

Township of Manlius
Allegan County, Michigan

FINANCIAL STATEMENTS

Year ended March 31, 2014

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Township of Manlius, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Township of Manlius, 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 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 of 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 and each major fund of the Township of Manlius, 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

Accounting changes

As described in Note 13 to the financial statements, the Township adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to this matter.

Required supplementary information

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

Sigfried Crandall P.C.

July 22, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Township of Manlius' (the Township) financial performance provides a narrative overview of the Township's financial activities for the fiscal year ended March 31, 2014. Please read it in conjunction with the Township's financial statements.

FINANCIAL HIGHLIGHTS

- The Township's total net position increased by \$249,525 as a result of this year's activities.
- Of the \$4,471,394 total net position reported, \$1,141,372 is unrestricted.
- The General Fund's unassigned fund balance at the end of the fiscal year was \$1,141,372, which represents 415 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the financial statements

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

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township government, reporting the Township's operations in more detail than the government-wide financial statements.
 - Governmental funds statements explain how government services, like general government, public safety, and public works, were financed in the short-term, as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

A comparative analysis of the basic financial statements for 2014 and 2013 is also presented.

Government-wide financial statements

The government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide statements report the Township's net position and how it has changed. Net position (the difference between the Township's assets and liabilities) is one way to measure the Township's financial health, or position.

- Over time, increases or decreases in the Township's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township, you need to consider additional nonfinancial factors, such as changes in the Township's property tax base and the condition of the Township's capital assets.

The government-wide financial statements present governmental activities. These activities include functions most commonly associated with government (e.g., general government, public safety, public works, etc.). Property taxes and state grants generally fund these services.

Fund financial statements

The fund financial statements provide more detailed information about the Township's most significant funds - not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The Township Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain other revenues (like the Fire and Road funds).

The Township reports one type of fund:

- *Governmental funds.* All of the Township's basic services are included in its governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flows in and out, and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship between them.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE**Net position**

Total net position at the end of the fiscal year was \$4,471,394. Of this total, \$2,623,916 is invested in capital assets and \$706,106 is restricted for fire protection, road resurfacing and improvements, and for amounts held in cemetery trust. Consequently, unrestricted net position was \$1,141,372.

Condensed financial information
Net position

	<i>Governmental activities</i>	
	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 1,917,367	\$ 2,214,419
Capital assets	<u>2,623,916</u>	<u>2,074,727</u>
Total assets	<u>4,541,283</u>	<u>4,289,146</u>
Current liabilities	<u>69,889</u>	<u>67,277</u>
Net position:		
Net investment in capital assets	2,623,916	2,074,727
Restricted	706,106	1,123,666
Unrestricted	<u>1,141,372</u>	<u>1,023,476</u>
Total net position	<u>\$ 4,471,394</u>	<u>\$ 4,221,869</u>

Changes in net position

The Township's total revenues were \$899,829. Property taxes account for 66 percent of the total revenues, while 25 percent comes from state grants.

The cost of the Township's programs totaled \$650,304. About 32 percent of the Township's costs relates to the provision of general governmental services, while public safety costs account for 30 percent and public works accounts for 33 percent. No other expense category exceeds 2 percent of the total.

*Condensed financial information
Changes in net position*

	<i>Governmental activities</i>	
	2014	2013
Program revenues:		
Charges for services	\$ 64,003	\$ 68,300
Operating grants and contributions	3,431	53,404
General revenues:		
Property taxes	595,942	563,992
State shared revenue	223,095	219,133
Franchise fees	6,220	4,474
Investment income	7,138	5,858
Total revenues	899,829	915,161
Expenses:		
General government	209,723	199,727
Public safety	192,635	154,435
Public works	216,465	190,497
Community and economic development	15,328	17,812
Culture and recreation	16,153	18,042
Total expenses	650,304	580,513
Increase in net position	\$ 249,525	\$ 334,648
Net position, end of year	\$ 4,471,394	\$ 4,221,869

Governmental activities

Governmental activities increased the Township's net position by \$249,525 compared to an increase of \$334,648 last year.

The Township's revenues decreased \$15,332 from 2013. This decrease is attributable to a \$50,000 one-time contribution restricted for cemetery activities that was received in 2013.

The Township's expenses increased \$69,791 from 2013. This increase reflects increased spending on building inspections and annual fire costs paid to Hamilton and Fennville compared to 2013.

The total cost of governmental activities this year was \$650,304. After subtracting the direct charges to those who directly benefited from the programs (\$64,003) and operating grants (\$3,431), the "public benefit" portion covered by taxes, state revenue sharing, and other general revenues was \$582,870, compared to \$458,809 in 2013.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

Governmental funds

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$1,847,478, a decrease of \$299,664 from the prior year.

The General Fund is the primary operating fund of the Township. At the end of the fiscal year, fund balance was \$1,183,890, an increase of \$111,381 during the year, as expenditures of \$275,113 lagged significantly behind revenues of \$386,494.

The Fire Fund, a special revenue fund, is used to account for property taxes restricted for fire protection costs (both operating and capital). Its fund balance at the end of the current fiscal year was \$438,176, a decrease of \$4,460 during the year, as the cost of fire protection exceeded current revenues.

The Road Improvement Fund, a special revenue fund, is used to account for property taxes restricted for road improvements and maintenance. Its fund balance at the end of the current fiscal year was \$1,061, a decrease of \$528,026 during the year, as major road improvement projects were completed during 2014.

The Road Resurfacing Fund, a special revenue fund, is used to account for property taxes restricted for road resurfacing projects. Its fund balance at the end of the current fiscal year was \$224,351, an increase of \$121,441 during the year, as revenues exceeded the costs of road resurfacing projects.

General Fund budgetary highlights

The Township made amendments to the General Fund budget during the year to reflect changes in anticipated general government costs as some costs were higher than anticipated. Revenues were \$147,253 higher than budgeted amounts, primarily due to state shared revenues being more than projected. The total \$132,297 positive variance between the actual and budgeted expenditure amounts was the result of several expenditures, including hall and grounds, other general expenditures, planning and zoning, and capital outlays, not occurring at estimated levels. These variances resulted in a \$279,550 positive budget variance with a \$111,381 increase in fund balance compared to a budget that anticipated a \$168,169 decrease.

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 \$2,623,916 (net of accumulated depreciation). This investment includes land, buildings, equipment, and the Township's share of road costs. This amount represents a net increase of \$549,189, comprised of \$722,576 in additions and \$173,387 in current depreciation.

Major capital asset events during the current fiscal year consisted of the Township's share of road improvement costs in the amount of \$714,714.

More detailed information about the Township's capital assets is presented in Note 5 of the notes to the basic financial statements.

Debt

The Township had no long-term debt at the beginning or end of the fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Township plans to primarily use current revenues to provide essential services in fiscal year 2015 in order to maintain current fund balances. Revenues and expenditures are expected to increase by nominal amounts compared to fiscal year 2014. 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 and operational capabilities of the Township.

The Township plans to maintain all ongoing programs for 2015.

Contacting the Township's financial management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Township's finances 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:

Barbara VanGelderén, Township Supervisor
Township of Manlius
3134 57th Street
Fennville, MI 49408

Phone: (269) 561-8855

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

March 31, 2014

	<i>Governmental activities</i>
ASSETS	
Current assets:	
Cash	\$ 1,853,536
Receivables	<u>63,831</u>
Total current assets	<u>1,917,367</u>
Noncurrent assets:	
Capital assets not being depreciated	105,383
Capital assets, net of accumulated depreciation	<u>2,518,533</u>
Total noncurrent assets	<u>2,623,916</u>
Total assets	<u>4,541,283</u>
LIABILITIES	
Current liabilities:	
Payables	<u>69,889</u>
NET POSITION	
Net investment in capital assets	2,623,916
Restricted for:	
General government	42,518
Public safety	438,176
Public works	225,412
Unrestricted	<u>1,141,372</u>
Total net position	<u>\$ 4,471,394</u>

See notes to financial statements

STATEMENT OF ACTIVITIES

Year ended March 31, 2014

		<u>Program revenues</u>		<u>Net (expenses) revenues and change in net position</u>
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	
Functions/Programs	<u>Expenses</u>			
Governmental activities:				
General government	\$ 209,723	\$ 37,405	\$ -	\$ (172,318)
Public safety	192,635	19,226	-	(173,409)
Public works	216,465	6,611	3,431	(206,423)
Community and economic development	15,328	761	-	(14,567)
Culture and recreation	<u>16,153</u>	<u>-</u>	<u>-</u>	<u>(16,153)</u>
Total governmental activities	<u>\$ 650,304</u>	<u>\$ 64,003</u>	<u>\$ 3,431</u>	<u>(582,870)</u>
General revenues:				
Taxes				595,942
State grants				223,095
Franchise fees				6,220
Investment income				<u>7,138</u>
Total general revenues				<u>832,395</u>
Change in net position				249,525
Net position - beginning				<u>4,221,869</u>
Net position - ending				<u>\$ 4,471,394</u>

See notes to financial statements

BALANCE SHEET - governmental funds

March 31, 2014

	<i>General</i>	<i>Fire</i>	<i>Road Improvement</i>	<i>Road Resurfacing</i>	<i>Total governmental funds</i>
ASSETS					
Cash	\$ 1,164,169	\$ 471,915	\$ -	\$ 217,452	\$ 1,853,536
Receivables	39,685	8,048	9,199	6,899	63,831
Due from other funds	8,138	-	-	-	8,138
Total assets	<u>\$ 1,211,992</u>	<u>\$ 479,963</u>	<u>\$ 9,199</u>	<u>\$ 224,351</u>	<u>\$ 1,925,505</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables	\$ 28,102	\$ 41,787	\$ -	\$ -	\$ 69,889
Due to other funds	-	-	8,138	-	8,138
Total liabilities	<u>28,102</u>	<u>41,787</u>	<u>8,138</u>	<u>-</u>	<u>78,027</u>
Fund balances:					
Restricted for:					
Cemetery	42,518	-	-	-	42,518
Public safety	-	438,176	-	-	438,176
Public works	-	-	1,061	224,351	225,412
Unassigned	1,141,372	-	-	-	1,141,372
Total fund balances	<u>1,183,890</u>	<u>438,176</u>	<u>1,061</u>	<u>224,351</u>	<u>1,847,478</u>
Total liabilities and fund balances	<u>\$ 1,211,992</u>	<u>\$ 479,963</u>	<u>\$ 9,199</u>	<u>\$ 224,351</u>	<u>\$ 1,925,505</u>

Reconciliation of the balance sheet to the statement of net position:

Total fund balance - total governmental funds \$ 1,847,478

Amounts reported for *governmental activities* in the statement of net position
(page 10) are different because:

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

2,623,916

Net position of *governmental activities*

\$ 4,471,394

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - governmental funds

Year ended March 31, 2014

	<i>General</i>	<i>Fire</i>	<i>Road Improvement</i>	<i>Road Resurfacing</i>	<i>Total governmental funds</i>
REVENUES					
Taxes	\$ 112,616	\$ 171,111	\$ 195,558	\$ 146,666	\$ 625,951
Licenses and permits	25,446	-	-	-	25,446
State grants	226,526	-	-	-	226,526
Charges for services	8,000	-	-	-	8,000
Interest and rentals	7,138	-	-	-	7,138
Other	6,768	-	-	-	6,768
Total revenues	<u>386,494</u>	<u>171,111</u>	<u>195,558</u>	<u>146,666</u>	<u>899,829</u>
EXPENDITURES					
General government	206,937	-	-	-	206,937
Public safety	17,064	175,571	-	-	192,635
Public works	19,631	-	723,584	25,225	768,440
Community and economic development	15,328	-	-	-	15,328
Culture and recreation	16,153	-	-	-	16,153
Total expenditures	<u>275,113</u>	<u>175,571</u>	<u>723,584</u>	<u>25,225</u>	<u>1,199,493</u>
NET CHANGES IN FUND BALANCES	111,381	(4,460)	(528,026)	121,441	(299,664)
FUND BALANCES - BEGINNING	<u>1,072,509</u>	<u>442,636</u>	<u>529,087</u>	<u>102,910</u>	<u>2,147,142</u>
FUND BALANCES - ENDING	<u>\$ 1,183,890</u>	<u>\$ 438,176</u>	<u>\$ 1,061</u>	<u>\$ 224,351</u>	<u>\$ 1,847,478</u>

Reconciliation of the statement of revenues, expenditures, and changes
in fund balances to the statement of activities:

Net change in fund balance - total governmental funds \$ (299,664)

Amounts reported for *governmental activities* in the statement of
activities (page 11) are different because:

Capital assets:

Additions	722,576
Provision for depreciation	<u>(173,387)</u>

Change in net position of *governmental activities* \$ 249,525

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Manlius, Michigan (the Township), conform to accounting principles generally accepted in the United States of America (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the more significant accounting policies.

Reporting entity:

The accompanying financial statements present only the Township, located in Allegan County. There are no component units or joint ventures with an equity interest for which the Township is considered to be financially accountable.

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 activities of the Township. The effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds 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 if they are collected within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the Township generally considers revenues to be available if they are expected to be 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, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, 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. All other revenue items are considered to be measurable only when cash is received by the Township.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*Measurement focus, basis of accounting, and financial statement presentation (continued):*

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Fire Fund, a special revenue fund, accounts for financial resources used for the operational costs of the Township's fire protection functions. Revenues are primarily derived from property taxes.

The Road Improvement Fund, a special revenue fund, accounts for financial resources used for road maintenance projects in the Township. Revenues are primarily derived from property taxes.

The Road Resurfacing Fund, a special revenue fund, accounts for financial resources used for road resurfacing projects in the Township. Revenues are primarily derived from property taxes.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Assets, liabilities, and net position or equity:

Bank deposits - 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. Pooled interest income is proportionately allocated to all funds.

Receivables - In general, outstanding balances between funds are reported as "due to/from other funds." No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the Township as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. 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. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets prospectively, beginning April 1, 2004.

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

Buildings and improvements	20 - 40 years
Equipment	10 years
Roads	20 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*Assets, liabilities, and net position or equity (continued):*

Net position - Net position represents the difference between assets and liabilities. The Township reports three categories of net position, as follows: (1) *Net investment in capital assets* consists of net capital assets reduced by outstanding balances of any related debt obligations attributable to the acquisition, construction, or improvement of those assets; (2) *Restricted net position* is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations, such as federal or state laws or buyers of the Township's debt. Restricted net position is reduced by liabilities related to the restricted assets; (3) *Unrestricted net position* consists of all other net position that does not meet the definition of the above components and is available for general use by the Township.

Fund equity - Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either a) not in spendable form, or b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws and regulations of other governments. The Township Board of Trustees retains the authority to assign fund balance. Unassigned fund balances are amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted or assigned to those purposes. When the Township incurs an expenditure for purposes for which various fund balance classifications can be used, it is the Township's policy to use the restricted fund balance first, followed by committed fund balance, then assigned fund balance, and, finally, unassigned fund balance.

Property tax revenue recognition - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, at which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and, accordingly, the total levy is recognized as revenue in the current year.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the period.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

Excess of expenditures over appropriations - The following schedule sets forth reportable budget variances:

<i>Fund</i>	<i>Function</i>	<i>Final budget</i>	<i>Actual</i>	<i>Variance</i>
General	Public works	\$ 15,100	\$ 19,631	\$ (4,531)
Road improvements	Public works	600,000	723,584	(123,584)

NOTE 3 - CASH

State statutes and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Township's deposits are in accordance with statutory authority. At March 31, 2014, the Township had deposits with a carrying amount of \$1,853,536.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Township will not be able to recover its deposits. The Township's investment policy does not specifically address custodial credit risk for deposits. At March 31, 2014, \$603,786 of the Township's bank balances of \$1,853,786 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE 4 - RECEIVABLES

Receivables as of March 31, 2014, for the Township's individual funds were as follows:

<i>Fund</i>	<i>Accounts</i>	<i>Property taxes</i>	<i>Inter- governmental</i>	<i>Totals</i>
General	\$ 2,149	\$ 4,893	\$ 32,643	\$ 39,685
Fire	-	8,048	-	8,048
Road Improvement	-	9,199	-	9,199
Road Resurfacing	-	6,899	-	6,899
	<u>\$ 2,149</u>	<u>\$ 29,039</u>	<u>\$ 32,643</u>	<u>\$ 63,831</u>

All receivables are considered fully collectible and are due within one year.

NOTE 5 - CAPITAL ASSETS

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

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated - land	\$ 105,383	\$ -	\$ -	\$ 105,383
Capital assets being depreciated:				
Buildings	186,894	-	-	186,894
Equipment and vehicles	72,662	7,862	-	80,524
Infrastructure	2,512,859	714,714	-	3,227,573
Subtotal	2,772,415	722,576	-	3,494,991
Less accumulated depreciation for:				
Buildings	(52,269)	(4,904)	-	(57,173)
Equipment and vehicles	(48,790)	(5,744)	-	(54,534)
Infrastructure	(702,012)	(162,739)	-	(864,751)
Subtotal	(803,071)	(173,387)	-	(976,458)
Total capital assets being depreciated, net	1,969,344	549,189	-	2,518,533
Governmental activities capital assets, net	<u>\$ 2,074,727</u>	<u>\$ 549,189</u>	<u>\$ -</u>	<u>\$ 2,623,916</u>

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

Governmental activities:	
General government	\$ 10,648
Public works	162,739
Total governmental activities	<u>\$ 173,387</u>

NOTE 6 - PAYABLES

Payables as of March 31, 2014, for the Township's individual funds were as follows:

<i>Fund</i>	<i>Accounts</i>	<i>Payroll</i>	<i>Inter- governmental</i>	<i>Customer deposits</i>	<i>Totals</i>
General	\$ 12,442	\$ 3,695	\$ 4,965	\$ 7,000	\$ 28,102
Fire	-	-	41,787	-	41,787
	<u>\$ 12,442</u>	<u>\$ 3,695</u>	<u>\$ 46,752</u>	<u>\$ 7,000</u>	<u>\$ 69,889</u>

NOTE 7 - JOINT VENTURES*Hamilton Area Fire Board:*

The Township is a member of the Hamilton Area Fire Board (the Authority), which is a joint venture of the Townships of Manlius, Heath, and Fillmore. The Administrative Board of the Authority consists of members appointed by each participating unit and three non-voting members from the Hamilton Fire Department. The Authority was formed to jointly provide fire protection services within the combined service area, which encompasses the participating municipalities. During the year ended March 31, 2014, the Township contributed \$114,315 as its proportionate share of the Authority's budgeted costs. Payables in the amount of \$31,864 (reported in the Fire Fund) are owed to the Authority at fiscal year end. Complete audited financial statements for the Authority can be obtained from the Clerk of the Township of Heath.

Fennville Area Fire Board:

The Township is a member of the Fennville Area Fire Board (the Authority), which is a joint venture of the Townships of Manlius and Clyde, and the City of Fennville. The Administrative Board of the Authority consists of members appointed by each participating unit. The Authority was formed to jointly provide fire protection services within the combined service area, which encompasses the participating municipalities. During the year ended March 31, 2014, the Township contributed \$53,236 as its proportionate share of the Authority's budgeted costs. Payables in the amount of \$9,923 (reported in the Fire Fund) are owed to the Authority at fiscal year end. Complete audited financial statements for the Authority can be obtained from the Treasurer of the Fennville Fire Department.

The Township does not expect to receive residual equity from the joint ventures. The Township is unaware of any indication that the joint ventures are accumulating significant financial resources or are experiencing fiscal stress that may cause an additional financial benefit or burden on the Township in the near future.

NOTE 8 - INTERFUND BALANCES

The balance the Road Improvement Fund owes the General Fund represents operating costs covered by the General Fund during the fiscal year 2014. The balances will be paid through the receipt of delinquent tax revenues.

NOTE 9 - PROPERTY TAX REVENUE

The 2013 taxable valuation of the Township approximated \$97,158,000, on which ad valorem taxes levied consisted of .7586 mills for operating purposes, 1.7500 mills for fire protection, 2.0000 mills for road improvements, and 1.5000 mills for road resurfacing, raising approximately \$74,000 for operating purposes, \$171,000 for fire protection, \$196,000 for road improvements, and \$147,000 for road resurfacing. These amounts are recognized in the respective fund financial statements as property tax revenue.

NOTE 10 - CONSTRUCTION CODE ACT

A summary of construction code enforcement transactions for the year ended March 31, 2014, is as follows:

Revenues	\$ 19,226
Expenses	<u>27,347</u>
Deficiency of revenues over expenses	<u>\$ (8,121)</u>

NOTE 11 - 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 Township has purchased commercial insurance for each of these claims and is neither self-insured, nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 12 - DEFINED BENEFIT PENSION PLAN

The Township's defined benefit pension plan provides retirement, disability, and death benefits to plan members and beneficiaries. The Township's defined benefit pension plan is affiliated with the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer, public employee retirement system that acts as a common investment and administrative agent for municipalities in Michigan. Public Act 220 of 1996 of the State of Michigan assigns the authority to establish and amend the benefit provisions to the Township. The MERS issues a publicly-available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917, or by calling 1-800-767-6377.

Funding policy:

MERS members may contribute from -0-% to 10% of annual compensation. The Township is required to contribute at an actuarially determined rate; the current rate is 6.62% of annual covered payroll. The contribution requirements of plan members and the commission are established, and may be amended, by MERS.

Annual pension cost:

For the year ended March 31, 2014, the Township's contributions were \$11,523, which were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2011. The employer contribution rate has been determined using the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used included (a) 8.0% long-term net investment rate of return and (b) projected salary increases of 4.5% per year. The actuarial value of MERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a ten-year period.

Three-year trend information:

<i>Fiscal year ended March 31:</i>	<i>Annual pension cost (APC)</i>	<i>Percentage of APC contributed</i>	<i>Net pension obligation</i>
2012	\$ 11,226	100%	\$ -
2013	10,964	100%	-
2014	11,523	100%	-

NOTE 12 - DEFINED BENEFIT PENSION PLAN (Continued)*Funded status and funding progress:*

The funded status of the plan for the most recent actuarial date is as follows:

<i>Valuation date, December 31,</i>	<i>Actuarial value of assets (a)</i>	<i>Actuarial accrued liability (AAL) entry age (b)</i>	<i>Underfunded (overfunded) AAL (UAAL) (b-a)</i>	<i>Funded ratio (a/b)</i>	<i>Covered payroll (c)</i>	<i>UAAL as a percentage of covered payroll ((b-a)/c)</i>
2013	\$ 399,077	\$ 408,659	\$ 9,582	98%	\$ 107,002	9%

The 2013 actuarial valuation reflects changes in the following actuarial assumptions:

- The minimum funding requirements for poorly funded, closed divisions, is fully phased in

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Certain other accounting policies and plan asset matters are discussed in greater detail in the Township's actuarial valuation.

NOTE 13 - RECENT ACCOUNTING PRONOUNCEMENT

Effective April 1, 2013, the Township adopted the provisions of the following accounting pronouncement that did not result in restatement or reclassification of opening net position or fund balances:

Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

NOTE 14 - PENDING ACCOUNTING PRONOUNCEMENT

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for periods beginning after June 15, 2014. This Statement requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded in the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The Statement also enhances accountability and transparency through revised note disclosures and required supplementary information. The Township is currently evaluating the impact this standard will have on the financial statements when adopted during the fiscal year beginning April 1, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - General Fund

Year ended March 31, 2014

	<i>Original budget</i>	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
REVENUES				
Taxes	\$ 90,456	\$ 90,456	\$ 112,616	\$ 22,160
Licenses and permits	10,000	10,000	25,446	15,446
State grants	125,000	125,000	226,526	101,526
Charges for services	5,775	5,775	8,000	2,225
Interest and rentals	2,000	2,000	7,138	5,138
Other	6,010	6,010	6,768	758
Total revenues	239,241	239,241	386,494	147,253
EXPENDITURES				
General government:				
Legislative	11,000	11,000	7,356	3,644
Supervisor	21,170	21,820	21,560	260
Election	5,600	5,600	789	4,811
Assessor	23,200	24,550	23,361	1,189
Clerk	29,820	29,820	24,124	5,696
Board of review	3,100	3,100	1,691	1,409
Treasurer	21,920	21,920	21,064	856
Hall and grounds	63,100	64,300	36,523	27,777
Cemetery	13,900	14,500	13,908	592
Other	83,700	85,200	56,561	28,639
Total general government	276,510	281,810	206,937	74,873
Public safety - building inspection	20,000	20,000	17,064	2,936
Public works:				
Street lights	7,600	7,600	5,971	1,629
Sanitation	-	-	6,387	(6,387)
Drains	2,100	7,500	7,273	227
Total public works	9,700	15,100	19,631	(4,531)

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended March 31, 2014

	<i><u>Original budget</u></i>	<i><u>Final budget</u></i>	<i><u>Actual</u></i>	<i><u>Variance with final budget positive (negative)</u></i>
EXPENDITURES (Continued)				
Community and economic development - planning and zoning	<u>\$ 51,700</u>	<u>\$ 51,700</u>	<u>\$ 15,328</u>	<u>\$ 36,372</u>
Culture and recreation - library	<u>23,800</u>	<u>23,800</u>	<u>16,153</u>	<u>7,647</u>
Capital outlay	<u>15,000</u>	<u>15,000</u>	<u>-</u>	<u>15,000</u>
Total expenditures	<u>396,710</u>	<u>407,410</u>	<u>275,113</u>	<u>132,297</u>
NET CHANGES IN FUND BALANCES	(157,469)	(168,169)	111,381	279,550
FUND BALANCES - BEGINNING	<u>1,072,509</u>	<u>1,072,509</u>	<u>1,072,509</u>	<u>-</u>
FUND BALANCES - ENDING	<u><u>\$ 915,040</u></u>	<u><u>\$ 904,340</u></u>	<u><u>\$ 1,183,890</u></u>	<u><u>\$ 279,550</u></u>

BUDGETARY COMPARISON SCHEDULE - Fire Fund

Year ended March 31, 2014

	<i>Original budget</i>	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
REVENUES				
Taxes	\$ 160,000	\$ 160,000	\$ 171,111	\$ 11,111
EXPENDITURES				
Public safety:				
Fire Board salary	1,200	1,200	863	337
Contracted services	183,300	183,300	174,708	8,592
Total expenditures	184,500	184,500	175,571	8,929
NET CHANGES IN FUND BALANCES	(24,500)	(24,500)	(4,460)	20,040
FUND BALANCES - BEGINNING	442,636	442,636	442,636	-
FUND BALANCES - ENDING	\$ 418,136	\$ 418,136	\$ 438,176	\$ 20,040

BUDGETARY COMPARISON SCHEDULE - Road Improvement Fund

Year ended March 31, 2014

	<i>Original budget</i>	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
REVENUES				
Taxes	\$ 160,000	\$ 160,000	\$ 195,558	\$ 35,558
EXPENDITURES				
Public works - highways and streets	<u>600,000</u>	<u>600,000</u>	<u>723,584</u>	<u>(123,584)</u>
NET CHANGES IN FUND BALANCES	(440,000)	(440,000)	(528,026)	(88,026)
FUND BALANCES - BEGINNING	<u>529,087</u>	<u>529,087</u>	<u>529,087</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 89,087</u>	<u>\$ 89,087</u>	<u>\$ 1,061</u>	<u>\$ (88,026)</u>

Township of Manlius**BUDGETARY COMPARISON SCHEDULE - Road Resurfacing Fund**

Year ended March 31, 2014

	<i>Original budget</i>	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
REVENUES				
Taxes	\$ 130,000	\$ 130,000	\$ 146,666	\$ 16,666
EXPENDITURES				
Public works - highways and streets	<u>100,000</u>	<u>100,000</u>	<u>25,225</u>	<u>74,775</u>
NET CHANGES IN FUND BALANCES	30,000	30,000	121,441	91,441
FUND BALANCES - BEGINNING	<u>102,910</u>	<u>102,910</u>	<u>102,910</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 132,910</u>	<u>\$ 132,910</u>	<u>\$ 224,351</u>	<u>\$ 91,441</u>

**SCHEDULE OF FUNDING PROGRESS FOR THE EMPLOYEE RETIREMENT SYSTEM
(Municipal Employees' Retirement System of Michigan)**

The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the dates indicated.

<i>Actuarial valuation date December 31:</i>	<i>Actuarial value of assets (a)</i>	<i>Actuarial accrued liability (AAL) entry age (b)</i>	<i>Underfunded (overfunded) AAL (UAAL) (b-a)</i>	<i>Funded ratio (a/b)</i>	<i>Covered payroll (c)</i>	<i>UAAL as a percentage of covered payroll ((b-a)/c)</i>
2011	\$ 317,209	\$ 367,968	\$ 50,759	86%	\$ 107,381	47%
2012	355,121	374,479	19,358	95%	97,837	20%
2013	399,077	408,659	9,582	98%	107,002	9%

The 2013 actuarial valuation reflects changes in the following actuarial assumptions:

- The minimum funding requirements for poorly funded, closed divisions, is fully phased in.

July 22, 2014

To the Board of Trustees
Township of Manlius

We have audited the financial statements of the governmental activities and each major fund of the Township of Manlius for the year ended March 31, 2014. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, 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 February 13, 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 of Manlius are described in Note 1 to the financial statements. Except as described in Note 13 to the financial statements, no new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2014. We noted no transactions entered into by the Township of Manlius 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 financial statements were capital asset depreciation and defined benefit pension plan liabilities and costs.

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Township's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate of the defined benefit pension plan liabilities and costs are based on actuarial assumptions and methods and the use of a specialist (actuary). We evaluated the key factors and assumptions and the suitability of the actuary used to develop the liabilities and costs 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.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

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 22, 2014.

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

Other Matters

We applied certain limited procedures to management's discussion and analysis, the budgetary comparison schedules, and the schedule of funding progress for the employee retirement system which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the governmental activities and each major fund of the Township of Manlius 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 the Township of Manlius' 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 the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

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

Material audit adjustments and financial statement preparation:

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

Condition: We identified and proposed several material audit adjustments that management reviewed and approved. Adjustments were recorded to:

- Accrue receivables at year end
- Accrue payables at year end
- Adjust property tax revenues and receivables at year end
- Convert the fund-based data necessary to prepare the government-wide financial statements.

As is the case with many small and medium-sized governmental units, the Township has historically relied on its independent external auditor to assist with the preparation of the financial statements, the related notes, and the management's discussion and analysis as part of its external financial reporting process. Accordingly, the Township's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditor, who cannot, by definition, be considered part of the Township's internal controls. Having the auditor draft the annual financial statements is allowable under current auditing standards and ethical guidelines and may be the most efficient and effective method for preparation of the Township's financial statements. However, when an entity (on its own) lacks the ability to produce financial statements that conform to GAAP, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses. This is a repeat finding.

Cause: This condition was caused by the Township's decision to outsource the preparation of its annual financial statements to the external auditor rather than incur the costs of obtaining the necessary training and expertise required for the Township to perform this task internally because outsourcing the task is considered more cost effective.

Effect: The Township's accounting records were initially misstated by amounts material to the financial statements. In addition, the Township lacks complete internal controls over the preparation of its financial statements in accordance with GAAP, and, instead, relies, at least in part, on assistance from its external auditor for assistance with this task.

Auditor's Recommendation: We recommend that management continue to monitor the relative costs and benefits of securing the internal or other external resources necessary to develop material adjustments and prepare a draft of the Township's annual financial statements versus contracting with its auditor for these services.

Management Response: Management has made an ongoing evaluation of the respective costs and benefits of obtaining internal or external resources, specifically for the preparation of financial statements, and has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so. The Board will continue to review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

We did not audit the Township of Manlius' response to the internal control finding described above and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the Board of Trustees of the Township of Manlius and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Siegfried Crandall P.C.