

REEDER TOWNSHIP, MISSAUKEE COUNTY

LAKE CITY, MICHIGAN

MARCH 31, 2014



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

CERTIFIED PUBLIC ACCOUNTANTS

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REEDER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

MARCH 31, 2014

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May 15, 2014

INDEPENDENT AUDITOR'S REPORT

To the Township Board
Reeder Township
Missaukee County
Lake City, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Reeder Township, Missaukee County, Lake City, 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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 principles 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 Reeder Township, Missaukee County, Lake City, 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 on pages iii-viii and 17 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.

REEDER TOWNSHIP, MISSAUKEE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2014

As management of Reeder 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

- ❖ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$790,367. Of this amount, \$404,903 may be used to meet the Township's ongoing obligations to citizens and creditors.
- ❖ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$407,583. \$347,324 is available for spending at the Township's discretion.

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.

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

REEDER TOWNSHIP, MISSAUKEE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2014

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. Reeder 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 three 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, Road Fund, and Fire Fund, which are considered to be major funds.

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 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.

REEDER TOWNSHIP, MISSAUKEE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2014

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 8-16 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 Reeder Township, assets exceeded liabilities by \$790,367, at the close of the most recent fiscal year.

Reeder Township
Net Position as of March 31, 2014

	Governmental Activities
Assets	
Current Assets	\$ 438,202
Non Current Assets	
Capital Assets	531,061
Less: Accumulated Depreciation	(148,277)
Total Non Current Assets	382,784
Total Assets	820,986
Liabilities	
Current Liabilities	30,619
Net Position	
Net Investment in Capital Assets	382,784
Restricted for Specific Purposes	2,680
Unrestricted	404,903
Total Net Position	\$ 790,367

A portion of the Township's net position, \$382,784 (48%), 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.

An additional portion of the Township's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$404,903 is unrestricted, which may be used to meet the government's ongoing obligations to its citizens and creditors.

REEDER TOWNSHIP, MISSAUKEE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2014

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net position. The same situation held true for the prior fiscal year.

Reeder Township's overall net position increased by \$50,848 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for the governmental activities.

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

	Governmental Activities
<u>Revenues</u>	
Program Revenues	
Charges for Services	\$ 2,575
Operating Grants and Contributions	4,254
General Revenues	
Taxes	85,974
State Grant	84,419
Interest Earnings	1,719
Total Revenues	178,941
<u>Expenses</u>	
General Government	64,162
Public Safety	33,074
Public Works	23,323
Other Functions	7,534
Total Expenses	128,093
Change in Net Position	50,848
<u>NET POSITION</u> - Beginning of Year	739,519
<u>NET POSITION</u> - End of Year	\$ 790,367

Governmental Activities

A significant portion of the revenue for all governmental activities of Reeder Township comes from property taxes. The Township levied 1.4622 mills for operating purposes and 1 mill for fire protection. 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 that total \$64,162. Public Safety represented the next largest expense at \$33,074.

REEDER TOWNSHIP, MISSAUKEE COUNTY
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2014

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 Reeder 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, Reeder Township’s governmental fund reported a fund balance of \$407,583, a decrease of \$55,653 in comparison with the prior year. Approximately 85% of this amount (\$347,324) 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 (\$2,680), 4) committed for particular purposes, or 5) assigned for particular purposes (\$57,579).

General Fund – The General Fund decreased its fund balance by \$42,735 which brings the fund balance to \$404,903. \$347,324 of the General Fund’s fund balance is unassigned.

Road Fund – The Road Fund decreased its fund balance by \$12,916 which brings the fund balance to zero. This fund was closed out in 2013-2014.

Fire Fund – The Fire Fund decreased its fund balance by \$2 which brings the fund balance to \$2,680. This balance is restricted and must be used for fire protection. Taxes collected amounted to \$33,072. The Township levied 1 mill to fund fire protection.

General Fund Budgetary Highlights

During the year, there was no change in total appropriations between the original budget and final amended budget.

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

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
Total Revenues	\$ 120,510	\$ 120,510	\$ 142,615
Total Expenditures	\$ 167,300	\$ 167,300	\$ 185,350

REEDER TOWNSHIP, MISSAUKEE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2014

The difference between the final budget and actual revenue was due to greater than anticipated state revenue received. The difference between the final budget and actual expenditures was related to the road work that ended up being paid out of the General Fund instead of the Road fund.

Capital Assets

Capital Assets The Township's investment in capital assets for governmental activities as of March 31, 2014, amounted to \$382,784 net of accumulated depreciation.

Capital assets summarized below include any items purchased with a cost greater than \$2,000 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

Reeder Township
Capital Assets as of March 31, 2014

	Governmental Activities
Land	\$ 101
Land and Building Improvements	53,737
Infrastructure	472,423
Equipment	4,800
	531,061
Less: Accumulated Depreciation	(148,277)
Net Capital Assets	\$ 382,784

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

- Road work at a cost of \$118,001.
- Cemetery fence at a cost of \$10,713.

Economic Condition and Outlook

It appears that state-shared revenues have stabilized. The Township continues to look for ways to improve the services it provides to its residents in a manner that is financially responsible.

This factor was considered in preparing the Township's budgets for the 2014-2015 fiscal year.

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 Reeder Township at 3049 S. Vandermeulen Road, Lake City, Michigan 49651.

REEDER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

STATEMENT OF NET POSITION
MARCH 31, 2014

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 418,331
Receivables	
External Parties (Fiduciary Funds)	1
Due from Other Governments	<u>19,870</u>
 Total Current Assets	 <u>438,202</u>
 <u>CAPITAL ASSETS</u>	
Land	101
Land and Building Improvements	53,737
Infrastructure	472,423
Equipment	<u>4,800</u>
	531,061
Less Accumulated Depreciation	<u>148,277</u>
Net Capital Assets	<u>382,784</u>
 Total Assets	 <u>820,986</u>
 <u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Due to Other Governments	28,801
Payroll Taxes and Withholdings	<u>1,818</u>
 Total Current Liabilities	 <u>30,619</u>
 <u>NET POSITION</u>	
Net Investment in Capital Assets	382,784
Restricted for	
Fire Protection	2,680
Unrestricted	<u>404,903</u>
 TOTAL NET POSITION	 <u>\$ 790,367</u>

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

REEDER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2014

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSES)</u> <u>REVENUES</u> <u>AND CHANGE</u> <u>IN NET POSITION</u> <u>TOTAL</u> <u>GOVERNMENTAL</u> <u>ACTIVITIES</u>
		<u>CHARGES FOR</u> <u>SERVICES</u>	<u>OPERATING</u> <u>GRANTS AND</u> <u>CONTRIBUTIONS</u>	<u>CAPITAL</u> <u>GRANTS AND</u> <u>CONTRIBUTIONS</u>	
<u>GOVERNMENTAL ACTIVITIES</u>					
General Government	\$ 64,162	\$ 2,575	\$ 1,000	\$ 0	\$ (60,587)
Public Safety	33,074	0	0	0	(33,074)
Public Works	23,323	0	3,254	0	(20,069)
Other Functions	7,534	0	0	0	(7,534)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 128,093	\$ 2,575	\$ 4,254	\$ 0	(121,264)
<u>GENERAL REVENUES</u>					
					85,974
Taxes					84,419
State Grants					1,719
Interest Earnings					172,112
Total General Revenues					172,112
Change in Net Position					50,848
<u>NET POSITION</u> - Beginning of Year					739,519
<u>NET POSITION</u> - End of Year					\$ 790,367

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

REEDER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
MARCH 31, 2014

	<u>GENERAL FUND</u>	<u>ROAD FUND</u>	<u>FIRE FUND</u>	<u>TOTALS</u>
<u>ASSETS</u>				
Cash	\$ 411,766	\$ 0	\$ 6,565	\$ 418,331
Due from Other Governments	19,870	0	0	19,870
Due from Other Funds	1	0	0	1
TOTAL ASSETS	<u>\$ 431,637</u>	<u>\$ 0</u>	<u>\$ 6,565</u>	<u>\$ 438,202</u>
<u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Due to Other Governments	\$ 24,916	\$ 0	\$ 3,885	\$ 28,801
Payroll Taxes and Withholdings	1,818	0	0	1,818
Total Liabilities	<u>26,734</u>	<u>0</u>	<u>3,885</u>	<u>30,619</u>
<u>FUND BALANCE</u>				
Restricted for:				
Fire Protection	0	0	2,680	2,680
Assigned for subsequent year shortfall	57,579	0	0	57,579
Unassigned	347,324	0	0	347,324
Total Fund Balance	<u>404,903</u>	<u>0</u>	<u>2,680</u>	<u>407,583</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 431,637</u>	<u>\$ 0</u>	<u>\$ 6,565</u>	<u>\$ 438,202</u>

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

REEDER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

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

Total Fund Balances for Governmental Funds \$ 407,583

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	\$ 101	
Land and Building Improvements	53,737	
Infrastructure	472,423	
Equipment	4,800	
Accumulated Depreciation	(148,277)	382,784

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 790,367

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

REEDER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

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

	<u>GENERAL FUND</u>	<u>ROAD FUND</u>	<u>FIRE FUND</u>	<u>TOTALS</u>
<u>REVENUES</u>				
Taxes	\$ 52,902	\$ 0	\$ 33,072	\$ 85,974
State Grants	84,419	3,254	0	87,673
Charges for Services	2,575	0	0	2,575
Interest and Rents	1,719	0	0	1,719
Other Revenues	1,000	0	0	1,000
	<hr/>			
Total Revenues	142,615	3,254	33,072	178,941
	<hr/>			
<u>EXPENDITURES</u>				
General Government	72,785	0	0	72,785
Public Safety	0	0	33,074	33,074
Public Works	105,031	16,170	0	121,201
Other Functions	7,534	0	0	7,534
	<hr/>			
Total Expenditures	185,350	16,170	33,074	234,594
	<hr/>			
Excess (Deficiency) of Revenues Over Expenditures	(42,735)	(12,916)	(2)	(55,653)
	<hr/>			
<u>FUND BALANCE</u> - Beginning of Year	447,638	12,916	2,682	463,236
	<hr/>			
<u>FUND BALANCE</u> - End of Year	\$ 404,903	\$ 0	\$ 2,680	\$ 407,583
	<hr/>			

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

REEDER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

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

Net Change in Fund Balance - Total Governmental Funds	\$ (55,653)
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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.

Depreciation Expense	(22,213)
Capital Outlay	<u>128,714</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 50,848</u></u>
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The accompanying notes are an integral part of the financial statements.

REEDER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION
MARCH 31, 2014

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ 1
<u>LIABILITIES</u>	
Due to General Fund	<u> 1</u>
<u>NET POSITION</u>	<u><u> 0</u></u>

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

REEDER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, 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. Reeder Township does not have any *business-type activities* or *component units*.

B. Reporting Entity

Reeder Township is a general law township located in Missaukee 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.

Reeder 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.

The *Road Fund* accounts for revenue sources that are legally restricted to expenditure for road maintenance.

The *Fire Fund* accounts for revenue sources that are legally restricted to expenditure for fire protection.

REEDER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

Additionally, Reeder 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.

Property 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

REEDER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

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 “The Uniform Budgeting and Accounting Act”. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budget amounts are as originally adopted on March 13, 2013 or as amended by the Township Board from time to time throughout the year.

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.

2. Excess of Expenditures Over Appropriations

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
General Government		
Assessor	\$ 18,000	\$ 18,826
Clerk	9,000	9,228
Buildings and Ground	5,000	5,094
Cemetery	11,000	11,413
Public Works		
Highways, Streets, and Bridges	80,300	105,031

These overages were funded by greater than anticipated revenues and available fund balance.

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.

REEDER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
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The investment policy adopted by the Township states that the treasurer may invest Township funds in certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank but only if the bank, savings and loan association, or credit union meets all criteria as a depository of public funds contained in state law.

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 \$2,000 (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, as well as the component units are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building Improvements	20
Land Improvements	20
Infrastructure	20
Vehicles	5
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

REEDER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
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be recognized as an inflow of resources (revenue) until that time. The Township does not have any deferred inflows of resources.

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.

REEDER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, 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 14. 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 deferred revenues.

The 2013 taxable valuation of Reeder Township totaled \$33,119,656, on which ad valorem taxes levied consisted of 1.4622 mills for Reeder Township operating purposes and 1.0000 mill for fire protection. The levies raised \$48,338 for operating purposes and \$33,072 for fire protection.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Violations of Legal or Contractual Provisions

Note I.F.2, on the Excess of Expenditures Over Appropriations, describes a budgetary violation that occurred for the year ended March 31, 2014.

III. 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 \$418,332 was exposed to custodial credit risk because it was insured and

REEDER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
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collateralized. 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.

B. Receivables

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

	General	Road	Fire	Total
Receivables				
Intergovernmental	\$ 19,870	\$ 0	\$ 0	\$ 19,870

Amounts due from other governments include amounts due from State sources related to State shared revenues.

By ordinance, the Township can place substantially all of its delinquent receivables on the tax rolls as a lien against real property. As a result, its uncollectible accounts are virtually nil.

C. Capital Assets

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 101	\$ 0	\$ 0	\$ 101
Capital assets, being depreciated				
Land and Building Improvements	43,024	10,713	0	53,737
Infrastructure	354,422	118,001	0	472,423
Equipment	4,800	0	0	4,800
Total capital assets, being depreciated	402,246	128,714	0	530,960
Less accumulated depreciation for:				
Land and Building Improvements	26,452	1,610	0	28,062
Infrastructure	95,972	20,123	0	116,095
Equipment	3,640	480	0	4,120
Total accumulated depreciation	126,064	22,213	0	148,277
Total capital assets, being depreciated, net	276,182	106,501	0	382,683
Governmental activities capital assets, net	\$ 276,283	\$ 106,501	\$ 0	\$ 382,784

REEDER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

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

Governmental activities:	
General Government	\$ 2,090
Public Works	20,123
	\$ 22,213

D. Interfund Receivables, Payables and Transfers

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

	DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS
General Fund	\$ 1	0
Fiduciary Funds		
Current Tax Collection Fund	0	1
	\$ 1	\$ 1

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.

Reeder Township did not have any individual fund transfers at March 31, 2014.

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.

REEDER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

IV. OTHER INFORMATION

A. Lake Missaukee Area Fire Authority

The Lake Missaukee Area Fire Authority is a joint venture by and between the townships of Caldwell, Forest, Pioneer and Reeder. This joint venture was created to provide fire protections for the listed governments. Each municipality pays an annual base amount equal to one mill of taxable value of the real property located in the areas of the municipality covered by this agreement. In addition, the Township pays at least \$500 per fire run within the Township which could be reimbursed. For the year ended March 31, 2014, the Township contributed a total of \$24,613 to the Fire Authority. A copy of the audited financial statements may be obtained by contacting the Lake Missaukee Area Fire Authority.

REEDER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2014

	<u>GENERAL FUND</u>			<u>ROAD FUND</u>			<u>FIRE FUND</u>		
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>									
Taxes	\$ 45,800	\$ 45,800	\$ 52,902	\$ 0	\$ 0	\$ 0	\$ 30,000	\$ 30,000	\$ 33,072
State Grants	70,000	70,000	84,419	3,200	3,200	3,254	0	0	0
Charges for Services	2,500	2,500	2,575	0	0	0	0	0	0
Interest and Rents	2,210	2,210	1,719	0	0	0	0	0	0
Other Revenues	0	0	1,000	0	0	0	0	0	0
Total Revenues	120,510	120,510	142,615	3,200	3,200	3,254	30,000	30,000	33,072
<u>EXPENDITURES</u>									
General Government									
Township Board	5,000	4,000	3,725	0	0	0	0	0	0
Supervisor	9,000	9,000	8,052	0	0	0	0	0	0
Assessor	19,000	18,000	18,826	0	0	0	0	0	0
Clerk	9,000	9,000	9,228	0	0	0	0	0	0
Board of Review	2,500	2,500	1,300	0	0	0	0	0	0
Treasurer	20,000	15,500	14,817	0	0	0	0	0	0
Elections	1,200	700	330	0	0	0	0	0	0
Building and Grounds	15,000	5,000	5,094	0	0	0	0	0	0
Cemetery	15,000	11,000	11,413	0	0	0	0	0	0
Public Safety									
Fire Department	0	0	0	0	0	0	35,500	35,500	33,074
Public Works									
Highways, Streets, Bridges	48,800	80,300	105,031	16,200	16,200	16,170	0	0	0
Other Functions									
Insurance and Bonds	4,000	3,500	3,330	0	0	0	0	0	0
Fringe Benefits	8,800	8,800	4,204	0	0	0	0	0	0
Contingency	10,000	0	0	0	0	0	0	0	0
Total Expenditures	167,300	167,300	185,350	16,200	16,200	16,170	35,500	35,500	33,074
Excess (Deficiency) of Revenues Over Expenditures	(46,790)	(46,790)	(42,735)	(13,000)	(13,000)	(12,916)	(5,500)	(5,500)	(2)
<u>FUND BALANCE - Beginning of Year</u>	<u>385,000</u>	<u>385,000</u>	<u>447,638</u>	<u>13,000</u>	<u>13,000</u>	<u>12,916</u>	<u>5,500</u>	<u>5,500</u>	<u>2,682</u>
<u>FUND BALANCE - End of Year</u>	<u>\$ 338,210</u>	<u>\$ 338,210</u>	<u>\$ 404,903</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,680</u>



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May 15, 2014

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

To the Township Board
Reeder Township
Missaukee County
Lake City, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Reeder 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 April 23, 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 Reeder 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 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 estimates affecting the governmental activities, each major fund and the aggregate remaining fund information of the Reeder Township's financial statements were:

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. 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 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 clearly 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, a disagreement with management is 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 May 15, 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 Reeder 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

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 Reeder Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

Budgeting

Expenditures exceeded appropriated amounts on a few line items in the General Fund. The Township should continue to monitor its budgets on an ongoing basis and make budget amendments prior to incurring expenditures in excess of budgeted amounts.

Condition of Accounting Records and Accounting Controls

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 Discussion and Analysis and the Budgetary Comparison Schedule, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding the methods of preparing the information and comparing 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 management of the Reeder Township and is not intended to be, and should not be, used by anyone other than these specified parties.

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May 15, 2014

COMMUNICATION OF MATERIAL WEAKNESSES

To the Township Board
Reeder Township
Missaukee County
Lake City, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund information, and the aggregate remaining fund information of Reeder 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 Reeder Township's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Reeder Township's internal control. Accordingly, we do not express an opinion on the effectiveness of Reeder 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 Reeder Township's internal control to be material weaknesses:

1) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements

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 notes prior to approving them and accepting responsibility for their content and presentation.

2) *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 and are not subject to a documented independent review and approval.

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 staff, and applies its judgment in determining how best to allocate the government's resources to provide an appropriate balance between sound internal controls and fiscal prudence.

Reeder Township's response to the material weaknesses identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Township Board and others within Reeder Township, 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.