

Sample _____ Township Management Discussion and Analysis Letter

As the Township Board of the _____ Township, we offer readers of the township's financial statements this narrative overview and analysis of the financial activities of _____ Township for the fiscal year ended _____, 20__.

Financial Highlights

- The assets of _____ Township exceeded its liabilities at the close of the most recent fiscal year by \$_____ (*net assets*). Of this amount, \$_____ (*unrestricted net assets*) may be used to meet the township's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, Township's governmental funds reported combined ending fund balances of \$_____, a (*decrease/increase*) of \$_____ in comparison with the prior year. Approximately *half* (*include appropriate percentage*) of the total amount, \$ _____, is available for spending at the township's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ _____, or ___ percent of total general fund expenditures.
- The Township's total debt (*increased/decreased*) by \$_____ (*___ percent*) during the current fiscal year. The key factor in this (*increase/decrease*) is: (*include appropriate factor(s)*).

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to _____ Township's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information, in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The **statement of net assets** presents information on all of the Township's assets and liabilities, with the difference between the two reported as **net assets**. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Township's financial position is improving or deteriorating.

The **statement of activities** presents information showing how the Township's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (**governmental activities**) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (**business-type activities**). The governmental activities of the Township include: (*include as appropriate--general government, public safety, road projects, sanitation, and culture and recreation*). The business-type activities of the Township include: (*include as appropriate: a water and sewer system, golf course, etc.*).

The government-wide financial statements include not only the Township itself (known as the *primary government*), but also: (*include as appropriate: a legally separate Downtown Development Authority, and other "now major" component units for which the Township is financially accountable*). Financial information for these **component units** is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on page(s) ___ of this report.

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

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

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

_____ Township maintains ____ (*number*) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, _____, and _____ which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Township adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general fund and other major funds to demonstrate compliance with this budget.

Proprietary funds. (*Include as appropriate*) _____ Township maintains a single proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Township uses enterprise fund to account for its (*water and sewer activity, etc.*). *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Township's various functions. _____ Township uses an internal service fund to account for its fleet of vehicles and other equipment. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page(s) ____ of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on page(s) ____ of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Township's progress in funding its obligation to provide (*pension benefits*) to its employees. Required supplementary information can be found on page(s) ____ of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on page(s) ____ of this report.

Government-wide Financial Analysis

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

By far the most significant portion of the Township’s net assets (___ percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Township used these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Township’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Township’s Net Assets

	Governmental Activities	Business-Type Activities	Total	
	XXXX	XXXX XXXX	XXXX	XXXX XXXX
Current and Other Assets				
Capital Assets				
Total Assets				
Long-term Liabilities				
Other Liabilities				
Total Liabilities				
Net Assets:				
Invested in Capital Assets				
net of related debt				
Restricted				
Unrestricted				
Total Net Assets				

An additional portion of the Township’s net assets (___ percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$_____) may be used to meet the Township’s ongoing obligations to citizens and creditors.

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

The Township’s net assets (*increased/decreased*) by \$_____ during the current fiscal year as discussed below.

Governmental activities. Governmental activities (*increased/decreased*) the Township’s net assets by \$_____, accounting for percent of the total growth in the net assets of the Township. Key elements of this increase are as follows: (*include as appropriate*)

	Governmental Activities		Business Activities		Total	
	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX
Program Revenues						
Charges for Services						
Operating Grants & Contributions						
Capital Grants & Contributions						
General Revenues						
Property Taxes						
State Shared Revenues						
Unrestricted Investment Earnings						
Total Revenues	_____	_____	_____	_____	_____	_____
Program Expenses						
General Government						
Public Safety						
Public Works						
Health and Welfare						
Community Development						
Recreation and Cultural						
Interest on Long-Term Debt						
Water and Sewer						
Total Expenses	_____	_____	_____	_____	_____	_____
Change in Net Assets	_____	_____	_____	_____	_____	_____

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. One noteworthy exception, however, is: *(include as appropriate)*

Business-type activities. Business-type activities *(increased/decreased)* the Township's net assets by \$_____, accounting for ___ percent of the total growth in the Township's net assets. Key elements of this increase are as follows: *(include as appropriate)*

Financial Analysis of the Township's Funds

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

Governmental funds. The focus of the Township's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Township's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a Township's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$_____, a *(increase/decrease)* of \$ _____ in comparison with the prior year. Approximately *half (include appropriate percentage)* of this total amount, \$_____, constitutes *unreserved fund balance*, which is available for spending at the Township's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed (1) to pay debt service (\$_____), (2) to generate income to pay for the perpetual care of the municipal cemetery (\$I) or (3) for a variety of other restricted purposes (\$_____).

The general fund is the chief operating fund of the Township. At the end of the current fiscal year, unreserved fund balance of the general fund and the total fund balance was \$_____. Unreserved fund balance represents ___ percent of total general fund expenditures.

The fund balance of the Township's general fund (*increased/decreased*) by \$_____ during the current fiscal year. Key factors were as follows: (*include as appropriate*)

Proprietary funds. The Township's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$ _____. The total growth in net assets was \$_____. Other factors concerning the finances of the fund have already been addressed in the discussion of the Township's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were (\$_____ *increase/decrease in appropriations*) and can be briefly summarized as follows: (*include as appropriate*)

Capital Asset and Debt Administration

Capital assets. The Township's investment in capital assets for its governmental and business type activities as of _____, 20__, amounts to \$_____ (*net of accumulated depreciation*). This investment in capital assets includes: (*land, buildings and system, improvements, machinery and equipment, park facilities, etc*). The total increase in the Township's investment in capital assets for the current fiscal year was ___ percent (a ___ percent increase for governmental activities and a ___ percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following: (*include as appropriate*)

Details of the Township's capital assets are continued in the notes to the financial statements on page(s) ____.

Long-term debt. At the end of the current fiscal year, the Township had total bonded and installment debt outstanding of \$ _____. Of this amount, \$ _____ comprises debt backed by the full faith and credit of the government and \$ _____ represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

Additional information on the Township's long-term debt can be found in the notes on page(s) ____.

Economic Factors and Next Year's Budgets and Rates

(*Insert appropriate budget assumptions per existing conditions*) The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means further reductions in state-shared revenues. State-shared revenues are expected to (*increase/decrease*) in the 20__-20__ fiscal year. The Township budgeted for an (*increase/decrease*) in state-shared revenue, but additional cuts have already been made (an additional \$_____ reduction to Township) and more cuts are expected before the end of the fiscal year. The Township's millage rate was reduced again by the Headlee Amendment rollback to _____ mills for general operating purposes. These factors were considered in preparing the Township's budget for the 20__-20__ fiscal year.

During the current fiscal year, unreserved fund balance in the general fund (*increased/decreased*) to \$_____. The Township has presented a balanced budget in the 20__-20__ fiscal year budget, as there was no unreserved fund balance to appropriate.

The Water and Sewer Fund rates were (*increased/decreased*) for the 20__-20__ budget year. The water and sewer rates were (*increased/decreased*) by an average of ___ percent for all customers. These rate increases were necessary to finance the debt service and the ongoing water and sewer system improvements.

Requests for Information

This financial report is designed to provide a general overview of _____ Township's finances for all those with an interest in the township's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the (*Supervisor/Treasurer/Manager/Superintendent/Finance Director*), _____ Township, (*address and/or phone number*).

(Sample prepared by David Williamson, CPA, Post, Smythe, Lutz & Ziel, LLP, and MTA Staff. Used with permission.)