

TOWNSHIP OF MANCELONA, MICHIGAN

ANNUAL FINANCIAL REPORT

YEAR ENDED MARCH 31, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Township Board
Township of Mancelona, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Mancelona, Michigan (the "Township") 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Mancelona, Michigan, as of March 31, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Mancelona, Michigan's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2014, on our consideration of the Township of Mancelona, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Township of Mancelona, Michigan's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Gabridge & Company".

Gabridge & Company, PLC
Grand Rapids, Michigan
July 16, 2014

Management's Discussion and Analysis

As management of the Township of Mancelona, Michigan (The "Township" or "government") 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.

Financial Highlights

- The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$2,745,546 (net position). Of this amount, \$644,379 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- At the close of the current fiscal year, the Township's governmental funds reported combined fund balances of \$1,354,857, an increase of \$155,073 in comparison with the prior year. Approximately 44% of this amount (\$589,939) is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$589,939, or approximately 200% of total general fund expenditures.

Overview of the Financial Statements

The discussion and analysis provided here 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) the notes to the financial statements. This report also includes supplementary information intended to furnish additional detail 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 and liabilities, 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.

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 fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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 a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include general government, public safety, roads, and culture and recreation. The township does not report any business-type activities.

The government-wide financial statements can be found on pages 13 - 14 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. The 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 proprietary 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 six individual governmental funds. 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, the road fund and the fire fund, which are considered to be major funds. Data from the library, cemetery, and liquor funds are presented as a separate column as they are considered nonmajor funds.

The Township adopts an annual appropriated budget for the general fund and each special revenue fund. A budgetary comparison schedule for the general fund and each major special revenue fund has been provided to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 15 - 18 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 accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 19 of this report.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 – 30 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Township's budgetary comparison schedules. Required supplementary information can be found on pages 31 – 33 of this report.

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 the Township, assets exceeded liabilities by \$2,745,546, at the close of the most recent fiscal year.

Township of Mancelona Net Position at March 31, 2014 and March 31, 2013

	Governmental Activities	
	2014	2013
ASSETS		
<i>Current Assets</i>		
Cash & Cash Equivalents	\$ 1,191,167	\$ 1,054,854
Taxes Receivable	59,636	57,779
Due from State	35,776	72,183
Due from Other Governmental Units	83,577	81,916
Other Receivable	2,489	-
Total Current Assets	1,372,645	1,266,732
<i>Noncurrent Assets</i>		
Restricted Cash	16,203	16,203
Capital Assets (Net)	1,390,689	1,465,318
Total Assets	2,779,537	2,748,253
LIABILITIES		
<i>Current Liabilities</i>		
Accounts Payable	4,822	59,879
Accrued Payroll & Related Liabilities	29,169	23,272
Total Current Liabilities	33,991	83,151
NET POSITION		
Net Investment in Capital Assets	1,390,689	1,465,318
Restricted	710,478	649,431
<i>Unrestricted</i>	644,379	550,353
Total Net Position	\$ 2,745,546	\$ 2,665,102

By far, the largest portion of the Township's net position (51%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), 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. Although the Township's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The Township reported \$72,183 as receivable from the State of Michigan for sales tax revenue sharing as of March 31, 2013, as opposed to \$35,776 as of March 31, 2014. The Township

received sales tax revenue sharing payments in a more timely manner from the State during the current fiscal year. Accordingly, one less payment from the State was recorded as a receivable as of March 31, 2014.

Accounts payable decreased from \$59,878 as of March 31, 2013 to \$4,822 as of March 31, 2014. The accounts payable balance as of March 31, 2013 included a significant one-time amount payable for fire equipment purchased as part of a FEMA capital grant. Accordingly, the accounts payable amount returned to a more historical value of \$4,822 as of March 31, 2014.

An additional portion of the Township's net position (26%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$644,379 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

A comparative analysis of the changes in net position for the Township follows:

**Township of Mancelona
Change in Net Position for Fiscal Year Ended
March 31, 2014 and March 31, 2013**

	Governmental Activities	
	2014	2013
Revenue		
Program Revenues		
Charges for Services	\$ 148,635	\$ 140,352
Operating Grants & Contributions	14,081	13,672
Capital Grants & Contributions	-	50,113
Total Program Revenues	162,716	204,137
General Revenues		
Property Taxes & Assessments	446,381	434,504
State Revenue Sharing	225,270	219,140
Investment Income	2,231	2,648
Other	17,143	9,722
Total Revenues	853,741	870,151
Expenses		
General Government	345,264	352,487
Public Safety	369,542	306,768
Public Works	5	97,447
Culture & Recreation	58,486	64,167
Total Expenses	773,297	820,869
Change in Net Position	80,444	49,282
<i>Beginning Net Position</i>	<i>2,665,102</i>	<i>2,615,820</i>
Ending Net Position	\$ 2,745,546	\$ 2,665,102

At the end of the current fiscal year, the Township is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental activities. The same situation held true for the prior fiscal year.

The Township's overall net position increased \$80,444 from the prior fiscal year. The reasons for this overall decrease are discussed in the following sections for governmental.

Governmental Activities. During the current fiscal year, net position for governmental activities increased \$80,444 from the prior fiscal year for an ending balance of \$2,745,546. There were no expenditures related to road projects during the year which is the reason that public works expenditures decreased from \$97,447 during the year ended March 31, 2013 to only \$5 during the current year ended March 31, 2014. Also, capital grants decreased from \$50,113 during the year ended March 31, 2013 to \$0 for the current year ended March 31, 2014. This is a direct result of limited funding at both the state and federal level. While the Township was able to obtain a FEMA grant to fund fire capital improvements during the prior year, no similar grants were available during the current year.

Financial Analysis of 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 the 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's Board.

At March 31, 2014, the Township's governmental funds reported combined fund balances of \$1,354,857, an increase of \$155,073 in comparison with the prior year. Approximately 44% of this amount (\$589,939) constitutes *unassigned fund balance*, which is available for spending at the government's discretion, \$16,203 is nonspendable for cemetery maintenance, \$54,440 is assigned by the Township Board. The remainder of the fund balance is *restricted* to indicate that it is restricted for particular purposes (\$694,275).

The general fund is the chief operating fund of the Township. At the end of the current fiscal year, unassigned fund balance of the general fund was \$589,939. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund expenditures. Unassigned fund balance represents approximately 200 percent of total general fund expenditures.

The fund balance of the Township's general fund increased by \$39,586 during the current fiscal year. The increase in fund balance is consistent with prior years.

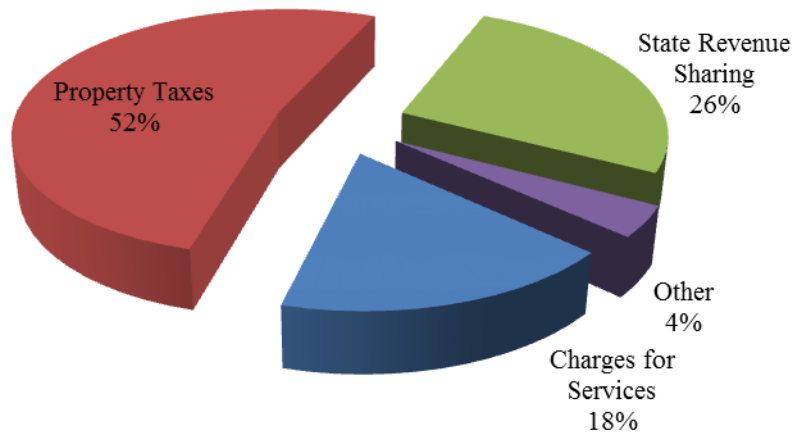
The road fund, a major fund, had a \$97,260 increase in fund balance during the current fiscal year which put the overall fund balance at \$228,895. The increase in fund balance is due to decreased road improvement expenditures for the year.

The fire fund, a major fund, had a \$14,325 increase in fund balance during the current fiscal year which put the overall fund balance at \$465,380. The increase in fund balance is consistent with prior years.

Governmental Activities

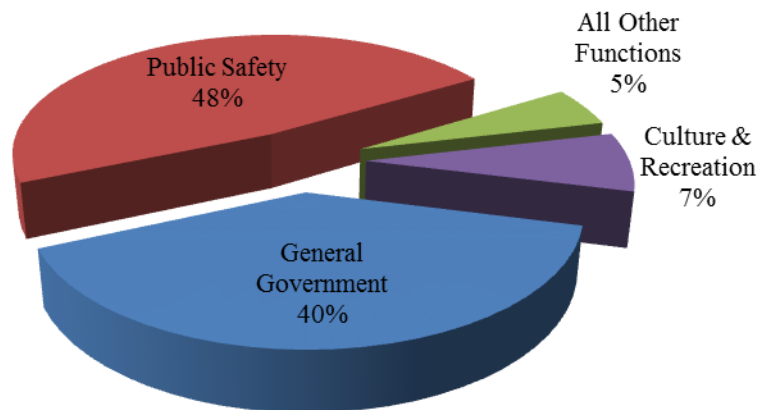
The following chart summarizes the revenue sources for the governmental activities of the Township for the most recent fiscal year end.

Governmental Activities Revenues



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

Governmental Activities Expenses



General Fund Budgetary Highlights

Original budget compared to final budget. During the year there was no need for any significant amendments to increase the original estimated revenues. Original budgeted appropriations for capital outlay had to be increased in the general fund for projects that were not included in the original budget.

Final budget compared to actual results. During the current fiscal year the Township had no budget variances between the amended budget compared to actual results.

Capital Assets and Debt Administration

Capital assets. The Township's investment in capital assets for its governmental activities as of March 31, 2014, amounts to \$1,390,689 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment and vehicles. The total decrease in capital assets for the current fiscal year was approximately 5%.

Township of Mancelona Capital Assets as of March 31, 2014

	Governmental Activities
Land and Land Improvements	\$ 73,913
Buildings & Improvements	572,428
Equipment	148,026
Vehicles	596,322
<i>Net Capital Assets</i>	<u>\$ 1,390,689</u>

Long-term Debt

The township has no long-term debt obligations.

Economic Condition and Outlook

About \$400,000 of revenues are expected to be available for appropriation in the general fund in the upcoming year. Expenditures are expected to change by small amounts compared to 2014. The Township continues to review all budget line items for opportunities to reduce expenditures when possible. The budget will be monitored during the year to identify any necessary amendments. In 2015, the Township plans again to use current revenues to provide essential services and to maintain the Township's financial reserves at similar levels. Property tax revenues are expected to change minimally reflecting fairly stable property values. The ongoing costs of providing essential services for the citizens of the Township will again need to be monitored in order to maintain the financial condition of the Township.

Contacting the Township

This financial report is designed to provide a general overview of the Township's finances to its citizens, customers, investors, and creditors and to demonstrate the Township's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Township of Mancelona
9610 Hwy M-88
Mancelona, MI 46959

**Township of Mancelona
Statement of Net Position
March 31, 2014**

	Primary Government Governmental Activities
ASSETS	
<i>Current Assets</i>	
Cash & Cash Equivalents	\$ 1,191,167
Taxes Receivable	59,636
Due from State	35,776
Due from Other Governmental Units	83,577
Other Receivables	2,489
Total Current Assets	1,372,645
<i>Noncurrent Assets</i>	
Restricted Cash	16,203
Capital Assets not being Depreciated	73,913
Capital Assets being Depreciated	1,316,776
Total Assets	2,779,537
LIABILITIES	
<i>Current Liabilities</i>	
Accounts Payable	4,822
Accrued Payroll & Related Liabilities	29,169
Total Current Liabilities	33,991
NET POSITION	
Net Investment in Capital Assets	1,390,689
<i>Restricted for:</i>	
Cemetery Perpetual Care	16,203
Fire	465,380
Roads	228,895
<i>Unrestricted</i>	644,379
Total Net Position	\$ 2,745,546

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

**Township of Mancelona
Statement of Activities
For the Year Ended March 31, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Governmental Activities</u>
Primary Government Governmental Activities:					
General Government	\$ 345,264	\$ 49,805	\$ --	\$ --	\$ (295,459)
Public Safety	369,542	82,721	--	--	(286,821)
Public Works	5	--	7,602	--	7,597
Culture & Recreation	58,486	16,109	6,479	--	(35,898)
<i>Total Governmental Activities</i>	<u>773,297</u>	<u>148,635</u>	<u>14,081</u>	<u>--</u>	<u>(610,581)</u>
Component Units					
		General Purpose Revenues and Transfers:			
		Revenues			
					446,381
					225,270
					17,143
					2,231
		Transfers			--
		<i>Total General Revenues and Transfers</i>			<u>691,025</u>
		<i>Change in Net Position</i>			80,444
		<i>Net Position at Beginning of Period</i>			2,665,102
		<i>Net Position at End of Period</i>			<u>\$ 2,745,546</u>

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

**Township of Mancelona
Balance Sheet
Governmental Funds
March 31, 2014**

	Special Revenue			Other Governmental Funds	Total Governmental Funds
	General	Road Fund	Fire Fund		
ASSETS					
Cash & Cash Equivalents	\$ 536,291	\$ 216,881	\$ 383,167	\$ 54,828	\$ 1,191,167
Taxes Receivable	17,588	12,014	30,034	--	59,636
Due from State	35,776	--	--	--	35,776
Due from Other Governmental Units	856	--	82,721	--	83,577
Other Receivables	1,907	--	--	582	2,489
Restricted Cash	--	--	--	16,203	16,203
Total Assets	\$ 592,418	\$ 228,895	\$ 495,922	\$ 71,613	\$ 1,388,848
LIABILITIES					
Accounts Payable	\$ 2,479	\$ --	\$ 1,373	\$ 970	\$ 4,822
Accrued Payroll & Related Liabilities	--	--	29,169	--	29,169
Total Liabilities	2,479	--	30,542	970	33,991
FUND BALANCE					
Nonspendable	--	--	--	16,203	16,203
Restricted	--	228,895	465,380	--	694,275
Assigned	--	--	--	54,440	54,440
Unassigned	589,939	--	--	--	589,939
Total Fund Balance	589,939	228,895	465,380	70,643	1,354,857
Total Liabilities and Fund Balance	\$ 592,418	\$ 228,895	\$ 495,922	\$ 71,613	\$ 1,388,848

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

Township of Mancelona
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
March 31, 2014

Total Fund Balance - Governmental Funds	\$ 1,354,857
General government capital assets of \$2,731,571, net of accumulated depreciation of \$1,266,253, are not financial resources and accordingly are not reported in the funds	1,390,689
Total Net Position - Governmental Funds	\$ <u>2,745,546</u>

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

Township of Mancelona
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended March 31, 2014

	<u>Special Revenue</u>			Other Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>Road Fund</u>	<u>Fire Fund</u>		
Revenues					
Property Taxes	\$ 153,530	\$ 89,663	\$ 203,188	\$ --	\$ 446,381
Licenses & Permits	8,569	--	--	1,240	9,809
State Revenue Sharing	225,270	7,602	--	2,479	235,351
Charges for Services	--	--	82,721	16,150	98,871
Fines & Forfeitures	--	--	--	16,109	16,109
Rents	15,376	--	--	--	15,376
Other	9,479	--	9,084	11,050	29,613
Investment Income	1,104	--	929	198	2,231
Total Revenues	<u>413,328</u>	<u>97,265</u>	<u>295,922</u>	<u>47,226</u>	<u>853,741</u>
Expenditures					
General Government	278,146	--	--	33,182	311,328
Public Safety	--	--	281,597	1,632	283,229
Public Works	--	5	--	--	5
Culture & Recreation	--	--	--	56,216	56,216
Capital Outlay	17,150	--	--	30,740	47,890
Total Expenditures	<u>295,296</u>	<u>5</u>	<u>281,597</u>	<u>121,770</u>	<u>698,668</u>
Excess of Revenues Over (Under) Expenditures	<u>118,032</u>	<u>97,260</u>	<u>14,325</u>	<u>(74,544)</u>	<u>155,073</u>
Other Financing Sources (Uses)					
Transfers from Other Funds	--	--	--	78,446	78,446
Transfers to Other Funds	(78,446)	--	--	--	(78,446)
Net Other Financing Sources (Uses)	<u>(78,446)</u>	<u>--</u>	<u>--</u>	<u>78,446</u>	<u>--</u>
Net Change in Fund Balance	39,586	97,260	14,325	3,902	155,073
<i>Fund Balance at Beginning of Period</i>	550,353	131,635	451,055	66,741	1,199,784
Fund Balance at End of Period	<u>\$ 589,939</u>	<u>\$ 228,895</u>	<u>\$ 465,380</u>	<u>\$ 70,643</u>	<u>\$ 1,354,857</u>

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

Township of Mancelona
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended March 31, 2014

Total Net Change in Fund Balances - Governmental Funds	\$ 155,073
Governmental funds report capital outlay as expenditures; however, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which depreciation expense of \$122,519 is in excess of capital outlay of \$47,890	(74,629)
Changes in Net Position - Governmental Funds	\$ <u>80,444</u>

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

Township of Mancelona

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The financial statements of the Township of Mancelona (the “Township” or “government”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township’s accounting policies are described below.

Reporting Entity

The Township of Mancelona is located in Antrim County. The Township operates under an elected Township Board of five members and provides services to its residents in many areas including general government, public works (streets), public safety, and recreation and culture.

These financial statements only present the Township. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, there are no other entities for which the Township exercises oversight responsibility.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Township currently reports no business-type activities.

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

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

Township of Mancelona

Notes to the Financial Statements

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as 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.

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 or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and compensated absences expenditures are recorded only when payment is due.

Property taxes, sales 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The Township of Mancelona 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.

The **road fund** accounts for the maintenance and improvement activities for streets within the Township. Funding is primarily through property tax revenues.

The **fire fund** accounts for the townships fire protection services. Funding is primarily through property tax revenues.

In addition the Township reports the following governmental funds.

Special Revenue Funds – These funds are used to account for the proceeds of specific revenue sources that are legally restricted for specific purposes. These funds include the cemetery, library, and liquor law funds.

Township of Mancelona

Notes to the Financial Statements

Agency Funds - The *agency funds* account for the collection and disbursements of taxes and other monies due to other units of government and individuals.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Assets, Liabilities, and Net Position or Equity

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 the date of acquisition.

State statutes and Township policy authorize the Township to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Township of Mancelona

Notes to the Financial Statements

Investments

Investments are stated at fair market value in accordance with GASB Statement No. 31. Investments are exposed to various risks, such as significant external events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of net position.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as “due to/from other funds” (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown net of an allowance for uncollectibles, as applicable. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. No amounts have been deemed uncollectible.

Capital Assets

Capital assets, which include buildings and improvements, equipment, vehicles, and similar items, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the government as assets with an estimated useful life in excess of two years and an initial individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. 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.

Capital assets are depreciated using the straight-line method over the following useful lives:

Description	Method	Life
Building & Improvements	Straight Line	40 - 50 Years
Equipment	Straight Line	3 - 10 Years
Vehicles	Straight Line	5 - 30 Years

Township of Mancelona

Notes to the Financial Statements

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 and proprietary 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 – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumptions

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.

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 Township Board is the highest level of decision-making authority for the government that can, by adoption of a resolution or majority vote prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution or majority vote remains in place until a similar action is taken (the adoption of another resolution or majority vote) 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 Township Board has authorized the Township Supervisor to assign fund balance. The Township 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

Township of Mancelona

Notes to the Financial Statements

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.

Revenues and Expenditures / Expenses

Property tax revenue recognition

The Townships 2013 ad valorem tax is levied and collectible on December 1, 2013. It is the Township's policy to recognize revenues from the current tax levy in the current year when the proceeds of this levy are budgeted and made available for financing Township operations. Property taxes are recognized when levied since the County purchases the delinquent taxes each year.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Comparative Data / Reclassifications

Comparative data is not included in the Township's financial statements.

Note 2 - Excess of Expenditures over Appropriations

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. The budget document presents information by fund, function and department. The legal level of budgetary control adopted by the governing body is at the activity level. All annual appropriations lapse at the end of the fiscal year.

Prior to March 31, Township Board prepares an operating budget for the fiscal year commencing the following April 1. Public hearings are conducted to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to March 1.

The budget document presents information by fund, activity, department, and line item. The legal level of budgetary control adopted by the governing body is the activity level. The Township Clerk is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the Township Board.

Township of Mancelona

Notes to the Financial Statements

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

Excess of expenditures over appropriations in budgeted funds

During the year ended March 31, 2014, the Township did not incur expenditures in the major funds in excess of the amount appropriated.

Note 3 - Cash

The Township maintains pooled and individual fund demand deposits and certificates of deposit accounts for the primary government.

Following is a reconciliation of deposit balances as March 31, 2014:

	<u>Governmental Activities</u>
Statement of Net Position	
Cash and Cash Equivalents	\$ 1,191,167
Restricted Cash & Cash Equivalents	16,203
Statement of Fiduciary Net Position	
Cash and Cash Equivalents	<u>856</u>
Total Deposits	<u>\$ 1,208,226</u>
Deposits and Investments	
Checking and Savings Accounts	\$ 1,008,136
Certificates of Deposit	<u>200,090</u>
Total	<u>\$ 1,208,226</u>

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Township's deposits might not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year-end, \$633,798 of the Township's bank balance of \$1,242,924 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the Township believes it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each

Township of Mancelona

Notes to the Financial Statements

institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Township's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Maturity dates for investments and certificates of deposit held at year-end are summarized as follows:

	<u>Certificates of Deposit</u>
Due within one year	\$ 106,884
Due in 1-5 Years	<u>93,206</u>
	<u>\$ 200,090</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Township's investment in a single issuer. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The Township's investment policy does not limit investments in a single financial institution of a single security type (with the exception of U.S. treasuries and agencies and authorized pools) to a % of the total investment portfolio. All investments held at year end are reported above.

Township of Mancelona

Notes to the Financial Statements

Note 4 - Capital Assets

Capital asset activity for governmental activities for the year ended March 31, 2014 was as follows:

Governmental Activities	Balance At 3/31/2013	Additions	Disposals	Balance At 3/31/2014
Capital assets not being depreciated				
Land	\$ 73,913	\$ -	\$ -	\$ 73,913
Capital assets being depreciated				
Buildings & Improvements	997,887	14,750	-	1,012,637
Equipment	451,456	2,400	-	453,856
Vehicles	1,208,315	30,740	-	1,239,055
Total capital assets being depreciated	2,657,658	47,890	-	2,705,548
Less accumulated depreciation				
Buildings & Improvements	414,496	25,713	-	440,209
Equipment	268,606	37,224	-	305,830
Vehicles	583,151	59,582	-	642,733
Total accumulated depreciation	1,266,253	122,519	-	1,388,772
Net capital assets	\$ 1,465,318	\$ (74,629)	\$ -	\$ 1,390,689

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

Governmental Activities	
General Government	\$ 33,936
Public Safety	86,313
Recreation & Culture	2,270
Total Governmental Activities	\$ 122,519

Note 5 - Interfund Balances & Interfund Transfers

There were no interfund balances as of March 31, 2014. Interfund balances can arise from advances to other funds to finance operations or capital outlays.

Transfers are used to 1) 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 2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and 3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Township of Mancelona

Notes to the Financial Statements

The composition of interfund transfers for the year ended March 31, 2014, was as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Nonmajor Governmental Funds	General	\$ 78,446

Note 6 – Employee Retirement & Benefit System

The Township has a defined contribution pension plan for its employees. It is a money purchase pension plan with American Funds. Listed Below is a summary of the significant plan provisions adopted by Board resolution in February 1969, and as amended at April of 1996:

- Eligibility Requirements
 - Attained age of 18 and not more than 75.
 - No minimum service requirement.
 - All employees except volunteer fire fighters and season employees.
- Contributions
 - Scheduled contributions are base on participant's compensation 75% funded by the Township, 25% by the employee. A total of 7% (5.25% by the Township and 1.75% by the employee) of employee compensation is contributed.
- Vesting
 - Contributions are vested to the employee immediately upon entering the plan.
- Plan administration
 - The plan is administered by the Township Clerk.

During the year ended March 31, 2014 the total employer contributions were \$6,411 and total employee contributions were \$2,139. Total contributions during the year were \$8,550. Covered payroll for the year was \$122,109. The plan was funded at the required contribution amount. No pension prevision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

Note 7 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The risks of loss arising from

Township of Mancelona

Notes to the Financial Statements

general liability, property and casualty, and workers' compensation are managed through purchased commercial insurance.

Note 8 - Contingent Liabilities

The Township, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The Township's attorney and management estimate that the potential claims against the Township, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Township.

Management is not aware of any subsequent events as of July 16, 2014 that would have a material effect on the financial condition of the Township.

REQUIRED SUPPLEMENTARY INFORMATION

Township of Manvelona
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended March 31, 2014

	Budgeted Amounts		Actual	Variance
	Original	Final		Positive (Negative)
				Final to Actual
Revenues				
Taxes	\$ 148,163	\$ 149,973	\$ 153,530	\$ 3,557
State Sources	224,000	261,677	225,270	(36,407)
Permits, Fees, & Special Assessments	8,620	8,620	8,569	(51)
Interest & Rents	15,450	15,150	15,376	226
Other	6,150	6,650	9,479	2,829
Investment Income	1,000	1,000	1,104	104
Total Revenues	403,383	443,070	413,328	(29,742)
Other Financing Sources				
Total Revenues and Other Financing Sources	403,383	443,070	413,328	(29,742)
Expenditures				
General Government				
Legislative	44,626	44,276	40,414	3,862
Supervisor	6,803	6,803	6,721	82
Fringe Benefits	47,500	47,500	31,181	16,319
Election	1,550	1,550	216	1,334
Treasurer	41,338	41,338	41,060	278
Assessor	37,300	37,300	37,292	8
Board of Review	1,720	1,720	1,141	579
Clerk	20,653	19,342	18,938	404
Building & Grounds	92,547	96,648	90,545	6,103
Streetlights	9,000	9,000	7,980	1,020
Airport	3,350	3,350	2,658	692
Total General Government	306,387	308,827	278,146	30,681
Capital Outlay	6,200	18,950	17,150	1,800
Total Expenditures	312,587	327,777	295,296	32,481
Other Financing Uses				
Transfers to other funds	--	--	78,446	(78,446)
Total Expenditures and Other Financing Uses	312,587	327,777	373,742	(45,965)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	90,796	115,293	39,586	(75,707)
Net Change in Fund Balance	90,796	115,293	39,586	(75,707)
Fund Balance at Beginning of Period	550,353	550,353	550,353	--
Fund Balance at End of Period	\$ 641,149	\$ 665,646	\$ 589,939	\$ (75,707)

Township of Manvelona
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Fire Fund
For the Year Ended March 31, 2014

	Budgeted Amounts		Actual	Variance
	Original	Final		Positive (Negative)
				Final to Actual
Revenues				
Property Taxes	\$ 201,000	\$ 201,000	\$ 203,188	\$ 2,188
Charges for Services	81,099	81,099	82,721	1,622
State Grants	50,113	50,113	--	(50,113)
Interest & Rents	200	847	929	82
Other	1,000	1,000	9,084	8,084
Total Revenues	333,412	334,059	295,922	(38,137)
Other Financing Sources				
Total Revenues and Other Financing Sources	333,412	334,059	295,922	(38,137)
Expenditures				
Public Safety	287,510	302,581	281,597	20,984
Total Expenditures	287,510	302,581	281,597	20,984
Other Financing Uses				
Total Expenditures and Other Financing Uses	287,510	302,581	281,597	20,984
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	45,902	31,478	14,325	(17,153)
Net Change in Fund Balance	45,902	31,478	14,325	(17,153)
Fund Balance at Beginning of Period	451,055	451,055	451,055	--
Fund Balance at End of Period	\$ 496,957	\$ 482,533	\$ 465,380	\$ (17,153)

Township of Mancelona
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Road Fund
For the Year Ended March 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative) Final to Actual
Revenues				
Taxes	\$ 86,600	\$ 86,600	\$ 89,663	\$ 3,063
State Sources	7,600	7,600	7,602	2
<i>Total Revenues</i>	<u>94,200</u>	<u>94,200</u>	<u>97,265</u>	<u>3,065</u>
Other Financing Sources				
<i>Total Revenues and Other Financing Sources</i>	<u>94,200</u>	<u>94,200</u>	<u>97,265</u>	<u>3,065</u>
Expenditures				
Capital Outlay	<u>120,000</u>	<u>120,000</u>	5	<u>119,995</u>
<i>Total Expenditures</i>	<u>120,000</u>	<u>120,000</u>	5	<u>119,995</u>
Other Financing Uses				
<i>Total Expenditures and Other Financing Uses</i>	<u>120,000</u>	<u>120,000</u>	<u>5</u>	<u>119,995</u>
<i>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</i>	<u>(25,800)</u>	<u>(25,800)</u>	<u>97,260</u>	<u>123,060</u>
<i>Net Change in Fund Balance</i>	(25,800)	(25,800)	97,260	123,060
<i>Fund Balance at Beginning of Period</i>	131,635	131,635	131,635	--
<i>Fund Balance at End of Period</i>	<u>\$ 105,835</u>	<u>\$ 105,835</u>	<u>\$ 228,895</u>	<u>\$ 123,060</u>

OTHER SUPPLEMENTARY INFORMATION

**Township of Mancelona
Combining Balance Sheet
Nonmajor Governmental Funds
March 31, 2014**

	<u>Special Revenue</u>			<u>Total Nonmajor Governmental Funds</u>
	<u>Library Fund</u>	<u>Cemetery Fund</u>	<u>Liquor Fund</u>	
ASSETS				
Cash & Cash Equivalents	\$ 765	\$ 54,063	\$ --	\$ 54,828
Other Receivables	205	377	--	582
Restricted Cash	--	16,203	--	16,203
<i>Total Assets</i>	<u>\$ 970</u>	<u>\$ 70,643</u>	<u>\$ --</u>	<u>\$ 71,613</u>
LIABILITIES				
Accounts Payable	\$ 970	\$ --	\$ --	\$ 970
<i>Total Liabilities</i>	<u>970</u>	<u>--</u>	<u>--</u>	<u>970</u>
FUND BALANCE				
Nonspendable	--	16,203	--	16,203
Assigned	--	54,440	--	54,440
Unassigned	--	--	--	--
<i>Total Fund Balance</i>	<u>--</u>	<u>70,643</u>	<u>--</u>	<u>70,643</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 970</u>	<u>\$ 70,643</u>	<u>\$ --</u>	<u>\$ 71,613</u>

Township of Mancelona
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended March 31, 2014

	<u>Special Revenue</u>			<u>Total Nonmajor Governmental Funds</u>
	<u>Library Fund</u>	<u>Cemetery Fund</u>	<u>Liquor Fund</u>	
Revenues				
Licenses & Permits	\$ --	\$ --	\$ 1,240	\$ 1,240
State Revenue Sharing	2,479	--	--	2,479
Charges for Services	--	16,150	--	16,150
Fines & Forfeitures	16,109	--	--	16,109
Other	7,159	3,891	--	11,050
Investment Income	--	198	--	198
<i>Total Revenues</i>	<u>25,747</u>	<u>20,239</u>	<u>1,240</u>	<u>47,226</u>
Expenditures				
General Government	--	33,182	--	33,182
Public Safety	--	--	1,632	1,632
Culture & Recreation	56,216	--	--	56,216
Capital Outlay	--	30,740	--	30,740
<i>Total Expenditures</i>	<u>56,216</u>	<u>63,922</u>	<u>1,632</u>	<u>121,770</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(30,469)</u>	<u>(43,683)</u>	<u>(392)</u>	<u>(74,544)</u>
Other Financing Sources (Uses)				
Transfers from Other Funds	30,469	47,585	392	78,446
Transfers to Other Funds	--	--	--	--
<i>Net Other Financing Sources (Uses)</i>	<u>30,469</u>	<u>47,585</u>	<u>392</u>	<u>78,446</u>
<i>Net Change in Fund Balance</i>	<u>--</u>	<u>3,902</u>	<u>--</u>	<u>3,902</u>
<i>Fund Balance at Beginning of Period</i>	--	66,741	--	66,741
<i>Fund Balance at End of Period</i>	<u>\$ --</u>	<u>\$ 70,643</u>	<u>\$ --</u>	<u>\$ 70,643</u>

July 16, 2014

To the Township Board
Township of Mancelona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of Township of Mancelona, Michigan for the year ended March 31, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 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 the Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended March 31, 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 estimates affecting the Township's financial statements was:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 16, 2014.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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



Gabridge & Company, PLC
Grand Rapids, MI

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Township Board
Township of Mancelona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Township of Mancelona, Michigan, as of and for the year ended March 31, 2014, and the related notes to the financial statements, which collectively comprise Township of Mancelona, Michigan's basic financial statements, and have issued our report thereon dated July 16, 2014.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

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

Gabridge & Company, PLC
Grand Rapids, MI
July 16, 2014