

# **Township of Fredonia, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2009**

# Township of Fredonia, Michigan

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Township of Fredonia, Michigan as of and for the year ended June 30, 2009, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Fredonia, Michigan as of June 30, 2009 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

February 5, 2010

# **Township of Fredonia, Michigan**

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

Our discussion and analysis of the Township of Fredonia, Michigan's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended June 30, 2009. The Township is required to have a biennial audit; therefore, all comparisons are to the prior audit for the period ended June 30, 2007. Please read it in conjunction with the Township's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2009:

- Total net assets related to the Township's governmental activities increased by approximately \$42,600.
- The Township constructed a new fire station at a cost of approximately \$136,000.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

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

# Township of Fredonia, Michigan

## Management's Discussion and Analysis (Continued)

### The Township as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2009 and 2007:

	Governmental Activities	
	June 30, 2009	June 30, 2007
<b>Assets</b>		
Current assets	\$ 351,513	\$ 474,505
Noncurrent assets	<u>1,384,228</u>	<u>1,426,919</u>
Total assets	1,735,741	1,901,424
<b>Liabilities</b>		
Current liabilities	191,225	149,015
Long-term liabilities	<u>178,998</u>	<u>429,520</u>
Total liabilities	<u>370,223</u>	<u>578,535</u>
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	1,016,887	850,969
Restricted for construction code fees	9,394	9,347
Restricted for debt service	114,447	197,576
Unrestricted	<u>224,790</u>	<u>264,997</u>
Total net assets	<u>\$ 1,365,518</u>	<u>\$ 1,322,889</u>

### Governmental Activities

The Township's total governmental revenues remained stable and consistent with 2007, with an increase in property tax revenue of approximately \$12,000 in 2009.

Expenditures increased by \$65,000 compared to 2007 and the majority of the increase relates to an increase in general government and public safety of approximately \$32,000 and \$36,000, respectively.

# Township of Fredonia, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes in the net assets during the years ended June 30, 2009 and 2007:

	Governmental Activities	
	June 30, 2009	June 30, 2007
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 90,325	\$ 119,830
Operating grants	31,916	18,973
General revenue:		
Property taxes	112,240	100,479
State-shared revenue	118,109	119,081
Unrestricted investment earnings and miscellaneous	20,239	26,212
Total revenue	372,829	384,575
<b>Program Expenses</b>		
General government	191,205	158,741
Public safety	154,203	117,760
Public works	40,329	40,716
Other	5,800	9,505
Total program expenses	391,537	326,722
<b>Change in Net Assets</b>	<b>\$ (18,708)</b>	<b>\$ 57,853</b>

### The Township's Funds

Our analysis of the Township's major funds begins on page 8, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Township's major funds for 2009 include the General Fund, the Fire Truck Debt Fund, and the Sewer Bond Fund.

The General Fund pays for most of the Township's governmental services. The most significant is public safety, which incurred expenditures of approximately \$238,000.

# **Township of Fredonia, Michigan**

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

### **General Fund Budgetary Highlights**

Over the course of the year, the Township amended the budget to take into account events during the year. Budget amendments during the year are mainly due to increase in State-shared revenue and increase in general government expenditures. Departmental expenditures overall were over budget by approximately \$150,000, mainly due to the new fire station not being included in the budget. The General Fund's fund balance decreased from approximately \$298,000 in 2007 to approximately \$217,000 at June 30, 2009.

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

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

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

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

# Township of Fredonia, Michigan

## Statement of Net Assets June 30, 2009

	Primary Government - Governmental Activities
<b>Assets</b>	
Cash and cash equivalents (Note 3)	\$ 268,356
Due from State	18,304
Special assessment receivable	64,853
Capital assets - Net (Note 4)	<u>1,384,228</u>
Total assets	1,735,741
<b>Liabilities</b>	
Payroll taxes and wages payable	2,882
Noncurrent liabilities (Note 5):	
Due within one year	188,343
Due in more than one year	<u>178,998</u>
Total liabilities	<u>370,223</u>
<b>Net Assets</b>	
Invested in capital assets - Net of related debt	1,016,887
Restricted for construction code fees	9,394
Restricted for debt service	114,447
Unrestricted	<u>224,790</u>
Total net assets	<u><u>\$ 1,365,518</u></u>

# Township of Fredonia, Michigan

## Statement of Activities Year Ended June 30, 2009

	<u>Program Revenues</u>			Net (Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary Government Total Governmental Activities</u>
<b>Functions/Programs</b>				
Primary government - Governmental activities:				
General government	\$ 191,205	\$ 86,823	\$ -	\$ (104,382)
Public safety	154,203	-	31,916	(122,287)
Public works	40,329	3,502	-	(36,827)
Other	<u>5,800</u>	<u>-</u>	<u>-</u>	<u>(5,800)</u>
Total primary government	<u><b>\$ 391,537</b></u>	<u><b>\$ 90,325</b></u>	<u><b>\$ 31,916</b></u>	(269,296)
General revenues:				
Property taxes				112,240
State-shared revenues				118,109
Unrestricted investment earnings				4,600
Miscellaneous				<u>15,639</u>
Total general revenues				<u>250,588</u>
<b>Change in Net Assets</b>				(18,708)
<b>Net Assets - Beginning of year</b>				<u>1,384,226</u>
<b>Net Assets - End of year</b>				<u><b>\$ 1,365,518</b></u>

# Township of Fredonia, Michigan

## Governmental Funds Balance Sheet June 30, 2009

	Major Funds			Total Governmental Funds
	General Fund	Fire Truck Debt Fund	Sewer Bond Fund	
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 189,676	\$ 23,483	\$ 55,197	\$ 268,356
Due from State	18,304	-	-	18,304
Special assessment receivable	17,134	-	47,719	64,853
Due from other funds (Note 6)	11,952	-	-	11,952
<b>Total assets</b>	<b>\$ 237,066</b>	<b>\$ 23,483</b>	<b>\$ 102,916</b>	<b>\$ 363,465</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Payroll taxes payable	\$ 2,882	\$ -	\$ -	\$ 2,882
Due to other funds (Note 6)	-	5,979	5,973	11,952
Deferred revenue	17,134	-	47,719	64,853
<b>Total liabilities</b>	<b>20,016</b>	<b>5,979</b>	<b>53,692</b>	<b>79,687</b>
<b>Fund Balances</b>				
Reserved for debt service	-	17,504	49,224	66,728
Reserved for construction code fees	9,394	-	-	9,394
Unreserved - General Fund	207,656	-	-	207,656
<b>Total fund balances</b>	<b>217,050</b>	<b>17,504</b>	<b>49,224</b>	<b>283,778</b>
<b>Total liabilities and fund balances</b>	<b>\$ 237,066</b>	<b>\$ 23,483</b>	<b>\$ 102,916</b>	
Amounts reported for governmental activities in the statement of net assets are different because:				
Long-term liabilities are not due and payable in the current period and are not reported in the funds				(367,341)
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures				64,853
Capital assets used in governmental activities are not financial resources and are not reported in the funds				1,384,228
<b>Net assets of governmental activities</b>				<b>\$ 1,365,518</b>

# Township of Fredonia, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2009

	Major Funds			Total Governmental Funds
	General Fund	Fire Truck Debt Fund	Sewer Bond Fund	
<b>Revenue</b>				
Property taxes	\$ 45,156	\$ 51,683	\$ -	\$ 96,839
Delinquent taxes and fees	10,507	4,894	-	15,401
Licenses and permits	24,892	-	-	24,892
State-shared revenues and grants	118,109	-	-	118,109
Contribution from other units	31,916	-	-	31,916
Charges for services	6,083	-	55,848	61,931
Interest	3,938	143	519	4,600
Special assessments	9,509	-	45,883	55,392
Other	5,749	-	9,890	15,639
	<u>255,859</u>	<u>56,720</u>	<u>112,140</u>	<u>424,719</u>
<b>Expenditures - Current</b>				
General government	179,200	-	-	179,200
Public safety	237,765	50	-	237,815
Public works	3,617	-	95	3,712
Debt service:				
Principal	4,306	53,873	95,000	153,179
Interest	3,031	5,349	5,800	14,180
	<u>427,919</u>	<u>59,272</u>	<u>100,895</u>	<u>588,086</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	(172,060)	(2,552)	11,245	(163,367)
<b>Other Financing Sources -</b>				
Issuance of debt	91,000	-	-	91,000
<b>Net Change in Fund Balances</b>	(81,060)	(2,552)	11,245	(72,367)
<b>Fund Balances - Beginning of year</b>	298,110	20,056	37,979	356,145
<b>Fund Balances - End of year</b>	<u>\$ 217,050</u>	<u>\$ 17,504</u>	<u>\$ 49,224</u>	<u>\$ 283,778</u>

# Township of Fredonia, Michigan

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## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2009

**Net Change in Fund Balances - Total Governmental Funds** \$ (72,367)

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

Governmental funds report capital outlays as expenditures;

in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Asset purchased 136,244

Depreciation (92,874)

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end (51,890)

Proceeds from debt is reported as financing sources in the governmental funds, but not in the statement of activities (where it increases long-term debt) (91,000)

Repayment of debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 153,179

**Change in Net Assets of Governmental Activities** **\$ (18,708)**

# Township of Fredonia, Michigan

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**Notes to Financial Statements  
June 30, 2009**

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

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

### **Reporting Entity**

The Township of Fredonia, Michigan is governed by an elected five-member board. The accompanying financial statements present the Township. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

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

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

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

# Township of Fredonia, Michigan

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## Notes to Financial Statements June 30, 2009

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

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

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

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

The Township reports the following major governmental funds:

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

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

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

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

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.

# Township of Fredonia, Michigan

## Notes to Financial Statements June 30, 2009

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

#### 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 2008 tax is levied and collectible on December 1, 2008 and is recognized as revenue in the year ended June 30, 2009 when the proceeds of the levy are budgeted and available for the financing of operations.

The 2008 taxable valuation of the Township totaled \$53.7 million, on which taxes levied consisted of .8392 mills for operating purposes and .9811 mills for debt service. This resulted in \$48,000 for operating, which is recognized in the General Fund, and \$52,000 for debt service, which is recognized in the Fire Truck Debt Fund financial statements as tax revenue.

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

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

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

**Capital Assets** - Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

# Township of Fredonia, Michigan

## Notes to Financial Statements June 30, 2009

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

**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, 2009 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 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, 2008		\$ 10,424
Current year building permit revenue	\$ 18,446	
Related expenses - Direct costs	<u>(19,476)</u>	<u>(1,030)</u>
Surplus at June 30, 2009		<u>\$ 9,394</u>

# Township of Fredonia, Michigan

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**Notes to Financial Statements  
June 30, 2009**

## **Note 3 - Deposits**

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

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

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

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

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Township had 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, Michigan

## Notes to Financial Statements June 30, 2009

### Note 4 - Capital Assets

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

<b>Governmental Activities</b>	Balance	Additions	Balance
	July 1, 2008		June 30, 2009
Capital assets being depreciated:			
Buildings and improvements	\$ 193,706	\$ 136,244	\$ 329,950
Sewer system	1,645,000	-	1,645,000
Other tools and equipment	11,900	-	11,900
Vehicles	529,920	-	529,920
Subtotal	2,380,526	136,244	2,516,770
Accumulated depreciation:			
Buildings and improvements	73,858	11,816	85,674
Sewer system	559,300	32,900	592,200
Other tools and equipment	11,555	3,169	14,724
Vehicles	394,955	44,989	439,944
Subtotal	1,039,668	92,874	1,132,542
Net capital assets	<u>\$ 1,340,858</u>	<u>\$ 43,370</u>	<u>\$ 1,384,228</u>

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

Governmental activities:	
General government	\$ 6,977
Public safety	33,265
Public works	52,632
Total	<u>\$ 92,874</u>

# Township of Fredonia, Michigan

## Notes to Financial Statements June 30, 2009

### Note 5 - Long-term Debt

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

	Interest Rate Ranges	Maturity	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
Revenue bonds - Sewage disposal	2.00%	2011	\$ 290,000	\$ -	\$ (95,000)	\$ 195,000	\$ 95,000
Installment purchase agreement	4.65%	2010	139,520	-	(53,873)	85,647	85,647
Installment purchase agreement	4.12%	2015	-	91,000	(4,306)	86,694	7,696
Total			<u>\$ 429,520</u>	<u>\$ 91,000</u>	<u>\$ (153,179)</u>	<u>\$ 367,341</u>	<u>\$ 188,343</u>

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

Years Ending June 30	Governmental Activities
2010	\$ 197,153
2011	113,126
2012	11,127
2013	11,127
2014	11,127
Thereafter	49,103
Total	<u>\$ 392,763</u>

### Note 6 - Interfund Receivables and Payables

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Fire Truck Debt Fund	\$ 5,979
General Fund	Sewer Bond Fund	5,973
Total		<u>\$ 11,952</u>

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

# Township of Fredonia, Michigan

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## Notes to Financial Statements June 30, 2009

### **Note 7 - Risk Management**

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

### **Note 10 - Upcoming Reporting Changes**

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for the Township's 2010 fiscal year end. This statement requires capitalization of identifiable intangible assets in the statement of net assets and provides guidance for amortization of intangible assets unless they are considered to have an indefinite useful life. This statement also establishes specified conditions upon which internally generated intangible assets should be recognized and amortized, including internally generated computer software. The Township is currently evaluating the impact this standard will have on the financial statements when adopted.

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved will be replaced with five new classifications: nonspendable, restricted, committed, assigned, and unassigned. The Township is currently evaluating the impact this standard will have on the financial statements when adopted. The Township will implement Statement No. 54 beginning with the fiscal year ending June 30, 2011.

## **Required Supplemental Information**

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# Township of Fredonia, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2009

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance
<b>Revenues</b>				
Property taxes	\$ 52,500	\$ 56,000	\$ 55,663	\$ (337)
Licenses and permits	13,000	14,849	24,892	10,043
State-shared revenues and grants	100,000	138,877	118,109	(20,768)
Contribution from other units	26,800	28,405	31,916	3,511
Charges for services	6,000	7,230	6,083	(1,147)
Interest and rentals	33	200	3,938	3,738
Special assessments	-	-	9,509	9,509
Other	13,500	4,710	5,749	1,039
Total revenue	211,833	250,271	255,859	5,588
<b>Expenditures</b>				
General government	151,900	184,700	179,200	5,500
Public safety	87,000	87,000	237,765	(150,765)
Public works	3,900	5,489	3,617	1,872
Debt service:				
Principal	-	-	4,306	(4,306)
Interest	-	-	3,031	(3,031)
Total expenditures	242,800	277,189	427,919	(150,730)
<b>Excess of Expenditures Over Revenue</b>	(30,967)	(26,918)	(172,060)	(145,142)
<b>Other Financing Sources -</b>				
Issuance of debt	-	-	91,000	(91,000)
<b>Net Change in Fund Balance</b>	(30,967)	(26,918)	(81,060)	(54,142)
<b>Fund Balance - Beginning of year</b>	298,110	298,110	298,110	-
<b>Fund Balance - End of year</b>	<u>\$ 267,143</u>	<u>\$ 271,192</u>	<u>\$ 217,050</u>	<u>\$ (54,142)</u>

# Township of Fredonia, Michigan

## Note to Required Supplemental Information June 30, 2009

### Note - Budgetary Information

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund. Unexpended appropriations lapse at fiscal year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2009 has not been calculated. During the current year, the budget was amended in a legally permissible manner. The budget is approved by the Township at the June board meeting after a public hearing.

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

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

	Budget	Actual
Debt service - Principal	\$ -	\$ 4,306
Debt service - Interest		3,031
Public safety	87,000	237,765

Capital outlay expenditures (for the new fire station) of \$136,244 were not budgeted. These expenditures were partially offset by \$91,000 of debt proceeds, which were also not budgeted.

# **Township of Fredonia, Michigan**

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**Report to the Board of Trustees**

**June 30, 2009**



To the Members of the Board  
Township of Fredonia, Michigan

We have recently completed our audit of the basic financial statements of the Township of Fredonia (the "Township") for the year ended June 30, 2009. In addition to our audit report, we are providing the following report on internal control, results of the audit, and summary of unrecorded possible adjustments which impact the Township:

	<u>Page</u>
<b>Report on Internal Control</b>	2-4
<b>Results of the Audit</b>	5-7
<b>Summary of Unrecorded Possible Adjustments</b>	8

We are grateful for the opportunity to be of service to the Township. Should you have any questions regarding the comments in this report, please do not hesitate to call.

*Plante & Moran, PLLC*

February 5, 2010

## **Report on Internal Control**

February 5, 2010

To the Members of the Board  
Township of Fredonia

Dear Board Members:

National auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the Township of Fredonia's (the "Township") financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the Township as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and others we consider to be material weaknesses.

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

### **Debt Service Payments**

Debt service payments posted to the general ledger are not reconciled to amortization schedules to assure that the breakdown between principal and interest is accurate.

### **Payroll Reports**

Reports generated with each payroll are reviewed by an individual independent of the payroll process. However, there is no documentation of this review.

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

### **Audit Adjustments**

As part of the audit process, numerous adjustments, including reclassifications of expenses to proper accounts, recording transactions that did not post to the general ledger, and converting the financial records from cash to accrual basis were recommended to management. Many transactions were identified that had not been properly posted in the general ledger system. These journal entries were necessary in order for the financial statements to be materially correct.

### **Common Cash Bank Reconciliation**

During our audit, we noted that bank reconciliations are still not being performed for the common cash accounts. The bank reconciliation process is a procedure mandated by the State of Michigan and is also an essential internal control for the Township. The accurate and timely preparation of bank reconciliations is vital to maintaining effective internal controls over cash, including knowledge of cash balances at any given time. Bank reconciliations should be performed monthly and should be reviewed by the supervisor.

### **Manual Journal Entries**

During the audit, we noted that only one employee is responsible for initiating and posting journal entries. No approval is required and there is no evidence that entries are being reviewed. We recommend that the supervisor review all manual journal entries on a regular basis (at least quarterly). Documentation of this process should be kept on file to provide evidence of this review. This will help to increase internal controls within the Township and help detect potential misstatements.

### **General Ledger**

The Township uses the BS&A general ledger application to post General Fund transactions. However, due to software issues during the year, some transactions were either not posted or not posted properly. This was not discovered until the audit was started. We recommend that the deputy clerk be responsible for posting activity to this general ledger and then it be reviewed by the clerk.

The BS&A software is not used for the transactions of the Fire Truck Debt Fund and the Sewer Bond Fund, and therefore limits the ability to generate internal financial statements. The treasurer keeps a “checkbook” listing of transactions for these two funds. We suggest that these two funds be set up on the BS&A software, and that the deputy clerk be responsible for posting the transaction activity. The treasurer could continue to keep the “checkbook” as a cross-check to the general ledger.

### **Segregation of Duties**

The clerk has access to the general ledger, processes payroll, and writes the checks. By implementing the above procedures regarding the deputy clerk posting transactions, this will ensure that items are properly recorded and reviewed by more than one person.

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

Very truly yours,

**Plante & Moran, PLLC**



Sharon L. Vargo, CPA  
Partner

## **Results of the Audit**

February 5, 2010

To the Members of the Board  
Township of Fredonia

We have audited the financial statements of the Township of Fredonia for the year ended June 30, 2009 and have issued our report thereon dated February 5, 2010. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated June 24, 2009, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Township. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to the clerk and treasurer in our meeting about planning matters on August 5, 2009.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009.

We noted no transactions entered into by the Township during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

#### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit. We did, however, have difficulties obtaining an accurate general ledger and bank reconciliations for the common account, which resulted in the inability to issue financial statements by the State of Michigan's reporting deadline.

#### ***Corrected and Uncorrected Misstatement***

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. The attached schedules summarize uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, the material misstatements detected as a result of audit procedures were corrected by management. Adjusting entries were recorded to correct cash balances, record receivables and payables, record transactions in the Fire Truck Debt and Sewer Bond Funds, and to record June payroll.

#### ***Disagreements with Management***

For the purpose 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.

To the Members of the Board  
Township of Fredonia

February 5, 2010

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated February 5, 2010.

***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 Township’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.

This information is intended solely for the use of the board members and management of the Township of Fredonia and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**



Sharon L. Vargo, CPA  
Partner

Client: **Township of Fredonia**  
Opinion Unit: **General Fund (Major Governmental Fund)**  
Y/E: **June 30, 2009**

**SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS**

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Pretax Income
<b>KNOWN MISSTATEMENTS:</b>									
A1	To record accounts payable			\$ 4,200				\$ 4,200	\$ (4,200)
A2									
<b>ESTIMATE ADJUSTMENTS:</b>									
B1									
B2									
<b>IMPLIED ADJUSTMENTS:</b>									
C1									
C2									
	Total	\$ -	\$ -	\$ 4,200	\$ -	\$ -	\$ -	\$ 4,200	\$ (4,200)

Client: **Township of Fredonia**  
Opinion Unit: **Governmental Activities**  
Y/E: **June 30, 2009**

**SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS**

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Pretax Income
<b>KNOWN MISSTATEMENTS:</b>									
A1	To record accounts payable			\$ 4,200				\$ 4,200	\$ (4,200)
A2									
<b>ESTIMATE ADJUSTMENTS:</b>									
B1									
B2									
<b>IMPLIED ADJUSTMENTS:</b>									
C1									
C2									
	Total	\$ -	\$ -	\$ 4,200	\$ -	\$ -	\$ -	\$ 4,200	\$ (4,200)