

**WAVERLY TOWNSHIP  
CHEBOYGAN COUNTY, MICHIGAN**

Financial Statements  
For the Year Ended  
March 31, 2014

**Prepared By:**

Richard E. Mahlmeister, CPA, PC  
580 South Nicolet, P.O. Box 656  
Mackinaw City, MI 49701

***WAVERLY TOWNSHIP***

***TABLE OF CONTENTS***

**INDEPENDENT AUDITOR’S REPORT**

	<u>PAGE</u>
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b>	1-5
<b>BASIC FINANCIAL STATEMENTS</b>	
Government-wide Financial Statements	
Statement of Net Position	6
Statement of Activities	7
Fund Financial Statements	
Balance Sheet-Governmental Funds	8 - 9
Statement of Revenues, Expenditures and Changes In Fund Balances-Governmental Funds	10 – 11
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Position	12
Notes to financial statements	13 - 21
 <b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedule – General Fund	22 - 23
Budgetary Comparison Schedule – Special Revenue - Fire Fund	24

INDEPENDENT AUDITOR'S REPORT

February 24, 2015

Township Board  
Waverly Township  
Cheboygan County, Michigan

I have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Waverly Township, Cheboygan County, Michigan**, as of and for the year ended March 31, 2014, which collectively comprise **Waverly Township's** basic financial statements as listed in the table of contents. These financial statements are the responsibility of **Waverly Township's** management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my 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 **Waverly Township, Cheboygan County, Michigan**, as of March 31, 2014, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 5 and 22 through 24 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.



Richard E. Mahlmeister, CPA  
Richard E. Mahlmeister, CPA, PC

## ***WAVERLY TOWNSHIP***

### ***MANAGEMENT'S DISCUSSION AND ANALYSIS***

This section of the Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended March 31, 2014. Please read it in conjunction with the financial statements, which immediately follow this section.

#### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

#### **FINANCIAL HIGHLIGHTS**

##### **Government-Wide Highlights**

Net position at March 31, 2014 totaled \$328,211 representing an increase of \$8,551 from the previous fiscal year.

##### **Governmental Fund Highlights**

The governmental activities of the Township reported combined ending fund balances of \$284,698, which represents an increase of \$13,064 from the previous fiscal year.

##### **Capital Assets and Long-term Debt**

The Township has no debt and no new capital assets were acquired in the current year.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts: 1) management's discussion and analysis; 2) the basic financial statements; and 3) required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities and/or business-type activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

**WAVERLY TOWNSHIP**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

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

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

To assess the overall health of the Township, you may also consider additional factors such as tax base changes, facility conditions, and personnel changes.

Most of the activities are reported as governmental activities. These would include the operations recorded in the General, Fire, and Liquor Law Enforcement Funds.

The comparison of net position of governmental activities from year to year serves to measure a government's financial position:

**Waverly Township  
Net Position  
March 31,**

	<b>GOVERNMENTAL ACTIVITIES</b>	
	<b>2014</b>	<b>2013</b>
Current assets	\$ 287,586	\$ 272,994
Capital assets (net)	43,513	48,022
Total assets	331,099	321,016
Liabilities - all current	2,888	1,356
Net position:		
Invested in capital assets	43,513	48,022
Restricted	36,410	2,259
Unrestricted	248,288	269,379
	<u>\$ 328,211</u>	<u>\$ 319,660</u>

**WAVERLY TOWNSHIP**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS - CONTINUED**

The most significant portion of the Township's Net Position is the investment in capital assets (e.g. land, buildings and improvements, and equipment), less any related debt that is outstanding that the Township used to acquire or construct the asset. The Township has \$248,288 in unrestricted Net Position. These assets represent resources that are available for appropriation, but are limited by policies regarding their use.

The following table summarizes the results of the changes in Net Position of the Township:

<b>Waverly Township Change in Net Position March 31,</b>		
	<b>GOVERNMENTAL ACTIVITIES</b>	
	<b>2014</b>	<b>2013</b>
REVENUES:		
Program revenues:		
Charges for services	\$ 8,730	\$ 6,806
General revenues:		
Property taxes	70,227	35,795
State-shared revenues	60,817	59,462
Interest income	2,051	699
Other	583	2,261
Total Revenues	<u>142,408</u>	<u>105,023</u>
EXPENSES:		
Legislative	2,016	1,755
General government	47,643	52,394
Public safety	49,641	49,901
Public works	17,662	15,884
Other	12,382	4,732
Unallocated depreciation	4,509	4,509
Total Expenses	<u>133,853</u>	<u>129,175</u>
Net position:		
Increase (decrease)	8,555	(24,152)
Beginning net position	<u>319,656</u>	<u>343,808</u>
Ending net position	<u>\$ 328,211</u>	<u>\$ 319,656</u>

## ***WAVERLY TOWNSHIP***

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **GOVERNMENT-WIDE FINANCIAL STATEMENTS - CONTINUED**

##### **Governmental Activities**

The Township is able to report positive balances in net position. Net position increased by \$8,555.

Property tax revenue has risen significantly due to a Fire millage not levied in the prior year. Most other revenues have remained relatively stable from the prior year. Our total expenditures have also remained relatively stable.

#### **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds, not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. They may also be created by the Township Board. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The Township has the following types of funds:

##### **Governmental Funds**

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

The Township maintains three individual governmental funds; General Fund, Fire Fund and Liquor Law Enforcement Fund; of which the General and Fire Funds are considered major funds. The Township funds are financed primarily by both property tax revenue and state shared revenues.

##### **Fiduciary Funds**

The Township acts as a trustee or fiduciary and is responsible for insuring that the assets of these activities are collected and disbursed to the respective entities to which the funds belong. The Township maintains these funds and is responsible for insuring that the assets of these activities are spent for their intended purpose and at the direction of those individuals/organizations to which the funds belongs. These activities do not appear in the Township's government-wide financial statements since the assets do not belong to the Township. The Township maintains a Tax Collection Fund in this category.

## ***WAVERLY TOWNSHIP***

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS**

##### **Governmental Activities**

Overall the governmental funds had a net increase in fund balance over the prior year. The Township continued to provide the same services to its residents: administrative, assessing, elections, township hall maintenance, road maintenance, fire protection, and tax collection. The General Fund decreased its fund balance by \$21,091, bringing the fund balance to \$248,288; the Special Revenue-Fire Fund increased its fund balance by \$33,823, bringing its fund balance to \$34,050; and the Special Revenue-Liquor Law Enforcement Fund increased its fund balance by \$332, bringing its fund balance to \$2,360.

##### **Capital Assets**

At March 31, 2014, the Township's governmental activities had \$160,444 in capital assets (land, buildings and improvements, machinery and equipment). No capital assets were purchased during the fiscal year.

##### **Long-Term Debt**

No new debt was incurred during the year, nor is there any other long-term debt.

#### **BUDGETARY HIGHLIGHTS**

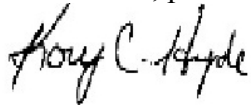
There were no significant differences between the original and final budget.

#### **KNOWN FACTORS AFFECTING FUTURE OPERATIONS**

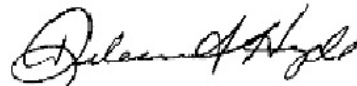
The Township expects financial aspects of governing to be generally the same as in the current year. We believe that we need to continue to strive for a healthy fund balance.

#### **CONTACTING TOWNSHIP MANAGEMENT**

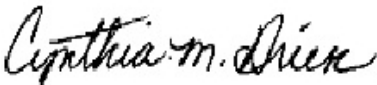
This financial report is designed to provide our citizens, creditors, investors, and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for revenues it receives. If you have any questions concerning this report, or need additional information, please contact any township official at 989.733.9661 (Waverly Township Hall).



Kory C. Hyde  
Waverly Township Supervisor



Rebecca A. Hyde  
Waverly Township Clerk



Cynthia M. Drier  
Waverly Township Treasurer

## **BASIC FINANCIAL STATEMENTS**

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**WAVERLY TOWNSHIP**  
**STATEMENT OF NET POSITION**  
**MARCH 31, 2014**

<u>ASSETS</u>	<u>GOVERNMENTAL ACTIVITIES</u>
Cash and cash equivalents	\$ 200,641
Investments	68,141
Receivables:	
Property taxes	8,242
Due from other governmental units	4,945
Due from others	5,613
Due from fiduciary fund	4
Capital assets (net of accumulated depreciation)	<u>43,513</u>
<u>TOTAL ASSETS</u>	<u>331,099</u>
<u>LIABILITIES</u>	
Accounts payable	782
Accrued expenses	<u>2,106</u>
<u>TOTAL LIABILITIES</u>	<u>2,888</u>
<u>NET POSITION</u>	
Invested in capital assets	43,513
Restricted	36,410
Unrestricted	<u>248,288</u>
<u>TOTAL NET POSITION</u>	<u>\$ 328,211</u>

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

**WAVERLY TOWNSHIP**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED MARCH 31, 2014**

Functions/Programs	Expenses	Program Revenues	Charges for Services	Net (Expense) Revenue and Changes in Net Position
				Governmental Activities
				TOTAL
<b>Primary government</b>				
<b>Governmental activities</b>				
Legislative	\$ 2,016	\$ -	\$ -	(2,016)
General government	47,643	800		(46,843)
Public safety	49,641	-		(49,641)
Public works	17,662	7,930		(9,732)
Other	12,382	-		(12,382)
Unallocated depreciation	4,509	-		(4,509)
<b>Total governmental activities</b>	<b>\$ 133,853</b>	<b>\$ 8,730</b>	<b>\$ -</b>	<b>(125,123)</b>
<b>General Revenues:</b>				
Property taxes				70,227
State-shared revenues				60,817
Unrestricted interest income				2,051
Other				583
<b>Total general revenues</b>				<b>133,678</b>
<b>Change in net position</b>				<b>8,555</b>
<b>Net position, beginning of year</b>				<b>319,656</b>
<b>Net position, end of year</b>				<b>\$ 328,211</b>

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

## **FUND FINANCIAL STATEMENTS**

**WAVERLY TOWNSHIP**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**MARCH 31, 2014**

<u>ASSETS</u>	NON-MAJOR FUND				TOTAL GOVERNMENTAL FUNDS
	GENERAL FUND	FIRE FUND	LIQUOR LAW ENFORCEMENT FUND		
Cash and cash equivalents	\$ 168,406	\$ 29,868	\$ 2,367	\$	200,641
Investments	68,141	-	-		68,141
Taxes receivable	4,060	4,182	-		8,242
Due from other governmental units	4,945	-	-		4,945
Due from others	5,613	-	-		5,613
Due from fiduciary fund	4	-	-		4
<u>TOTAL ASSETS</u>	<u>\$ 251,169</u>	<u>\$ 34,050</u>	<u>\$ 2,367</u>	<u>\$</u>	<u>287,586</u>
<u>LIABILITIES AND FUND BALANCES</u>					
LIABILITIES					
Accounts payable	\$ 782	\$ -	\$ -	\$	782
Accrued expenses	2,099	-	7		2,106
<u>TOTAL LIABILITIES</u>	<u>2,881</u>	<u>-</u>	<u>7</u>		<u>2,888</u>
FUND BALANCES					
Restricted for:					
Public safety	-	34,050	2,360		36,410
Unassigned	248,288	-	-		248,288
<u>TOTAL FUND BALANCES</u>	<u>248,288</u>	<u>34,050</u>	<u>2,360</u>		<u>284,698</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 251,169</u>	<u>\$ 34,050</u>	<u>\$ 2,367</u>	<u>\$</u>	<u>287,586</u>

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

**WAVERLY TOWNSHIP**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**MARCH 31, 2014**

Reconciliation of fund balances on the balance sheets for governmental activities  
to the statement of net position

<b>FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ 284,698</b>
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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.

Add: capital assets	160,444
Subtract: accumulated depreciation	(116,931)
	<hr/>

<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ 328,211</b>
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The accompanying notes are an integral part of these financial statements.

**WAVERLY TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2014**

			NON-MAJOR FUND		TOTAL GOVERNMENTAL FUNDS
	GENERAL FUND	FIRE FUND	LIQUOR LAW ENFORCEMENT FUND		
<b>REVENUES:</b>					
Taxes	\$ 36,177	\$ 34,050	\$ -	\$	70,227
State shared revenues	58,864	-	1,953		60,817
Charges for services	8,730	-	-		8,730
Interest and dividends	2,045	6	-		2,051
Other revenue	583	-	-		583
<b>TOTAL REVENUES</b>	<b>106,399</b>	<b>34,056</b>	<b>1,953</b>		<b>142,408</b>
<b>EXPENDITURES</b>					
Current:					
Legislative	2,016	-	-		2,016
General government	47,643	-	-		47,643
Public safety	-	48,020	1,621		49,641
Public works	17,662	-	-		17,662
Other functions	12,382	-	-		12,382
<b>TOTAL EXPENDITURES</b>	<b>79,703</b>	<b>48,020</b>	<b>1,621</b>		<b>129,344</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>26,696</b>	<b>(13,964)</b>	<b>332</b>		<b>13,064</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers (out)	(47,787)	47,787	-		-
<b>NET CHANGE IN FUND BALANCE</b>	<b>(21,091)</b>	<b>33,823</b>	<b>332</b>		<b>13,064</b>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>269,379</b>	<b>227</b>	<b>2,028</b>		<b>271,634</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 248,288</b>	<b>\$ 34,050</b>	<b>\$ 2,360</b>	<b>\$</b>	<b>284,698</b>

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

**WAVERLY TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2014**

Reconciliation of statement of revenues, expenditures and changes in fund balances of governmental funds to statement of activities

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	13,064
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, those costs are allocated over their useful lives as annual depreciation expense in the statement of activities.

Add: capital outlay capitalized during the current year

Subtract: depreciation expense

-

(4,509)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES

	\$	8,555
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The accompanying notes are an integral part of these financial statements.

**WAVERLY TOWNSHIP**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUND**  
**MARCH 31, 2014**

<u>ASSETS</u>		<u>AGENCY FUND</u>
Cash		<u>\$ 4</u>
<u>LIABILITIES</u>		
Due to other funds		<u>4</u>
<u>NET POSITION</u>		
Fiduciary Net Position		<u>\$ -</u>

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

## ***WAVERLY TOWNSHIP***

### ***NOTES TO FINANCIAL STATEMENTS***

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Waverly Township, Cheboygan County, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies used by Waverly Township.

##### **A. Reporting Entity**

The Township is governed by an elected five-member Township Board. Generally accepted accounting principles require that if the Township has certain oversight responsibilities over other organizations, those organizations should be included in the Township's financial statements. The basic criterion for including a governmental department, agency, institution, commission, public authority or other governmental organization in a governmental unit's financial report is the exercise of oversight responsibility over such agencies by the governmental unit's elected officials. The manifestations of such oversight responsibility are financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The Township has determined that no entities should be consolidated into its financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only.

##### **B. Government-Wide and Fund Financial Statements**

Government-Wide Financial Statements: The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements.

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The township does not have any business type activities.

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

Fund Financial Statements: Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 sets forth minimum criteria, based on percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds, for the determination of major funds.

## ***WAVERLY TOWNSHIP***

### ***NOTES TO FINANCIAL STATEMENTS***

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

##### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is 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 which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected 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 claims and judgments, are recorded only when payment is due.

Property taxes, state shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal year. All other revenue items are considered to be available when cash is received by the government.

The Township reports the following major governmental funds:

General Fund: The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund. Financing is provided primarily by property taxes and state shared revenues.

Fire Fund: The Fire Fund is used to account for expenditures related to contracted, township provided, fire service. Financing is provided primarily by a special property tax levy.

The Township reports the following non-major fund:

Liquor Law Enforcement Fund: The Liquor Fund accounts for liquor license fees refunded by the State and utilized for enforcement of the State's liquor laws.

The Township reports the following fiduciary fund:

Trust and Agency Fund: Tax Collection Fund is used to account for property taxes collected for the Township and as an agent for other governmental units. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

## ***WAVERLY TOWNSHIP***

### ***NOTES TO FINANCIAL STATEMENTS***

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

##### **D. Assets, Liabilities, and Net Position or Equity**

Bank Deposits and Investments: Cash and cash equivalents consist of demand deposits, cash in savings and money market accounts. Investments are stated at cost, which approximates market, and consist of certificates of deposit with maturity values of three months or longer.

Receivables, Payables and Transfers: All receivables are reported at their gross values. Inter-fund receivables and payables arise from inter-fund transactions and are recorded by all funds affected in the period in which transactions are executed.

In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.” Receivable from other governments represents various shared revenues, grants, and reimbursements from other governments.

Capital Assets: Capital assets which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the governmental activities column in the government-wide financial statements. Capital assets are generally defined by the government as assets with an initial individual cost of \$1,500 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 the date of donation. Expenditures for maintenance and repair are charged to current expenditures as incurred. Depreciation is computed using the straight-line method.

When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

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

Buildings and improvements	15 – 40 years
Equipment	5 – 15 years

Compensated Absences and Post-employment Benefits: There is no accumulated vacation, sick leave, or post-employment benefits to be recognized.

Long-term Obligations: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources. Issuance costs are reported as debt service expenditures.

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

## ***WAVERLY TOWNSHIP***

### ***NOTES TO FINANCIAL STATEMENTS***

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

##### **D. Assets, Liabilities, and Net Position or Equity - Continued**

Fund Equity: In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Township is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Township did not have any nonspendable resources as of March 31, 2014.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Township has restricted resources for public safety, as shown in the body of the financial statements.
- **Committed:** These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the Township Board – the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The Township did not have any committed resources as of March 31, 2014.
- **Assigned:** This classification includes amounts that are constrained by The Township's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Township's Board or through the Township Board delegating this responsibility to the management through the budgetary process. The Township did not have any assigned resources as of March 31, 2014.
- **Unassigned:** This classification includes the residual fund balance for the General Fund.

#### **NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Information: Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

## ***WAVERLY TOWNSHIP***

### ***NOTES TO FINANCIAL STATEMENTS***

#### **NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - CONTINUED**

The Township follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the beginning of the fiscal year, the Township Clerk submits to the Township Board a proposed operating budget for the fiscal year commencing on April 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to March 31, the budget is legally enacted through passage of a resolution.
4. Budgeted amounts are as originally adopted, or as amended by the Township Board.
5. Appropriations expire at the end of the fiscal year.

Excess of Expenditures Over Appropriations in Budgetary Funds: P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Township for these budgetary funds were adopted to the activity level.

During the year the Township incurred expenditures which exceeded the amount appropriated was as follows:

<b>Fund</b>	<b>Appropriations</b>	<b>Expenditures</b>	<b>Variance</b>
<b>GENERAL FUND:</b>			
Supervisor	\$6,520	\$6,554	\$34
Township property	\$7,055	\$7,325	\$270
Insurance, bonds, other	\$9,260	\$12,382	\$3,122
Operating transfers	\$7,612	\$47,787	\$40,175

#### **NOTE 3: PROPERTY TAX**

Property tax revenues for the year ended March 31, 2014, reflected in the accompanying financial statements include property taxes levied December 31, 2013. These taxes are due by February 15, 2014, and are added to the County tax rolls after February 28, 2014. The Township receives 100% payment for the delinquent tax by June, 2014.

The taxable value of the Township totaled \$27,102,963, on which ad valorem taxes consisted of .9875 mills for the Township's operating purposes and 1.2500 mills for fire protection, raising \$26,695 for operating purposes and \$34,050 for fire protection.

#### **NOTE 4: DEPOSITS AND INVESTMENTS**

Statutory Authority: Michigan Compiled Laws, Section 129.91, authorizes the Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations;

**WAVERLY TOWNSHIP**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4: DEPOSITS AND INVESTMENTS – CONTINUED**

repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Township Board has designated one financial institution for the deposit of Township funds. The investment policy adopted by the board, in accordance with Public Act 196 of 1997, has authorize investments in bank accounts and CDs, but not the remainder of State statutory authority as listed above.

The Local Governmental Unit's deposits and investment policy are in accordance with statutory authority

The caption on the statement of net position relating to cash and cash equivalents and investments represent deposits in varying amounts as follows:

Cash and cash equivalents	\$200,645
Investments (certificates of deposit)	<u>68,141</u>
	<u>\$268,786</u>

Interest Rate Risk: State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The Township's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk: The Township's investment policy does not have specific limits in excess of state law on investment credit risk. The Township has no investments for which ratings are required.

Custodial Credit Risk: At year-end the carrying amounts of the deposits did not exceed \$250,000 and, therefore, are covered by the Federal Deposit Insurance Corporation (FDIC). The Township may experience significant fluctuations in deposit balances through the year.

**NOTE 5: INTERFUND BALANCES AND TRANSFERS**

The composition of interfund receivables and payables for the year ended March 31, 2014 are as follows:

<b>Fund</b>	<b>Interfund Receivable</b>	<b>Interfund Payable</b>
General	\$ 4	\$ -
Tax Collection	-	4
	<u>          </u>	<u>          </u>
Total	<u>\$ 4</u>	<u>\$ 4</u>

**WAVERLY TOWNSHIP**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5: INTERFUND BALANCES AND TRANSFERS – CONTINUED**

All remaining balances generally 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) payment between funds are made. All interfund balances outstanding at March 31, 2014, are expected to be repaid within one year.

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, (2) use unrestricted resources collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers consisted of the following for the year ended March 31, 2014:

<b>Fund</b>	<b>Transfer Out</b>	<b>Transfer In</b>
General	\$ 47,787	\$ -
Fire	-	47,787
Total	\$ 47,787	\$ 47,787

**NOTE 6: CAPITAL ASSETS**

Capital asset activity of the governmental activities for the current year was as follows:

	<b>Balance April 1, 2013</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance March 31, 2014</b>
<u>Not being depreciated:</u>				
Land	\$12,865	\$ -	\$ -	\$12,865
<u>Being Depreciated:</u>				
Building and Improvements	131,398	-	-	131,398
Furniture and Equipment	16,181	-	-	16,181
Subtotal	160,444	-	-	160,444
Less accumulated depreciation	(112,422)	(4,509)	-	(116,931)
Total	\$48,022	\$(4,509)	\$ -	\$43,513

## ***WAVERLY TOWNSHIP***

### ***NOTES TO FINANCIAL STATEMENTS***

#### **NOTE 6: CAPITAL ASSETS - CONTINUED**

Depreciation was charged to the Township's functions as follows:

General government	<u>\$4,509</u>
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#### **NOTE 7: PENSION PLAN**

The Township provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Township Board, the Township contributes 12.0% of employees' gross earnings. In accordance with these requirements, the Township contributed \$3,604 during the current year. Contract fees were \$135.

#### **NOTE 8: JOINT VENTURES**

Fire Service – The Township, in conjunction with Forest Township, Cheboygan County, has created the Forest-Waverly Township Fire Department to provide fire service to local residents. In accordance with the agreement, the Forest-Waverly Township Fire Department is governed by a four-member board composed of two appointees from each Township. Each Township contributes one-half of the approved budget of the Fire Department on a quarterly basis. For the year ended March 31, 2014, Waverly Township's share of contributions was \$48,020. In accordance with the agreement, net position and/or equipment will only be distributed upon termination of the agreement. Audited financial statements of the Forest-Waverly Township Fire Department can be obtained by writing the Forest-Waverly Township Fire Department at P.O. Box 26, Tower, MI 49792.

Ambulance Service - The Township, in conjunction with the City of Onaway, the Townships of Allis, North Allis, Bearinger, Ocqueoc and Case, in Presque Isle County and the Township of Forest, in Cheboygan County, have created the Onaway Area Ambulance Service (the Service) to provide ambulance service to local residents. In accordance with the agreement, the Service is governed by a board composed of one appointee from each Township. The expenses involved in the overall operation of the ambulance service are split equally between the participating units. For the year ended March 31, 2014, Waverly Township's share of contributions was paid for with a separate county millage. In accordance with the agreement, net position and/or equipment will be distributed equally among the participating and only upon termination of the agreement. Audited financial statements of the Service can be obtained by writing the Onaway Area Ambulance Service at P.O. Box 454, Onaway, MI 49765.

#### **NOTE 9: RISK MANAGEMENT**

Waverly Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries. The Township participates in the Michigan Municipal Liability and Property Pool, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the State of Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. Claims for commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

***WAVERLY TOWNSHIP***

***NOTES TO FINANCIAL STATEMENTS***

**NOTE 10: SUBSEQUENT EVENTS**

The Township has evaluated subsequent events and transactions for potential recognition and disclosure through February 24, 2015 the date the financial statements were available to be issued.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**WAVERLY TOWNSHIP**  
**BUDGETARY COMPARISON SCHEDULE -**  
**GENERAL FUND**  
**FOR THE YEAR ENDED MARCH 31, 2014**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
<b>REVENUES:</b>				
<b>Taxes:</b>				
Property tax	\$ 26,655	\$ 26,655	\$ 28,277	\$ 1,622
Property taxes - administrative fee	8,745	8,745	7,900	(845)
<b>Total taxes</b>	<b>35,400</b>	<b>35,400</b>	<b>36,177</b>	<b>777</b>
<b>State shared revenues:</b>				
State shared revenues	27,000	27,000	33,794	6,794
State shared revenues-METRO Act	1,450	1,450	1,497	47
Swampland and payment in lieu of tax	18,000	18,000	23,573	5,573
<b>Total state shared revenues</b>	<b>46,450</b>	<b>46,450</b>	<b>58,864</b>	<b>12,414</b>
<b>Charges for services:</b>				
Cemetery burials and lots	400	400	-	(400)
Transfer station fees	6,500	6,500	7,930	1,430
Rentals	500	500	800	300
<b>Total charges for services</b>	<b>7,400</b>	<b>7,400</b>	<b>8,730</b>	<b>1,330</b>
<b>Interest and dividends</b>	<b>1,500</b>	<b>1,500</b>	<b>2,045</b>	<b>545</b>
<b>Other revenue:</b>				
Refunds and reimbursements	200	200	583	383
Donations	-	-	-	-
<b>Total other revenue</b>	<b>200</b>	<b>200</b>	<b>583</b>	<b>383</b>
<b>TOTAL REVENUES</b>	<b>90,950</b>	<b>90,950</b>	<b>106,399</b>	<b>15,449</b>

**WAVERLY TOWNSHIP**  
**BUDGETARY COMPARISON SCHEDULE -**  
**GENERAL FUND**  
**FOR THE YEAR ENDED MARCH 31, 2014**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
<b>LEGISLATIVE</b>				
Township board	\$ 2,215	\$ 2,215	\$ 2,016	\$ 199
<b>GENERAL GOVERNMENT</b>				
Supervisor	6,040	6,520	6,554	(34)
Assessor	8,003	8,003	7,875	128
Elections	2,045	2,045	1,703	342
Board of Review	2,131	2,131	1,704	427
Clerk	12,195	12,195	9,218	2,977
Treasurer	11,781	11,781	11,348	433
Township property	7,055	7,055	7,325	(270)
Cemetery	2,280	2,280	1,916	364
<b>TOTAL GENERAL GOVERNMENT</b>	<b>51,530</b>	<b>52,010</b>	<b>47,643</b>	<b>4,367</b>
<b>PUBLIC WORKS</b>				
Highways and streets	4,450	4,450	3,549	901
Sanitation	15,283	15,283	14,113	1,170
<b>TOTAL PUBLIC WORKS</b>	<b>19,733</b>	<b>19,733</b>	<b>17,662</b>	<b>2,071</b>
<b>HEALTH AND WELFARE</b>				
Ambulance service	980	500	-	500
<b>OTHER FUNCTIONS</b>				
Insurance, bonds and other	9,260	9,260	12,382	(3,122)
<b>TOTAL EXPENDITURES</b>	<b>83,718</b>	<b>83,718</b>	<b>79,703</b>	<b>4,015</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>7,232</b>	<b>7,232</b>	<b>26,696</b>	<b>19,464</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers (out)	(7,612)	(7,612)	(47,787)	(40,175)
<b>NET CHANGE IN FUND BALANCE</b>	<b>(380)</b>	<b>(380)</b>	<b>(21,091)</b>	<b>(20,711)</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>269,379</b>	<b>269,379</b>	<b>269,379</b>	<b>-</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 268,999</b>	<b>\$ 268,999</b>	<b>\$ 248,288</b>	<b>\$ (20,711)</b>

**WAVERLY TOWNSHIP**  
**BUDGETARY COMPARISON SCHEDULE -**  
**SPECIAL REVENUE - FIRE FUND**  
**FOR THE YEAR ENDED MARCH 31, 2014**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
<b>REVENUES:</b>				
Property tax	\$ 40,803	\$ 40,803	\$ 34,050	\$ (6,753)
Interest income	-	-	6	6
<b>TOTAL REVENUES</b>	<b>40,803</b>	<b>40,803</b>	<b>34,056</b>	<b>(6,747)</b>
<b>EXPENDITURES:</b>				
Public safety	48,415	48,020	48,020	-
<b>TOTAL EXPENDITURES</b>	<b>48,415</b>	<b>48,020</b>	<b>48,020</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(7,612)</b>	<b>(7,217)</b>	<b>(13,964)</b>	<b>(6,747)</b>
<b>OPERATING TRANSFERS IN (OUT)</b>	<b>7,612</b>	<b>7,612</b>	<b>47,787</b>	<b>40,175</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>227</b>	<b>227</b>	<b>227</b>	<b>-</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 227</b>	<b>\$ 622</b>	<b>\$ 34,050</b>	<b>\$ 33,428</b>

February 24, 2015

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Township Board  
Waverly Township  
Cheboygan County, Michigan

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Waverly Township for the year ended March 31, 2014. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my letter to you dated June 6, 2014. Professional standards also require that I communicate to you the following information related to my 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 Waverly Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended March 31, 2014. I noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the determination of depreciation expense. Management's estimate of depreciation expense is based on the estimated lives of the capital assets. I evaluated the key factors and assumptions used to develop depreciation expense in determining that it is 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*

I encountered no significant difficulties in dealing with management in performing and completing my audit.

*Corrected and Uncorrected Misstatements*

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

*Disagreements with Management*

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

*Management Representations*

I have requested certain representations from management that are included in the management representation letter dated February 24, 2015.

*Management Consultations with Other Independent Accountants*

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

*Other Audit Findings or Issues*

Auditing standards require me to report to you significant audit findings or issues. Following are the significant findings I noted during my audit:

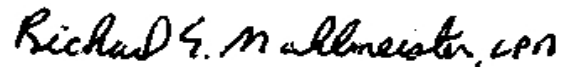
- Waverly Township does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, and to present required financial statement disclosures. However, small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year-end financial statements.
- There is a lack of segregation of duties in the accounting function due to the limited number of accounting personnel. This condition is generally inherent in organizations the size of Waverly Township, where corrective action is not practical, and to the extent possible, duties are allocated between accounting personnel to mitigate the risk of material asset misappropriation.

Additionally I have presented other matters for your consideration in the same letter dated February 24, 2015.

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

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

Sincerely,

A handwritten signature in black ink that reads "Richard E. Mahlmeister, C.P.A." in a cursive style.

Richard E. Mahlmeister, C.P.A.  
Richard E. Mahlmeister, C.P.A., P.C.

February 24, 2015

COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES IN  
INTERNAL CONTROL AND OTHER MATTERS

Township Board  
Waverly Township  
Cheboygan County, Michigan

In planning and performing my audit of the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Waverly Township as of and for the year ended March 31, 2014, in accordance with auditing standards generally accepted in the United States of America, I considered Waverly Township's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Waverly Township's internal control. Accordingly, I do not express an opinion on the effectiveness of Waverly Township's internal control.

My 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 significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, I identified a certain deficiency in internal control that I consider to be material weaknesses and another deficiency that I consider to be a significant deficiency.

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.

I consider the following deficiency in Friendship Township's internal control to be a material weakness:

**Financial Statement Preparation**

Waverly Township does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, and to present required financial statement disclosures.

However, small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year-end financial statements.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

I consider the following deficiencies in Waverly Township's internal control to be a significant deficiencies:

**Lack of Segregation of Duties**

Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

This condition is generally inherent in organizations the size of Waverly Township, where corrective action is not practical, and to the extent possible, duties are allocated between accounting personnel to mitigate the risk of material asset misappropriation.

**Lack of Internal Controls over Recording, Processing, and Summarizing Accounting Data**

Waverly Township's financial statements were initially misstated by amounts that were material to the financial statements under audit. All governmental units are required to have in place internal controls over recording, processing, and summarizing accounting data (i.e., maintaining internal books and records). Small organizations with limited resources and personnel inherently have difficulty in recording, processing and summarizing of certain accounting data and rely on its independent external auditors to assist in this financial reporting process. Accordingly, the Township has placed reliance on its external auditor, who cannot by definition be considered a part of the Township's internal controls. However, significant entries were not made in the Fire Fund. The Township should record all journal entries necessary to arrive at a reasonably adjusted trial balance prior to generating trial balances to be used for preparation of year-end financial statements, and be sure the financial statements reconcile to the subsidiary books and records.

In addition, I noted other matters for your consideration:

**Budgeting**

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended March 31, 2014 Waverly Township incurred expenditures, which exceeded the amount appropriated for the General Fund, as shown in the body of the financial statements.

Though the Board is reviewing the budget as compared to expenditures, I suggest that the Township Board on a periodic basis, closely review appropriations as compared to actual expenditures and amend the budget as necessary, prior to incurring the expenditures to avoid incurring expenditures in excess of appropriations.

**Capital Assets**

I recommend that the Board review the policy as to which assets should be recorded as a capital asset. The *Government Officer's Finance Association* (GFOA) recommends that assets that have a useful life of at least one-year and a cost of \$5,000 be included as a capital asset. I further would recommend that the Board make this threshold, at least, in the range \$1,500 to \$2,500. Adopting a capitalization policy with these minimums would exclude assets of minimal value and would make the record keeping less cumbersome and would create more useful capital asset information.

**Accounting software and the Uniform Chart of Accounts**

Considering the size and accounting needs of the Township, the current accounting software adequately provides accounting information for financial statement preparation. However, though the basic structure is there, it does not prepare separate fund financial information, as prescribed by the State of Michigan. The Township should implement separate fund accounting for both the Special Revenue Funds; Fire and Liquor Control Enforcement.

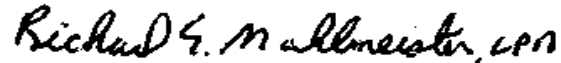
I suggest that the Board, consider pursuing purchasing fund accounting software to a level that will provide accounting and budgeting information, separately for each fund, that may be more useful to management and fully utilize the Uniform Chart of Accounts, as prescribed by the State of Michigan.

**Reminder: Preparation of and Issuance of Form 1099's**

The Internal Revenue Service (IRS) requires that entities that are provided various services, such as Waverly Township, collect information on Form W-9 for each service provider and then issue Form 1099-MISC each January to those receiving non-exempt payments from the township for \$600 or more. I wish to remind the Township of these requirements and recommend that the Township review the rules pertaining to the requirements and issuance of Form 1099's in order to comply with IRS regulations.

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

Sincerely,

A handwritten signature in black ink that reads "Richard E. Mahlmeister, CPA". The signature is written in a cursive, flowing style.

Richard E. Mahlmeister, CPA

Richard E. Mahlmeister, CPA, PC