

**Township of Chippewa  
Isabella County, Michigan**

**FINANCIAL STATEMENTS**

**March 31, 2013**

Township of Chippewa  
Isabella County, Michigan  
BOARD OF TRUSTEES

Robert Smith	Supervisor
Frances Ash	Clerk
Jan Gill	Treasurer
Gail Huber	Trustee
Michelle Quakenbush	Trustee

Township of Chippewa

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INDEPENDENT AUDITOR'S REPORT

Members of the Township Board  
Township of Chippewa  
Isabella County, Michigan

**Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Township of Chippewa, Michigan, as of and for the year ended March 31, 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. 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, the major fund, and the aggregate remaining fund information of the Township of Chippewa, Michigan, as of March 31, 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.

### ***Change in Accounting Principle***

As discussed in Note I to the financial statements, in 2013 the Township adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

### **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 information as identified 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 Information*

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise Township of Chippewa's basic financial statements. The combining fiduciary fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fiduciary fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

June 24, 2013

Township of Chippewa

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2013

The following is a discussion and analysis of the Township of Chippewa (the Township's) financial performance and position, providing an overview of the activities for the year ended March 31, 2013. This analysis should be read in conjunction with the Independent Auditor's Report and with the Township's financial statements, which follow this section. This discussion and analysis provides comparisons with the previous year.

**Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2013:

- The Township's net position decreased by \$181,670 or 6.2%.
- Total expenses of the Township's programs were \$922,172.
- Total revenues, including all program and general revenues, were \$740,502.
- Tax revenues decreased approximately \$4,153 from the prior year. The decrease is the result of decreasing property values.
- The fund balance of the Township's General Fund decreased by \$153,323 as a result of an increase in public works expenditures.

**Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net position and the statement of activities provide information about the activities of the Township of Chippewa 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 operations of the Township of Chippewa in more detail than the government-wide financial statements by providing information about the Township's most significant funds.

Fiduciary funds provide information about the financial relationships in which the Township acts solely as a trustee or agent for the benefit of others. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Township's own programs.

**The Township as a Whole**

The following table shows, in a condensed format, the net position as of March 31, 2013 and March 31, 2012.

	March 31,	
	2013	2012
ASSETS		
Current assets	\$ 2,082,496	\$ 2,396,868
Noncurrent assets	650,565	518,561
Total assets	2,733,061	2,915,429
LIABILITIES		
Current liabilities	7,106	7,804
NET POSITION		
Investment in capital assets	503,002	518,561
Unrestricted	2,222,953	2,389,064
Total net position	\$ 2,725,955	\$ 2,907,625

Township of Chippewa

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2013

The Township's total net position was \$2,725,955 at March 31, 2013. Unrestricted net position (the part of net position that can be used to finance day-to-day operations) was \$2,222,953 at the end of the fiscal year. The net position investment in capital assets was \$503,002.

The following table shows the changes in net position for the year ended March 31, 2013 and March 31, 2012.

	March 31,	
	2013	2012
<b>REVENUE</b>		
Program revenues		
Charges for services	\$ 29,688	\$ 30,912
Operating grants and contributions	261,317	329,983
General revenues		
Property taxes	92,223	96,376
State shared revenue	339,351	329,541
Investment earnings	2,107	9,590
Other	15,816	5,887
	<hr/>	<hr/>
Total revenues	740,502	802,289
<b>PROGRAM EXPENSES</b>		
General government	198,300	185,283
Public safety	96,476	91,335
Public works	545,838	80,179
Health and welfare	63,079	-
Community and economic development	18,479	17,350
	<hr/>	<hr/>
Total program expenses	922,172	374,147
	<hr/>	<hr/>
Change in net position	\$ (181,670)	\$ 428,142

**Governmental Activities**

The Township's governmental revenues totaled \$740,502 with the greatest revenue source being state shared revenue, making up approximately 46 percent of the total. Operating grants and contributions consisted of approximately 35 percent of total revenues and property taxes make up approximately 12 percent of total governmental revenue. Over the past year, state shared revenue increased \$9,810.

The Township incurred expenses of \$922,172 during the year. The majority of expenses are associated with the general government, public safety, and public works functions, which includes various general governmental activities, fire services, maintenance of highways, streets and bridges as well as street lighting.

**The Township's Funds**

The analysis of the Township's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township of Chippewa as a whole. The Township of Chippewa's Board of Trustees has the ability to create funds to help manage money for specific purposes as well as to show accountability for certain activities, such as property tax millages. The Township's major fund for the fiscal year ended March 31, 2013 is the General Fund.

Township of Chippewa

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2013

The General Fund pays for all of the Township's governmental services. The most significant services provided during the fiscal year were public works activities which include maintenance of highways, streets, and bridges, which incurred expenditures of \$545,838, general governmental activities of \$163,120, and public safety activities for fire protection services of \$96,476 for the fiscal year.

**Capital Assets**

At the end of the fiscal year, the Township had approximately \$650,473 invested in capital assets, including land, land improvements, buildings, and equipment. There was \$147,471 in accumulated depreciation on these assets with a resulting investment in capital assets (net book value) of \$503,002. See Note D in the financial statements for more details.

**Current Economic Factors**

Revenue sharing is the most significant budgetary concern at this time. The State of Michigan continues to experience significant budget problems, and as they look for solutions, revenue sharing continues to be under attack. In the past the increases in other revenues have been sufficient to cover our loss of state shared revenue, but we cannot solely rely on those other sources to fund our current operations and therefore cannot withstand a further reduction in revenue sharing.

**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 demonstrate 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 Township Clerk or Treasurer at the Township Hall.

## **BASIC FINANCIAL STATEMENTS**

Township of Chippewa  
STATEMENT OF NET POSITION  
March 31, 2013

	Governmental Activities
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 1,497,377
Investments	584,300
Accounts receivable	819
Total current assets	2,082,496
Noncurrent assets	
Investments	147,563
Capital assets not being depreciated	14,965
Capital assets, net of accumulated depreciation	488,037
Total noncurrent assets	650,565
<b>TOTAL ASSETS</b>	2,733,061
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	2,872
Other accrued liabilities	4,234
<b>TOTAL LIABILITIES</b>	7,106
<b>NET POSITION</b>	
Investment in capital assets	503,002
Unrestricted	2,222,953
<b>TOTAL NET POSITION</b>	\$ 2,725,955

See accompanying notes to financial statements.

Township of Chippewa  
STATEMENT OF ACTIVITIES  
Year Ended March 31, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
General government	\$ 198,300	\$ 29,688	\$ -	\$ (168,612)
Public safety	96,476	-	-	(96,476)
Public works	545,838	-	261,317	(284,521)
Health and welfare	63,079	-	-	(63,079)
Community and economic development	18,479	-	-	(18,479)
Total governmental activities	<u>\$ 922,172</u>	<u>\$ 29,688</u>	<u>\$ 261,317</u>	(631,167)
General revenues				
Property taxes				92,223
State shared revenue				339,351
Investment earnings				2,107
Miscellaneous				<u>15,816</u>
Total general revenues				<u>449,497</u>
Change in net position				(181,670)
Net position, beginning of the year				<u>2,907,625</u>
Net position, end of the year				<u>\$ 2,725,955</u>

See accompanying notes to financial statements.

Township of Chippewa

Governmental Funds

BALANCE SHEET

March 31, 2013

	General	Nonmajor Governmental Capital Projects (Sanders Subdivision)	Total
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,497,377	\$ -	\$ 1,497,377
Investments	731,863	-	731,863
Accounts receivable	819	-	819
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL ASSETS	<u>\$ 2,230,059</u>	<u>\$ -0-</u>	<u>\$ 2,230,059</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 2,872	\$ -	\$ 2,872
Other accrued liabilities	4,234	-	4,234
	<u>          </u>	<u>          </u>	<u>          </u>
	7,106	-0-	7,106
<b>FUND BALANCES</b>			
Committed to:			
Public safety	48,150	-	48,150
Assigned to:			
Subsequent year's expenditures	55,700	-	55,700
Unassigned	2,119,103	-	2,119,103
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL FUND BALANCES	<u>2,222,953</u>	<u>-0-</u>	<u>2,222,953</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,230,059</u>	<u>\$ -0-</u>	<u>\$ 2,230,059</u>

See accompanying notes to financial statements.

Township of Chippewa

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION

March 31, 2013

**Total fund balances - governmental funds** \$ 2,222,953

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

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 650,473
Accumulated depreciation is	<u>(147,471)</u>

Capital assets, net	<u>503,002</u>
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**Net position of governmental activities** \$ 2,725,955

Township of Chippewa

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended March 31, 2013

	General	Nonmajor Governmental Capital Projects (Sanders Subdivision)	Total
<b>REVENUES</b>			
Taxes	\$ 92,223	\$ -	\$ 92,223
Licenses and permits	750	-	750
Intergovernmental	600,668	-	600,668
Charges for services	28,063	-	28,063
Interest and rents	2,916	66	2,982
Other	15,816	-	15,816
<b>TOTAL REVENUES</b>	<b>740,436</b>	<b>66</b>	<b>740,502</b>
<b>EXPENDITURES</b>			
Current			
General government	163,120	-	163,120
Public safety	96,476	-	96,476
Public works	545,838	-	545,838
Health and welfare	63,079	-	63,079
Community and economic development	18,479	-	18,479
Other	19,621	-	19,621
<b>TOTAL EXPENDITURES</b>	<b>906,613</b>	<b>-0-</b>	<b>906,613</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(166,177)</b>	<b>66</b>	<b>(166,111)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	12,854	-	12,854
Transfers out	-	(12,854)	(12,854)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>12,854</b>	<b>(12,854)</b>	<b>-0-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(153,323)</b>	<b>(12,788)</b>	<b>(166,111)</b>
Fund balances, beginning of year	2,376,276	12,788	2,389,064
Fund balances, end of year	<u>\$ 2,222,953</u>	<u>\$ -0-</u>	<u>\$ 2,222,953</u>

See accompanying notes to financial statements.

Township of Chippewa

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2013

**Net change in fund balances - total governmental funds** \$ (166,111)

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense (15,559)

**Change in net position of governmental activities** \$ (181,670)

Township of Chippewa

Fiduciary Funds

STATEMENT OF ASSETS AND LIABILITIES

March 31, 2013

	<u>Agency Funds</u>
ASSETS	
Cash	<u>\$ 4,785</u>
LIABILITIES	
Due to other governmental units	\$ 569
Due to individuals and agencies	<u>4,216</u>
TOTAL LIABILITIES	<u>\$ 4,785</u>

See accompanying notes to financial statements.

Township of Chippewa

NOTES TO FINANCIAL STATEMENTS

March 31, 2013

**NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Chippewa Township, Michigan was organized as a Township under provisions of the constitution and general law of the State of Michigan. The Township is one of sixteen (16) townships in Isabella County. The Township operates under an elected Township Board, which consists of a Supervisor, Clerk, Treasurer, and two trustees and provides services in many areas including fire protection, roads, and planning.

The financial statements of the Township have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Township governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Township's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 4*; these financial statements present all financial activities of the Township of Chippewa. The Township has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Township of Chippewa contain all the funds controlled by the Township Board.

2. Joint Ventures

The Township participates in the following activity which is considered to be a jointly governed organization in relation to the Township, due to there being no ongoing financial interest or responsibility.

Shepherd Tri-Township Fire Department - The Township of Chippewa, in conjunction with the Townships of Coe and Lincoln, and the Village of Shepherd, has entered into an agreement to provide fire services by creating the Shepherd Tri-Township Fire Department.

Each unit names two members and one alternate from its governing body to serve as the Fire Department's Advisory Board. The Advisory Board has responsibility for adopting an annual budget. Under the arrangement, each unit bears its share of the Fire Department's direct labor costs for fire runs within its boundaries and other costs according to a formula which takes the ratio of population and State Equalized Valuation which each unit involved bears to the total population and State Equalized Valuation of all units involved, and averages the two. The percentages of responsibility for other costs for the year ended November 30, 2012, for the Township of Chippewa, Coe, and Lincoln and the Village of Shepherd were 43%, 20%, 24%, and 13%, respectively. Annual contributions are made by each unit based upon the budget. The Township paid \$96,476 for operating expenditures, wage reimbursement, and mileage for the year ended March 31, 2013.

The financial activities of the Shepherd Tri-Township Fire Department are accounted for and reported separately from the participating units. Separate audited financial statements for their year ended November 30, 2012, are available from the Department. As of November 30, 2012, the Department had a fund balance of \$203,748.

Township of Chippewa

NOTES TO FINANCIAL STATEMENTS

March 31, 2013

**NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

3. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the government-wide statements) present information for the primary government units as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements.

The statement of activities presents the direct functional expenses of the Township and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, unrestricted State revenue sharing payments, and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Township's individual major fund and nonmajor fund. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Township reports the following governmental major fund:

- a. General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

The Township also reports agency funds to account for assets held by the Township as an agent for other governments or individuals and agencies. Agency Funds are, by nature, custodial; therefore, operation results are not measured. The Township's agency funds are the Trust and Agency Fund and the Tax Collections Fund.

4. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for agency funds since assets equal liabilities.

NOTES TO FINANCIAL STATEMENTS

March 31, 2013

**NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

5. Basis of Accounting

Basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and unearned revenue. Revenues are generally considered available when they are received in cash (unless legally restricted to some future period) or when earned and expected to be collected soon enough after year-end to pay liabilities of the current period. Significant revenues susceptible to accrual include certain intergovernmental revenues and charges for services. Most licenses and permits, fines and forfeits, and miscellaneous revenue sources generally are recorded as revenues when received in cash because they are not measurable until actually received.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

If/when both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

6. Budgets and Budgetary Accounting

The General Fund budget shown in the required supplementary information to the financial statements was prepared on a basis not substantially different than the basis used to reflect actual results.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to April 1, the budget is legally adopted on a departmental (activity) level for the General Fund through passage of a Board resolution. After the budget is adopted, all transfers of budgeted amounts between activities, or any revisions that alter the total expenditures of the fund or activity, must be approved by the Township Board.
- b. Formal budgetary integration is employed as a management control device during the year.
- c. The Township does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at March 31 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted or amended by the Township Board during the year. Individual amendments were appropriately approved by the Township Board in accordance with required procedures.

7. Cash and Cash Equivalents

Cash and cash equivalents consist of regular and money market checking accounts, savings accounts, and certificates of deposit with original maturities of 90 days or less. Cash and cash equivalents are recorded at cost, which approximates market value.

8. Investments

Investments during the year consisted of certificates of deposit with original maturities of greater than 90 days. Investments are recorded at market value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Township of Chippewa

NOTES TO FINANCIAL STATEMENTS

March 31, 2013

**NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

9. Property Taxes

The Township of Chippewa bills and collects both its own property tax levy and the tax levy for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are as follows:

The property taxes attach as an enforceable lien on property as of December 1. Taxes are levied December 1 and are payable through February 14. All property taxes not paid by February 14 are deemed delinquent. Delinquent real property taxes are turned over to the Isabella County Treasurer on March 1.

The Isabella County Treasurer remits payment to the Township on all delinquent real property taxes. The Township then remits these delinquent payments to the applicable units. Delinquent personal property taxes are retained by the Township for subsequent collection. Property taxes are recognized as revenues in the period for which they are levied.

The Township is permitted to levy up to \$1 per \$1,000 of assessed valuation for general governmental services. For the year ended March 31, 2013, the Township levied 1.0000 mills per \$1,000 of assessed valuation for general governmental services. The total taxable value for the 2013 levy for property within the Township was \$91,672,588.

10. Capital Assets

Capital assets are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	20 years
Buildings	50 years
Equipment	3 - 15 years

11. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

12. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

Township of Chippewa

NOTES TO FINANCIAL STATEMENTS

March 31, 2013

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Compiled Laws, the Township of Chippewa is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

As of March 31, 2013, the carrying amounts and bank balances for the accounts were as follows:

	<u>Carrying Amount</u>	<u>Bank Balances</u>
Checking	\$ 34,786	\$ 34,822
Savings	1,467,301	1,489,540
Certificates of deposit	<u>731,863</u>	<u>731,863</u>
	<u>\$ 2,233,950</u>	<u>\$ 2,256,225</u>

The cash and cash equivalents captions on the financial statements include \$75 in imprest cash.

Deposits of the Township are at federally insured banks located in the State of Michigan, with all accounts maintained in the name of the Township. As of March 31, 2013, the Township accounts were insured by the FDIC for \$607,463. In addition, the Township has deposits of \$1,314,462 that are not FDIC insured but are collateralized by the bank. The remaining deposits of \$334,300 are uninsured and uncollateralized.

Due to significantly higher cash flows at certain periods during the year, the amount the Township held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Interest rate risk

The Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designing its portfolio with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Township of Chippewa

NOTES TO FINANCIAL STATEMENTS

March 31, 2013

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

Concentration of credit risk

The Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying its investments by security type and institution to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the financial statements based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of March 31, 2013:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 1,497,377	\$ 4,785	\$ 1,502,162
Investments	<u>731,863</u>	<u>-</u>	<u>731,863</u>
	<u>\$ 2,229,240</u>	<u>\$ 4,785</u>	<u>\$ 2,234,025</u>

**NOTE C: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfer to General Fund from:	
Nonmajor governmental fund	<u>\$ 12,854</u>

The transfer from the nonmajor governmental fund to the General Fund was to reassign the remaining assets of the capital projects fund after the project was completed.

**NOTE D: CAPITAL ASSETS**

Capital asset activity for the year ended March 31, 2013 was as follows:

	<u>Balance Apr. 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Mar. 31, 2013</u>
Capital assets not being depreciated				
Land	\$ 14,965	\$ -	\$ -	\$ 14,965
Capital assets being depreciated				
Land improvements	18,092	-	-	18,092
Buildings	579,422	-	-	579,422
Equipment	<u>37,994</u>	<u>-</u>	<u>-</u>	<u>37,994</u>
Subtotal	635,508	-0-	-0-	635,508

Township of Chippewa

NOTES TO FINANCIAL STATEMENTS

March 31, 2013

**NOTE D: CAPITAL ASSETS - CONTINUED**

	Balance <u>Apr. 1, 2012</u>	Additions	Deletions	Balance <u>Mar. 31, 2013</u>
Less accumulated depreciation for:				
Land improvements	\$ (5,153)	\$ (1,272)	\$ -	\$ (6,425)
Buildings	(101,482)	(12,108)	-	(113,590)
Equipment	<u>(25,277)</u>	<u>(2,179)</u>	-	<u>(27,456)</u>
Subtotal	<u>(131,912)</u>	<u>(15,559)</u>	-0-	<u>(147,471)</u>
Net capital assets being depreciated	<u>503,596</u>	<u>(15,559)</u>	-0-	<u>488,037</u>
Capital assets, net	<u>\$ 518,561</u>	<u>\$ (15,559)</u>	<u>\$ -0-</u>	<u>\$ 503,002</u>

Depreciation expense was charged to the following governmental activities as follows:

General government	<u>\$ 15,559</u>
--------------------	------------------

**NOTE E: RETIREMENT PLAN**

The Township of Chippewa is the sponsor of a retirement plan for the sole benefit of its employees. The Township of Chippewa Pension Plan is a money purchase defined contribution pension plan, administered by John Hancock Life Insurance Company. During the year ended March 31, 2013, the Township of Chippewa was required to contribute for all eligible employees.

For the year ended March 31, 2013, the Township had a total payroll of \$63,326. The Township of Chippewa Retirement Plan covered payroll was \$34,391. The Township made contributions to the retirement plan in the amount of \$8,764.

**NOTE F: RISK MANAGEMENT**

The Township participates in a pool, the Michigan Township Participating Plan with other municipalities for various risks of loss including employer's liability, errors and omissions, law enforcement, automobile, crime, inland marine, boiler, general liability, property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Township has not been informed of any special assessments being required.

The Township also carries commercial insurance for the risk of loss due to workers' compensation claims.

Township of Chippewa

NOTES TO FINANCIAL STATEMENTS

March 31, 2013

**NOTE G: BUILDING AND ZONING FINANCIAL INFORMATION**

The Township elected to report the financial activities of the building and zoning activity in the General Fund. The following is the required information as it relates to this activity for the year ended March 31, 2013:

REVENUES	
Building Permits	\$       750
EXPENDITURES	
Salaries and fringes	4,685
Supplies and miscellaneous	<u>2,457</u>
TOTAL EXPENDITURES	<u>7,142</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(6,392)
(Deficit) at March 31, 2012	<u>(100,865)</u>
(Deficit) at March 31, 2013	<u><u>\$ (107,257)</u></u>

**NOTE H: DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS**

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes fund balance classifications that comprise 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. The following are the five classifications of fund balance under this standard:

*Nonspendable* - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

*Restricted* - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

*Committed* - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

*Assigned* - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

*Unassigned* - all other resources; the remaining fund balance after non-spendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative Fund Balances are always reported as Unassigned, no matter which fund the deficit occurs in.

Township of Chippewa

NOTES TO FINANCIAL STATEMENTS

March 31, 2013

**NOTE H: DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS - CONTINUED**

Fund Balance Classification Policies and Procedures

For committed fund balance, the Township of Chippewa's highest level of decision-making authority is the Board of Trustees. The formal action that is required to be taken to establish (and modify or rescind) a fund balance commitment is Board Resolution.

For assigned fund balance, Board of Trustees has not approved a policy indicating who is to assign amounts to a specific purpose. As a result, this authority is retained by the Board of Trustees.

The Township has not formally adopted a policy that determines when both restricted and unrestricted fund balances are available which should be used first, therefore restricted resources will be used first, then unrestricted resources if they are needed.

The Township has not formally adopted a policy that determines whether committed, assigned or unassigned amounts are considered to be spent when an expenditure is incurred for purposes which amounts from any of those fund balance classifications could be used.

**NOTE I: CHANGE IN ACCOUNTING PRINCIPLE**

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This GASB Statement also provides a new format to certain financial statements to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. This Statement impacted the format and reporting of the statement of net position and the balance sheet at the government-wide level and at the fund level, respectively.

**NOTE J: UPCOMING ACCOUNTING PRONOUNCEMENTS**

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement will be effective for the Township's 2013-2014 fiscal year.

**REQUIRED SUPPLEMENTARY INFORMATION**

Township of Chippewa

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive
				(Negative)
<b>REVENUES</b>				
Taxes				
Current tax levy	\$ 97,000	\$ 97,000	\$ 91,174	\$ (5,826)
Delinquent personal property tax	100	100	388	288
Trailer park taxes	700	700	661	(39)
Penalties and interest	50	50	-	(50)
Total taxes	97,850	97,850	92,223	(5,627)
Licenses and permits				
Building/zoning permits	1,000	1,000	750	(250)
Intergovernmental				
State shared revenue	275,000	275,000	339,351	64,351
Tribal gaming revenue	50,000	50,000	261,317	211,317
Total intergovernmental	325,000	325,000	600,668	275,668
Charges for services				
Cable franchise fees	22,000	22,000	20,765	(1,235)
Cemetery lots and grave openings	4,000	4,000	7,298	3,298
Total charges for services	26,000	26,000	28,063	2,063
Interest and rents	7,600	7,600	2,916	(4,684)
Other				
Miscellaneous	6,000	6,000	15,816	9,816
<b>TOTAL REVENUES</b>	<b>463,450</b>	<b>463,450</b>	<b>740,436</b>	<b>276,986</b>
<b>EXPENDITURES</b>				
Current				
General government				
Township board	13,270	13,270	10,538	2,732
Supervisor	13,160	13,895	13,339	556
Clerk	17,600	18,166	13,392	4,774
Board of review	3,100	3,850	2,940	910
Treasurer	22,700	22,938	17,232	5,706
Assessor	32,800	37,794	37,046	748
Elections	8,100	8,390	6,297	2,093
Township hall	17,400	25,622	25,866	(244)
Cemetery	29,000	31,452	29,107	2,345
Other	8,800	8,800	7,363	1,437
Total general government	165,930	184,177	163,120	21,057

Township of Chippewa

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended March 31, 2013

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>EXPENDITURES - CONTINUED</b>				
Current - continued				
Public safety				
Fire department	\$ 100,500	\$ 104,400	\$ 96,476	\$ 7,924
Public works				
Street lights	16,650	16,650	15,016	1,634
Highways, streets, and bridges	119,500	531,500	530,571	929
Drains at large	1,500	1,500	251	1,249
Total public works	137,650	549,650	545,838	3,812
Health and welfare				
Mosquito control	-	75,000	63,079	11,921
Community and economic development				
Zoning commission	10,500	12,071	7,142	4,929
Planning commission	12,210	12,889	11,337	1,552
Total community and economic development	22,710	24,960	18,479	6,481
Other				
Pension plan contributions and fees	3,000	7,500	8,764	(1,264)
Social security	3,000	3,000	4,519	(1,519)
Insurance	8,500	8,500	6,338	2,162
Total other	14,500	19,000	19,621	(621)
<b>TOTAL EXPENDITURES</b>	<b>441,290</b>	<b>957,187</b>	<b>906,613</b>	<b>50,574</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>22,160</b>	<b>(493,737)</b>	<b>(166,177)</b>	<b>327,560</b>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	-	-	12,854	12,854
<b>NET CHANGE IN FUND BALANCE</b>	<b>22,160</b>	<b>(493,737)</b>	<b>(153,323)</b>	<b>340,414</b>
Fund balance, beginning of year	2,376,276	2,376,276	2,376,276	-0-
Fund balance, end of year	\$ 2,398,436	\$ 1,882,539	\$ 2,222,953	\$ 340,414

Township of Chippewa

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended March 31, 2013

**NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the budgetary comparison schedules in the required supplementary information of the financial statements, the Township's budgeted expenditures in the General Fund have been shown at the activity level.

During the year ended March 31, 2013, the Township incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Township hall	\$ 25,622	\$ 25,866	\$ 244
Other			
Pension plan contributions and fees	7,500	8,764	1,264
Social security	3,000	4,519	1,519

## **OTHER SUPPLEMENTARY INFORMATION**

Township of Chippewa

Agency Funds

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

March 31, 2013

	<u>Trust and Agency</u>	<u>Current Tax Collections</u>	<u>Total</u>
ASSETS			
Cash	<u>\$          569</u>	<u>\$         4,216</u>	<u>\$         4,785</u>
LIABILITIES			
Due to other governmental units	<u>\$          569</u>	<u>\$              -</u>	<u>\$          569</u>
Due to individuals and agencies	<u>              -</u>	<u>          4,216</u>	<u>          4,216</u>
TOTAL LIABILITIES	<u>\$          569</u>	<u>\$         4,216</u>	<u>\$         4,785</u>

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA  
Alan D. Panter, CPA  
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS

Members of the Township Board  
Township of Chippewa  
Isabella County, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Township of Chippewa, Michigan (the Township) as of and for the year ended March 31, 2013, 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 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 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 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 discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness and another deficiency in internal control that we consider to be a significant deficiency.

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 Township's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in internal control to be a material weakness:

MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Material journal entries for the proper recognition of various financial statement items were proposed by the auditors. These journal entries were to correct misstatements that were not detected by the Township's internal control over financial reporting. These entries were necessary to adjust beginning fund balance and due from other governmental units.

Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (where applicable), including the proper recording of journal entries to assure the trial balances from which the financial statements are prepared are in conformity with U.S. generally accepted accounting principles (GAAP).

We recommend that the Township take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

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 deficiency described below to be a significant deficiency.

#### PREPARATION OF FINANCIAL STATEMENTS

Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the Township rests with the Township's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

It has historically been common for many small to medium-sized governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls. A similar issue was noted and reported in our audit comments last year.

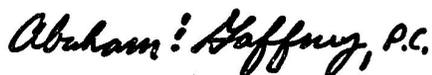
The condition noted in the preceding paragraph exists at the Township of Chippewa. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

Statement on Auditing Standards No. 115 titled "*Communicating Internal Control Related Matters Identified in an Audit*," requires us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with accounting principles generally accepted in the United States of America. We are communicating these circumstances as required by professional standards. We recommend the Township Board consider the costs and benefits of preparing financial statements in accordance with GAAP internally or outsourcing the preparation of the financial statements to another accounting firm.

#### Compliance and Other Matters

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

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



ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

June 24, 2013