

**TOWNSHIP OF FREDONIA
CALHOUN COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2013**



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedules 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2013, on our consideration of the Township of Fredonia, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township of Fredonia, Michigan's internal control over financial reporting and compliance.



Gabridge & Company, PLC
Grand Rapids, Michigan
December 27, 2013

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, 2013. 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 \$1,542,453 (shown as *net position*), representing an increase of \$73,693 over the previous fiscal year. Of this amount, \$233,841 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- During the year, the Township received \$349,211 in revenues and incurred \$275,518 in expenses, resulting in an increase in net position of approximately \$73,693.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$227,542 or 99 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 Position* presents information on all of the Township's assets and liabilities, the difference between the two being reported as the net position of the Township. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 special revenue and 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 position 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 \$1,542,453 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 position.

Township of Fredonia Net Position as of June 30, 2013 and June 30, 2011

	Governmental Activities	
	2013	2011
ASSETS		
<i>Current Assets</i>		
Cash & Cash Equivalents	\$ 290,822	\$ 151,415
Investments	109,602	129,514
Accounts Receivable	-	6,216
Due from State	20,156	14,186
Prepaid Expenses	6,299	5,872
<i>Total Current Assets</i>	426,879	307,203
<i>Noncurrent Assets</i>		
Capital Assets, net	1,119,192	1,209,602
<i>Total Assets</i>	1,546,071	1,516,805
LIABILITIES		
<i>Current Liabilities</i>		
Accounts Payable	3,099	1,328
Accrued Payroll & Related Liabilities	519	3,749
Current Portion of Long-term Debt	-	14,952
<i>Total Current Liabilities</i>	3,618	20,029
<i>Total Liabilities</i>	3,618	20,029
NET POSITION		
Net Investment in Capital Assets	1,119,192	1,194,649
Restricted	189,420	82,940
Unrestricted	233,841	219,187
<i>Total Net Position</i>	\$ 1,542,453	\$ 1,496,776

The most significant portion of the Township's net position 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 \$233,841 in unrestricted net position. These assets represent resources that are available for appropriation, but are limited by the Township's policies regarding their use.

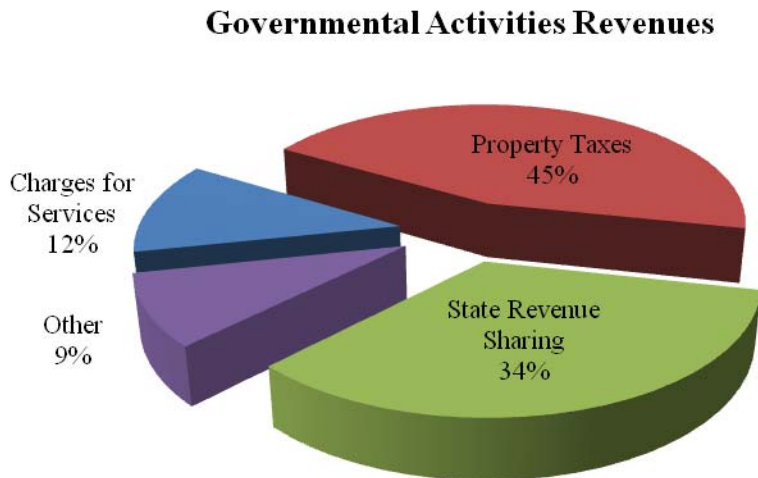
The total net position of the Township increased by \$73,693 during the year. The following table illustrates and summarizes the results of the changes in the net position for the Township. The condensed information was derived from the Government-wide Statement of Activities.

Township of Fredonia
Change in Net Position for Fiscal Year Ended June 30, 2013 and 2011

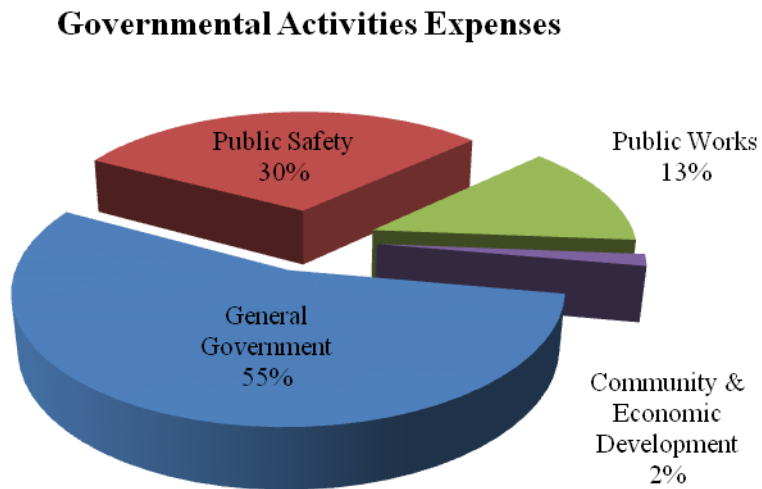
	Governmental Activities	
	2013	2011
Revenue		
Program Revenues		
Charges for Services	\$ 41,673	\$ 97,749
Operating Grants & Contributions	10,018	138,292
<i>Total Program Revenues</i>	51,691	236,041
General Revenues		
Property Taxes	156,333	114,298
State Revenue Sharing	119,180	108,770
Interest Income	58	1,255
Other	21,949	13,592
<i>Total General Revenues</i>	297,520	237,915
<i>Total Revenues</i>	349,211	473,956
Expenses		
General Government	151,717	150,415
Public Safety	83,248	141,160
Public Works	36,401	60,332
Community & Economic Development	4,152	6,176
Other Functions	-	56
Interest on Long-term Debt	-	4,360
<i>Total Expenses</i>	275,518	362,499
<i>Change in Net Position</i>	73,693	111,457
<i>Net Position at Beginning of Period</i>	1,468,760	1,385,319
<i>Net Position at End of Period</i>	\$ 1,542,453	\$ 1,496,776

Governmental Activities

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



The following chart summarizes the expenses for the governmental activities of the Township for the most recent fiscal year end:



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 \$423,261. Of this amount, \$227,542 or 54 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 \$55,083, bringing the balance to \$242,594.

Road Fund The fund balance of the Road Fund at the most recent fiscal year end was \$50,827. This was an increase of \$50,827 from the previous fiscal year end.

Fire Truck Debt Fund The fund balance of the Fire Truck Debt Fund at the most recent fiscal year end was \$129,840. This was an increase of \$49,862 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 \$0. This was a decrease of \$36,873 from the previous fiscal year end.

General Fund Budgetary Highlights

During the current fiscal year, the Township had the following budget exceptions:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Public Works - General Fund	\$ 2,000	\$ 10,873	\$ (8,873)

Changes to the budget were minor.

Capital Asset and Debt Administration

Capital Assets The Township’s investment in capital assets for the governmental activities at year end amounted to \$1,119,192 (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.

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

Economic Factors and Next Year’s Budgets and Rates

While state shared revenues have been lower in recent years and negatively impacted provision of general government services, including street maintenance, these revenues have at least leveled off. Hopefully real property values will also stabilize and even improve, which affect local property tax collections used for provision of basic services. Looking ahead, we will

continue to balance the budgets with tight controls over spending, while striving to provide the Township's residents with the same level of service to which they have been accustomed.

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.

BASIC FINANCIAL STATEMENTS

Township of Fredonia
Statement of Net Position
June 30, 2013

	Primary Governmental Activities
ASSETS	
<i>Current Assets</i>	
Cash & Cash Equivalents	\$ 290,822
Investments	109,602
Due from Other Governmental Units	20,156
Prepaid Expenses	6,299
Total Current Assets	426,879
<i>Noncurrent Assets</i>	
Capital Assets, net	1,119,192
Total Assets	1,546,071
LIABILITIES	
<i>Current Liabilities</i>	
Accounts Payable	3,099
Accrued Payroll & Related Liabilities	519
Total Current Liabilities	3,618
Total Liabilities	3,618
NET POSITION	
Net Investment in Capital Assets	1,119,192
<i>Restricted for:</i>	
Debt Service	180,667
Construction Code Fees	8,753
<i>Unrestricted</i>	233,841
Total Net Position	\$ 1,542,453

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, 2013**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Governmental Activities</u>
Primary Government Governmental Activities:					
General Government	\$ 151,717	\$ 16,673	\$ 10,018	\$ --	\$ (125,026)
Public Safety	83,248	--	--	--	(83,248)
Public Works	36,401	25,000	--	--	(11,401)
Community & Economic Development	4,152	--	--	--	(4,152)
<i>Total Governmental Activities</i>	<u>275,518</u>	<u>41,673</u>	<u>10,018</u>	<u>--</u>	<u>(223,827)</u>
<i>Total Primary Government</i>	<u>\$ 275,518</u>	<u>\$ 41,673</u>	<u>\$ 10,018</u>	<u>\$ --</u>	<u>\$ (223,827)</u>

General Purpose Revenues and Transfers:

Revenues

Property Taxes	156,333
State Revenue Sharing	119,180
Interest Income	58
Other	21,949

Total General Revenues and Transfers 297,520

Change in Net Position 73,693

Net Position at Beginning of Period 1,468,760

Net Position at End of Period \$ 1,542,453

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

**Township of Fredonia
Balance Sheet
Governmental Funds
June 30, 2013**

	<u>Special Revenue</u>		<u>Debt Service</u>		<u>Total Governmental Funds</u>
	<u>General</u>	<u>Road</u>	<u>Fire Truck Debt Fund</u>	<u>Sewer Bond Fund</u>	
ASSETS					
Cash & Cash Equivalents	\$ 110,155	\$ 50,827	\$ 129,840	\$ --	\$ 290,822
Investments	109,602	--	--	--	109,602
Due from Other Governmental Units	20,156	--	--	--	20,156
Prepaid Expenditures	6,299	--	--	--	6,299
Total Assets	\$ 246,212	\$ 50,827	\$ 129,840	\$ --	\$ 426,879
LIABILITIES					
Accounts Payable	\$ 3,099	\$ --	\$ --	\$ --	\$ 3,099
Accrued Payroll & Related Liabilities	519	--	--	--	519
Total Liabilities	3,618	--	--	--	3,618
FUND BALANCE					
Nonspendable	6,299	--	--	--	6,299
Restricted	8,753	50,827	129,840	--	189,420
Unassigned	227,542	--	--	--	227,542
Total Fund Balance	242,594	50,827	129,840	--	423,261
Total Liabilities and Fund Balance	\$ 246,212	\$ 50,827	\$ 129,840	\$ --	\$ 426,879

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 Position
June 30, 2013

Total Fund Balance - Governmental Funds	\$ 423,261
General government capital assets of \$2,530,672, net of accumulated depreciation of \$1,411,480, are not financial resources and accordingly are not reported in the funds	1,119,192
Total Net Position - Governmental Funds	\$ <u>1,542,453</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, 2013

	<u>Special Revenue</u>		<u>Debt Service</u>		<u>Total Governmental Funds</u>
	<u>General</u>	<u>Road</u>	<u>Fire Truck Debt Fund</u>	<u>Sewer Bond Fund</u>	
Revenues					
Property Taxes	\$ 55,644	\$ 50,827	\$ 49,862	\$ --	\$ 156,333
Licenses & Permits	9,413	--	--	--	9,413
State Revenue Sharing	119,180	--	--	--	119,180
Charges for Services	38,960	--	--	--	38,960
Interest	58	--	--	--	58
Refunds & Reimbursements	3,318	--	--	--	3,318
Other	21,949	--	--	--	21,949
Total Revenues	<u>248,522</u>	<u>50,827</u>	<u>49,862</u>	<u>--</u>	<u>349,211</u>
Expenditures					
General Government	148,321	--	--	--	148,321
Public Safety	67,056	--	--	--	67,056
Public Works	10,783	--	--	--	10,783
Community & Economic Development	4,152	--	--	--	4,152
Total Expenditures	<u>230,312</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>230,312</u>
Excess of Revenues Over (Under) Expenditures	<u>18,210</u>	<u>50,827</u>	<u>49,862</u>	<u>--</u>	<u>118,899</u>
Other Financing Sources (Uses)					
Transfers from Other Funds	36,873	--	--	--	36,873
Transfers to Other Funds	--	--	--	(36,873)	(36,873)
Net Other Financing Sources (Uses)	<u>36,873</u>	<u>--</u>	<u>--</u>	<u>(36,873)</u>	<u>--</u>
Net Change in Fund Balance	<u>55,083</u>	<u>50,827</u>	<u>49,862</u>	<u>(36,873)</u>	<u>118,899</u>
Fund Balance at Beginning of Period	187,511	--	79,978	36,873	304,362
Fund Balance at End of Period	<u>\$ 242,594</u>	<u>\$ 50,827</u>	<u>\$ 129,840</u>	<u>\$ --</u>	<u>\$ 423,261</u>

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, 2013

Total Net Change in Fund Balances - Governmental Funds	\$ 118,899
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 of depreciation expense for the year.	(45,206)
Changes in Net Position - Governmental Funds	<u>73,693</u>

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

Township of Fredonia
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

	Agency
	Agency Funds
ASSETS	
Cash & Cash Equivalents	\$ 3,795
<i>Total Assets</i>	<i>3,795</i>
LIABILITIES	
Due to Other Agencies	3,795
<i>Total Liabilities</i>	<i>3,795</i>
NET POSITION	
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 position 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 inflow”.

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.

Road Fund - The Road Fund accounts for property taxes levied for construction and maintenance of roads within the township.

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 position 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 2012 tax is levied and collectible on December 1, 2012 and is recognized as revenue in the year ended June 30, 2013 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 Position 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>Decription</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

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 position.

Fund Equity – In the fund financial statements fund balance is presented in five possible categories, each of which identifies the extent to which the Township is bound to honor constraints on the specific purpose for which the amounts can be spent:

Nonspendable – amounts which cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained directly.

Restricted – amounts that have constraints placed on their use by an external party or constitutional provisions or enabling legislation (e.g., grants, contributions, specific fee mandates).

Township of Fredonia

Notes to the Financial Statements

Committed – amounts that are committed for specific purposes by the Board, as the Township’s highest level of decision-making authority, pursuant to constraints imposed by formal actions taken, such as a majority vote or resolution.

Assigned – amounts that are constrained by the Township’s intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – amounts that are available for any purpose. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

Designations of fund balance represent tentative management plans that are subject to change. It is the Township’s policy to first use restricted resources when both restricted and unrestricted net position or fund balances are available. For purposes of fund balance classification, expenditures are to be spent from Restricted Fund balance first (when appropriate), followed in order by Committed Fund Balance, Assigned Fund Balance, and lastly, Unassigned Fund Balance.

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:

Surplus at July 1, 2012		\$	9,045
Current year building permit revenue	\$	9,413	
Related expenses - Direct costs		(9,705)	(292)
			<u> </u>
Surplus at June 30, 2013		\$	<u>8,753</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

Township of Fredonia

Notes to the Financial Statements

amount of encumbrances outstanding at June 30, 2013 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:

	Budget	Actual	Variance
Public Works - General Fund	\$ 2,000	\$ 10,873	\$ (8,873)

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 & Cash Equivalents	\$ 290,822	\$ 3,795	\$ 294,617
Investments	109,602	-	109,602
	\$ 400,424	\$ 3,795	\$ 404,219

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

Township of Fredonia

Notes to the Financial Statements

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.

Note 4 - Capital Assets

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

Governmental Activities	<u>June 30, 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2013</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	\$ 329,950	\$ -	\$ -	\$ 329,950
Sewer System	1,645,000	-	-	1,645,000
Other Tools & Equipment	25,802	-	-	25,802
Vehicles	529,920	-	-	529,920
Total Capital Assets, Being Depreciated	<u>2,530,672</u>	<u>-</u>	<u>-</u>	<u>2,530,672</u>
Less Accumulated Depreciation:				
Buildings and Improvements	121,122	11,816	-	132,938
Sewer System	690,900	32,900	-	723,800
Other Tools & Equipment	24,332	490	-	24,822
Vehicles	529,920	-	-	529,920
Total Accumulated Depreciation	<u>1,366,274</u>	<u>45,206</u>	<u>-</u>	<u>1,411,480</u>
Net Capital Assets:	<u>\$ 1,164,398</u>	<u>\$ (45,206)</u>	<u>\$ -</u>	<u>\$ 1,119,192</u>

Depreciation Expense was charged as following:

Governmental Activities:	
General Government	\$ 3,396
Public Safety	16,192
Public Works	25,618
Total Governmental Activities	<u>\$ 45,206</u>

Note 5 - Interfund Transfers

At the end of the current fiscal year, the remaining funds in the Sewer Debt Service Fund were transferred to the General Fund in the amount of \$36,873.

Township of Fredonia

Notes to the Financial Statements

Note 6 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), 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 7 – Subsequent Events

The Township was in the process of obtaining a loan to cover part of the expense to purchase a new fire truck as of June 30, 2013. Management has evaluated all other subsequent events as of December 27, 2013 and is not aware of any events that would have a significant impact on the financial condition of the Township.

REQUIRED SUPPLEMENTARY INFORMATION

Township of Fredonia
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative) Final to Actual</u>
Revenues				
Property Taxes	\$ 81,000	\$ 81,000	\$ 55,644	\$ (25,356)
Licenses & Permits	30,000	30,000	11,309	(18,691)
State Revenue Sharing	98,000	98,000	119,180	21,180
Charges for Services	7,000	7,000	6,700	(300)
Rents & Royalties	27,000	34,300	40,506	6,206
Refunds & Reimbursements	3,000	3,000	3,318	318
Interest	70	70	58	(12)
Other	2,000	3,600	11,807	8,207
Total Revenues	<u>248,070</u>	<u>256,970</u>	<u>248,522</u>	<u>(8,448)</u>
Other Financing Sources				
Transfers from Other Funds	--	--	36,873	36,873
Total Revenues and Other Financing Sources	<u>248,070</u>	<u>256,970</u>	<u>285,395</u>	<u>28,425</u>
Expenditures				
General Government				
Township Board	30,000	30,000	31,423	(1,423)
Supervisor	6,000	6,000	6,702	(702)
Elections	5,000	5,000	8,719	(3,719)
Assessor	21,000	21,000	26,624	(5,624)
Clerk	21,000	21,000	22,542	(1,542)
Board of Review	900	900	718	182
Treasurer	17,000	17,000	15,788	1,212
Town Hall	45,000	45,000	18,524	26,476
Cemetery	16,000	16,000	14,167	1,833
Ordinance Enforcement	3,000	3,000	3,114	(114)
Total General Government	<u>164,900</u>	<u>164,900</u>	<u>148,321</u>	<u>16,579</u>
Public Safety				
Fire Department	79,000	79,000	57,351	21,649
Inspection	7,000	7,000	9,705	(2,705)
Total Public Safety	<u>86,000</u>	<u>86,000</u>	<u>67,056</u>	<u>18,944</u>
Public Works				
Lyon Lake Weed Control	--	--	7,778	(7,778)
Drains at Large	2,000	2,000	3,005	(1,005)
Total Public Works	<u>2,000</u>	<u>2,000</u>	<u>10,783</u>	<u>(8,783)</u>
Community & Economic Development				
Planning Commission	3,000	3,000	2,922	78
Zoning	1,500	1,500	1,230	270
Total Community & Economic Development	<u>4,500</u>	<u>4,500</u>	<u>4,152</u>	<u>348</u>
Total Expenditures	<u>257,400</u>	<u>257,400</u>	<u>230,312</u>	<u>27,088</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	<u>(9,330)</u>	<u>(430)</u>	<u>55,083</u>	<u>55,513</u>
Net Change in Fund Balance	<u>(9,330)</u>	<u>(430)</u>	<u>55,083</u>	<u>55,513</u>
<i>Fund Balance at Beginning of Period</i>	187,511	187,511	187,511	--
Fund Balance at End of Period	<u>\$ 178,181</u>	<u>\$ 187,081</u>	<u>\$ 242,594</u>	<u>\$ 55,513</u>

December 27, 2013

To the Supervisor and Members of the Township Board
Township of Fredonia
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, 2013. 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 25, 2013. 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, 2013. 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 27, 2013.

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.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the

underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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.

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in dark ink and is positioned above the printed name of the company.

Gabridge & Company, PLC
Grand Rapids, MI

INDEPENDENT AUDITOR'S 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 27, 2013

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

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of Township of Fredonia, Michigan, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Township of Fredonia, Michigan's basic financial statements and have issued our report thereon dated December 27, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Township of Fredonia, Michigan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Township of Fredonia, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of Township of Fredonia, Michigan's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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. (2013-2, 2013-3)

A *significant deficiency* is a deficiency, or a 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 accompany Schedule of Findings and Responses to be significant deficiencies. (2013-1)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Township of Fredonia, Michigan's financial statements are free from 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 one instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We consider the deficiency described in the accompanying Schedule of Findings and Responses to be a compliance finding. (2013-4)

Township of Fredonia, Michigan's Response to Findings

Township of Fredonia, Michigan's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Township of Fredonia, Michigan's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Gabridge & Company, PLC
Grand Rapids, MI
December 27, 2013

Township of Fredonia

Schedule of Findings and Responses

Significant Deficiency

2013-1 – 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 enhance internal control by implementing policies that require a second responsible person to cross-check key areas, such as bank account reconciliations.

Township of Fredonia

Schedule of Findings and Responses

Material Weakness

2013-2 – 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 (e.g., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (e.g., 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 revenues and expenses into the proper funds, accounts receivable, accounts payable, interfund activity, and fund equity transactions in the governmental funds.

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.

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. Accordingly, the Township will continue to, at least in part, rely on its auditors to assist with the preparation of GAAP financial statements.

Township of Fredonia

Schedule of Findings and Responses

Material Weakness

2013-3 – Reconciliation of Key Balance Sheet Accounts

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 monitoring and reconciling of financial data within the accounting function.
Condition/Finding:	The Township has balance sheet accounts that are only reconciled at year end as part of the audit (by the auditors). These areas include cash, accounts receivable, accounts payable, fund balance and fixed assets. Accordingly, the Township's ability to prepare financial statements with reconciled balance sheet accounts 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.
Cause:	This condition is a result of the lack of documented control policies and procedures at the Township.
Effect:	As a result of this condition, the Township is susceptible to misstatements (whether caused by error or fraud) that may occur and not be prevented or detected and corrected by management on a timely basis.
Recommendation:	We recommend developing policies and procedures for reconciling accounts payable, accounts receivable, fund balance and fixed assets (at least quarterly) to the general ledger. All cash accounts need to be reconciled to the general ledger monthly. These policies and procedures should require involvement of a second responsible person as part of the review/monitoring process.
View of Responsible Officials:	The Township concurs with this finding. The Township will evaluate new controls to reconcile and monitor key balance sheet account balances going forward.

Township of Fredonia

Schedule of Findings and Responses

Compliance Finding

2013-4 – Budgeting

Criteria: During fiscal year 2013, the Board did not adopt a budget in accordance with the state law for the Road Fund. All special revenue funds should be budgeted in accordance with Uniform Budgeting and Accounting Act guidelines.