



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

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DATE: March 15, 2007

TO: Auditors of Local Units of Government in Michigan
All local units of government employees and officials

FROM: Suzanne Schafer, Administrator 
Local Audit and Finance Division

SUBJECT: Accounting Procedures Manual for Local Units of Government in Michigan
Exposure Draft

EXPOSURE DRAFT

PROPOSED ACCOUNTING PROCEDURES MANUAL FOR LOCAL UNITS OF GOVERNMENT IN MICHIGAN

The Michigan Department of Treasury has prepared this exposure draft for comment from persons interested in auditing and reporting issues.

Comments should be received by **April 30, 2007** and should be addressed to Cary Jay Vaughn, CPA, Audit Manager, Department of Treasury, Local Audit and Finance Division, 1st Floor, PO Box 30728, Lansing, MI 48909-8228 or via the Internet to treas_lafd@michigan.gov.

In accordance with Public Act 71 of 1919, as amended, and Public Act 2 of 1968, as amended, all local units of government must comply with the Accounting Procedures Manual for Local Units of Government in Michigan.

Comments or suggestions on any aspect of this exposure draft will be appreciated. To facilitate Treasury's consideration of responses, comments should be as specific as possible and include supporting reasons for each suggestion or comment.

INTRODUCTION

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Purpose: The purpose of this manual is to assist local government officials in applying accounting procedures in their local unit of government. This manual has been developed under the authority of Public Act 2 of 1968, as amended; and Public Act 71 of 1919, as amended. Both require the State Treasurer to develop uniform accounting procedures to be followed by all local units of government.

In order to make this manual as useful as possible, the guidance in each chapter is divided into three sections: **General Concept Statements, Required Procedures, and Best Practices**. The General Concept Statements are the general principles or goals that should be attained in each section. The Required Procedures section identifies procedures that the Michigan Department of Treasury requires all local units to follow. The Best Practices section communicates beneficial procedures and other practices that we strongly encourage each local unit to put into place.

Any questions on this manual should be addressed to:

Michigan Department of Treasury
Local Audit and Finance Division
P.O. Box 30728
Lansing, Michigan 48909-8228
(517) 373-3227

Persons who are deaf, hard of hearing, or have a speech impairment may call (517) 636-4999 (TTY) or through Michigan Relay Center by dialing 711 or 1-800-649-3777.

Scope: This manual applies to all local units of government in Michigan, including:

- Counties
- Townships
- Cities
- Villages
- Public Libraries
- Any legal entity created by any of the above entities (such as Downtown Development Authorities, etc.)
- Jointly governed units created by any of the above entities
- Courts

This manual does not apply to the State of Michigan itself, school districts, or institutions of higher learning.

Some information contained in this document constitutes an interpretation of one or more statutes administered by the Bureau of Local Government Services and not legal advice upon which a user may place reliance. The contents of this document do not supersede the law.

INTRODUCTION

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Other State Guidance: The Michigan Department of Treasury has issued a significant amount of additional guidance for local units of government related to budgeting, debt financing, and financial reporting. This guidance can be found at the Treasury’s website at www.michigan.gov/treasury.

Required Basic Accounting Records or computerized equivalent: Every county and local unit of government in Michigan, from the smallest to the largest, must establish and maintain the following basic accounting records:

1. The Uniform Chart of Accounts;
2. Controlled numbered official receipts;
3. Controlled numbered official checks;
4. A detailed receipt journal;
5. A detailed disbursement journal; and
6. A general ledger.

The minimum requirements are discussed in detail in the various chapters of this manual.

The basic accounting records of the local unit will be based on the Uniform Chart of Accounts. All local units in Michigan are required to use the Uniform Chart of Accounts for Counties and Local Units of Government in Michigan, which was developed under the authority of Public Act 2 of 1968, as amended (MCL 141.421); and Public Act 71 of 1919, as amended (MCL 21.41). The primary objective of this classification of accounts is to provide a means for the accumulation of financial information which will be uniform for all local units of government. The Uniform Chart of Accounts is provided to facilitate the preparation of prescribed reports (such as the F-65 report) and also follows Generally Accepted Accounting Principles in the U.S. and Michigan law.

The classification provides a systematic arrangement of accounts to be used in recording financial transactions of local units of government in Michigan. A strict adherence to this classification of accounts will assure responsible local officials and the general public that similar transactions are recorded in the same manner within all local units.

The Uniform Chart of Accounts is available on Treasury’s website under Local Government/Accounting Information. Additional information may be found in the appendix at the end of this manual relating to basic accounting records and their relationship to supporting documentation.

Some information contained in this document constitutes an interpretation of one or more statutes administered by the Bureau of Local Government Services and not legal advice upon which a user may place reliance. The contents of this document do not supercede the law.

CHAPTER 1--INTERNAL CONTROL

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General Concept Statements

- Attempt to segregate the duties of custody, authorization, and recordkeeping;
- Keep in mind the costs of segregating duties relative to the benefit (in other words, if you have to hire a new employee in order to segregate a duty, the cost may outweigh the benefit).

Required Procedures

See each individual chapters' Required Procedures

Best Practices

Internal controls are the policies and procedures by which you maintain your financial records and engage in financial transactions on a daily basis. Simply put, internal control consists of all the measures taken by the local government for the purpose of:

- Protecting resources against waste, misappropriation, and inefficiency;
- Ensuring accuracy, timeliness, and reliability in accounting and operating data;
- Maintaining compliance with applicable laws and regulations (local, State, and Federal);
- Evaluating the level of performance of departments and personnel.

Examples of internal control include job descriptions, purchasing procedures, reconciliation of bank accounts, etc. Safeguarding cash and other assets of the local government and ensuring that funds are expended properly take on greater significance in the public sector. Under law, elected and appointed officials have both the authority and the responsibility to manage the resources for the greater public good.

Internal control is a continuum and there is no objective method to measure “adequate” internal control. State law requires an audit annually for local units over 4,000 in population; biennially for local units under 4,000 in population, Michigan Compiled Laws (MCL) 141.425. An audit requires the external auditor to perform a study and evaluate internal control, and it also requires the auditor to report any significant deficiencies to the governing body. The Department of Treasury expects any reportable conditions to be addressed by the local unit by either correcting the deficiency or documenting why it is in disagreement.

This section discusses internal control in general. Specific internal control procedures that are required by the State (such as reconciliation procedures, receipting procedures, and disbursing procedures) are included in separate chapters.

A good guide on internal control for local units of government is the *Standards for Internal Control in the Federal Government*, November 1999, issued by the Federal Government Accountability Office (GAO) (Green Book) found at www.gao.gov which is based on the publication *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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CHAPTER 1--INTERNAL CONTROL

An accounting system is designed to assemble, analyze, classify, record, and report financial data. In performing these functions, an accounting system also must maintain adequate control over a local unit of government's assets. An accounting system is only as reliable as the underlying data it processes. A local unit of government's internal control framework must provide assurance that the accounting system and its underlying data are reliable. An accounting system must also facilitate maintenance of internal control.

In evaluating its internal control system, each local unit should understand the five interrelated components that work together to protect public funds and ensure accuracy in the reporting of financial transactions. Each component needs to be present in an effective and efficient system of internal control.

- Control Environment--The control environment, as established by the elected officials and administration, sets the tone of the organization and influences how the employees within the organization go about their daily tasks. Control environment factors include:
 - The integrity, ethical values, and competency of all elected officials and employees;
 - Leadership philosophy and operating style;
 - The way management assigns authority and responsibility;
 - The way management organizes and develops its people.

All of the above factors combine to set an expected level of behavior for all your employees.

- Risk Assessment--Risk assessment is the identification and analysis of risks, both internal and external, that would prevent the government's objectives from being achieved. The risk analysis forms a basis for determining how risks can be managed effectively and efficiently. The risk assessment process is ongoing and evolving as employees, economic factors, elected officials, budgets, and technology changes. Mechanisms are needed to identify and respond to changing conditions;
- Control Activities--Control activities are the specific policies and procedures that ensure management directives are carried out. Control activities exist throughout the organization, at all levels, and in all departments. Such items include approvals, authorizations, statutory duties, verifications, reconciliations, security of assets, and segregation of duties;
- Information and Communication--Information pertinent to the internal control system and the financial information must be identified, captured, and communicated in a form and manner that enables people to carry out their responsibilities. Information systems produce timely and accurate reports containing operation, financial, and compliance related information that make it possible to run and control the organization. All personnel must receive clear communication from management that their responsibilities will be taken seriously. They must understand their role in the internal control system and how their daily activities assists the organization in meeting its objectives;

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CHAPTER 1--INTERNAL CONTROL

- Monitoring--Internal control systems should be monitored. Monitoring is a process that assesses the quality of the system's performance over time. Ongoing monitoring occurs in the ordinary course of business and includes regular management and supervisory activities and other actions personnel take in performing their duties. Internal control systems change over time and the way controls are applied may evolve. Procedures can become ineffective due to new personnel, the effectiveness of training and supervision, time and resource constraints, and other external pressures. Also, circumstances for which procedures were originally designed may change, making procedures obsolete.

Components of the Control Activity (Checks and Balances)

Internal controls rely on the principle of checks and balances in the workplace. It is in the design and implementation of control activities where internal controls are strengthened or weakened. Control activities include, but are not limited to, the following:

- Duties must be segregated among different people to reduce the risk of errors or misappropriation. No one person should have control over all aspects of the financial transactions. An individual is not to have responsibility for more than one of the three transaction components: authorization, custody, and recordkeeping. When the work of one employee is checked by another, and when responsibility for the custody of the assets is segregated from the recordkeeping related to that asset, there is an appropriate segregation of duties. Duties must also be designed to be consistent with laws and regulations which may assign certain duties to particular elected officials or management;
- Make sure transactions are authorized by a person with delegated approval authority and that transactions are consistent with policy. Authorization procedures need to include a thorough review of supporting documentation to verify the propriety and validity of transactions. Approval authority should correspond with the nature and significance of the transactions and be in compliance with laws and regulations;
- Personnel needs to be competent and trustworthy with clearly established lines of authority that correlate to statutory or charter requirements. Organization charts should be developed that clearly communicate the lines of authority. Job descriptions should be maintained to ensure that employees are aware of the duties they are expected to perform and where those responsibilities end;
- Provide employees with the appropriate training, guidance, and resources necessary to carry out their duties. Management needs to provide an appropriate level of direction and supervision. Employees also need to be aware of the proper channels to report suspected improprieties. Employees need to know that every employee has a responsibility for internal control;
- Make sure that policies and operating procedures in every department are written down and communicated to employees. Such documentation provides day to day guidance and will make training easier;

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- Make certain that equipment, inventories, cash and other property are secured physically, counted periodically, and compared with control records. Financial records themselves are an important asset to which access should be limited;
- Ensure that records are reviewed and reconciled routinely by someone other than the preparer to verify that transactions are properly processed;
- Decision makers need to be provided with timely and accurate financial information to make budgetary and resource allocation decisions. If someone is to be held accountable for a certain responsibility, be sure to give them the necessary authority to complete that task. This will require that separate departments work together to achieve objectives for the local unit as a whole;
- Documentation and record retention requirements should be structured to provide reasonable assurance that all information and transactions of value are accurately recorded and retained.

Segregation of Duties

The functions of authorizations, recordkeeping, and custody of assets should be segregated where possible. For example, ideally the process of cash collection and depositing should be performed by an employee who is independent from general ledger recordkeeping and bank reconciliation.

Limitations in Internal Controls

The perfect internal control system does not exist. Staffing limitations can hamper establishing the necessary segregation of duties, especially for small units in a period of shrinking budgets. The potential for human error is always present and can be limited, but never eliminated. There will always be those that will specifically try to circumvent the system to their benefit regardless of the sufficiency of the internal control. Collusion between employees, elected officials, vendors, and other third parties can bypass an appropriately designed segregation of duties. Internal control needs to be designed to reduce the risks associated with undetected errors or misappropriation to a manageable level without making day to day operations inefficient and cumbersome. The cost of implementing a specific control should not exceed the expected benefit of the control. In analyzing the pertinent costs and benefits, management must consider the possible ramifications for the local unit, as a whole, and attempt to identify and weigh the intangible as well as tangible consequences.

The Government Finance Officers' Association (GFOA) has developed a series of suggested practices in the functional areas of cash management to give GFOA members and other state and local governments more guidance on sound financial management practices. A cash management link can be found under "Recommended Practices by Category" on the GFOA website: <http://www.gfoa.org/services/rp/index.shtml>

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CHAPTER 1--INTERNAL CONTROL

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322 The GFOA website contains useful guidance in many areas including:

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324 GFOA's *Documentation of Accounting Policies and Procedures*

325 <http://www.gfoa.org/services/rp/caafr/caafr-doc-accounting.pdf>

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327 GFOA's *Enhancing Management Involvement with Internal Control*

328 <http://www.gfoa.org/services/rp/documents/rpic040204.pdf>

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330 GFOA's *Establishment of an Internal Audit Function*

331 <http://www.gfoa.org/services/rp/documents/internalauditfunction.pdf>

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CHAPTER 2--FINANCIAL POLICIES

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General Concept Statements

- Adopt all policies required by statute (investment policy, credit card, ACH, etc.).
- Adopt other policies that will allow the governing body to exercise appropriate controls.

Required Procedures

The Investment of Surplus Funds of Political Subdivision Act, an investment policy required by Public Act 20 of 1943, as amended, addresses investment objectives, scope, diversity, delegation of authority, allowable instruments, safekeeping and custody, and prudence. For more information, refer to the Department of Treasury’s website at: www.michigan.gov/treasury under Local Government/Accounting Information/Numbered Letters 1998-3 and 1998-4.

Public Act 266 of 1995 (entitled “Credit Card Transactions”) and Public Act 280 of 1995 (entitled “Financial Transaction Device Payments”) requires the governing body to approve a policy for the use of credit cards prior to accepting payment by credit card, or using credit cards to purchase goods or services for the official business of the local unit. This also applies to similar types of instruments, such as purchasing cards or procurement cards. Please note the Department of Treasury’s Numbered Letters 1996-1 and 1996-2.

Public Act 738 of 2002 (entitled “Electronic Transactions of Public Funds”) requires the governing body to approve a policy before making any payments using the ACH (Automated Clearing House) system (wire transfers).

Best Practices

Purchasing Policy

While not required by a specific statute, we suggest each local unit should adopt a purchasing policy. Such a policy should address the following aspects:

- Purpose--In general, the purpose of a purchasing policy is to encourage the efficient purchasing of appropriate goods or services at appropriate prices;
- Authority to Commit the Local Unit--The policy should expressly state which employees have the authority to purchase goods or services;
- Approval Process--The policy should define a process to purchase goods and services. The policy may distinguish between types of purchases (such as intergovernmental purchases, professional services, utilities, or emergency situations) and by dollar threshold. Often, purchase orders are also used to control and keep track of purchase commitments. Based on the types of service and dollar limitations, the policy should direct: (1) when competitiveness must be introduced (documented oral quotes, sealed bid, etc.); and (2) when additional approval is required (department head, supervisor, city manager, or governing body);

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CHAPTER 2--FINANCIAL POLICIES

- Circumvention of Dollar Thresholds--The policy should expressly state that separating the work of vendors into smaller invoices is a violation of the dollar threshold rules;
- Grant Requirements--Purchases to be reimbursed from grants are often required to follow additional purchasing requirements, and the purchasing policy should adopt these requirements, at least indirectly (by reference);
- Purchasing Ordinance--It is imperative that the purchasing policy remain consistent with the purchasing ordinance, if one exists;
- Separation of Duties--The policy should separate the duties of ordering, processing for payments and receiving.

Ethics/Conflict of Interest Policy

Each local unit should adopt a policy which generally addresses the following aspects:

- General prohibition against entering into any business relationships that would put an employee or official into conflict with their obligations to the local unit of government;
- Requirement to disclose any personal transactions, in excess of a dollar threshold, entered into with any vendor that also does business with the local unit;
- Disclosure or prohibition of gifts received from vendors in excess of a dollar threshold;
- Explicit expectation that in the performance of their duties, the employee/official will work in the best interest of the local unit;
- An explicit expectation that all information provided will be truthful and complete.

Travel and Expense Reimbursement Policy

These policies may be incorporated into your purchasing policy, or may be stated as a separate policy:

- Authorization for any travel or business expense will be obtained prior to incurring the costs;
- All expenses requested for reimbursement will be substantiated with receipts or other documentation;
- All expenses requested for reimbursement will be for amounts that a reasonable, prudent person would conclude benefits the local unit (An example of the above would be that the approval to use a city-owned cell phone should not be considered an approval to have the local unit pay for personal phone calls).

CHAPTER 2--FINANCIAL POLICIES

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433 Budget Policies

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435 Refer to the Michigan Department of Treasury's "Uniform Budget Manual for Local Units of
436 Government" for a comprehensive discussion of required budget policies. Refer to the Michigan
437 Townships Association, "Building a Better Budget," for best practices.

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439 Government Officers Finance Association (GFOA)

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441 The Government Finance Officers Association (GFOA) has developed a series of suggested
442 practices in the functional areas of public finance to give GFOA members and other state and
443 local governments more guidance on sound financial management practices. Please note the
444 following website:

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446 <http://www.gfoa.org/services/rp/index.shtml>.

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448 Also see the "Best Practices" section of each chapter for applicable GFOA references.

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CHAPTER 3--BANK AND INVESTMENT ACCOUNTS

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General Concept Statements

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455 • The treasurer must maintain control of all bank accounts (In a home rule city or village, this
456 responsibility may have been designated by the charter to another position);

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458 • Certain deposit accounts must not be commingled (current tax account; bond issues);

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460 • Bank reconciliations must be timely.

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Required Procedures

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463 Each local unit must establish and maintain an adequate system of internal control which should
464 include, at a minimum, the following:

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Bank Accounts and Deposits

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469 • All deposits are to be made intact. Intact means that the deposit must include the checks and
470 cash received for a specific numerically sequenced receipt group;

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472 • Deposits must be made timely and reconciled to official receipts;

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474 • Deposit tickets must list checks by name or number, and amount;

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476 • All bank accounts must be in the name of the local governmental unit and the local unit
477 treasurer. Use of the local unit's tax ID number should be strictly controlled by the treasurer;

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479 • Tax collections must be deposited in a separate bank account in the name of the treasurer;

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481 • All bank accounts should have an ending date of the end of each month;

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483 • Bank signature cards should be kept current and the authorized signers limited;

484 • All financial institutions used as depositories must be approved by the governing body.

485 All cash and investments by statute must be under the control of the local unit treasurer. No other
486 individual may hold cash of the local unit, or open up a bank account to hold local unit cash or
487 investments (except for home rule cities and villages, if this authority is delegated). The treasurer
488 may delegate this responsibility to others (for instance, at remote locations). Further, this control
489 of cash requirement does not apply to money held by a police or sheriff's department as
490 evidence, or bond money that a police or sheriff's department is collecting as an agent for the
491 district court.

CHAPTER 3--BANK AND INVESTMENT ACCOUNTS

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Bank Reconciliations

All cash accounts should be reconciled to their respective bank statements monthly. An authorized individual not responsible for the actual physical handling of the cash should reconcile bank statements to the general ledger when possible. Bank statements and reconciliations must be retained for audit purposes.

Separate Bank Accounts

There are many benefits to pooling bank accounts from different funds together. However, State law and other restrictions require certain cash deposits to be kept in separate bank accounts as listed below:

Common Account--This bank account may include the General Fund and any other fund except those that require separate bank accounts.

Current Tax Collection Account--For real and personal property taxes collected by a township or city treasurer from July 1 through February 28 (county, school and township taxes). Tax administration (collection) fees must be deposited in this account. This account must be reduced to a zero or imprest balance as soon as possible after tax settlement. ([MCL 211.43b](#))

Bond Issues, Debt Fund and Capital Projects Fund--Separate investment and/or bank savings accounts may be required for each bond issue, debt fund and capital projects fund as specified within the specific bond ordinance or resolution:

- A common debt imprest (zero balance) checking account may be used for payment of debt service and a common capital project imprest (zero balance) checking account may be used for payment of construction costs;
- Cash accumulated for repayment of special assessment bonds (i.e., special assessment collections) must be kept in a separate bank account (one account may be used for all special assessment districts);
- Cash accumulated for repayment of unlimited tax general obligation bonds (UTGO), (i.e., residual property tax collections after debt service payments) must be kept in a separate bank account (one account may be used for all UTGO bonds);
- It is important to keep in mind that most bond ordinances also include requirements to keep bond proceeds separate from all other cash and investments. This means that, in general, each construction project funded by municipal bonds would have its own bank account. In addition, most revenue bond ordinances require separate accounts for a bond reserve, as well as several other accounts.

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CHAPTER 3--BANK AND INVESTMENT ACCOUNTS

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542 It is important to recognize that separate depository accounts allow the use of one imprest
543 checking account for the payment of bills. In other words, it is an appropriate practice to pay
544 bills out of a common checking account, as long as the transfers from the restricted account into
545 the checking account are only for the exact amounts of checks that are being written and
546 released.

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548 Recordkeeping Responsibilities--The treasurer must keep track of the total cash and investments
549 allocable to each fund, and must reconcile these amounts to each month's bank statements. A
550 listing of all cash and investments, along with a copy of the bank reconciliations, must be
551 provided to the local unit accountant or bookkeeper each month (this would be the clerk in a
552 local unit of government without a separately employed bookkeeper). The accountant or
553 bookkeeper must reconcile the cash and investments recorded in the general ledger to either the
554 treasurer's reconciliation (if it is adequately reconciled to the bank statements) or to the bank
555 statements directly.

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557 All local units are required by MCL 129.91, et seq., to adopt an investment policy that addresses
558 investment objectives, scope, diversity, delegation of authority, allowable instruments,
559 safekeeping and custody, and prudence. This policy must be sent to each financial institution
560 accepting deposits or investments, and they should acknowledge receipt of same. For more
561 information, please refer to the Department of Treasury's website, Numbered Letters 1998-3 and
562 1998-4.

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Best Practices

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565 GFOA's *Maturities of Investments in a Portfolio*

566 <http://www.gfoa.org/services/rp/cash/cash-maturities-investments.pdf>
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CHAPTER 4--CASH RECEIPTING PROCEDURES

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571 General Concept Statements

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573 Procedures must be adopted to ensure that all cash collected will be deposited. These must
574 include:

575 • Formal evidence must be created for each collection (such as a printed sequentially
576 numbered cash receipt ticket, cash register receipt, etc.) and provided to payors where
577 practicable;

578 • The system must include controls to ensure that every receipt is to be included in a periodic
579 listing of cash receipts;

580 • Each bank deposit (evidenced by a bank deposit slip or other documentation) must be in
581 agreement with the cash receipts listing noted above. In order for this to occur, both the
582 deposit slip and the cash receipt listing must begin and end at the same time (e.g. daily,
583 weekly, etc.);

584 • Currency must be deposited intact. Procedures must ensure that currency (cash and coins) are
585 counted separately from checks or other payment methods, both in the list of cash receipts
586 and in the deposit slip (or other bank deposit support). Total currency collected must be in
587 agreement between these two sources;

588 • Deposits must be made timely.

589 Required Procedures

590 The treasurer is responsible for all cash receipts, unless this authority has been delegated to
591 another official in a home rule city or village. If any employees other than the treasurer (or
592 delegated official) of the local unit receive cash, they must do so with the approval of the
593 treasurer and in accordance with all cash handling policies set forth by same. These other
594 locations must either deposit all cash with the treasurer or deposit it into a bank account
595 controlled by the treasurer. In all circumstances, all money received by the local unit of
596 government should be receipted in the same manner.

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598 There must be a record of each individual cash transaction. This may be accomplished using
599 manually written or computer generated receipts, a cash register receipt, a point of sale cash
600 receipts system, or any other method that results in a written record of each individual receipt.
601 Manually prepared receipts must be printed sequentially numbered official receipts that includes
602 the local unit name and the department name.

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604 Deposits should be made daily. However, in instances where the amount of cash on hand is
605 minimal, deposits may be made less frequently (e.g., weekly), but at least monthly. Undeposited
606 funds should be secured in a locked place such as a safe. Money to be deposited should be
607 counted and reconciled to the summary of cash collections to be sent to the accountant or
608 bookkeeper. If there is a difference, a “cash overage/shortage” account should be used. Never
609 make up the difference from cash in the change drawer.

CHAPTER 4--CASH RECEIPTING PROCEDURES

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613 The change drawer should never be used to cash personal checks. This is a poor internal control
614 that can too easily lead to theft and may be a violation of the State Constitution, Article IX,
615 Section 18, which states, "the credit of the state shall not be granted to, nor in aid of any person,
616 association or corporation, public or private, except as authorized in this constitution."

617 The treasurer must provide the accountant or bookkeeper a record of all money received and the
618 purpose of the amounts received (i.e., the budgeted revenue account or the receivable account).
619 This may be done in summary form (e.g., department transmittal advices) or by individual
620 receipt.

621

622 Receipts

- 623 • Receipt books issued to other departments must be accounted for numerically;
- 624 • The use of generic or "dime store" receipts is strictly prohibited;
- 625 • Cash, check, or credit card as the method of payment must be indicated on the receipt;
- 626 • The receipt must identify the individual receiving payment;
- 627 • The receipt must allow for immediate revenue account classification in conformity with the
628 Uniform Chart of Accounts; and
- 629 • Checks must be restrictively endorsed (stamped for deposit only) at the point and time of
630 collection.

631

632 Money Received by Officials Other Than Treasurer

633

634 Transmittal Advice--The official receiving money must deposit all money with the treasurer
635 frequently, at least monthly. A form known as a "Transmittal Advice" should be prepared in
636 triplicate (duplicate if the official is the clerk) by the official for each deposit that was made with
637 the treasurer. The form will indicate the name of the office or department, the period covered,
638 inclusive numbers of receipts, the funds and accounts to which collections belong, and any
639 necessary explanatory detail.

640

641 The original copy of the transmittal advice, together with the total amount collected, must be
642 remitted to the treasurer. The duplicate copy is for the clerk, and the triplicate copy is filed by the
643 official who made the collections and prepared the form.

644

645 NOTE: Copies of departmental receipts and a receipts journal or register used to prepare the
646 transmittal advice must be retained by each department or may be filed with the treasurer at the
647 discretion of the treasurer. In small local units where relatively few receipts and accounts are
648 involved, the receipt copies may serve as the transmittal advice at the discretion of the treasurer.

649

653 Upon receipt of the collections, the treasurer will prepare the official receipt in favor of the office
 654 depositing the collections (clerk, building inspector, etc.). In a manual system, a triplicate receipt
 655 is issued. The original receipt is given to the individual remitting the money, who should file it
 656 with the copy of the transmittal advice. The duplicate receipt is for the clerk. The triplicate
 657 receipt is retained by the treasurer who should enter the receipt number on their copy of the
 658 transmittal advice. The treasurer's receipt must reflect, at a minimum, the amount belonging to
 659 each fund. Account numbers should also be reflected, if not too numerous for the receipt. The
 660 clerk, using their copy of the receipt (and the transmittal advice copy, if necessary), will make
 661 the necessary entries into the receipts journal to the proper fund and account in the same manner
 662 as any other receipt received from the treasurer.

664 Property Tax Accounting Procedures

666 Property taxes must be collected by the treasurer or their designee like any other receipt of the
 667 local unit. All deposits of funds must be made to the local unit bank account under the control of
 668 the treasurer.

670 Property tax bill copies or payment coupons are used as receipts for tax collections. The official
 671 receipt that is used for other local unit collections is not issued for individual tax collections.

673 During the period of July 1 through September 15, current (summer) property tax collections are
 674 made by the treasurer, as provided by statute.

676 During the period of December 1 through February 28, current (winter) property taxes are made
 677 by the treasurer, as provided by statute.

679 A separate tally should be made of property tax collections, indicating the taxing unit whose
 680 taxes have been collected, and should subsequently be matched with the distributions to those
 681 taxing units.

683 Record of Tax Collections

685 A separate Tax Collection Receipts Journal (as noted in this section) with a separate set of
 686 receipts must be maintained for tax collection, either manually or electronically. If maintained
 687 manually, at least one entry must be made per day for the total taxes collected. Individual entries
 688 may be made, but are not mandatory. The form of the journal may vary, but it must provide for
 689 an immediate determination of the amount collected for each tax collected.

691 Upon completing the daily posting of the Tax Collection Receipts Journal, an official
 692 departmental (regular) receipt must be written for the day's collections. A copy of the official
 693 departmental receipt is given to the clerk for entry into the local unit's accounting records.

695 Depending on the dollar amount of collections, the availability of a vault, or other means of
 696 safekeeping, deposits should be made on a daily basis or at least weekly. Deposits must be made
 697 intact and match the total posted in the journal.

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CHAPTER 4--CASH RECEIPTING PROCEDURES

Record of Tax Collection Distributions

Distribution of the tax collection to the county treasurer and other tax assessing unit treasurers must be made within 10 days after the first and the fifteenth of the month, if another distribution schedule has not been agreed upon (MCL 211.43). The distribution should include all collections made up to that point.

Posting of Receipts

The cash receipts journal is maintained by the clerk in a township or village and the treasurer in a county (a city receipts journal is maintained according to the city charter). Each receipt is posted to the receipts journal in numerical order to the proper bank account, fund, and revenue account. In a manual system, monthly totals by fund are posted from this journal to the general ledger revenue control account. The general ledger is the responsibility of the clerk.

Best Practices

Government Officers Finance Association (GFOA)

GFOA's *Electronic Commerce and Cash Management*

<http://www.gfoa.org/services/rp/documents/ElectroniccommerceRPOrlando.pdf>

GFOA's *Check Fraud Protection*

<http://www.gfoa.org/services/rp/cash/cash-check-fraud-protection.pdf>

Internal Controls

We recommend that separation of duties be considered where possible. For example, collections should be reconciled by an individual not involved in the receipting process. Ideally, the process of cash collection and depositing should be performed by an employee who is independent from general ledger recordkeeping and bank reconciliation.

Reconciliation to the general ledger and supporting ledgers should be performed in a timely manner (i.e., within thirty days of month end).

Each cashier should have their own cash drawer or, if sharing a drawer, a system should be in place for identifying the processor.

If available and cost effective, lock box processing for high volume accounts should be used.

GFOA's *Use of Lockbox Services*

<http://www.gfoa.org/services/rp/cash/cash-use-lockbox.pdf>

Automated systems should be used when available for faster processing and efficiency.

CHAPTER 4--CASH RECEIPTING PROCEDURES

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746 Cash refunds should not be issued for overpayments at the time of occurrence. Either a credit
747 should be issued or a check refund generated once it has been determined that the check received
748 has been cleared for payment by the bank.

749

750 All checks returned for insufficient funds or closed accounts should be run through the
751 treasurer's office. Payments should be removed from the account and the customer should be
752 billed for fees associated with the bad check.

753

754 Other Cash Journals

755

756 When the volume of receipts warrant it, the department receiving cash should maintain a cash
757 receipts journal, posting each receipt and extending it to the proper fund and account. Totals
758 from such a journal would be used in preparing the monthly transmittal advice. Note: Only the
759 official receipt prepared by the local unit treasurer will be posted to the official cash receipts
760 journal from which monthly postings are made to the general ledger.

761

762 Receipts

763

764 • When possible, someone other than the person who writes receipts or posts the accounting
765 records should be responsible to verify that collections received in the mail are properly
766 receipted;

767

768 • When possible, collections should be reconciled by an individual not involved in the
769 receipting process.

770

771 Manual System

772

773 If a manual receipting system is used, we recommend using a three-part receipt form that records
774 the following information:

775 1. Date received;

776 2. Amount received;

777 3. Purpose (e.g., garbage, labels, taxes, etc.);

778 4. Receivable/invoice/customer name, number/parcel number/etc., if any, and the general ledger
779 account number. The receipt should allow for immediate revenue account classification in
780 conformity with the Uniform Chart of Accounts;

781 5. Name of the person accepting the receipt;

782 6. Receipt Number (whether assigned or prenumbered);

783 7. Indicate form of payment (e.g., paid by cash, check, or credit card).

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CHAPTER 4--CASH RECEIPTING PROCEDURES

Distribution of Triplicate Receipts

Original Copy: For the payor;
Duplicate Copy: For the clerk;
Triplicate Copy: Retained by the treasurer (should not be removed from the receipt book).

All copies of voided or canceled receipts (except the clerk's copy) should be retained in the receipt book. The clerk should receive his/her copy, properly marked "VOID." The most important recommended practice is to adopt a policy to deposit all funds intact and to separately state cash from checks or other payment forms. Depositing intact means that the amount deposited should equal the total of the cash drawer receipts for the day. Identifying each receipt (either in a cash register or on manual cash receipt forms) as cash and then separately stating cash on the bank deposit slip is a strong protection against cash replacement fraud. Checks must be restrictively endorsed (stamped for deposit only) at the point and time of collection.

Resource Material

Revenue Collection Administration-A Guide for Smaller Governments, GFOA, 1993.

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CHAPTER 4--CASH RECEIPTING PROCEDURES

SAMPLES OF FORMS

SAMPLE UNIT Transmittal Advice Date: <u>May 31, 20XX</u> Office of the Clerk		
Collections for <u>May 20XX</u>		
Receipt Numbers <u>75</u> to <u>115</u> , Inclusive		
General Fund (101):		
Account 476	Building Permits	\$ 150.00
Account 667	Rent of Township Hall	50.00
Account 687	Refund from Vendor	25.00
		225.00
Subtotal		
Cemetery Fund (209)		
Account 643	Sale of Lots	200.00
		200.00
Total Collections		
		\$ 425.00
I hereby certify that the foregoing is a complete account of all fees and monies collected for the period herein stated and that all items are verified in detail by documents on file and by credits duly entered on the books of account of the undersigned:		
Signed: _____ Date: _____		

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CHAPTER 5--CASH DISBURSEMENT PROCEDURES

General Concept Statements

- The governing body must fulfill its responsibility to approve all payments (In a home rule city or village, the charter may not require the governing body to approve bills.);
- Someone with adequate knowledge and responsibility must approve each invoice or request for payment (if the governing body has knowledge of individual transactions, this will suffice; if not, such as in larger organizations, employees should be designated to perform this approval, including review of each invoice or other supporting documentation);
- Procedures must be put into place to control the release of funds:
 - Two signatures are required on each check, the treasurer and clerk or their deputies (In a home rule city of village, the charter may be require two check signers.);
 - Wire transfer and ACH authorization must be limited.

Required Procedures

Each local unit must establish and maintain an adequate system of internal control which includes, at a minimum, the following:

Disbursements

- Dual signatures are required for all checks (except the separate tax collection checking account). The dual signatures must be the clerk (or deputy clerk) and the treasurer (or deputy treasurer) (See charter);
- It is never acceptable to sign blank checks;
- Statutorily, the separate tax collection bank account only requires the signature of the treasurer. However, the treasurer must provide the clerk with summaries of tax receipts and copies of all checks written so the clerk can enter the information into the local unit's accounting system;
- Appropriate documentation (supporting invoices) must be attached to check copies for all disbursements. Note: For all disbursements for which an invoice cannot be obtained (e.g., Trust and Agency Fund disbursements, internal rent payments), supporting vouchers must be attached. Vouchers must describe the payment to be made, indicate account number to be charged, and be signed by the person approving the disbursement;
- Original bills, not copies, must be used for documentation;

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CHAPTER 5--CASH DISBURSEMENT PROCEDURES

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872 • All disbursements must be approved by the legislative body prior to disbursement unless
873 addressed otherwise in the charter. The legislative body may establish a formal policy to
874 authorize limited payments prior to approval to avoid finance or late charges as well as to pay
875 appropriated amounts and payroll (including related payroll taxes and withholdings). These
876 disbursements must be approved after payment is made;

877

878 • Checks should not be returned to the originating office for distribution;

879

880 • Bank accounts must be promptly reconciled (within the month following the bank statement
881 date) by an individual not involved in the receipt/bank deposit process. In small units of
882 government when segregation of duties is not possible, a second official must review the
883 reconciliation;

884

885 • Adequate security must be provided over unused checks;

886

887 • Checks must not be signed prior to being completely filled out;

888

889 • All functions (i.e., deposit, write checks, issue/send checks, reconcile account) regarding a
890 checking account should not be performed by the same individual;

891

892 • Numerically controlled or computer numbered checks must be used; and

893 • Cancelled checks must be made available to the local unit (record retention requirement)
894 which may be electronic optical images.

895

896 The governing body must approve the bill list prior to releasing the checks (except for home rule
897 cities and villages, if this authority is delegated). The governing body may preapprove certain
898 expenditures (typically payroll, utilities, contracts, and emergency purchases), but those
899 expenditures must be presented to the governing body at a subsequent meeting. In a township,
900 payments approved by the board and signed or certified by the township clerk shall be paid by
901 the treasurer.

902

903 The payee, amount, purpose and the disbursing fund of each disbursement must be
904 communicated to the accountant or bookkeeper for entry into the general ledger.

905

906 Unclaimed checks must be investigated and remitted to the State Treasurer after being unclaimed
907 for one year, in accordance with unclaimed property laws.

CHAPTER 5--CASH DISBURSEMENT PROCEDURES

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911 **Best Practices**

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913 In addition to the practices discussed in Chapter 2, a purchasing policy should be in place to
914 control the disbursement process. We suggest the following procedures:

915

916 • All invoices should be initialed or marked after payment to prevent the reuse of invoices in
917 the system;

918 • Duplicate invoices should be destroyed or stamped to indicate that they are duplicated;

919 • Checks should be prenumbered and the numerical sequence be accounted for; and

920 • Actual pay rates should be authorized rather than percentage increases.

921

922 Positive Pay--A banking product that allows a unit to notify their financial institution of the
923 checks they have issued that are currently valid and also allows sending voids. Information is
924 sent electronically either by internet or file uploads to a server on a regular basis (daily, weekly,
925 etc). Information can include name, check number, check date, and check amount for verification
926 depending on the financial institution capabilities. If the check is not on the issued check list
927 provided, no payment is allowed. Duplicate check number payments are not allowed.
928 Notification is sent daily of any unmatched attempts to charge your account.

929

930 Negative Pay--An alternative to Positive Pay; designed to help protect against fraud and forgery.
931 Your financial institution provides a daily electronic file listing all checks paid on the account
932 from the previous day. One matches these checks against an issued check file and notification is
933 made to your financial institution (on the same day) of any checks that are to be returned unpaid.

934

935 GFOA's *Use of Positive Pay Versus Reverse Positive Pay*

936 <http://www.gfoa.org/services/rp/documents/rppay040204.pdf>

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CHAPTER 6--PAYROLL AND RELATED LIABILITIES

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General Concept Statements

- Each unit must adopt a process for hiring employees and setting/changing compensation;
- Withholdings must be remitted timely; payroll tax returns must be filed timely;
- Personnel information must be maintained and secured.

Required Procedures

Each local unit must document a process for hiring new personnel and the setting/changing of pay rates.

The governing body continues to have the responsibility to approve the bill list prior to releasing the checks (except for home rule cities and villages, if this authority is delegated). The governing body may pre-approve certain expenditures, which is typically done for payroll, but those expenditures should be presented to the governing body at a subsequent meeting.

Withholdings and other deductions must be remitted as required by law. Payroll tax returns must be filed as required by law.

Personnel information must be maintained, and should include the following:

- Employment application;
- Date of employment;
- Pay rate;
- Changes in pay rate and pension;
- Authorization for payroll deductions;
- Earning records (W-2 and related documents);
- W-4 Forms (employee's withholding allowance certificate);
- Authorization to work in the US (INS Form I-9);
- Termination date and related documents where appropriate.

Best Practices

- Timekeeping and attendance records should be created for each employee, and signed or initialed by the employee;
- Time records should be approved by appropriately authorized personnel prior to preparing payroll;
- Payroll duties should be adequately segregated between the following: payroll master file (including maintenance of pay rates), payroll check preparation, and payroll distribution;

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CHAPTER 6--PAYROLL AND RELATED LIABILITIES

- Periodic review of classes of positions and pay rates to check compliance with the provisions of the salary and wage ordinance is suggested;
- Payroll should be in a separate bank account;
- A written policy should specify the duties of each position;
- Recognize that payroll responsibilities are complex; if appropriate expertise is not available internally, consider hiring an outside consultant;
- Recommendations from the disbursement section concerning checks (Chapter 5--separation of duties and recordkeeping) also apply to the payroll;
- Actual pay rates should be authorized rather than percentage increases.

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CHAPTER 7--GENERAL LEDGER/JOURNAL ENTRIES

General Concept Statements

- A general ledger must be maintained to record all cash receipts, all cash disbursements, and all other appropriate transactions as defined by GASB;
- The Michigan Department of Treasury’s Uniform Chart of Accounts must be followed, or an equivalent system that is derived from the Uniform Chart of Accounts.
- A formal record must be created of all journal entries (manual general ledger adjustments), including the supporting reasons and documentation for the adjustment;
 - You must create a procedure to ensure that all journal entries made are included in this permanent record (via the use of printed sequentially numbered journal vouchers, etc.).

Required Procedures

Ledgers

Ledgers are books which are either manual or computerized records of a group of specific accounts. The general ledger contains all the accounts supporting the financial data of the local unit. The accounts in the general ledger include general accounts and also those referred to as control accounts. A control account is the master account or primary account, which summarizes the detail of a supporting ledger known as a subsidiary ledger. For example, the control or primary account known as Accounts Payable is the account in the general ledger, whereas the detail of the individual accounts for each vendor are contained in the Accounts Payable subsidiary ledger. The detail of the subsidiary ledger should always support the activity in the general ledger.

General Ledger

The detail of the accounts in the general ledger summarizes how the transactions have changed the balance over the course of time. Transactions are first recorded in journals and these transactions are recorded at a specific time in the general ledger and, when applicable, in the subsidiary ledger. The balances of the general ledger are used to prepare and should reconcile to (support) the financial statements.

General Ledger Accounts

The detail of the general ledger accounts is known as the account detail history (more commonly referred to as the general ledger sheet in a manual system). This detail exists for all assets, liabilities, reserves, fund balances, revenue control, expenditure control, and entries to any necessary control accounts for the subsidiary ledgers within these categories. A separate account detail history exists for each individual general ledger account.

CHAPTER 7--GENERAL LEDGER/JOURNAL ENTRIES

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Standard information included as part of the account detail history typically includes the account number, the name of the account, page numbers, and column headings. Columns are provided for: (1) posting or instrument date; (2) memorandum, or explanation of entry; (3) posting reference; and (4) columns for debits, credits and the net ledger balance.

General Ledger Entries and Balancing

Entries to the general ledger are made from source journals. Source journals may include, depending on the sophistication of your system: (1) the cash receipts journal; (2) the sales/receivable subsystem (recording of invoices processed for collection); (3) cash disbursements journal; (4) the payroll journal; (5) the purchases/accounts payable subsystem (recording of vendor's invoices received for payment); (6) inventory subsystem; and (7) the general journal entries.

Generally, in a manual system as well as the other mentioned subsystems, only monthly totals are posted from the receipts and disbursements journals to the control accounts in the general ledger. The posting in a computerized system will vary from individual line-items or batch totals to the control accounts in addition to the posting of the subsidiary ledger detail. In either manual or computerized systems, the posting of the entries from the general journal are posted individually.

Whenever a posting is made to a general ledger account, the ending balance is computed and entered. This reflects the balance of any given account as of the most recent posting. When a posting is made to a control account, the subsidiary ledger must be balanced and compared to the total in the control account. The totals between the two should always equal each other.

At the end of each accounting period (generally the end of each month and at year end), a trial balance is prepared from the general ledger accounts to prove that the ledger, as a whole, is in balance (total debits equals total credits and balances to zero). A manual trial balance will include all the period ending balances. A computerized trial balance generally will include the balance at the beginning of the period, the total of debits and credits for the period, and the balance at the end of the period. Listing this information in an output record provides for extensive cross-checking of transactions for completeness and correctness. In addition, in the case of a computerized system, it is important that this is performed prior to the permanent update to the general ledger's master file.

Fund Structure

Currently, there are three categories of funds for financial reporting purposes: (1) Governmental Funds are made up of the General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds and Permanent Funds; (2) Proprietary Funds include Enterprise Funds and Internal Service Funds; and (3) Fiduciary Funds include Pension Trust Funds (and other employee benefits), Investment Trust Funds, Private Purpose Trust Funds, and Agency Funds (such as a Tax Collection Fund).

CHAPTER 7--GENERAL LEDGER/JOURNAL ENTRIES

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1093 It cannot be stressed enough that each and every fund of the local unit must appear in the local
1094 unit's general ledger.

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1096 Fund Establishment

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1098 Most local units will have, at a minimum, three basic funds: the General Fund, General Agency
1099 Fund and Current Tax Collection Fund. The number of funds a local unit chooses to establish
1100 and maintain should be limited to those required by law (state or local), where a separate tax is
1101 levied or whose revenue is restricted.

1102

1103 Generally, a separate fund should not be established as a means to control General Fund activity.
1104 Budgets can be effectively controlled by setting up separate departments (activities) within the
1105 General Fund.

1106

1107 Local Unit General Ledger Responsibility

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1109 The size and character of the local unit will determine who holds the responsibility for
1110 maintenance and oversight of the general ledger. In small local units, the clerk will typically
1111 record general ledger activity while maintaining the receipts journal, disbursements journal,
1112 payroll journal, and subsidiary ledgers (it is not uncommon in larger local units for a finance
1113 department to handle these activities). The treasurer will work with the clerk to maintain records
1114 and properly account for cash and investment balances in addition to collecting cash receipts and
1115 making regular bank deposits.

1116

1117 Best Practices

1118

1119 For general ledger reporting purposes, local units may use the General Capital Asset listing and
1120 the General Long-Term Debt listing. These funds ("account groups") were primarily used to
1121 record fixed assets and long-term debt. Upon implementation of GASB No. 34, these account
1122 groups are no longer presented in the local unit's audited financial statements. However, their
1123 continued use is helpful for bookkeeping purposes.

1124

1125 In addition to monthly postings from the receipts and disbursements journals, it is often
1126 necessary to make adjustments or other entries to the general ledger.

1127

1128 Examples include:

1129 • Transfers of money from one fund or account to another within the same bank account
1130 (appropriations from the general fund to the library fund, police fund, fire fund, etc.);

1131 • Wire transfers and electronic fund transfers (EFTs);

1132 • Establishing certain accounts receivable and accounts payable;

1133 • Corrections of errors;

1134 • Closing revenue and expenditure accounts to fund balance at the end of the year;

1135 • Other adjusting entries.

CHAPTER 7--GENERAL LEDGER/JOURNAL ENTRIES

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1139 Journal Entry Preparation

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1141 Journal entries (or vouchers) should be sequentially numbered by year (i.e., 99-1, 99-2, etc.).

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1143 Each journal entry should contain adequate explanation and supporting documentation, and
1144 should have an independent review.

1145

1146 The journal entry form should normally be prepared in duplicate with one copy for the clerk (or
1147 appropriate accounting personnel) and one for the treasurer. This will permit both officials to
1148 maintain the required cash balances of the various funds.

1149

1150 It is advisable to use a separate form for each transaction to avoid confusion and multiple
1151 explanations.

1152

1153 Opening Entries

1154

1155 After opening entries are posted to the general ledger at the beginning of each fiscal year,
1156 monthly postings would then be made from receipts, disbursement journals, and journal entries.

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1158 Note: Opening entries should have reference to a source document (e.g., prior year post-closing
1159 trial balance).

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CHAPTER 7--GENERAL LEDGER/JOURNAL ENTRIES

Local Unit Name Journal Entry			
			Journal Entry Number _____
			Journal Entry Date _____
Account Number	Description	Debit	Credit
Explanation			
Prepared By: _____		Date: _____	
Approved By: _____		Approval Date: _____	

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1213 **CHAPTER 9--EXTERNAL ANNUAL FINANCIAL REPORTING**
1214 **RESPONSIBILITIES**

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1217 **General Concept Statements**

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1219 Required annual reports:

- 1220
- 1221 • Form F-65, Annual Local Unit Fiscal Report, Michigan Department of Treasury, for all
1222 primary units of government;
 - 1223
 - 1224 • Annual audits (if the population is less than 4,000, biennial filing is required);
1225
 - 1226 • Deficit Elimination Plans for each fund in a deficit;
1227
 - 1228 • The Municipal Finance Qualifying Statement;
1229
 - 1230 • The Act 51, Annual Financial Report, Michigan Department of Transportation, for all road
1231 and street activities.
1232

1233 **Required Procedures**

1234
1235 1. Form F-65 Annual Local Unit Fiscal Report
1236

1237 Every county, city, village, and township must file an Annual Local Unit Fiscal Report (Form F-
1238 65) with the State Treasurer in accordance with Public Act 71 of 1919, Public Act 2 of 1968 and
1239 Public Act 275 of 1980. The Form F-65 must be received by the Michigan Department of
1240 Treasury within 6 (six) months after the end of the local unit's fiscal year and must be filed
1241 annually regardless of the filing requirements for an audit. Failure to timely file Form F-65 may
1242 cause the unit's State Revenue Sharing money to be withheld. (MCL 141.921)
1243

1244 Form F-65 all of the financial activity of the governmental unit except for the agency funds and
1245 the depreciation in proprietary funds. Some authorities and joint agencies should be included in
1246 the F-65 form. Also, discretely presented component units should be combined in the form. The
1247 form should reflect fund financial data versus the government-wide statement data. Federal and
1248 State governments and other researchers use the Form F-65 to compile various statistics for
1249 legislators, other governmental agencies and departments, and business and industry.

1250
1251 For further information regarding Form F-65, please see the instructions for the form. Both the
1252 form and the instructions may be downloaded from Treasury's website at
1253 www.michigan.gov/treasury.
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1256 **CHAPTER 9--EXTERNAL ANNUAL FINANCIAL REPORTING**
1257 **RESPONSIBILITIES**

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1259
1260 2. Annual Audit
1261

1262 All local units with a population in excess of 4,000 (as of the 2000 census) must have an annual
1263 audit of their financial records. Local units with less than 4,000 population may have the audit
1264 performed biennially except for charter townships. The audit must be performed by an
1265 independent certified public accounting firm approved by the local unit's governing board or
1266 performed by the Michigan Department of Treasury. The audit must be filed with the
1267 Department of Treasury no later than 6 (six) months after the local unit's fiscal year end. It is
1268 strongly recommended that the audit be filed electronically at www.michigan.gov/treasury, then
1269 click on "Local Government Services" and "Local Unit Audit Reports." Also see Treasury's
1270 Numbered Letter 2005-2 for instructions. The chief administrative officer can request an
1271 extension in writing from the State Treasurer (with a copy provided to the governing body) for
1272 extraordinary circumstances. The extension request must be received by the Department of
1273 Treasury prior to the due date of the audit. The address to file the audit or to request an extension
1274 is: Michigan Department of Treasury, Local Audit and Finance Division, P.O. Box 30728,
1275 Lansing, MI 48909-8228.
1276

1277 3. Fund Deficits/Deficit Elimination Plans
1278

1279 A fund deficit is defined as a situation where, for any fund, the following formula produces a
1280 negative end of year fund balance:
1281

- 1282 • Beginning of year fund balance (deficit);
- 1283 • Plus revenues and transfers in;
- 1284 • Minus expenditures and transfers out;
- 1285 • Equals end of year fund balance (deficit).
1286

1287 For proprietary fund types (enterprise or internal service), replace "fund balance" with
1288 "unrestricted net assets."
1289

1290 If any fund of a local unit ends its fiscal year in a deficit fund balance, the unit must draft and file
1291 a financial plan with the Michigan Department of Treasury within 90 (ninety) days after the
1292 beginning of the next fiscal year to correct the condition. Fund deficits are determined at the
1293 individual fund level, not at the government-wide level. The local unit can implement the plan
1294 once the Department of Treasury certifies it. If the local unit fails to comply with the above
1295 requirements, an amount equal to 25% of the local unit's State-Shared Revenue funding will be
1296 withheld until the requirements are met (MCL 141.921).
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1300 **CHAPTER 9--EXTERNAL ANNUAL FINANCIAL REPORTING**
1301 **RESPONSIBILITIES**

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1304 4. Municipal Finance Qualifying Statement
1305

1306 Under the Revised Municipal Finance Act, Public Act 34 of 2001, the chief administrative
1307 officer for each municipality is required to submit annually a Municipal Finance Qualifying
1308 Statement (Form 3883) within 6 (six) months from the end of each fiscal year to the Local Audit
1309 and Finance Division of the Michigan Department of Treasury. In addition, if a component unit
1310 (authorities, agencies, funds, commission, boards or department) is authorized to issue municipal
1311 securities on their own behalf and in their own name, they must separately submit a qualifying
1312 statement. For additional information, refer to the Michigan Department of Treasury's website:
1313 www.michigan.gov/treasury, Local Government, Municipal Finance, Revised Municipal Finance
1314 Act, 34-2001-III, Section 141.2303.
1315

1316 5. Act 51 Road and Street Financial Report
1317

1318 Cities, villages, and road commissions must file an Act 51 Road and Street Financial Report.
1319 Information for the Act 51 report reflects the revenues and expenditures of all road and street
1320 work and conforms to the requirements of Public Act 51 of 1951, as amended. The completed
1321 report must agree with the audited financial statements, with the exception of any road and street
1322 work that was recorded in funds other than the Major and Local Street Funds. The report must be
1323 received by the Michigan Department of Transportation (MDOT) no later than 120 days after the
1324 municipality's fiscal year end. An extension of the filing deadline must be received by MDOT,
1325 in writing, before the due date. A copy of the municipality's audited financial statements must
1326 also be submitted to MDOT within six months after the municipality's fiscal year end. A city or
1327 village with a year ending before July 1 must file before the subsequent December 31 or it will
1328 be ineligible for its Winter Maintenance Payment. Failure to comply will also result in the
1329 withholding of Michigan Transportation Fund payments. The Street Financial Report, forms,
1330 instructions and Resolution for Designation of Street Administrator are available at:
1331 <http://www.mdotwas1.mdota.state.mi.us/public/webforms/index.cfm> Questions concerning the
1332 report should be directed to the Financial Operations Division at (517) 373-1527.
1333

1334 **Best Practices**
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1336 For those local units with less than 4,000 population, we strongly recommend the performance of
1337 an audit or a review in the off-year.
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CHAPTER 10--CAPITAL ASSETS

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General Concept Statements

AICPA Audit and Accounting Guide, State and Local Governments with Conforming Changes, as of May 1, 2005, paragraph 7.58:

- Existence or Occurrence: Reported capital assets represent items owned or otherwise required to be reported (such as capital assets acquired through capital lease), considering the entity's capitalization policies, as of the end of the period. Reported capital expenditures and depreciation expense represent amounts relating to the period;
- Completeness: The financial statements report all capital assets and accumulated depreciation as of the end of the period, and all capital expenditures and depreciation expense relating to the period;
- Rights and Obligations: The financial statements properly reflect conditions and agreements that affect the entity's rights and obligations concerning capital assets as of the end of the period;
- Valuation or Allocation: Capital assets, accumulated depreciation, capital expenditures, and depreciation expense are reported at the proper amounts;
- Presentation and Disclosure: The financial statements properly classify, describe, and disclose the activity and balances relating to capital assets, including classification in the proper fund and activity. Financial statement presentation and disclosure are made in conformity with GAAP, consistently applied.

Required Practices

The purchase, addition, disposal, and sale of an asset must have prior approval from the appropriate officials.

Recording Process

It is essential that the amount of capital assets be recorded within the local unit's general ledger. The amount in the general ledger must be supported by detailed subsidiary ledgers. Infrastructure assets that are associated with a specific enterprise or internal service fund are recorded in the appropriate fund.

The recording of capital assets makes it possible to provide for protective custody and to fix responsibility for proper use and custody of such assets. It also permits proper disclosure on financial statements, for no financial report is complete without reflecting the capital assets of a local unit.

CHAPTER 10--CAPITAL ASSETS

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The first step in recording capital assets is a complete inventory, at least by the following classes:

- Land and Improvements
- Buildings and Improvements
- Machinery and Equipment
- Construction in Progress

If desired, land and land improvements may be recorded separately, as may buildings and building improvements. Machinery and equipment may be further classified as office machines, office furniture, automobile, etc. Construction in progress is used until a construction project is completed, at which time the proper asset classification is increased and construction in progress eliminated.

Once the capital assets are inventoried and valued by various classifications or groupings, they are ready for recording in the general ledger. We recommend they be recorded in a General Capital Assets Control, as explained in the “*Index of Funds*” in the Uniform Chart of Accounts.

Subsidiary Records

Once capital assets are recorded in the general ledger, subsidiary records must be maintained for each item. Suggested attributes are:

- Classification (land, building, equipment, etc.)
- Payment Voucher Number
- Date Acquired
- Vendor
- Description (abbreviated)
- Cost
- Location (clerk, treasurer, etc.)
- Fund From Which Purchased
- Method of Acquisition (purchase, gift, etc.)
- Estimated Life
- Depreciation Method
- Date, Method, and Authorization of Disposition

The total of the individual costs must equal the amount recorded in the general ledger. Such a reconciliation must be made periodically (at least annually).

A periodic inventory must be made to ensure that all recorded items are on hand and that all items on hand have been properly recorded.

CHAPTER 10--CAPITAL ASSETS

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1432 **Best Practices**

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1434 We suggest that each local unit have a written capital asset policy that addresses asset
1435 capitalization and asset retirement/sale practices (setting a dollar threshold and perhaps a useful
1436 life threshold).

1437

1438 We suggest that assets be tagged or labeled, and safeguarded to prevent loss.

1439

1440 GFOA's *Establishing the Estimated Useful Lives of Capital Assets*

1441 <http://www.gfoa.org/services/rp/caafr/caafr-establishing-estimated.pdf>

1442

1443 GFOA's *Ensuring Control over Noncapitalized Items*

1444 http://www.gfoa.org/services/rp/documents/controlled_capital_assetsRP.pdf

1445

1446 GFOA's *The Need for Periodic Inventories of Tangible Capital Assets*

1447 <http://www.gfoa.org/services/rp/documents/periodicinvoftangiblecapassets.pdf>

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1449 **CHAPTER 11--TAX INCREMENT FINANCING DISTRICTS**
1450 **AND INDUSTRIAL FACILITIES TAX**

1451
1452
1453 **General Concept Statements**

1454
1455 None

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1457 **Required Procedures**

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1459 Tax Increment Financing Districts can be created by several types of authorities, each with their
1460 own statutes governing the required procedures. Various authorities include: Tax Increment
1461 Financing Authorities (TIFAs), Downtown Development Authorities (DDAs), Local
1462 Development Financing Authorities (LDFAs), and Brownfield Redevelopment Authorities
1463 (BRDAs).

1464
1465 There are myriad rules to be followed in operating a tax increment financing district. Refer to the
1466 Michigan State Tax Commission for a more comprehensive discussion of these rules. This
1467 section of the manual is intended to summarize just the significant provisions that the accountant
1468 needs to be aware of related to these authorities:

- 1469
1470 1. In general, all of the plans have sunset provisions. Read the plan to understand what event
1471 causes termination.
1472
1473 2. Not all TIFAs, DDAs and LDFAs use tax increment financing, but those that do must have a
1474 Tax Increment Financing (TIF) Plan. This is an important document, which must go through
1475 a public hearing process. The TIF plan will specify which taxes may be captured (and to
1476 what extent--often certain millages are captured at a lower rate) and the purposes for which
1477 captured taxes may be spent. You should have a copy of the TIF plan, and understand which
1478 taxes may be captured and what types of expenditures are allowed by the plan.
1479
1480 3. Regardless of which taxes the TIF plan allows to capture, the three school related taxes (K-
1481 12, Intermediate School District (ISD) and State Education Tax (SET)) may only be captured
1482 to the extent they are necessary to fund eligible obligations, eligible advances, and other
1483 protected obligations as those terms are defined in the statutes. Refer to the Michigan State
1484 Tax Commission or your TIF attorney for further definitions of these terms.
1485
1486 4. Once a TIF district has captured sufficient funds to reasonably achieve the purposes set forth
1487 in the TIF plan, it may no longer capture taxes. Captured taxes that will not be expected to be
1488 necessary to accomplish the projects (i.e., excess fund balance) should be refunded. Taxes
1489 must only be refunded proportionately to the original capture (you may not refund all unused
1490 monies to the General Fund).
1491
1492 5. All TIF districts except BRDAs capture growth in taxable value for the district, as a whole,
1493 and not on individual properties. This is an important concept. The TIF district has an initial
1494 base taxable value which generally remains constant and is not available for capture.
1495 Decreases in the taxable value of some properties in the district result in a reduction in the
1496 amount of taxable value of other properties being available for capture.
1497

1498 **CHAPTER 11--TAX INCREMENT FINANCING DISTRICTS**
1499 **AND INDUSTRIAL FACILITIES TAX**

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6. Authorities may not discriminate among property types in a TIF plan. That is, they may not exclude personal property, homestead property, etc. A percentage of all property may be excluded, and discrimination among millages is allowed (many plans exclude the capture of debt millage, for example) as long as proportionality requirements among operating millages are not violated. Whatever exclusions from capture are made should fall equally on all property in the district.
7. Note that if you have a property inside the TIF district that switches from an Industrial Facilities Tax (IFT) roll back to the property tax roll, you should treat it as two properties--one on the IFT roll (with zero value) and one on the property tax roll (at full value). The base year remains the same, with the IFT property retaining its base year value and the property tax roll retaining its base year value. The opposite also holds true for a property that goes from the property tax rolls to the IFT rolls.
8. Every Downtown Development Authority (DDA), Tax Increment Finance Authority (TIFA), and Local Development Finance Authority (LDFA) is required by law to annually submit a financial report to the governing body of the municipality and to the State Tax Commission. Reporting requirements are prescribed for the DDA by Public Act 197 of 1975, for TIFA by Public Act 450 of 1980, for LDFA by Public Act 281 of 1986 (STC Bulletin 1997-09), Brownfield Redevelopment Authority by Public Act 281 of 1996, Corridor Improvement Authority by Public Act 280 of 2005, and Historic Neighborhood Tax Increment Finance Authority by Public Act 530 of 2004.
9. Industrial Facilities Tax (IFT) properties and Commercial Facilities Tax (CFT) properties are exempt from the regular property tax rolls. These properties pay a lower tax, based on their exemptions:
 - New property exemptions pay tax at 50% of the current tax rates, except for SET (the State decides on each property how much of its SET will be exempt). For all IFT and CFT properties that were granted their certificate prior to 1994, they continue to pay at 50% of the 1993 operating millage rate for K-12 and ISD allocated, special education and vocational education mills, in lieu of the current rate for SET, K-12 and ISD allocated, special education and vocational education mills;
 - Replacement or Rehabilitation properties pay the current millage rate levied for non-homestead property times a taxable value that is frozen as of the certificate date;
 - Collections of K-12 operating millage should **not** be remitted to the local K-12 school district; it should be remitted to the State. Collection of the ISD millage (both operating and debt) should be remitted to the State, not the ISD. Use form 170, IFT Tax Report to provide Treasury an annual summary of IFT collections.

1544 **CHAPTER 11--TAX INCREMENT FINANCING DISTRICTS**
1545 **AND INDUSTRIAL FACILITIES TAX**

1546
1547
1548 **Best Practices**
1549

- 1550 1. Treasurers are required by statute to send tax increment revenues to authorities. It is
1551 incumbent upon treasurers to determine the proper amount to disburse. By the time tax bills
1552 are sent, treasurers should have all the data they need to compute tax increment revenue: the
1553 initial assessed value (IAV), current year value of the district, the millage rates, verify
1554 authority to capture school taxes, and any limitations on capture imposed by the TIF plan.
1555

1556 It is suggested that treasurers who collect and distribute captured taxes first become familiar
1557 with all statutory requirements related to the particular taxes which are being captured. If
1558 necessary, consult with the State Department of Treasury, the county treasurer and your local
1559 attorney.
1560

- 1561 2. If an authority does receive excess tax distributions from the treasurer (i.e., it receives tax
1562 revenue that does not meet the definition of tax increment revenue), the proper course of
1563 action is to return it to the treasurer who made the disbursement. Authorities should not send
1564 excess receipts to other taxing units. Proper disposition of property tax revenue is the
1565 responsibility of the municipal treasurer.
1566
- 1567 3. An authority needing legal advice should retain its own counsel, or rely on the corporation
1568 counsel of the municipality that created it.
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APPENDIX

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All transactions affecting a local unit's financial resources should be recorded in the accounting records and substantiated with evidence. The accounting records, which comprise the accounting system, generally consist of the following:

- Source Documents--evidences of original transactions that are used in the accounting system as the initial data in the recording process.
- Books of Original Entry--registers or journals in which the input information is initially recorded and isolated from the other details of the transaction.
- Books of Final Entry--primarily the general ledger which is used to prepare the financial statements (supported by subsidiary ledgers as needed).

Source Documents

The source documents contain the details supporting the accounting transactions and may be generated internally or externally. Source documents provide all the details of the transaction. Generally, they include information about the dollar amount to be recorded, the parties involved, the terms of the transaction, and other relevant information. Examples of source documents include the following:

Cash Receipts	Transmittal Advice	Tax Bills
Deposit Slips	Deposit Advice	Utility Bills
Purchase Requisitions	Purchase Order	Check/Warrant
Vendor Packing Slips	Shipping Documents	Vendor Invoices

Books of Original Entry

The relevant accounting information is extracted from the source documents and recorded in the books of original entry. These books consist of special journals, which record accounting transactions with similar characteristics and the general journal. The major books of original entry and their uses are as follows:

- Cash Receipts Journal--used to record or summarize information from the daily cash receipts;
- Cash Disbursements Journal--used to record all cash payments by the governmental unit, except for payroll;
- Payroll Journal--used to record all cash payments for payroll by the governmental unit;
- Utility Journal--used to record all sales of utilities on account (e.g., water/sewer, electric, gas, etc.);
- Purchase Journal--used to record all purchases of supplies or inventory on account. It also includes information about the corresponding purchase orders;

APPENDIX

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- General Journal--used to record all journal entries authorized by management. If a local unit uses prenumbered journal vouchers, the general journal would consist of the collection of journal vouchers maintained in numerical sequence.

1618

1619 Throughout the year, certain transactions occur that would not be recorded in the special
1620 journals. These transactions, which typically include revenue and expenditure accruals, should be
1621 recorded in the general journal. The general journal can either be a separate ledger book or a
1622 collection of pre-numbered journal vouchers.

1623

Books of Final Entry

1625

1626 Once a month, the accounting information from the books of original entry are posted to the
1627 general ledger, books of final entry. After the general ledger has been posted and balanced, it is
1628 used to prepare the monthly financial statements.

1629

1630 Many of the general ledger accounts are referred to as control accounts because they consist of
1631 summary postings. The supporting details of the control accounts are maintained in subsidiary
1632 ledgers. The subsidiary ledgers should be posted daily. By posting daily, the local unit will have
1633 more up-to-date information which is very important with regards to customer balances and
1634 vendor payables. Examples of subsidiary ledgers include the following:

1635

- Property Taxes Receivable--Current Year
- Property Taxes Receivable--Prior Year
- Water and Sewer Receivables
- Accounts Payables
- General Capital Assets
- General Long-Term Debt

1642

1643 As an accounting system becomes more detailed and complex, additional records and procedures
1644 will be necessary to provide the information desired. This manual does not address the more
1645 detailed systems that may be necessary to provide the additional information.

1646

REFERENCES

Financial Related Michigan Statutes

Public Act Number	General Topic	Common Name
PA 2 of 1968	Accounting	Uniform Budget and Accounting Act (Amended by PA 493 of 2000)
PA 493 of 2000	Accounting	Uniform Budget and Accounting Act (Amended PA 2 of 1968)
PA 140 of 1971	Accounting	State Revenue Sharing, Deficit Reduction Plan Filing Requirements
PA 20 of 1943	Accounting	Investment of Surplus Funds
PA 266 of 1995	Accounting	Credit Card Transactions
PA 738 of 2002	Accounting	Electronic Transactions of Public Funds
PA 51 of 1951	Accounting	Transportation
PA 381 of 1996	Component Units	Brownfield Redevelopment Financing Act
PA 183 of 1964	Component Units	Building Authorities
PA 197 of 1975	Component Units	Downtown Development Authorities (DDA)
PA 338 of 1974	Component Units	Economic Development Corporations (EDC)
PA 18 of 1933	Component Units	Housing Facilities (Housing Commissions)
PA 164 of 1877	Component Units	City, Village, and Township Libraries
PA 281 of 1986	Component Units	Local Development Finance Authorities (LDFA)
PA 321 of 2000	Component Units	Recreation Authorities
PA 450 of 1980	Component Units	Tax Increment Finance Authorities (TIFA)
PA 7 of 1967	Component Units	Urban Cooperation Act
PA 34 of 2001	Debt	Revised Municipal Finance Act
PA 99 of 1933	Debt	Installment Purchase Contracts
PA 279 of 1909	General	Home Rule Cities Act
PA 442 of 1976	General	Freedom of Information Act
PA 267 of 1976	General	Open Meetings Act
PA 156 of 1851	Retirement	County Retirement Systems
PA 345 of 1937	Retirement	Fire and Police Pension Systems
PA 427 of 1984	Retirement	Municipal Employees' Retirement System
PA 77 of 1989	Retirement	Township Retirement Systems
PA 206 of 1893	Revenue	General Property Tax Act
PA 284 of 1964	Revenue	Uniform City Income Tax Act
PA 198 of 1974	Revenue	Industrial Facilities Tax Exemptions
PA 243 of 1959	Revenue	Trailer Coach Parks (Trailer Fees)

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