvements	20 to 30 years
Sewer system	50 years
Other tools and equipment	3 to 7 years
Vehicles	7 years

**Long-term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

# Township of Fredonia, Michigan

## Notes to Financial Statements June 30, 2005

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

### Note 2 - Stewardship, Compliance, and Accountability

**Construction Code Fees** - The Township 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. 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 current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2004		\$ (2,265)
Current year building permit revenue	\$ 8,959	
Related expenses - Direct costs	<u>(8,636)</u>	<u>323</u>
Shortfall at June 30, 2005		<u>\$ (1,942)</u>

**Deficit Fund Balance** - As of June 30, 2005, the Township has a deficit fund balance in the Sewer Bond Fund. A deficit fund balance is considered illegal under the State of Michigan's Public Act 621.

# Township of Fredonia, Michigan

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**Notes to Financial Statements  
June 30, 2005**

## **Note 3 - Deposits**

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

The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in investments listed above. The Township's deposits and investment policies are in accordance with the statutory authority.

The Township's deposits are subject to the following risk, which is examined in more detail below:

### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Township had \$15,427 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# Township of Fredonia, Michigan

## Notes to Financial Statements June 30, 2005

### Note 4 - Capital Assets

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

<b>Governmental Activities</b>	Balance		Balance
	July 1, 2004	Additions	June 30, 2005
Capital assets being depreciated:			
Buildings and improvements	\$ 176,500	\$ 17,206	\$ 193,706
Sewer system	1,645,000	-	1,645,000
Other tools and equipment	3,282	8,618	11,900
Vehicles	<u>215,000</u>	<u>314,920</u>	<u>529,920</u>
Subtotal	2,039,782	340,744	2,380,526
Accumulated depreciation:			
Buildings and improvements	53,846	5,003	58,849
Sewer system	427,700	32,900	460,600
Other tools and equipment	365	1,681	2,046
Vehicles	<u>215,000</u>	<u>44,989</u>	<u>259,989</u>
Subtotal	<u>696,911</u>	<u>84,573</u>	<u>781,484</u>
Net capital assets	<u>\$ 1,342,871</u>	<u>\$ 256,171</u>	<u>\$ 1,599,042</u>

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

Governmental activities:	
General government	\$ 5,489
Public safety	33,265
Public works	<u>45,819</u>
Total	<u>\$ 84,573</u>

# Township of Fredonia, Michigan

## Notes to Financial Statements June 30, 2005

### Note 5 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. Installment purchase agreements and notes payable are general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

	Interest Rate Ranges	Maturity	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
Revenue bonds - Sewage disposal	2.00%	2011	\$ 655,000	\$ -	\$ (90,000)	\$ 565,000	\$ 90,000
Note payable	3.04%	2008	65,159	-	(20,757)	44,402	21,544
Note payable	6.80%	2005	1,808	-	(1,808)	-	-
Installment purchase agreement	4.65%	2009	-	310,000	(23,081)	286,919	46,871
Total			<u>\$ 721,967</u>	<u>\$ 310,000</u>	<u>\$ (135,646)</u>	<u>\$ 896,321</u>	<u>\$ 158,415</u>

The annual debt requirements, including principal and interest, are as follows:

Years Ending June 30	Governmental Activities
2006	\$ 183,140
2007	182,114
2008	161,922
2009	160,002
2010	186,027
2011	102,000
Total	<u>\$ 975,205</u>

### Note 6 - Interfund Receivables and Payables

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
Fire Truck Debt Fund	General Fund	\$ 3,600
General Fund	Sewer Bond Fund	4,055
Total		<u>\$ 7,655</u>

These balances result from the time lag between the disbursement of property taxes and special assessments between funds.

# Township of Fredonia, Michigan

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## Notes to Financial Statements June 30, 2005

### Note 7 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for 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.

### Note 8 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Township of Fredonia has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The Township has elected to implement the general provisions of the statement. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Township's activities
- A change in the fund financial statements to focus on the major funds
- Capital assets at July 1, 2004 previously reported in the General Fixed Assets Account Group have been adjusted by approximately \$621,000 to reflect the historical cost of the Township's capital assets at that date.

## **Required Supplemental Information**

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# Township of Fredonia, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance
<b>Revenues</b>				
Property taxes	\$ 40,000	\$ 40,000	\$ 43,748	\$ 3,748
Licenses and permits	15,000	15,000	13,790	(1,210)
State-shared revenues and grants	140,000	140,000	120,379	(19,621)
Contribution from other units	11,000	11,000	23,120	12,120
Charges for services	5,000	5,000	14,050	9,050
Interest and rentals	100	100	108	8
Other	2,500	2,500	5,640	3,140
	<u>213,600</u>	<u>213,600</u>	<u>220,835</u>	<u>7,235</u>
<b>Expenditures</b>				
General government	141,000	171,000	154,634	16,366
Public safety	72,800	72,800	46,437	26,363
Public works	3,500	3,500	9,703	(6,203)
Debt service:				
Principal	15,000	15,000	20,757	(5,757)
Interest	-	-	1,862	(1,862)
	<u>232,300</u>	<u>262,300</u>	<u>233,393</u>	<u>28,907</u>
<b>Net Change in Fund Balance</b>	(18,700)	(48,700)	(12,558)	36,142
<b>Fund Balance - Beginning of year</b>	<u>238,516</u>	<u>238,516</u>	<u>238,516</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u><b>\$ 219,816</b></u>	<u><b>\$ 189,816</b></u>	<u><b>\$ 225,958</b></u>	<u><b>\$ 36,142</b></u>



# Township of Fredonia, Michigan

## Note to Required Supplemental Information June 30, 2005

### Note - Budgetary Information

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund. Unexpended appropriations lapse at fiscal year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner. The budget is approved by the Township at the June board meeting after a public hearing.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the Township of Fredonia incurred the following expenditures that were significantly in excess of amounts budgeted.

	Budget	Actual
General Fund:		
Public works	\$ 3,500	\$ 9,703
Debt service:		
Principal	15,000	20,757
Interest	-	1,862