

TOWNSHIP OF FREDONIA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the Fiscal Year Ended June 30, 2011

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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, 2011, 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 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 basic 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, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 30, 2011, on our consideration of the Township of Fredonia, Michigan's internal control over financial reporting and 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 conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information as listed in the table

of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in black ink and is positioned above the typed name of the firm.

Gabridge & Company, PLC
Grand Rapids, MI
December 30, 2011

Management's Discussion and Analysis

As management of the Township of Fredonia, we offer readers of the Township of Fredonia's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

Financial Highlights

The assets of the Township exceeded its liabilities at the close of this fiscal year by \$1,496,776 (shown as *net assets*), representing an increase of \$111,457 over the previous fiscal year. Of this amount, \$219,187 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

During the year, the Township received \$473,956 in revenues and incurred \$362,499 in expenses, resulting in an increase in net assets of approximately \$111,457.

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$213,314 or 60 percent of the General Fund's total expenditures.

Overview of the Financial Statements

The Township of Fredonia's financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) Notes to the Financial Statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements The *Government-Wide Financial Statements* are designed to provide a broad overview of the Township's financial position. They are presented using a method of accounting that is similar to a private sector business.

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

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave, prepaid expenses, etc.).

Both of these statements show functions of the Township that are principally supported by property taxes and intergovernmental revenues. Governmental activities of the Township

include general government, public safety, public works, and community and economic development .

Focus on Funds

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The Township of Fredonia uses fund accounting to ensure compliance with finance-related legal requirements. There are three basic types of funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds Many of the Township's basic services are reported in the governmental funds. Governmental funds account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This is known as the modified accrual system of accounting. Under this reporting system, capital items, debt payments and certain other items are treated differently than on the government-wide financial statements. These items are recorded in the government fund balance as expenditures. No depreciation is recorded on capital items. The balance sheet for governmental funds does not include any capital items or long-term debt. Governmental funds for the Township include the General Fund as well as the debt service funds.

Proprietary Funds Proprietary funds account for services charged to its customers or other agencies for the services they are provided. The Township currently has no proprietary funds.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds are not reflected in the government-wide financial statements because the resources of the funds are not available for supporting the Township's programs. These funds are accounted for using the full accrual method of accounting.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements.

Other information

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

Government -Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Township of Fredonia, assets exceeded liabilities by \$1,496,776 at the close of the most recent fiscal year. The following table illustrates the varying results of the governmental activities to capture the Township's total net assets.

Township of Fredonia
Net Assets as of June 30, 2011 and June 30, 2009

	Governmental Activities	
	2011	2009
Current and Other Assets	\$ 307,203	\$ 351,513
Capital Assets	1,209,602	1,384,228
Total Assets	<u>1,516,805</u>	<u>1,735,741</u>
Current Liabilities	20,029	191,225
Long-term Liabilities	-	178,998
Total Liabilities	<u>20,029</u>	<u>370,223</u>
Invested in Capital Assets, Net of Related Debt	1,194,649	1,016,887
Restricted	82,940	123,841
Unrestricted	219,187	224,790
Total Net Assets	<u>\$ 1,496,776</u>	<u>\$ 1,365,518</u>

The most significant portion of the Township's net assets is the investments in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt which is outstanding that the Township used to acquire or construct the asset. The Township has \$219,187 in unrestricted net assets. These assets represent resources that are available for appropriation, but are limited by the Township's policies regarding their use.

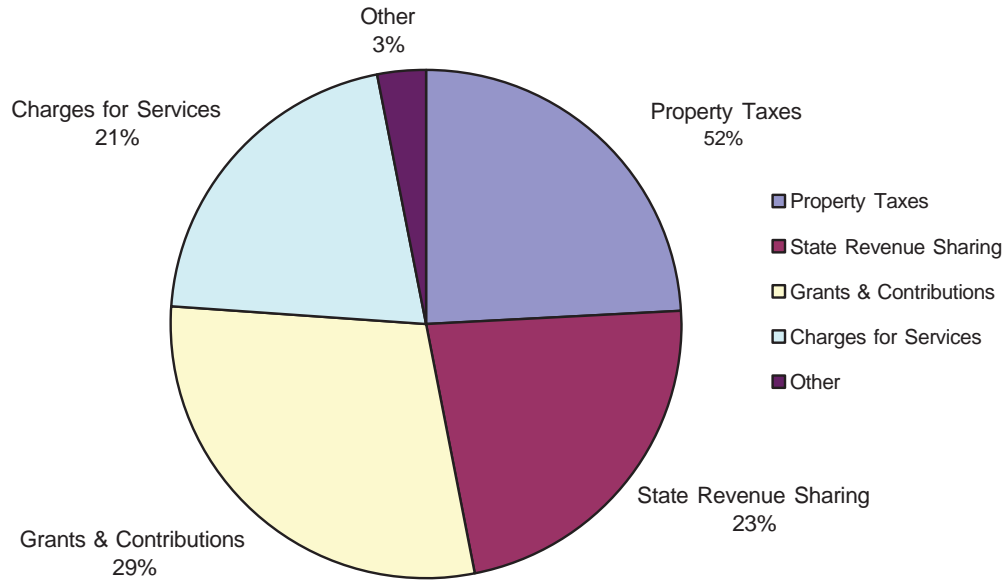
The total net assets of the Township increased by \$218,482 in this fiscal year. The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the Government-wide Statement of Activities.

Township of Fredonia
Change in Net Assets for Fiscal Year Ended
June 30, 2011 and June 30, 2009

	Governmental Activities	
	2011	2009
Revenue		
Program Revenues		
Charges for Services	\$ 97,749	\$ 90,325
Operating Grants / Contributions	138,292	31,916
Total Program Revenues	236,041	122,241
General Revenues		
Property Taxes & Assessments	114,298	112,240
State Revenue Sharing	108,770	118,109
Other	14,847	20,239
Total Revenues	473,956	372,829
Expenses		
General Government	150,415	191,205
Public Safety	141,160	154,203
Public Works	60,332	40,329
Other	10,592	5,800
Total Expenses	362,499	391,537
Increase / Decrease in Net Assets	111,457	(18,708)

Governmental Activities

The following chart details the revenue sources for the governmental activities of the Township for the most recent fiscal year end:



General government expenses were the largest expenses for the Township. The Township spent \$150,415 on general government, or 41 percent of the Township's expenses. Public safety expenses of \$141,160 represented 39 percent of the total expenses within the governmental activities. Public works expenses of \$60,332 represented 17 percent of the total expenses within the governmental activities.

Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Activities At the completion of the Township's fiscal year, its governmental funds reported fund balances of \$302,126. Of this amount, \$213,314 or 71 percent is unassigned.

General Fund The General Fund is the main operating fund of the Township. The General Fund increased its balance in this fiscal year by \$10,119, bringing the balance to \$229,317.

Fire Truck Debt Fund The fund balance of the Fire Truck Debt Fund at the most recent fiscal year end was \$43,638. This was an increase of \$24,300 from the previous fiscal year end.

Sewer Bond Fund The fund balance of the Sewer Bond Fund at the most recent fiscal year end was \$29,441. This was a decrease of \$19,783 from the previous fiscal year end.

General Fund Budgetary Highlights

During the current fiscal year, the Township went over budget in several areas because budget amendments were not made. The most significant areas are listed below:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Public Safety - General Fund	\$ 87,415	\$ 106,899	\$ (19,484)
Public Works - General Fund	1,965	6,125	(4,160)
Capital Outlay - General Fund	-	13,902	(13,902)
Debt Service - General Fund	\$ -	\$ 80,023	\$ (80,023)

Capital Asset and Debt Administration

Capital Assets The Township's investment in capital assets for the governmental activities at year end amounted to \$1,209,602 (net of accumulated depreciation). This amount complies with methods established by the Governmental Accounting Standards Board (GASB) for implementation of GASB Statement 34. Further information detailing capital assets can be found in the Notes to the Financial Statements section of this document.

Long-Term Debt The Township has no long-term debt as of year end.

Economic Factors and Next Year's Budgets and Rates

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means further reductions in state shared revenues. State shared revenues are expected to decrease again in the 2012 fiscal year. Fredonia Township budgeted for a decrease in state shared revenue, but additional cuts have already been made and more cuts are expected before the end of the fiscal year. Fredonia Township's millage rate was reduced again by the Headlee Amendment rollback for general operating purposes. These factors were considered in preparing Fredonia Township's budget for the 2012 fiscal year.

Contacting the Township's Finance Department

This Financial report is designed to provide the wide variety of users of this document with a general overview of the Township's finances and demonstrate the Township's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the Township of Fredonia's Township Clerk.

Township of Fredonia
Statement of Net Assets
June 30, 2011

		<u>Total Primary Government Activities</u>
ASSETS		
<i>Current Assets</i>		
Cash & Cash Equivalents	\$	151,415
Investments		129,514
Accounts Receivable		6,216
Due From Other Governmental Units		14,186
Prepaid Expenses		5,872
<i>Total Current Assets</i>		<u>307,203</u>
<i>Noncurrent Assets</i>		
Capital Assets (Net)		1,209,602
<i>Total Assets</i>		<u>1,516,805</u>
LIABILITIES		
<i>Current Liabilities</i>		
Accounts Payable		1,328
Accrued Payroll & Related Liabilities		3,749
Current Portion of Long-term Debt		14,952
<i>Total Liabilities</i>		<u>20,029</u>
NET ASSETS		
Investment in Capital Assets, Net of Related Debt		1,194,649
<i>Restricted</i>		
Debt Service		72,809
Construction Code Fees		10,131
<i>Unrestricted</i>		
		219,187
<i>Total Net Assets</i>	\$	<u>1,496,776</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Fredonia
Statement of Activities
For the Year Ended June 30, 2011

Functions/Programs	Program Revenues		Net (Expense) Revenue
Primary Government	Charges for Services	Operating Grants and Contributions	Total Primary Government Activities
Governmental Activities:	Expenses		
General Government	\$ 150,415	\$ 138,292	\$ 6,064
Public Safety	141,160	--	(116,315)
Public Works	60,332	--	(5,615)
Community & Economic Development	6,176	--	(6,176)
Debt Service - Interest	4,360	--	(4,360)
Other	56	--	(56)
Total Primary Government	\$ 362,499	\$ 138,292	\$ (126,458)

General Purpose Revenues:

Revenues	
Property Taxes	114,298
State Revenue Sharing	108,770
Interest	1,255
Other	13,592
Total General Revenues	237,915
Change in Net Assets	111,457
<i>Net Assets at Beginning of Period</i>	1,385,319
Net Assets at End of Period	\$ 1,496,776

The Notes to the Financial Statements are an integral part of these Financial Statements

**Township of Fredonia
Balance Sheet
Governmental Funds
June 30, 2011**

	<u>Debt Service</u>			Total Governmental Funds
	<u>General</u>	<u>Fire Truck Debt Fund</u>	<u>Sewer Bond Fund</u>	
ASSETS				
Cash & Cash Equivalents	\$ 59,192	\$ 63,322	\$ 28,901	\$ 151,415
Investments	129,514	--	--	129,514
Accounts Receivable	967	--	5,249	6,216
Due From Other Governmental Units	14,186	--	--	14,186
Prepaid Expenses	5,872	--	--	5,872
Due from Other Funds	24,663	--	--	24,663
<i>Total Assets</i>	<u>\$ 234,394</u>	<u>\$ 63,322</u>	<u>\$ 34,150</u>	<u>\$ 331,866</u>
LIABILITIES				
Accounts Payable	\$ 1,328	\$ --	\$ --	\$ 1,328
Accrued Payroll & Related Liabilities	3,749	--	--	3,749
Due to Other Funds	--	19,954	4,709	24,663
<i>Total Liabilities</i>	<u>5,077</u>	<u>19,954</u>	<u>4,709</u>	<u>29,740</u>
FUND BALANCE				
Reserved:				
Debt Service	--	43,368	29,441	72,809
Construction Code Fees	10,131	--	--	10,131
Nonspendable - Prepaid Expenditures	5,872	--	--	5,872
Unassigned	213,314	--	--	213,314
<i>Total Fund Balance</i>	<u>229,317</u>	<u>43,368</u>	<u>29,441</u>	<u>302,126</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 234,394</u>	<u>\$ 63,322</u>	<u>\$ 34,150</u>	<u>\$ 331,866</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Fredonia
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2011

Total Fund Balance - Governmental Funds	\$	302,126
General government capital assets of \$2,530,672, net of accumulated depreciation of \$1,321,070, are not financial resources and accordingly are not reported in the funds		1,209,602
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds		(14,952)
Total Net Assets-Governmental Funds	\$	<u>1,496,776</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Fredonia
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2011

	Debt Service			Total Governmental Funds
	General	Fire Truck Debt Fund	Sewer Bond Fund	
Revenues				
Property Taxes	\$ 59,688	\$ 54,610	\$ --	\$ 114,298
Licenses & Permits	10,197	--	--	10,197
State Revenue Sharing	108,770	--	--	108,770
Charges for Services	10,590	--	54,717	65,307
Intergovernmental	24,845	--	--	24,845
Interest	1,056	--	199	1,255
Refunds & Reimbursements	135,692	--	--	135,692
Special Assessment	--	--	29,400	29,400
Other	13,592	--	--	13,592
Total Revenues	364,430	54,610	84,316	503,356
Expenditures				
General Government	143,229	--	--	143,229
Public Safety	106,899	--	--	106,899
Public Works	6,125	--	--	6,125
Community & Economic Development	6,176	--	--	6,176
Capital Outlay	13,902	--	--	13,902
Debt Service - Principal	79,047	28,926	100,000	207,973
Debt Service - Interest	976	1,384	2,000	4,360
Other	--	--	56	56
Total Expenditures	356,354	30,310	102,056	488,720
Excess of Revenues Over (Under) Expenditures	8,076	24,300	(17,740)	14,636
Other Financing Sources (Uses)				
Transfers from Other Funds	2,043	--	--	2,043
Transfers to Other Funds	--	--	(2,043)	(2,043)
Net Other Financing Sources (Uses)	2,043	--	(2,043)	--
Net Change in Fund Balance	10,119	24,300	(19,783)	14,636
<i>Fund Balance at Beginning of Period</i>	219,198	19,068	49,224	287,490
Fund Balance at End of Period	\$ 229,317	\$ 43,368	\$ 29,441	\$ 302,126

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Fredonia
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended June 30, 2011

Total Net Change in Fund Balances - Governmental Funds	\$	14,636
Governmental funds report capital outlay as expenditures; however, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which the capital outlay expenditure are in excess of depreciation expense		(81,752)
Repayment of bond principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net assets		207,973
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected		(29,400)
Changes in Net Assets-Governmental Funds	\$	<u>111,457</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Fredonia
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	<u>Agency</u>
	<u>Agency Funds</u>
ASSETS	
Cash & Cash Equivalents	\$ 3,736
<i>Total Assets</i>	3,736
LIABILITIES	
Due to Other Agencies	3,736
<i>Total Liabilities</i>	3,736
NET ASSETS	
Held in Trust	\$ --

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Fredonia

Notes to the Financial Statements

Note 1 – 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 only. 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 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.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Township of Fredonia

Notes to the Financial Statements

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.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Township’s policy is to first apply restricted resources.

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.

The Township’s 2010 tax is levied and collectible on December 1, 2010 and is recognized as revenue in the year ended June 30, 2011 when the proceeds of the levy are budgeted and available for the financing of operations.

Township of Fredonia

Notes to the Financial Statements

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:

<u>Description</u>	<u>Method</u>	<u>Life</u>
Buildings & Building Improvements	Straight Line	20 - 30 Years
Sewer System	Straight Line	50 Years
Other Tools and Equipment	Straight Line	3 to 7 Years
Vehicles	Straight Line	7 Years

Deferred Revenue - At the end of the current fiscal year, deferred revenue recorded in the governmental funds represents special assessment receivables for revenue that is not considered available at June 30, 2011 to liquidate liabilities of the current period.

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.

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

Township of Fredonia

Notes to the Financial Statements

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:

Surplus at July 1, 2010		\$	7,893
Current year building permit revenue	\$	10,197	
Related expenses - Direct costs		<u>(7,959)</u>	<u>2,238</u>
Surplus at June 30, 2011		<u>\$</u>	<u>10,131</u>

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, 2011 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 incurred the following expenditures that were significantly in excess of amounts budgeted in the General Fund:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Public Safety - General Fund	\$ 87,415	\$ 106,899	\$ (19,484)
Public Works - General Fund	1,965	6,125	(4,160)
Capital Outlay - General Fund	-	13,902	(13,902)
Debt Service - General Fund	\$ -	\$ 80,023	\$ (80,023)

Township of Fredonia

Notes to the Financial Statements

Note 3 - Cash and Cash Equivalents

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:

	Governmental Activities	Agency Funds	Total Government
Cash and Equivalents	\$ 151,415	\$ 3,736	\$ 155,151
Investments	129,514	-	129,514
	<u>\$ 280,929</u>	<u>\$ 3,736</u>	<u>\$ 284,665</u>

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 no 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

Notes to the Financial Statements

Note 4 - Capital Assets

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

Governmental Activities

	Balance at June 30, 2010	Additions	Disposals	Balance at June 30, 2011
Capital Assets Being Depreciated:				
Buildings and Improvements	\$ 329,950	\$ -	\$ -	\$ 329,950
Sewer System	1,645,000	-	-	1,645,000
Other Tools & Equipment	11,900	13,902	-	25,802
Vehicles	529,920	-	-	529,920
Total Capital Assets, Being Depreciated	<u>2,516,770</u>	<u>13,902</u>	<u>-</u>	<u>2,530,672</u>
Less Accumulated Depreciation:				
Buildings and Improvements	97,490	11,816	-	109,306
Sewer System	625,100	32,900	-	658,000
Other Tools & Equipment	17,893	5,949	-	23,842
Vehicles	484,933	44,989	-	529,922
Total Accumulated Depreciation	<u>1,225,416</u>	<u>95,654</u>	<u>-</u>	<u>1,321,070</u>
Net Capital Assets:	<u>1,291,354</u>	<u>\$ (81,752)</u>	<u>\$ -</u>	<u>\$ 1,209,602</u>

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	Maturity	6/30/2010	Reductions	6/30/2011	Due Within One Year
Governmental Activities:						
Revenue Bonds - Sewage Disposal	2.00%	2011	\$ 100,000	\$ 100,000	\$ -	\$ -
Installment Purchase Agreement	4.12%	2015	79,047	79,047	-	-
Installment Purchase Agreement	4.50%		43,878	28,926	14,952	14,952
Total Primary Government Long-Term Debt			<u>\$ 222,925</u>	<u>\$ 207,973</u>	<u>\$ 14,952</u>	<u>\$ 14,952</u>

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

	Governmental Activities		
June 30, 2012	Principal	Interest	Total
	\$ 14,952	\$ 673	\$ 15,625

Township of Fredonia

Notes to the Financial Statements

Note 6 - Interfund Receivables and Payables

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Fire Truck Debt Fund	\$ 19,954
General Fund	Sewer Bond Fund	<u>4,709</u>
		<u>\$ 24,663</u>

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

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.

REQUIRED SUPPLEMENTARY INFORMATION

Township of Fredonia
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable) Final to Actual</u>
Revenues				
Property Taxes	\$ 67,100	\$ 90,845	\$ 59,688	\$ (31,157)
Licenses & Permits	--	137	12,074	11,937
State Revenue Sharing	88,000	98,127	108,770	10,643
Charges for Services	6,000	4,650	27,445	22,795
Rents & Royalties	4,400	11,303	12,859	1,556
Refunds & Reimbursements	22,500	40,984	135,692	94,708
Interest	300	300	1,056	756
Other	8,000	2,629	6,846	4,217
Total Revenues	<u>196,300</u>	<u>248,975</u>	<u>364,430</u>	<u>115,455</u>
Other Financing Sources				
Transfers from other funds	--	--	2,043	2,043
Total Revenues and Other Financing Sources	<u>196,300</u>	<u>248,975</u>	<u>366,473</u>	<u>117,498</u>
Expenditures				
General Government				
Township Board	35,065	32,065	27,077	4,988
Supervisor	5,600	6,600	6,306	294
Elections	5,000	6,000	5,386	614
Assessor	20,000	24,316	21,116	3,200
Clerk	18,000	20,752	20,406	346
Board of Review	525	1,057	981	76
Treasurer	16,000	16,200	16,164	36
Town Hall	20,000	20,300	28,087	(7,787)
Cemetery	17,000	14,600	14,306	294
Ordinance Enforcement	2,500	3,400	3,400	--
Total General Government	<u>139,690</u>	<u>145,290</u>	<u>143,229</u>	<u>2,061</u>
Public Safety				
Fire Department	79,000	79,000	95,820	(16,820)
Inspection	8,000	8,415	11,079	(2,664)
Total Public Safety	<u>87,000</u>	<u>87,415</u>	<u>106,899</u>	<u>(19,484)</u>
Community & Economic Development				
Planning Commission	3,000	5,325	4,888	437
Zoning	1,700	1,318	1,288	30
Total Community & Economic Development	<u>4,700</u>	<u>6,643</u>	<u>6,176</u>	<u>467</u>
Public Works				
Lyon Lake Weed Control	--	--	4,160	(4,160)
Drains at Large	900	1,965	1,965	--
Total Public Works	<u>900</u>	<u>1,965</u>	<u>6,125</u>	<u>(4,160)</u>
Capital Outlay				
	--	--	13,902	(13,902)
Debt Payments				
	--	--	80,023	(80,023)
Total Expenditures	<u>232,290</u>	<u>241,313</u>	<u>356,354</u>	<u>(115,041)</u>
Other Financing Uses				
Total Expenditures and Other Financing Uses	<u>232,290</u>	<u>241,313</u>	<u>356,354</u>	<u>(115,041)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses				
	(35,990)	7,662	10,119	2,457
Net Change in Fund Balance	<u>(35,990)</u>	<u>7,662</u>	<u>10,119</u>	<u>2,457</u>
Fund Balance at Beginning of Period	<u>219,198</u>	<u>219,198</u>	<u>219,198</u>	<u>--</u>
Fund Balance at End of Period	<u>\$ 183,208</u>	<u>\$ 226,860</u>	<u>\$ 229,317</u>	<u>\$ 2,457</u>



December 30, 2011

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

We have audited the financial statements of the governmental activities and each major fund of the Township of Fredonia for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 22, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Township of Fredonia are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 Township of Fredonia's financial statements was:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 30, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or 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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of management, the Township Board, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Gabridge & Company, PLC
Grand Rapids, MI



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

December 30, 2011

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

We have audited the financial statements of the governmental activities, the business -type activities , each major fund, and the aggregate remaining fund information of the Township of Fredonia , Michigan as of and for the year ended June 30, 2011, which collectively comprise the Township of Fredonia , Michigan's basic financial statements and have issued our report thereon dated December 30, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Fredonia , Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion of the effective ness of the Township of Fredonia , Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township of Fredonia , Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses , we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a

material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be material weaknesses – 2011-4.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be significant deficiencies – 2011-1 through 2011-3.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township of Fredonia, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Township of Fredonia, Michigan's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the Township of Fredonia, Michigan's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Township Board, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Best regards,

A handwritten signature in cursive script that reads "Gabridge & Company".

Gabridge & Company, PLC

Township of Fredonia

Schedule of Findings and Responses

Significant Deficiency

2011-1 – Recording of Accounts Payable

Criteria: Management is responsible for establishing and maintaining internal controls in order to record expenditures into the proper accounting period.

Condition/Finding: The Township does not track accounts payable or accrue expenses during the preparation of interim financial statements. Expenses are recorded only at the time of payment, as opposed to the period that the obligation was incurred – as required by Generally Accepted Accounting Principles.

Cause: This condition is a result of the lack of documented accounts payable and expenditure control policies and procedures at the Township.

Effect: As a result of this condition, the Township is susceptible to understatement of expenditures created by accounts payable transactions being recorded during incorrect accounting periods. This could also lead to the Township unknowingly expending funds in excess of appropriations.

Recommendation: We recommend the development of an expenditure / accounts payable control policy that requires all vendor invoices to be recorded into the general ledger as an account payable during the accounting period for which the obligation was incurred by the Township.

View of Responsible Officials: The Township concurs with this finding. The Township will be reviewing internal control procedures and making changes accordingly.

Township of Fredonia

Schedule of Findings and Responses

Significant Deficiency

2011-2 – Payroll Processing and Payroll Tax Management

Criteria: Management is responsible for establishing and maintaining internal controls in order to correctly process payroll, file all required payroll forms, and timely and accurately remit all payroll related liabilities .

Condition/Finding: The Township had two months of payroll activity that did not post to the general ledger during the year. Also, refund checks for 941 tax liability payments were received by the Township for liability overpayments in the first quarter of 2011.

Cause: This condition is a result of the lack of documented payroll processing and payroll tax remittance and filing control policies and procedures at the Township .

Effect: As a result of this condition, the Township is susceptible to incurring penalties and interest for improper tax filings and payments . The Township is also subject to errors in processing payroll causing increased payroll expenditures.

Recommendation: We recommend that the Township design payroll controls that when consistently followed will provide a high level of confidence that all payroll liabilities are remitted timely and that all required payroll forms are accurately completed and submitted prior to reporting deadlines. We also recommend that the Township adopt monitoring procedures that would prevent payroll posting errors from going unnoticed.

View of Responsible Officials: The Township concurs with this finding. The Township is in the process of establishing enhanced payroll controls to prevent future reporting errors .

Township of Fredonia

Schedule of Findings and Responses

Significant Deficiency

2011-3 – Segregation of Incompatible Duties

Criteria:	Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the Township. A key element of internal control is the segregation of incompatible duties within the accounting function.
Condition/Finding:	The Township has accounting functions which are performed by the same individual and are not subject to a documented independent review and approval.
Cause:	This condition is a result of the limited size of the Township's accounting staff.
Effect:	As a result of this condition, the Township is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected and corrected by management on a timely basis.
Recommendation:	While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.
View of Responsible Officials:	The Township concurs with this finding. The Township will continue to look for ways to have staff members cross check key financial areas.

Township of Fredonia

Schedule of Findings and Responses

Material Weaknesses

2011-4 – Preparation of Governmental Financial Statements

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
Condition/Finding:	As is the case with many smaller and medium sized entities, the Township has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Township's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered a part of the Township's internal controls. In addition, we proposed, and management approved, material journal entries to properly record debt service, accounts payable, and capital asset (capital outlay) transactions in the proprietary and governmental funds. Lastly, we found that two months of activity were missing from the system generated financial statements because of a posting error / omission.
Cause:	This condition was caused by the Township's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Township to perform this task internally.
Effect:	As a result of this condition, the Township lacks complete internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, at least in part, on its external auditors for assistance with this task. In addition, the Township's records were initially misstated by an amount material to the financial statements.

Township of Fredonia

Schedule of Findings and Responses

View of Responsible

Officials:

The Township concurs with this finding. Preparing financial statements in accordance with GAAP, as required by the State of Michigan, would be cost prohibitive for the Township. However, increased monitoring of interim financial statements will be implemented to allow the Township to make informed financial decisions during interim periods.