

TOWNSHIP OF KEARNEY
ANTRIM COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2013

Township Officials

Supervisor

Rolland Kotz

Clerk

Sally Petrie

Treasurer

Joyce Hagood

Trustees

Ed Niepoth

John Fleet

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Miller & Cook, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Richard W. Miller, CPA
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100 West First Street
P.O. Box 962
Gaylord, MI 49734

Independent Auditor's Report

September 25, 2013

To the Township Board
Kearney Township
Antrim County, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund activities, and the aggregate remaining fund information of the Township of Kearney, as of and for the year ended March 31, 2013, 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's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit 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 in the first paragraph present fairly, in all material respects, the financial position of the governmental activities, the major fund activities and the aggregate remaining fund information of the Township of Kearney as of March 31, 2013, and the respective changes in financial position thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 – 4 and budgetary comparison information on pages 22 – 25 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Miller & Cook, LLP

**KEARNEY TOWNSHIP
P.O. BOX 51
BELLAIRE, MI 49615**

**TOWNSHIP OF KEARNEY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED MARCH 31, 2013**

This section of Kearney Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended March 31, 2013. Please read it in conjunction with the financial statements that immediately follow this section.

Financial Highlights

Overall revenues for the primary government were approximately \$514,400 of which approximately \$60,800 is classified as program revenues, approximately \$453,600 is classified as general revenues (consisting primarily of state shared revenues and property taxes). Overall expenses totaled approximately \$515,900 for the primary government. The activities of the Township have remained the same.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities. The remaining statements are fund financial statements, which focus on the detailed activities of the Township's funds.

The notes to the financial statements explain some of the information in the statements and provide more detailed data. Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

Government-Wide Statements

The government-wide statements report information about the Township as a whole using accounting methods used by private companies. The Statement of Net Assets includes all of the Township's assets and liabilities. The Statement of Activities records all of the current year revenues and expenses regardless of when received or paid.

The two government-wide statements report net assets and how they have changed. Net assets are the difference between the Township's assets and liabilities and this is one method to measure the Township's financial health or position.

Over time, increases or decreases in an entity's net assets is an indicator of whether financial position is improving or deteriorating.

To assess overall health of an entity, you may also have to consider tax base changes and other various economic conditions.

Fund Financial Statements

The fund financial statements provide more detailed information about the Township's funds. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following kinds of funds:

Governmental Funds: All of the Township's activities are classified in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that differences between the government-wide statements and the fund statements are disclosed to explain the difference between them.

General Fund – this fund accounts for all activities of the Township not required to be reported in a separate fund. Revenues consist primarily of property taxes and state shared revenues. Expenditures consist of general government activities, cemetery, building and grounds and street lights.

Roads Fund – this fund accounts for the road millage and road repair and maintenance expenditures.

Swiss Village Capital Outlay – this fund is used for special revenue associated with major capital projects, requiring separate accounting because of legal or regulatory provisions.

Swiss Village Debt Service – this fund is used to account for special assessments and other resources to be used for the payment of interest and principal on long term debt.

Financial Analysis of the Township as a Whole

Net Assets - the Township's net assets decreased by approximately \$241,684 during the year ended March 31, 2013 totaling at year-end \$1,429,149. The decrease in net assets is due primarily to the removal of the roads and road improvements from the townships net assets as roadways are not a Township asset as the prior year auditor had listed.

Capital Asset and Long-Term Debt Activity

The Township paid off the long term debt township hall. There is no other long term debt recorded this year. Depreciation/amortization expense totaled \$56,639 of which \$17,190 is for general government and \$36,449 is for road amortization.

Known Factors affecting Future Operations

None.

Contacting Township Management

This financial report is designed to provide our taxpayers, creditors and investors with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have questions concerning this report, please contact any member of the Township Board at P.O. Box 51, Bellaire, MI 49615.


Rolland Kotz, Supervisor

**TOWNSHIP OF KEARNEY
STATEMENT OF NET ASSETS
MARCH 31, 2013**

Assets	
Cash and equivalents	\$ 801,333
Taxes Receivable	23,285
Capital assets not being depreciated	55,797
Capital assets being depreciated	1,570,252
	2,450,667
Total assets	2,450,667
Liabilities	
Accrued liabilities	36,440
	36,440
Total liabilities	36,440
Net Assets	
Invested in capital assets, net of related debt	1,626,049
Restricted for:	
Roads	351,939
Swiss Village Capital Outlay	10,393
Swiss Village Debt Service	16,920
Unrestricted	408,926
	2,414,227
Total net assets	\$ 2,414,227

See accompanying notes to financial statements.

**TOWNSHIP OF KEARNEY
BALANCE SHEET
GOVERNMENTAL FUNDS
YEAR ENDED MARCH 31, 2013**

	<u>General Fund</u>	<u>Road Fund</u>	<u>Swiss Village Capital Outlay</u>	<u>Swiss Village Debt Service</u>	<u>Total</u>
Assets					
Cash	\$ 425,825	\$ 348,195	\$ 10,393	\$ 16,920	\$ 801,333
Receivables	19,541	3,744	-	-	23,285
Total Assets	<u>445,366</u>	<u>351,939</u>	<u>10,393</u>	<u>16,920</u>	<u>824,618</u>
Liabilities					
Accrued liabilities	36,440	-	-	-	36,440
Total Liabilities	<u>36,440</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,440</u>
Fund balance					
Assigned for:					
Roads	-	351,939	-	-	351,939
Swiss Village Capital Outlay	-	-	10,393	-	10,393
Swiss Village Debt Service	-	-	-	16,920	16,920
Unassigned	408,926	-	-	-	408,926
Total Fund balance	<u>408,926</u>	<u>351,939</u>	<u>10,393</u>	<u>16,920</u>	<u>788,178</u>
Total liabilities and fund balances	<u>\$ 445,366</u>	<u>\$ 351,939</u>	<u>\$ 10,393</u>	<u>\$ 16,920</u>	<u>\$ 824,618</u>

See accompanying notes to financial statements

**TOWNSHIP OF KEARNEY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
MARCH 31, 2013**

Total Fund Balance - Governmental Activities (per Balance Sheet - page 7)	\$ 788,178
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not recorded in the funds	1,626,049
Total Net Assets - Governmental Activities (per Statement of Net Assets - Page 6)	<u>\$ 2,414,227</u>

See accompanying notes to financial statements.

TOWNSHIP OF KEARNEY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED MARCH 31, 2013

	<u>General Fund</u>	<u>Road Fund</u>	<u>Swiss Village Capital Outlay</u>	<u>Swiss Village Debt Service</u>	<u>Total</u>
Revenues					
Taxes and assessments	\$ 310,634	\$ 58,356	\$ -	\$ -	\$ 368,990
State sources	84,583	-	-	-	84,583
Rent	2,900	-	-	-	2,900
Interest	513	167	12	26	718
Miscellaneous revenue	39,363	17,895	-	-	57,258
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	437,993	76,418	12	26	514,449
Expenditures					
Current:					
General government	279,750	-	-	-	279,750
Public works	-	20,143	-	-	20,143
Public safety	105,729	-	-	-	105,729
Debt service:					
Principal	89,424	-	-	20,900	110,324
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	474,903	20,143	-	20,900	515,946
Excess (deficiency) of revenues over (under) expenditures	(36,910)	56,275	12	(20,874)	(1,497)
Fund balance - Beginning of Year	445,836	295,664	10,381	37,794	789,675
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Fund balance - End of year	<u>\$ 408,926</u>	<u>\$ 351,939</u>	<u>\$ 10,393</u>	<u>\$ 16,920</u>	<u>\$ 788,178</u>

See accompanying notes to financial statements.

**TOWNSHIP OF KEARNEY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2013**

Change in Fund Balance - Total Governmental Funds (per Statement of Revenues, Expenditures, and Changes in Fund Balance - Page 9)	\$	(1,497)
Amounts reported for governmental activities in the Statement of Activities (Page 7) are different because:		
Depreciation expense, recorded in the government-wide financial statements		(17,190)
Payments on long-term debt are recorded as an expenditure in the fund financial statements but are a reduction to outstanding balances in the government-wide statements		110,324
 Change in Net Assets - Governmental Activities (Per Statement of Activities - Page 6)	 \$	 91,637

See accompanying notes to financial statements.

**TOWNSHIP OF KEARNEY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2013**

Note 1: Entity

The Township of Kearney is a general law township of the State of Michigan located in Antrim County, Michigan. It operates under an elected board and provides service to its residents in many areas including public safety, community enrichment and human services. The criteria established for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, the financial statements include all of the governmental functions of Kearney Township. The following activities are included in this report:

1. All general activities of Kearney Township including building, parks and other governmental activities.

Note 2: Summary of Significant Accounting Policies

Introduction

The accounting and reporting framework and the more significant accounting principles and practices of Kearney Township are discussed in subsequent sections of this Note. The remainder of the Notes is organized to provide explanations including required disclosures of the Township's financial activities.

The accounting policies of Kearney Township conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

Government-Wide and Fund Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Township as a whole, excluding fiduciary activities, such as tax collection activities.

Individual funds are not displayed, but the statements distinguish governmental activities, generally supported by taxes and Township general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. The Township does not engage in any business-type activities.

**TOWNSHIP OF KEARNEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2013**

Note 2: Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statement Presentation (Continued)

The statement of activities reports the expenses of a given function offset by program revenues directly connected with functional programs. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Township's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported in separate columns with composite columns for non-major funds. The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

Fund Types and Major Funds

Governmental Funds

The Township reports the following major governmental funds:

General Fund - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants and other inter-governmental revenues.

Road Fund – This fund is used to account for the financial activity related to the repair and maintenance of Township roads. Revenues are derived primarily from property taxes.

Swiss Village Capital Outlay – This fund is used for special revenue associated with major capital projects, requiring separate accounting because of legal or regulatory provisions.

Swiss Village Debt Service – This fund is used to account for special assessments and other resources to be used for the payment of interest and principal on long term debt.

**TOWNSHIP OF KEARNEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2013**

Note 2: Summary of Significant Accounting Policies (Continued)

Fund Equity Information

Beginning with fiscal year 2011-2012, the Township implemented GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions. In the fund financial statements, governmental funds report the following classifications of fund balance:

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

Restricted – Includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

Committed – Includes amounts that can only be used for specific purposes determined by a formal action by board resolution. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (Board Resolution) that was employed when the funds were initially committed.

Assigned – Includes amounts a government intends to use for a specific purpose. Intent can be expressed by the Board or by an official or body to which the Board delegates the authority

Unassigned – Includes amounts that are available for any purpose. Positive amounts are only reported in the General Fund.

It is the Township’s policy to first use restricted fund balance prior to the use of unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The Township’s policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Fund Balances	<u>General</u>	<u>Road</u>	<u>SW Village Capital Outlay</u>	<u>SW Village Debt Service</u>
Non Spendable	\$ -	\$ -	\$ -	\$ -
Restricted		351,939	10,393	16,920
Committed				
Assigned				
Unassigned	<u>408,926</u>			
Total Fund Balances	\$ 408,926	\$ 351,939	\$ 10,393	\$ 16,920

**TOWNSHIP OF KEARNEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2013**

Note 2: Summary of Significant Accounting Policies (Continued)

Fund Types and Major Funds (Continued)

Other Funds

Fiduciary Fund - This fund is used to account for assets held in trust or as an agent for others. Tax collection activities are recorded in this category. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

Measurement Focus and Basis of Accounting

The financial statements of the Township are prepared in accordance with generally accepted accounting principles (GAAP). The Township applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Township does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Government-Wide Financial Statements

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to Township departments.

Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental Fund Financial Statements

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available.

**TOWNSHIP OF KEARNEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2013**

Note 2: Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Township considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Property Taxes

The 2012 property tax calendar is as follows:

	WINTER LEVY	SUMMER LEVY
Levy Date	December 1, 2012	July 1, 2012
Due Date	February 15, 2013	September 14, 2012

The real property tax rolls were turned over to the County of Antrim on March 1, 2012. Collection of personal property taxes remains the responsibility of the Township. Amounts collected after the due date are assessed interest and/or penalty provisions. A county revolving fund normally pays the balance of the Township's tax levy.

Budgets

Public Act 621 of 1978 as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the Township for budgetary funds were adopted on a program level. Budgets are normally formulated during May and June of each year and a budget hearing is held in June. The board normally adopts the budget just prior to July 1. The budgets as presented in these financial statements have been amended throughout the year. They were adopted using the modified accrual method of accounting. They expire on June 30 of each year. There are no carryover items. The Township experienced no over-expenditures for the year ended March 31, 2013.

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**TOWNSHIP OF KEARNEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2013**

Note 2: Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation

The Township's property, plant, and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The Township generally capitalizes assets with historical cost of \$5,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations. The Township has roads and improvements that are amortized over 20 years.

Estimated useful lives, in years, for depreciable assets are as follows:

Computers and peripherals	5 years
Buildings and improvements	40 – 50 years
Furniture and equipment	10 – 20 years

Land and construction in progress are not depreciated. For information describing capital assets, see Note 4.

Long-Term Debt

In the government-wide financial statements, outstanding debt is reported as liabilities.

The governmental fund financial statements recognize the proceeds of debt as other financing sources of the current period and principal paid on obligations as debt service expense.

Note 3: Cash and Equivalents

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan.

**TOWNSHIP OF KEARNEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2013**

Note 3: Cash and Equivalents (Continued)

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 of Kearney's deposits and investment policies are in accordance with statutory authority.

At March 31, 2013 the Township's deposits were reported in the basic financial statements as follows:

General Government	\$	425,825
Road		348,195
SW Village Capital Outlay		10,393
SW Village Debt Service		16,920
Total	\$	801,333

Deposits

The bank balance of the Township's deposits is \$801,333, of which \$527,313 is covered by federal depository insurance as of March 31, 2013. The remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of the FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township 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 KEARNEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2013**

Note 4: Capital Assets

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

Governmental Activities:	Balance <u>March 31, 2012</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>March 31, 2013</u>
Capital assets not being depreciated:				
Land	\$ 64,797	-	\$ 9,000	\$ 55,797
Total capital assets not being depreciated	<u>64,797</u>	<u>-</u>	<u>9,000</u>	<u>55,797</u>
Capital assets being depreciated/amortized				
Buildings	605,733	-	33,404	\$ 572,329
Machinery & Equipment	18,269	-	13,514	\$ 4,755
Furniture & Fixtures	18,477	-	6,186	\$ 12,291
Roads & Improvements	<u>788,979</u>	<u>-</u>	<u>0</u>	<u>\$ 788,979</u>
Subtotal	1,431,458	-	53,104	1,378,354
Accumulated depreciation amortization				
Buildings & Improvements	35,362	14,308	18,435	31,235
Machinery & Equipment	16,525	475	13,514	3,486
Furniture & Fixtures	5,267	1,756	3,711	3,312
Land Improvements	10,957	651	9,000	2,608
Roads & Improvements	<u>111,807</u>	<u>39,449</u>	<u>-</u>	<u>151,256</u>
Subtotal	<u>179,918</u>	<u>56,639</u>	<u>44,660</u>	<u>191,897</u>
Net capital assets being depreciated	<u>\$ 1,251,540</u>	<u>(56,639)</u>	<u>\$ 8,444</u>	<u>\$ 1,186,457</u>

Depreciation expense was charged to functions of the Township as follows:

Governmental Activities:	
General Government	\$ 17,190
Roads	<u>39,449</u>
	<u>\$ 56,639</u>

**TOWNSHIP OF KEARNEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2013**

Note 5: Long-Term Debt

The following is a summary of changes in long-term debt for the year ended March 31, 2013:

Governmental activities:	<u>Balance April 1, 2012</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance March 31, 2013</u>	<u>Due Within One Year</u>
General fund installment loan payable to local bank for new township hall	\$ 89,424	\$ -	\$ 89,424	\$ -	\$ -

Note 6: Pension Plan

The Township of Kearney contributes to a pension plan which is a defined contribution pension plan administered by John Hancock Life Insurance Company.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive.

Under the Township's defined contribution pension plan, the benefits a participant will receive depend upon the amount contributed to the participant's account and the returns earned on investments of those contributions. All full-time employees and elected officials are eligible to participate in the plan. Contributions made by the Township and employees are fully vested. The participant will receive all vested benefits upon termination of employment with the Township.

The plan requires the Township to contribute 21.2% of the elected official's wages with the exception of the clerk. The Township pays 15% of her wages and the township pays her health insurance in the amount of \$14,728 per year. The Township has met all pension obligations for the year ended March 31, 2013. The Township's contribution for the year totals \$12,183.

**TOWNSHIP OF KEARNEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2013**

Note 7: Contingencies

Insurance Coverage

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; error and omission; injuries to employees; and natural disasters.

The Township participates in the Michigan Township Participants plan, a self insured group. The pool is considered a public entity risk pool. The Township pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims for each occurrence with the overall maximum coverage varying depending on the specific type of coverage of reinsurance. The Township has not been informed of any special assessments being required. There were no significant changes in coverage.

TOWNSHIP OF KEARNEY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED MARCH 31, 2013

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance From Final Amended Budget</u>
Revenues				
Property tax and assessments	\$ 286,640	286,640	\$ 310,634	23,994
State sources	82,121	82,121	84,583	2,462
Hall Rental	-	-	2,900	2,900
Interest	500	500	513	13
Miscellaneous revenue	10,590	10,590	39,363	28,773
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	379,851	379,851	437,993	58,142
Expenditures				
General Government				
Township Board:				
Trustee wages	3,840	3,840	2,720	1,120
Fringe benefits	24,600	24,600	21,032	3,568
Postage	200	200	49	151
Contractual Services	-	-	629	(629)
Printing and publishing	1,000	1,000	1,510	(510)
Insurance and bonds	14,000	14,000	14,728	(728)
Miscellaneous	14,763	14,763	23,375	(8,612)
Membership & Dues	2,800	2,800	2,041	759
Legal Expense	10,000	10,000	1,521	8,479
Supplies	3,000	3,000	2,725	275
Computer hardware	100	100	-	100
Auditing Expense	5,500	5,500	5,081	419
	<hr/>	<hr/>	<hr/>	<hr/>
Total Township Board	79,803	79,803	75,411	4,392
Township Supervisor:				
Wages	13,006	13,006	12,465	541
	<hr/>	<hr/>	<hr/>	<hr/>
Total Township Supervisor	13,006	13,006	12,465	541
Elections:				
Election Wages	8,700	8,700	4,711	3,989
Supplies	70	70	2,303	(2,233)
Miscellaneous	40	40	531	(491)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Elections	8,810	8,810	7,545	1,265
Assessor:				
Assessor Wages	25,443	25,443	28,379	(2,936)
Supplies	1,000	1,000	734	266
Postage	1,000	1,000	2,363	(1,363)
Contract Services	1,800	1,800	1,105	695
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assessor	29,243	29,243	32,581	(3,338)

TOWNSHIP OF KEARNEY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED MARCH 31, 2013

	Original Budget	Final Amended Budget	Actual	Variance From Final Amended Budget
Township Clerk:				
Wages	23,999	23,999	23,999	-
Supplies	2,000	2,000	500	1,500
Deputy wages	3,000	3,000	1,320	1,680
Miscellaneous	800	800	699	101
	<hr/>	<hr/>	<hr/>	<hr/>
Total Township Clerk	29,799	29,799	26,518	3,281
Board of Review:				
Wages	1,375	1,375	350	1,025
Miscellaneous	1,300	1,300	332	968
Education and Training	150	150	-	150
	<hr/>	<hr/>	<hr/>	<hr/>
Total Board of Review	2,825	2,825	682	2,143
Township Treasurer:				
Wages	20,769	20,769	21,472	(703)
Deputy wages	2,300	2,300	1,780	520
Postage	3,500	3,500	1,550	1,950
Tax Rolls	-	-	2,950	(2,950)
Contractual Services	2,000	2,000	4,065	(2,065)
Miscellaneous	4,300	4,300	837	3,463
	<hr/>	<hr/>	<hr/>	<hr/>
Total Township Treasurer	32,869	32,869	32,654	215
Building & Grounds:				
Insurance & Bonds	6,000	6,000	8,366	(2,366)
Supplies	1,000	1,000	233	767
Telephone	5,000	5,000	4,440	560
Utilities	7,500	7,500	7,056	444
Security	3,400	3,400	2,589	811
Heat	800	800	-	800
Repair and maintenance	5,100	5,100	6,128	(1,028)
Miscellaneous	1,600	1,600	750	850
Capital outlay	2,000	2,000	-	2,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total Building & Grounds	32,400	32,400	29,562	2,838
Cemetery:				
Cemetery Wages	5,500	5,500	3,458	2,042
Supplies	500	500	496	4
Miscellaneous	-	-	600	(600)
Repairs and maintenance	1,000	1,000	450	550
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cemetery	7,000	7,000	5,004	1,996

TOWNSHIP OF KEARNEY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED MARCH 31, 2013

	Original Budget	Final Amended Budget	Actual	Variance From Final Amended Budget
Planning & Zoning				
Wages	21,000	21,000	15,012	5,988
Miscellaneous	1,600	1,600	1,631	(31)
Total Planning & Zoning	22,600	22,600	16,643	5,957
Public Safety				
Street Lights	400	400	241	159
Fire Protection	88,200	88,200	105,729	(17,529)
Total Public Safety	88,600	88,600	105,970	(17,370)
Recreation & Culture				
Library	39,925	39,925	39,611	314
Parks	-	-	833	(833)
Total Recreation & Culture	39,925	39,925	40,444	(519)
Total General Government	386,880	386,880	385,479	1,401
Debt Service				
Debt retirement	89,553	89,553	89,424	129
Total Debt Service	89,553	89,553	89,424	129
Total Expenditures	476,433	476,433	474,903	1,530
Excess (deficiency) of revenues over (under) expenditures and other sources	(96,582)	(96,582)	(36,910)	59,672
Fund Balance - Beginning of Year	445,836	445,836	445,836	-
Fund Balance - End of Year	\$ 349,254	\$ 349,254	\$ 408,926	\$ 59,672

TOWNSHIP OF KEARNEY
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
ROAD FUND
YEAR ENDED MARCH 31, 2013

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance From Final Amended Budget</u>
Revenues				
Property Taxes	53,940	53,940	58,356	4,416
Interest	-	-	167	167
Metor Authority Reimbursement	-	-	17,895	17,895
Total revenues	<u>53,940</u>	<u>53,940</u>	<u>76,418</u>	<u>22,478</u>
Expenditures				
Road Improvements	58,000	58,000	20,143	37,857
Total public safety	58,000	58,000	20,143	37,857
Excess (deficiency) of revenues over (under) expenditures	<u>(4,060)</u>	<u>(4,060)</u>	<u>56,275</u>	<u>60,335</u>
Fund Balance - Beginning of Year	<u>295,664</u>	<u>295,664</u>	<u>295,664</u>	<u>-</u>
Fund Balance - End of Year	<u><u>291,604</u></u>	<u><u>291,604</u></u>	<u><u>351,939</u></u>	<u><u>60,335</u></u>



Miller & Cook, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

September 25, 2013

To the Township Board
Kearney Township
Antrim County, Michigan

We have audited the financial statements of Kearney Township for the year ended March 31, 2013. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Auditor's Responsibility under U.S. Generally Accepted Auditing Standards

We conducted our audit of the financial statements of Kearney Township in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

An independent auditor's objective in an audit is to obtain sufficient, competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at a reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financials are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion".

Significant Accounting Policies

The significant accounting policies are described in Note 2 to the financial statements.

Other Communications

Auditing standards call for us to inform you of other significant issues such as, but not limited to: 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

Internal Control Matters

In the audit processes, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or 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 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 financial statements that is more than inconsequential will not be prevented or detected by the internal control.

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 internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider each of the following significant deficiencies to be a material weakness.

Segregation of Duties

A property designed system of internal control segregates the accounting responsibilities from employees who have access to physical assets such as cash, investments and payroll, from authorization and approval of transactions and account reconciliations. The small size of the administrative staff precludes a complete segregation of duties resulting in more than a remote risk that material misstatements could occur and not be detected in the normal course.

Reporting Financial Data

The above definition of a significant deficiency includes any condition that adversely affects the ability to report financial data in accordance with generally accepted accounting principles ("GAAP"). As a matter of convenience, the Organization has always relied upon its auditors to prepare financial statements and related notes and supplemental schedules for external reporting in accordance with GAAP. As a consequence, the Organization has not developed the tools and resources necessary to enable its employees to prepare reports in conformity with GAAP in the normal course of performing their assigned functions. The Organization has committed the resources necessary to meet its internal reporting needs. In this regard, it is not unlike many other organizations of its size.

Summary

This information is intended solely for the use of the Board and Management of Kearney Township and is not intended to be and should not be used by anyone other than these specified parties.

We welcome any questions you may have regarding the foregoing comments, and would be happy to discuss any of these or other questions that you might have at your convenience.

Respectfully yours,

Miller & Cook, LLP