

LIBERTY TOWNSHIP, WEXFORD COUNTY

MANTON, MICHIGAN

MARCH 31, 2014



Baird, Cotter & Bishop, P.C.
SERVING YOUR PAST, PRESENT & FUTURE

CERTIFIED PUBLIC ACCOUNTANTS
134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601 PHONE: (231) 775-9789 FAX: (231) 775-9749
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LIBERTY TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

MARCH 31, 2014

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June 6, 2014

INDEPENDENT AUDITOR'S REPORT

To the Township Board
Liberty Township
Wexford County
Manton, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Liberty Township, Wexford County, Manton, Michigan as of and for the year ended March 31, 2014, 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 misstatements 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 Liberty Township, Wexford County, Manton, Michigan as of March 31, 2014, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 on pages iii through ix and 16 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.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

LIBERTY TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

As management of Liberty Township (“the Township”), we offer readers of the Township’s financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2014. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management Discussion and Analysis (MD&A) – for State and Local Governments issued in June of 2000. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because the audit of the Township is only required every other year, certain necessary comparative information of the previous year was not prepared. Considering the financial resources necessary to prepare this information for the prior year, the Township has elected to exclude the comparative information. We expect this situation to continue due to the every other year audit requirement.

Financial Highlights

Government-Wide:

- ❖ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$320,588. Of this amount, \$290,178 may be used to meet the Township’s ongoing obligations to citizens and creditors.
- ❖ The Township’s net position increased by \$8,136 during the fiscal year.

Fund Level:

- ❖ As of the close of the current fiscal year, the Township’s governmental fund reported an ending fund balance of \$290,178.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township’s basic financial statements. The Township’s basic financial statements consist of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional details to support the basic financial statements themselves.

Government-Wide Financial Statements The *Government-Wide Financial Statements* are designed to provide readers with a broad overview of the Township’s finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents financial information on all of the Township’s assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

LIBERTY TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

The *Statement of Activities* presents information showing how the Township's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future periods.

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Township include general government, public safety, public works, and other functions.

The government-wide financial statements can be found on pages 1-2 of this report.

Fund Financial Statements A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Liberty Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as *on balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund.

The Township adopts an annual budget for all major funds. A budgetary comparison has been provided for to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 3-6 of this report.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. The Township maintains

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

one type of fiduciary fund. The Agency Fund reports resources held by the Township in a custodial capacity for other governments.

The fiduciary fund financial statement can be found on page 7 of this report.

Notes to Financial Statements The notes provide additional information that is necessary to acquire a full understanding of the data provided in the governmental-wide and fund financial statements. The notes can be found on pages 8-15 of this report.

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

Government-Wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of Liberty Township, assets exceeded liabilities by \$320,588, at the close of the most recent fiscal year.

Liberty Township
Net Position as of March 31, 2014

	<u>Governmental Activities</u>
Assets	
Current Assets	\$ 291,722
Non Current Assets	
Capital Assets	46,280
Less: Accumulated Depreciation	<u>(15,870)</u>
Total Non Current Assets	<u>30,410</u>
Total Assets	<u>322,132</u>
Liabilities	
Current Liabilities	<u>1,544</u>
Net Position	
Net Investment in Capital Assets	30,410
Unrestricted	<u>290,178</u>
Total Net Position	<u><u>\$ 320,588</u></u>

LIBERTY TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

A portion of the Township's net position (9%) reflects its net investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related outstanding debt that was used to acquire those assets. The Township uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending.

The remaining balance of \$290,178 is unrestricted, which may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net position.

Liberty Township's overall net position increased by \$8,136 from the prior fiscal year. The reasons for this overall decrease are discussed in the following sections for the governmental activities.

Liberty Township
Change in Net Position
for the Fiscal Year Ended March 31, 2014

	Governmental Activities
<u>Revenues</u>	
Program Revenues	
Charges for Services	\$ 3,390
Operating Grants and Contributions	2,031
General Revenues	
Taxes	24,892
State Shared Revenue	64,437
Unrestricted Investment Earnings	4,052
Other	669
Total Revenues	99,471
<u>Expenses</u>	
General Government	57,448
Public Safety	17,774
Public Works	9,150
Other Functions	6,963
Total Expenses	91,335
Change in Net Position	8,136
<u>NET POSITION</u> - Beginning of Year	312,452
<u>NET POSITION</u> - End of Year	\$ 320,588

LIBERTY TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

Governmental Activities

The most significant parts of the revenue for all governmental activities of the Township come from property taxes and state-shared revenues. The Township levied 0.8768 mills for operating purposes. State-shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax.

The Township's governmental activities expenses are dominated by General Governmental expenses. The Township spent \$57,448 in fiscal year 2014 on General Governmental expenses. Public Safety represented the next largest expense at \$17,774.

Financial Analysis of the Governmental Funds

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

Governmental Funds The focus of Liberty Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Township itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Township Board.

At March 31, 2014, Liberty Township's governmental fund reported a fund balance of \$290,178, an increase of \$1,026 in comparison with the prior year. \$273,678 of this amount constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable, restricted, committed, or assigned* to indicate that it is 1) not in spendable form, 2) legally required to be maintained intact, 3) restricted for particular purposes, 4) committed for particular purposes, or 5) assigned for particular purposes.

General Fund – The General Fund increased its fund balance by \$1,026 which brings the fund balance to \$290,178. Of the General Fund's fund balance, \$273,678 is unassigned and \$16,500 is assigned for the anticipated subsequent year budget shortfall.

General Fund Budgetary Highlights

During the year, there was one change in appropriations between the original budget and final amended budget. The clerk's department was increased by \$710 to account for additional needs of the clerk's office.

LIBERTY TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Total Revenues	\$ 114,250	\$ 114,250	\$ 99,471
Total Expenditures	\$ 129,250	\$ 129,960	\$ 98,445

The reason for variance between budgeted revenues and actual revenues can be attributed to the Township receiving less taxes and state-shared revenues than what it budgeted for. The majority of the variance between budgeted expenditures and actual expenditures is due to the Township budgeting more for many expenditures than it actually incurred during the fiscal year.

Capital Assets

Capital Assets The Township's investment in capital assets for governmental activities as of March 31, 2014, amounted to \$30,410 net of accumulated depreciation.

Capital assets summarized below include any items purchased with a cost greater than \$5,000 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

Liberty Township
Capital Assets as of March 31, 2014

	Governmental Activities
Land and Land Improvements	\$ 30,655
Building Improvements	8,925
Machinery and Equipment	6,700
	46,280
Less: Accumulated Depreciation	(15,870)
Net Capital Assets	\$ 30,410

Major capital asset events during fiscal year 2013-2014 included the following:

- Cemetery fence at a cost of \$7,355.

Economic Condition and Outlook

State-shared revenues are expected to remain near the level recorded in 2013-2014.

This factor was considered in preparing the Township's budgets for the 2014-15 fiscal year.

LIBERTY TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Liberty Township at 7478 N. 41 Road, Manton, MI 49663.

LIBERTY TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

STATEMENT OF NET POSITION
MARCH 31, 2014

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 271,556
Due from External Parties	5,000
Due from Other Governments	<u>15,166</u>
Total Current Assets	<u>291,722</u>
<u>CAPITAL ASSETS</u>	
Land and Land Improvements	30,655
Building Improvements	8,925
Machinery and Equipment	<u>6,700</u>
	<u>46,280</u>
Less Accumulated Depreciation	<u>(15,870)</u>
Net Capital Assets	<u>30,410</u>
Total Assets	<u>322,132</u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Payroll Taxes and Withholdings	<u>1,544</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	30,410
Unrestricted	<u>290,178</u>
TOTAL NET POSITION	<u><u>\$ 320,588</u></u>

The accompanying notes are an integral part of the financial statements.

LIBERTY TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2014

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	TOTAL GOVERNMENTAL ACTIVITIES
<u>GOVERNMENTAL ACTIVITIES</u>					
General Government	\$ 57,448	\$ 3,390	\$ 0	\$ 0	\$ (54,058)
Public Safety	17,774	0	0	0	(17,774)
Public Works	9,150	0	2,031	0	(7,119)
Other Functions	6,963	0	0	0	(6,963)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 91,335	\$ 3,390	\$ 2,031	\$ 0	(85,914)
<u>GENERAL REVENUES</u>					
					24,892
Taxes					64,437
State Shared Revenue					4,052
Unrestricted Investment Earnings					669
Other					94,050
Total General Revenues					
Change in Net Position					8,136
<u>NET POSITION</u> - Beginning of Year					312,452
<u>NET POSITION</u> - End of Year					\$ 320,588

The accompanying notes are an integral part of the financial statements.

LIBERTY TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
MARCH 31, 2014

	<u>GENERAL FUND</u>
<u>ASSETS</u>	
Cash	\$ 271,556
Due from Other Funds	5,000
Due from Other Governments	15,166
TOTAL ASSETS	<u>\$ 291,722</u>
 <u>LIABILITIES AND FUND BALANCE</u>	
<u>LIABILITIES</u>	
Payroll Taxes and Withholdings	<u>\$ 1,544</u>
 <u>FUND BALANCE</u>	
Assigned for subsequent year's budget	16,500
Unassigned	273,678
Total Fund Balance	<u>290,178</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 291,722</u>

The accompanying notes are an integral part of the financial statements.

LIBERTY TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
MARCH 31, 2014

Total Fund Balances for Governmental Funds \$ 290,178

Amounts reported for 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 in the funds.

Land and Land Improvements	\$ 30,655	
Building Improvements	8,925	
Machinery and Equipment	6,700	
Accumulated Depreciation	(15,870)	30,410

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 320,588

The accompanying notes are an integral part of the financial statements.

LIBERTY TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
YEAR ENDED MARCH 31, 2014

	<u>GENERAL FUND</u>
<u>REVENUES</u>	
Taxes	\$ 24,892
State Grants	66,468
Charges for Services	3,390
Interest and Rents	4,052
Other Revenues	<u>669</u>
Total Revenues	<u>99,471</u>
<u>EXPENDITURES</u>	
General Government	64,558
Public Safety	17,774
Public Works	9,150
Other Functions	<u>6,963</u>
Total Expenditures	<u>98,445</u>
Net Change in Fund Balance	1,026
<u>FUND BALANCE</u> - Beginning of Year	<u>289,152</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 290,178</u>

The accompanying notes are an integral part of the financial statements.

LIBERTY TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2014

Net Change in Fund Balance - Total Governmental Funds	\$ 1,026
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures in the Statement of Activities. These costs are allocated over their estimated useful lives as depreciation.

Capital Outlay	7,355
Depreciation Expense	<u>(245)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 8,136</u></u>
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The accompanying notes are an integral part of the financial statements.

LIBERTY TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION
MARCH 31, 2014

	<u>AGENCY FUND</u>
<u>ASSETS</u>	
Cash	\$ 5,000
<u>LIABILITIES</u>	
Due to General Fund	<u> 5,000</u>
<u>NET POSITION</u>	<u><u> \$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

LIBERTY TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary governmental is financially accountable. Liberty Township does not have any *business-type activities* or *component units*.

B. Reporting Entity

Liberty Township is a general law township located in Wexford County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

Liberty Township reports the following major governmental funds:

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

LIBERTY TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

Additionally, Liberty Township reports the following fund types:

Fiduciary funds are accounted for using the accrual method of accounting. Fiduciary funds account for assets held by the Township in a trustee capacity or as an agent on behalf of others. This fund is custodial in nature and does not involve measurement of results of operations. Accordingly, it presents only a statement of fiduciary net position and does not present a statement of changes in fiduciary net position. Fiduciary funds are not included in the government-wide statements.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

LIBERTY TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue resource (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

F. Budgetary Information

1. Budgetary Basis of Accounting

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan state law. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year-end. Budget amounts are as originally adopted on April 2, 2013 or as amended from time to time by the Township.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The Township has authorized the Township Treasurer to invest in bank savings accounts, bank certificates of deposit and bank money market accounts. The State also permits local units of government to invest funds in commercial paper (unsecured notes of businesses and corporations). Such obligations must be rated in one of the three highest classifications by two of the national rating services in order to qualify for local government investment. Other statutory limits are that commercial obligations may not extend for more than 270 days, and not more than one half of the total investments may be invested in commercial paper.

LIBERTY TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

2. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

3. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Land Improvements	20
Building Improvements	20
Public Domain Infrastructure	50
Vehicles	10
Equipment and Furniture	5-10

4. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Township does not have any deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Township does not have any deferred inflows of resources.

LIBERTY TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

5. *Net Position Flow Assumption*

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

6. *Fund Balance Flow Assumption*

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

7. *Fund Balance Policies*

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority. The governing board is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

LIBERTY TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

8. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as program revenue include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and county taxes are levied and due July 1, and become delinquent after September 14. The remaining millages are levied and due December 1, and become delinquent after February 28. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as unavailable revenues.

The 2013 taxable valuation of Liberty Township totaled \$17,024,117 on which ad valorem taxes levied consisted of 0.8768 mills for Liberty Township operating purposes. The levy raised approximately \$14,839 for operating purposes.

II. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits with Financial Institutions

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2014, none of the Township's bank balance of \$295,259 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although it is not specifically addressed in the Township's investment policy, the Township typically limits its exposure to this type of risk by controlling who holds its deposits.

Foreign Currency Risk. The Township is not authorized to invest in investments which have this type of risk; therefore, it is not addressed in the investment policy.

LIBERTY TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

B. Receivables

Receivables as of year-end for the government's individual major funds are as follows:

Receivables	
Due from Other Governments	<u>\$ 15,166</u>

This amount is Michigan state-shared revenue.

C. Capital Assets

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 23,300	\$ 0	\$ 0	\$ 23,300
Capital Assets, Being Depreciated				
Land Improvements	0	7,355	0	7,355
Building Improvements	8,925	0	0	8,925
Machinery and Equipment	6,700	0	0	6,700
Total Capital Assets, Being Depreciated	15,625	7,355	0	22,980
Less Accumulated Depreciation for:				
Land Improvements	0	245	0	245
Building Improvements	8,925	0	0	8,925
Machinery and Equipment	6,700	0	0	6,700
Total Accumulated Depreciation	15,625	245	0	15,870
Total Capital Assets Being Depreciated, Net	0	7,110	0	7,110
Governmental Activities Capital Assets, Net	<u>\$ 23,300</u>	<u>\$ 7,110</u>	<u>\$ 0</u>	<u>\$ 30,410</u>

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

Governmental Activities:	
General Government	<u>\$ 245</u>

LIBERTY TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at March 31, 2014, were:

<u>FUND</u>	<u>INTERFUND RECEIVABLES DUE FROM'S</u>	<u>INTERFUND PAYABLES DUE TO'S</u>
General Fund	\$ 5,000	\$ 0
Fiduciary Fund		
Current Tax Collection Fund	0	5,000
	<u>\$ 5,000</u>	<u>\$ 5,000</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The Township has no interfund transfers.

E. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, workers compensation insurance and errors and omissions insurance. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total 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 assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

F. Fire Protection Contract

The Township entered into an agreement with the City of Manton to provide the Township with fire protection services. The agreement calls for the Township to pay the City \$17,024 for the fiscal year. In addition, the agreement calls for payments to be made by the Township for each fire run and for any overtime charges incurred. The total cost paid by the Township for the 2013-2014 fiscal year for fire runs was \$750.

LIBERTY TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS
YEAR ENDED MARCH 31, 2014

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Taxes	\$ 35,000	\$ 35,000	\$ 24,892
State Grants	70,000	70,000	66,468
Charges for Services	2,000	2,000	3,390
Interest and Rents	6,000	6,000	4,052
Other Revenues	1,250	1,250	669
Total Revenues	114,250	114,250	99,471
<u>EXPENDITURES</u>			
General Government			
Township Board	8,500	8,500	6,653
Supervisor	7,500	7,500	5,688
Election	2,500	2,500	1,039
Assessor	10,000	10,000	7,815
Clerk	10,000	10,710	10,108
Board of Review	2,000	2,000	1,149
Treasurer	13,000	13,000	12,493
Building and Grounds	9,000	9,000	7,913
Cemetery	25,000	25,000	11,700
Public Safety			
Fire Department	24,000	24,000	17,774
Public Works			
Highways, Streets, Bridges	9,000	9,000	8,845
Street Lighting	400	400	305
Other Functions	8,350	8,350	6,963
Total Expenditures	129,250	129,960	98,445
Net Change in Fund Balance	(15,000)	(15,710)	1,026
<u>FUND BALANCE</u> - Beginning of Year	280,687	280,687	289,152
<u>FUND BALANCE</u> - End of Year	\$ 265,687	\$ 264,977	\$ 290,178



Baird, Cotter & Bishop, P.C.

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June 6, 2014

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE AT THE CONCLUSION OF THE AUDIT

To the Township Board
Liberty Township
Wexford County
Manton, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Liberty Township for the year ended March 31, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 7, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Liberty Township are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013-2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimates of the useful lives of capital assets which is based on previous history. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We proposed several adjusting journal entries that were accepted and recorded by management. The majority of these misstatements were a result of converting the Township records from cash to accrual basis.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 6, 2014.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

During the course of our audit of the basic financial statements of Liberty Township for the year ended March 31, 2014, we noted the following items which we feel deserve comment:

Method of Strengthening Internal Controls

We recommend that a board member who would be independent of the process of reconciling the bank accounts review and initial the bank reconciliations each month. We also recommend that someone other than the person making adjusting journal entries review and approve the journal entries. While some mitigating controls exist over all of these issues, implementing these additional internal controls will help to strengthen the Township's overall internal control structure.

Condition of Accounting Records and Accounting Controls

2014 We would like to thank the accounting personnel for their efforts in accumulating the information needed for our audit. We encourage you to review your internal and accounting controls on an annual basis to ensure they are adequate and operating as intended.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis and Budgetary Comparison Schedule, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

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

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June 6, 2014

COMMUNICATION OF MATERIAL WEAKNESSES

To the Township Board
Liberty Township
Wexford County
Manton, 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 Liberty Township as of and for the year ended March 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered Liberty Township's internal control over financial reporting (internal control) as a basis for designing audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Liberty Township's internal control. Accordingly, we do not express an opinion on the effectiveness of Liberty 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 certain deficiencies in internal control that we consider to be material weaknesses.

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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in Liberty Township's internal control to be material weaknesses:

1) *Segregation of Incompatible Duties and Documented Independent Review*

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the government. A key element of internal control is the segregation of incompatible duties.

Condition: The government has several accounting functions that are performed by the same individual.

Cause: This condition is primarily the result of staffing constraints typical of smaller governmental units. Some of the control activities may be occurring on a routine basis, but are not being documented.

Effect: As a result of this condition, the government is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected by management on a timely basis.

Recommendation: There are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties. Recognizing this fact, we encourage the government to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials: Management recognizes that this limitation is a natural outgrowth of the small number of full-time staff, and applies its judgment in determining how best to allocate the government's resources to provide and appropriate balance between sound internal controls and fiscal prudence.

2) *Preparation of Financial Statements in Accordance with GAAP*

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including related footnotes (i.e., external financial reporting).

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditor to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Cause: This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the government's internal controls over the preparation of financial statements in accordance with GAAP are incomplete. Instead, the government relies, in part, on its external auditors for assistance with this task.

Recommendation: Due to the size and minimal activity, we recommend that the government continue to outsource financial statement preparation.

View of Responsible Officials: The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and noted prior to approving them and accepting responsibility for their content and presentation.

Liberty Township's responses to the findings identified in our audit are described above. We did not audit Liberty Township's response and, accordingly, we express no opinion on it.

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

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.