

*Township of Cannon*  
*Kent County, Michigan*

**FINANCIAL STATEMENTS**

*Year ended March 31, 2013*

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Township of Cannon, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Township of Cannon, Michigan, as of and for the year ended March 31, 2013, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements, as listed in the contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Township of Cannon, Michigan, as of March 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Accounting changes*

As described in Note 15 to the financial statements, the Township adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinions are not modified with respect to these matters.

*Required supplementary information*

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

*Supplementary information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Cannon, Michigan's financial statements as a whole. The combining funds financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining funds financial statements are fairly stated in all material respects in relation to the financial statements as a whole.

*Siegfried Crandall P.C.*

July 3, 2013

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following discussion and analysis is intended as a narrative overview of the Township of Cannon, Michigan's operations over the fiscal year and its financial condition on March 31, 2013. Please read it in conjunction with the Township's financial statements.

### **FINANCIAL HIGHLIGHTS**

- The Township's total net position increased by \$925,047 (8.5 percent) as a result of this year's operations.
- Of the \$11,759,743 total net position reported, \$2,838,447 (24 percent) is unrestricted, or available to be used at the Board's discretion.
- The General Fund's unassigned fund balance at the end of the fiscal year was \$1,965,290, which represents 139 percent of the actual total General Fund expenditures for the current fiscal year.

### **Overview of the financial statements**

The Township's basic financial statements are comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township government, reporting the Township's operations in more detail than the government-wide financial statements.
  - Governmental funds statements explain how general governmental services, like public works and public safety, were financed in the short-term, as well as what remains for future spending.
  - Proprietary funds statements offer short- and long-term financial information about the activities the Township operates like a business. The Township's proprietary fund accounts for its wastewater system.
  - Fiduciary funds statements provide information about the financial relationships in which the Township acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by sections of required supplementary information and other supplementary information that further explain and support the information in the financial statements.

A comparative analysis of the basic financial statements for 2013 and 2012 is also presented.

### **Government-wide financial statements**

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

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

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

The government-wide financial statements of the Township are divided into two categories:

- *Governmental activities* - These activities include functions most commonly associated with government (e.g., general government, public safety, public works, etc.). Property taxes and intergovernmental revenues generally fund these services.
- *Business-type activity* - The Township charges fees to customers to help it cover the costs of certain services. The Township's wastewater system operations are reported here.

### Fund financial statements

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

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

The Township has three types of funds:

- *Governmental funds*. Most of the Township's basic services are included in its governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flows in and out, and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship between them.
- *Proprietary funds*. Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds statements, like the government-wide statements, provide both long- and short-term financial information.
- *Fiduciary funds*. These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the Township. The Township is responsible for ensuring that the assets reported in the fiduciary funds are used for their intended purposes. The Township's fiduciary balances are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

## Net position

Total net position at the end of the fiscal year was \$11,759,743, an increase of 8.5 percent from the prior year. However, \$6,990,190 of this total represents a net investment in capital assets and \$1,931,106 is restricted for various purposes. Consequently, unrestricted net position was \$2,838,447, or 24 percent of the total.

*Condensed financial information  
Net position*

	<i>Governmental activities</i>		<i>Business-type activity</i>		<i>Totals</i>	
	<b>2013</b>	<i>2012</i>	<b>2013</b>	<i>2012</i>	<b>2013</b>	<i>2012</i>
Current and other assets	\$ <b>4,047,336</b>	\$ 3,368,402	\$ <b>965,301</b>	\$ 695,267	\$ <b>5,012,637</b>	\$ 4,063,669
Capital assets	<b>5,162,059</b>	5,221,801	<b>6,566,789</b>	6,519,177	<b>11,728,848</b>	11,740,978
Total assets	<b>9,209,395</b>	8,590,203	<b>7,532,090</b>	7,214,444	<b>16,741,485</b>	15,804,647
Current and other liabilities	<b>90,933</b>	79,091	<b>152,151</b>	195,739	<b>243,084</b>	274,830
Long-term debt	-	-	<b>4,738,658</b>	4,695,121	<b>4,738,658</b>	4,695,121
Total liabilities	<b>90,933</b>	<b>79,091</b>	<b>4,890,809</b>	<b>4,890,860</b>	<b>4,981,742</b>	<b>4,969,951</b>
Net position:						
Net investment in capital assets	<b>5,162,059</b>	5,221,801	<b>1,828,131</b>	1,824,056	<b>6,990,190</b>	7,045,857
Restricted	<b>1,931,106</b>	1,629,856	-	-	<b>1,931,106</b>	1,629,856
Unrestricted	<b>2,025,297</b>	1,659,455	<b>813,150</b>	499,528	<b>2,838,447</b>	2,158,983
Total net position	\$ <b>9,118,462</b>	\$ 8,511,112	\$ <b>2,641,281</b>	\$ 2,323,584	\$ <b>11,759,743</b>	\$ 10,834,696

## Changes in net position

The Township's total revenues were \$3,686,662 in the current fiscal year. Approximately 32 percent of the Township's revenue comes from property taxes while state shared revenue accounts for 26 percent of the total revenues. About 39 percent of total revenues come from charges for services, which are primarily user charges to finance the Township's sewer system.



**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

*Condensed financial information  
Changes in net position*

	<i>Governmental activities</i>		<i>Business-type activity</i>		<i>Totals</i>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Program revenues:						
Charges for services	\$ 345,765	\$ 341,711	\$ 1,075,646	\$ 1,007,885	\$ 1,421,411	\$ 1,349,596
Operating grants	14,574	20,174	-	-	14,574	20,174
Capital grants	5,000	-	43,738	57,899	48,738	57,899
General revenues:						
Property taxes	1,195,974	1,195,381	-	-	1,195,974	1,195,381
State shared revenue	968,629	1,012,737	-	-	968,629	1,012,737
Franchise fees	15,387	17,991	-	-	15,387	17,991
Interest income	17,609	18,315	2,562	3,156	20,171	21,471
Other	1,778	-	-	-	1,778	-
Total revenues	<b>2,564,716</b>	<b>2,606,309</b>	<b>1,121,946</b>	<b>1,068,940</b>	<b>3,686,662</b>	<b>3,675,249</b>
Expenses:						
Legislative	28,208	25,476	-	-	28,208	25,476
General government	755,765	760,520	-	-	755,765	760,520
Public safety	844,659	884,272	-	-	844,659	884,272
Public works	169,974	162,913	-	-	169,974	162,913
Community and economic development	92,144	91,441	-	-	92,144	91,441
Recreation and culture	66,616	90,908	-	-	66,616	90,908
Sewer	-	-	804,249	878,753	804,249	878,753
Total expenses	<b>1,957,366</b>	<b>2,015,530</b>	<b>804,249</b>	<b>878,753</b>	<b>2,761,615</b>	<b>2,894,283</b>
Changes in net position	<b>\$ 607,350</b>	<b>\$ 590,779</b>	<b>\$ 317,697</b>	<b>\$ 190,187</b>	<b>\$ 925,047</b>	<b>\$ 780,966</b>
Net position, end of year	<b>\$ 9,118,462</b>	<b>\$ 8,511,112</b>	<b>\$ 2,641,281</b>	<b>\$ 2,323,584</b>	<b>\$ 11,759,743</b>	<b>\$ 10,834,696</b>

**Governmental activities**

Governmental activities increased the Township's net position by \$607,350 in the current year compared to an increase of \$590,779 in the prior year. The increase in net position was higher in the current year because expenses decreased by \$58,164 and revenues decreased by \$41,593.

Revenues decreased in the current year due to a decrease in state shared revenue of \$44,108 as state distributions in the prior year included a substantial amount related to a census adjustment. The decrease in expenses relates to two functions: public safety costs declined by \$39,613, primarily due to lower costs associated with police patrols, and recreation and culture costs decreased by \$24,292 due to lower trail maintenance costs.

The total cost of governmental activities this year was \$1,957,366 compared to \$2,015,530 in 2012. After subtracting the direct charges to those who directly benefited from the programs (\$345,765) and operating and capital grants (\$19,574), the "public benefit" portion covered by property taxes, state shared revenue, and other general revenues was \$1,592,027 in 2013 compared to \$1,653,645 in 2012.

**Business-type activity**

The Township's wastewater treatment activity, its lone business-type activity, increased the Township's net position by \$317,687 in 2013 compared to a \$190,187 increase in the prior year. Revenues increased by \$53,006, while expenses decreased by \$74,504. The key factors which led to this condition include the following:

- Charges for services increased by \$67,761 due to a higher rate being in effect for the entire year.
- Expenses decreased as maintenance costs paid to Kent County and the North Kent Sewer Authority decreased by nearly \$67,000.

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

**Governmental funds**

At March 31, 2013, the Township's governmental funds reported a combined fund balance of \$3,954,241, an increase of \$667,899.

The General Fund is the primary operating fund of the Township. The fund balance of the General Fund increased this year by \$343,158, to \$2,027,840. Revenues continue to be more than sufficient to cover the fund's expenditures.

The fund balance of the Fire Fund, a special revenue fund, increased this year by \$113,602 to \$901,938 because its revenues, primarily property taxes, were sufficient to cover all public safety costs during the current year.

The fund balance of the Recreation Fund, a special revenue fund, increased this year by \$194,059 to \$945,204 because its revenues, primarily property taxes, were sufficient to cover the cost of recreation and culture services and no project costs were incurred in the current year.

The fund balances of the nonmajor governmental funds increased by \$17,080 during the year and total \$79,259 at the end of the year.

**Proprietary fund**

The Sewer Fund, the Township's sole proprietary fund, experienced an increase in net position of \$317,697 for reasons explained under business-type activity above.

**General Fund budgetary highlights**

The Township amended the General Fund budgeted expenditures during the year to reflect increased costs experienced during the year. Total budgeted expenditures were increased by \$48,227 to reflect additional expenditures in the planning and zoning and capital outlay cost centers. Total budgeted revenues remained unchanged for the current period.

Total revenues were \$92,500 more than budgeted amounts, primarily because state shared revenue was \$74,203 more than expected. Total expenditures were \$142,478 less than the amounts appropriated. Actual expenditures were lower than appropriations in every functional category. General government and public safety expenditures were \$60,192 and \$24,422 less than budgeted, respectively, as the costs of contractual services were lower than anticipated in both functional categories.

These conditions resulted in a \$234,978 positive budget variance with a \$343,158 increase in fund balance compared to a budgeted increase of \$108,180.

**Capital assets and debt administration**

**Capital assets**

At March 31, 2013, the Township had invested \$11,728,848 (net of accumulated depreciation) in various capital assets, including its land, buildings, equipment, vehicles, and sewer infrastructure. This amount represents a net decrease of \$12,130 as depreciation expense was larger than current period capital purchases.

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

- Purchased a Polaris Ranger 6x6 for the fire department at a cost of \$10,870
- Purchased an additional flat-top trailer for \$6,190
- Purchased a JL-500 cutting tool for the fire department
- A new well was developed at the Township Center at a cost of 16,079
- Paving projects on parking lots and drives costing \$38,134
- Shared road costs, considered intangible assets, in the amount of \$134,902 were capitalized
- The Sewer Fund's capital assets increased by the net amount of \$47,612. Costs associated with system improvements, in the amount of \$1,478, were capitalized. The Sewer Fund's intangible assets, related to sewer infrastructure owned by the North Kent Sewer Authority, increased by \$209,138 as the Township's share of the contracts payable issued to acquire the assets increased. Total depreciation on the Sewer Fund's capital assets amounted to \$163,004.

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

**Debt**

At the end of the fiscal year, the Township had debt outstanding in the amount of \$4,738,658, which represents a net increase of \$43,537. All debt represents contracts payable to the North Kent Sewer Authority that are backed by the full faith and credit of the Township.

The Township's contracts payable to the North Kent Sewer Authority increased by \$209,138. The increase is associated with the Township's proportionate share of sewage flows (\$46,245) and for their portion of lift-station improvements from cumulative loan draws (\$162,893) in the current year. Contracts payable were reduced by principal payments, in the amount of \$165,601, that were paid in a timely manner.

More detailed information about the Township's noncurrent liabilities is presented in Note 6 of the notes to the basic financial statements.

**Economic factors and next year's budgets and rates**

The Township's 2014 fiscal year budget does not anticipate significant changes in the amounts or composition of its major revenue sources. The Township has budgeted expenditures for the upcoming year at amounts sufficient to support its ongoing programs and activities, while maintaining the current levels of its resources.

The sewer rate increase that was implemented in July 2011 increased the equity in the Sewer Fund. We implemented a planned-for cost of living increase in sewer rates that provides predictability to the customers. This will be done annually.

As always, the budget will be monitored during the year to identify any necessary amendments and to assess the continuity of services after the reduction in expenditures. As with last year, we see strong indications that we are experiencing no diminution in services.

**Contacting the Township's financial management**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Steve Grimm, Supervisor  
Township of Cannon  
6878 Belding Road, N.E.  
Rockford, MI 49341

Phone: (616) 874-6966

## **BASIC FINANCIAL STATEMENTS**

**Township of Cannon**

**STATEMENT OF NET POSITION**

March 31, 2013

	<u>Governmental activities</u>	<u>Business-type activity</u>	<u>Totals</u>
<b>ASSETS</b>			
Current assets:			
Cash	\$ 2,300,089	\$ 329,899	\$ 2,629,988
Investments	1,498,756	580,259	2,079,015
Receivables	239,334	55,143	294,477
Prepaid expenses	<u>9,157</u>	<u>-</u>	<u>9,157</u>
Total current assets	<u>4,047,336</u>	<u>965,301</u>	<u>5,012,637</u>
Noncurrent assets:			
Capital assets not being depreciated	85,583	-	85,583
Shared road costs, net of amortization	769,610	-	769,610
Other capital assets, net of depreciation	<u>4,306,866</u>	<u>6,566,789</u>	<u>10,873,655</u>
Total noncurrent assets	<u>5,162,059</u>	<u>6,566,789</u>	<u>11,728,848</u>
Total assets	<u>9,209,395</u>	<u>7,532,090</u>	<u>16,741,485</u>
<b>LIABILITIES</b>			
Current liabilities:			
Payables	90,933	152,151	243,084
Contracts payable	<u>-</u>	<u>173,451</u>	<u>173,451</u>
Total current liabilities	90,933	325,602	416,535
Noncurrent liabilities - contracts payable	<u>-</u>	<u>4,565,207</u>	<u>4,565,207</u>
Total liabilities	<u>90,933</u>	<u>4,890,809</u>	<u>4,981,742</u>
<b>NET POSITION</b>			
Net investment in capital assets	5,162,059	1,828,131	6,990,190
Restricted for:			
General government	4,705	-	4,705
Public safety	901,938	-	901,938
Public works	945,204	-	945,204
Recreation and culture	79,259	-	79,259
Unrestricted	<u>2,025,297</u>	<u>813,150</u>	<u>2,838,447</u>
Total net position	<u>\$ 9,118,462</u>	<u>\$ 2,641,281</u>	<u>\$ 11,759,743</u>

See notes to financial statements

Township of Cannon

**STATEMENT OF ACTIVITIES**

Year ended March 31, 2013

	<u>Program revenues</u>			<u>Net (expenses) revenues and changes in net position</u>			
	<u>Expenses</u>	<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>	<u>Governmental activities</u>	<u>Business-type activity</u>	<u>Totals</u>
<b>Functions/Programs</b>							
Governmental activities:							
Legislative	\$ 28,208	\$ -	\$ -	\$ -	\$ (28,208)		\$ (28,208)
General government	755,765	154,384	2,865	-	(598,516)		(598,516)
Public safety	844,659	111,790	-	5,000	(727,869)		(727,869)
Public works	169,974	75,441	11,709	-	(82,824)		(82,824)
Community and economic development	92,144	4,150	-	-	(87,994)		(87,994)
Recreation and culture	66,616	-	-	-	(66,616)		(66,616)
Total governmental activities	1,957,366	345,765	14,574	5,000	(1,592,027)		(1,592,027)
Business-type activity - sewer	804,249	1,075,646	-	43,738	-	\$ 315,135	315,135
Totals	<u>\$ 2,761,615</u>	<u>\$ 1,421,411</u>	<u>\$ 14,574</u>	<u>\$ 48,738</u>	<u>(1,592,027)</u>	<u>315,135</u>	<u>(1,276,892)</u>
General revenues:							
					1,195,974	-	1,195,974
					968,629	-	968,629
					15,387	-	15,387
					17,609	2,562	20,171
					1,778	-	1,778
Total general revenues					<u>2,199,377</u>	<u>2,562</u>	<u>2,201,939</u>
Changes in net position					607,350	317,697	925,047
Net position - beginning					<u>8,511,112</u>	<u>2,323,584</u>	<u>10,834,696</u>
Net position - ending					<u>\$ 9,118,462</u>	<u>\$ 2,641,281</u>	<u>\$ 11,759,743</u>

See notes to financial statements

Township of Cannon

**BALANCE SHEET - governmental funds**

March 31, 2013

	<u>General</u>	<u>Fire</u>	<u>Recreation</u>	<u>Nonmajor funds</u>	<u>Total governmental funds</u>
<b>ASSETS</b>					
Cash	\$ 1,151,175	\$ 655,088	\$ 493,826	\$ -	\$ 2,300,089
Investments	706,831	264,516	446,671	80,738	1,498,756
Receivables	221,021	11,768	4,707	1,838	239,334
Due from other funds	12,660	-	-	-	12,660
Prepaid expenditures	5,749	1,246	-	-	6,995
	<u>\$2,097,436</u>	<u>\$ 932,618</u>	<u>\$ 945,204</u>	<u>\$ 82,576</u>	<u>\$ 4,057,834</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Payables	\$ 69,596	\$ 18,020	\$ -	\$ 3,317	\$ 90,933
Due to other funds	-	12,660	-	-	12,660
	<u>69,596</u>	<u>30,680</u>	<u>-</u>	<u>3,317</u>	<u>103,593</u>
Fund balances:					
Nonspendable - prepaids	5,749	1,246	-	-	6,995
Restricted for:					
Cemetery	4,705	-	-	-	4,705
Public safety	-	768,548	-	-	768,548
Public works	-	-	-	79,259	79,259
Recreation and culture	-	-	859,832	-	859,832
Assigned	52,096	132,144	85,372	-	269,612
Unassigned	1,965,290	-	-	-	1,965,290
	<u>2,027,840</u>	<u>901,938</u>	<u>945,204</u>	<u>79,259</u>	<u>3,954,241</u>
	<u>\$2,097,436</u>	<u>\$ 932,618</u>	<u>\$ 945,204</u>	<u>\$ 82,576</u>	<u>\$ 4,057,834</u>

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

Total fund balance - total governmental funds \$ 3,954,241

Amounts reported for *governmental activities* in the statement of net position (page 12) are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds. 5,162,059

Prepaid insurance is not a current financial resource and, therefore, is not reported in the funds. 2,162

Net position of governmental activities \$ 9,118,462

See notes to financial statements



**Township of Cannon**

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

Year ended March 31, 2013

	<u>General</u>	<u>Fire</u>
<b>REVENUES</b>		
Property taxes	\$ 469,030	\$ 519,278
Licenses and permits	132,870	-
State grants	983,203	-
Charges for services	116,630	-
Interest and rentals	47,410	3,742
Other	3,357	5,021
	<hr/>	<hr/>
Total revenues	1,752,500	528,041
	<hr/>	<hr/>
<b>EXPENDITURES</b>		
Legislative	28,208	-
General government	687,831	-
Public safety	361,858	377,933
Public works	164,219	-
Community and economic development	92,144	-
Recreation and culture	11,854	-
Capital outlay	63,228	36,506
	<hr/>	<hr/>
Total expenditures	1,409,342	414,439
	<hr/>	<hr/>
<b>NET CHANGES IN FUND BALANCES</b>	343,158	113,602
	<hr/>	<hr/>
<b>FUND BALANCES - BEGINNING</b>	1,684,682	788,336
	<hr/>	<hr/>
<b>FUND BALANCES - ENDING</b>	<u>\$ 2,027,840</u>	<u>\$ 901,938</u>

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

Net change in fund balance - total governmental funds

Amounts reported for *governmental activities* in the statement of activities (page 13) are different because:

Capital assets:

- Assets acquired
- Provision for depreciation

Changes in other assets/liabilities:

- Net increase in prepaid expenses

Change in net position of *governmental activities*



<u>Recreation</u>	<u>Nonmajor funds</u>	<u>Total governmental funds</u>
\$ 207,666	\$ -	\$ 1,195,974
-	-	132,870
-	-	983,203
-	-	116,630
5,593	225	56,970
-	70,691	79,069
<u>213,259</u>	<u>70,916</u>	<u>2,564,716</u>
-	-	28,208
-	-	687,831
-	-	739,791
-	53,836	218,055
-	-	92,144
14,244	-	26,098
4,956	-	104,690
<u>19,200</u>	<u>53,836</u>	<u>1,896,817</u>
194,059	17,080	667,899
<u>751,145</u>	<u>62,179</u>	<u>3,286,342</u>
<u>\$ 945,204</u>	<u>\$ 79,259</u>	<u>\$ 3,954,241</u>

\$ 667,899

240,595  
(300,337)

(807)

\$ 607,350

See notes to financial statements

**Township of Cannon**

**STATEMENT OF NET POSITION - *proprietary fund***

March 31, 2013

	<u>Sewer</u>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 329,899
Investments	580,259
Receivables	<u>55,143</u>
Total current assets	965,301
Noncurrent assets - capital assets, net of accumulated depreciation	<u>6,566,789</u>
Total assets	<u>7,532,090</u>
<b>LIABILITIES</b>	
Current liabilities:	
Payables	152,151
Contracts payable	<u>173,451</u>
Total current liabilities	325,602
Noncurrent liabilities - contracts payable	<u>4,565,207</u>
Total liabilities	<u>4,890,809</u>
<b>NET POSITION</b>	
Net investment in capital assets	1,828,131
Unrestricted	<u>813,150</u>
Total net position	<u><u>\$ 2,641,281</u></u>

See notes to financial statements

*Township of Cannon*

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN  
NET POSITION - *proprietary fund***

*Year ended March 31, 2013*

	<u>Sewer</u>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 1,062,522
Penalties	10,838
Other	<u>2,286</u>
Total operating revenues	<u>1,075,646</u>
<b>OPERATING EXPENSES</b>	
Operation and maintenance	359,911
Depreciation	<u>163,004</u>
Total operating expenses	<u>522,915</u>
<b>OPERATING INCOME</b>	<u>552,731</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Connection fee revenues	43,738
Connection fees remitted to utility authority	(38,688)
Joint system connection fee deficit	(34,857)
Interest revenue	2,562
Interest expense	(209,267)
Less capitalized interest	<u>1,478</u>
Net nonoperating expenses	<u>(235,034)</u>
<b>CHANGE IN NET POSITION</b>	317,697
<b>NET POSITION - BEGINNING</b>	<u>2,323,584</u>
<b>NET POSITION - ENDING</b>	<u><u>\$ 2,641,281</u></u>

*See notes to financial statements*

**STATEMENT OF CASH FLOWS - proprietary fund**

Year ended March 31, 2013

	<u>Sewer</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers and users	\$ 1,067,301
Payments to vendors and suppliers	(391,152)
Payments to employees	<u>(6,147)</u>
Net cash provided by operating activities	<u>670,002</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Connection fees collected	43,738
Connection fees paid to utility authority	(38,688)
Joint system connection fee deficit paid to utility authority	(34,857)
Principal payments on capital debt	(165,601)
Interest payments on capital debt	<u>(215,467)</u>
Net cash used in capital and related financing activities	<u>(410,875)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Net increase in investments	(132,291)
Interest received	<u>2,562</u>
Net cash used in investing activities	<u>(129,729)</u>
<b>NET INCREASE IN CASH</b>	129,398
<b>CASH - BEGINNING</b>	<u>200,501</u>
<b>CASH - ENDING</b>	<u>\$ 329,899</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 552,731
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	163,004
Change in assets and liabilities:	
Receivables	(8,345)
Payables	<u>(37,388)</u>
Net cash provided by operating activities	<u>\$ 670,002</u>

See notes to financial statements

**STATEMENT OF CASH FLOWS - *proprietary fund* (Continued)**

*Year ended March 31, 2013*

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**Noncash capital and related financing activities:**

Changes in capital assets:

Increase in capital assets	\$ 210,616
Less increase in contracts payable due to debt issuance	(162,893)
Less capitalized interest	(1,478)
Less net increase in contracts payable due to reallocations	<u>(46,245)</u>

Cash used to acquire capital assets \$ -

Changes in capital debt:

Increase in capital debt	\$ 43,537
Less increase in capital assets due to debt issuance	(162,893)
Less net decrease in capital assets due to reallocations	<u>(46,245)</u>

Cash used to liquidate capital debt \$ (165,601)

*Township of Cannon*

**STATEMENT OF FIDUCIARY NET POSITION - *agency funds***

*March 31, 2013*

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**ASSETS**

Cash \$ 11,820

**LIABILITIES**

Due to other governmental units \$ 353

Escrow deposits 11,467

Total liabilities \$ 11,820

*See notes to financial statements*

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

*Reporting entity:*

In accordance with generally accepted accounting principles and the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Township. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, there are no other entities for which the Township exercises oversight responsibility.

*Government-wide and fund financial statements:*

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Township. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds, the proprietary fund, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and the major enterprise fund are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the Township generally considers property tax revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal year are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Township.



**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Measurement focus, basis of accounting, and financial statement presentation (continued):*

The Township reports the following major governmental funds:

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

The Fire Fund, a special revenue fund, accounts for the use of property tax revenues that are restricted for the financing of the costs of fire protection within the Township.

The Recreation Fund, a special revenue fund, accounts for the use of property tax revenues that are restricted for the financing of recreation costs within the Township.

The Township reports the following major proprietary fund:

The Sewer Fund accounts for the activities of the Township's sewage collection system.

The Township reports two fiduciary funds, the Tax Collection Fund and the Escrow Fund, which account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments, and other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary fund relate to charges to customers for sales and services. Operating expenses for the proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

*Assets, liabilities, and net position or equity:*

*Cash and investments* - Cash consists of cash on hand, demand deposits, and highly-liquid, short-term investments with original maturities of three months or less from the date of acquisition. Investments are reported at fair value.

*Receivables* - Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to/from other funds." No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

*Prepaid items* - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

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

*Capital assets* - Capital assets, which include land, buildings, equipment, and infrastructure assets (e.g., sewer systems, shared road costs, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$5,000 (\$10,000 for land improvements and buildings, \$50,000 for infrastructure improvements) and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for its infrastructure assets prospectively, beginning April 1, 2004.

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

Buildings and improvements	25 - 50 years
Equipment	3 - 20 years
Vehicles	20 years
Shared road costs	10 - 15 years
Sewer systems	50 - 67 years

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

*Fund equity* - Restricted fund balances are reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws and regulations of other governments. The Township Board retains the authority to assign fund balances. Unassigned fund balance is the residual classification for the General Fund. When the Township incurs an expenditure for purposes for which various fund balance classifications can be used, it is the Township's policy to use restricted fund balance first, followed by assigned fund balance, and, finally, unassigned fund balance.

*Property tax revenue recognition* - Property taxes are levied each December 1 (lien date) on the taxable valuation of property as of the preceding December 31. Property taxes are considered delinquent on March 1 of the following year, at which time interest and penalties are assessed. It is the Township's policy to recognize revenue from the tax levy in the current year, when the proceeds are budgeted and made available for the financing of operations.

*Use of estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

*Budgetary information* - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the Township's general and special revenue funds. The budget document presents information by fund, function, department, and line-item. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year. There were no reportable budget variances during the current fiscal year.

**NOTE 3 - CASH AND INVESTMENTS**

The Township's deposits and investments were reported in the basic financial statements as follows:

	<i>Governmental activities</i>	<i>Business-type activity</i>	<i>Fiduciary activities</i>	<i>Totals</i>
Cash:				
Deposits	\$ 2,299,889	\$ 329,899	\$ 11,820	\$ 2,641,608
Cash on hand	<u>200</u>	<u>-</u>	<u>-</u>	<u>200</u>
Total cash	2,300,089	329,899	11,820	2,641,808
Investments	<u>1,498,756</u>	<u>580,259</u>	<u>-</u>	<u>2,079,015</u>
Totals	<u>\$ 3,798,845</u>	<u>\$ 910,158</u>	<u>\$ 11,820</u>	<u>\$ 4,720,823</u>

*Deposits* - Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Township's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Township will not be able to recover its deposits. The Township's investment policy does not specifically address custodial credit risk for deposits. At March 31, 2013, \$451,482 of the Township's bank balances of \$2,689,170 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Investments* - State statutes authorize the Township to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper, with three (3) highest rate classifications by at least two (2) rating services, maturing not later than 270 days; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; e) mutual funds that invest in investments allowed by state statute; and f) investment pools organized under the local government investment pool act. The Township's investments consist of holdings, in the amount of \$2,079,015, in the Kent County Investment Pool, a non-risk categorized, qualifying investment pool. This pool is not subject to regulatory oversight, is not registered with the SEC, and does not issue a separate report. The fair value of the Township's position in the pool is the same as the value of its pool shares.

## NOTE 4 - RECEIVABLES

Receivables as of March 31, 2013, for the Township's individual major funds and nonmajor funds, in the aggregate, were as follows:

<u>Fund</u>	<u>Property taxes</u>	<u>Accounts</u>	<u>Inter- governmental</u>	<u>Special assessments</u>	<u>Totals</u>
Governmental activities:					
General	\$ 12,246	\$ 59,228	\$ 149,547	\$ -	\$ 221,021
Fire	11,768	-	-	-	11,768
Recreation	4,707	-	-	-	4,707
Nonmajor	-	-	-	1,838	1,838
	<u>28,721</u>	<u>59,228</u>	<u>149,547</u>	<u>1,838</u>	<u>239,334</u>
Total governmental activities	<u>\$ 28,721</u>	<u>\$ 59,228</u>	<u>\$ 149,547</u>	<u>\$ 1,838</u>	<u>\$ 239,334</u>
Business-type activity -					
Sewer	<u>\$ -</u>	<u>\$ 55,143</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,143</u>

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

## NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2013, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 70,913	\$ -	\$ -	\$ 70,913
Construction in progress	-	14,670	-	14,670
Subtotal	<u>70,913</u>	<u>14,670</u>	<u>-</u>	<u>85,583</u>
Capital assets being depreciated/amortized:				
Buildings and land improvements	4,473,795	54,213	-	4,528,008
Shared road costs	963,771	134,902	-	1,098,673
Equipment	732,523	25,940	-	758,463
Vehicles	1,530,506	10,870	-	1,541,376
Subtotal	<u>7,700,595</u>	<u>225,925</u>	<u>-</u>	<u>7,926,520</u>
Less accumulated depreciation/ amortization for:				
Buildings and land improvements	(844,806)	(106,566)	-	(951,372)
Shared road costs	(235,881)	(93,183)	-	(329,064)
Equipment	(500,915)	(52,149)	-	(553,064)
Vehicles	(968,105)	(48,439)	-	(1,016,544)
Subtotal	<u>(2,549,707)</u>	<u>(300,337)</u>	<u>-</u>	<u>(2,850,044)</u>
Total capital assets being depreciated/amortized, net	<u>5,150,888</u>	<u>(74,412)</u>	<u>-</u>	<u>5,076,476</u>
Governmental activities capital assets, net	<u>\$ 5,221,801</u>	<u>\$ (59,742)</u>	<u>\$ -</u>	<u>\$ 5,162,059</u>
Business-type activity:				
Capital assets being depreciated - sewer system	\$ 8,936,197	\$ 210,616	\$ -	\$ 9,146,813
Less accumulated depreciation	<u>(2,417,020)</u>	<u>(163,004)</u>	<u>-</u>	<u>(2,580,024)</u>
Business-type activity capital assets, net	<u>\$ 6,519,177</u>	<u>\$ 47,612</u>	<u>\$ -</u>	<u>\$ 6,566,789</u>

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

Governmental activities:	
General government	\$ 61,550
Public safety	101,734
Public works	93,183
Recreation and culture	<u>43,870</u>
Total governmental activities	<u>\$ 300,337</u>

## NOTE 6 - NONCURRENT LIABILITIES

At March 31, 2013, noncurrent liabilities were comprised of the following issues:

*Business-type activity:*

1998 North Kent Sewer Authority debt service contract - payable in annual installments ranging between \$3,557 to \$7,636, plus interest payable semi-annually at rates between 3.5% and 4.5%; final payment due May 2018	\$ 44,102
2012 North Kent Sewer Authority debt service contract - payable in annual installments ranging between \$25,848 to \$38,772, plus interest payable semi-annually at rates between 2.0% and 3.0%; final payment due November 2026	451,266
2005 North Kent Sewer Authority debt service contract - payable in annual installments ranging between \$15,930 to \$39,002, plus interest payable semi-annually at rates between 3.5% and 4.5%; final payment due November 2030	564,891
2006 North Kent Sewer Authority debt service contract - payable in annual installments ranging between \$76,429 to \$334,123, plus interest payable semi-annually at rates between 3.5% and 4.5%; final payment due November 2031	2,932,845
2007 North Kent Sewer Authority debt service contract - payable in annual installments ranging between \$2,408 to \$48,632, plus interest payable semi-annually at rates between 3.5% and 4.5%; final payment due November 2027	582,661
2012 North Kent Sewer Authority debt service contract - cumulative draws to date, plus interest payable semi-annually at 2.5%	<u>162,893</u>
	<u>\$ 4,738,658</u>

Noncurrent liability activity for the year ended March 31, 2013, was as follows:

	<i>Beginning balance</i>	<i>Additions</i>	<i>Reallocations</i>	<i>Repayments</i>	<i>Ending balance</i>	<i>Amounts due within one year</i>
<i>Business-type activity:</i>						
1998 NKSA contract	\$ 49,300	\$ -	\$ 613	\$ (5,811)	\$ 44,102	\$ 6,200
2012 NKSA contract	462,940	-	9,726	(21,400)	451,266	25,848
2005 NKSA contract	578,808	-	7,483	(21,400)	564,891	22,079
2006 NKSA contract	3,000,285	-	20,660	(88,100)	2,932,845	87,014
2007 NKSA contract	603,788	-	7,763	(28,890)	582,661	32,310
2012 NKSA contract	-	162,893	-	-	162,893	-
Totals	<u>\$ 4,695,121</u>	<u>\$ 162,893</u>	<u>\$ 46,245</u>	<u>\$ (165,601)</u>	<u>\$ 4,738,658</u>	<u>\$ 173,451</u>

All debt is secured by the full faith and credit of the Township.

**NOTE 6 - NONCURRENT LIABILITIES (Continued)**

Reallocations represent changes in the contracts payable to the North Kent Sewer Authority due to changes in the Township's proportionate share of the Authority's debt. The Township's proportionate share of the debt changes annually based on its share of sewage flows to the Authority. A corresponding entry is made to increase or decrease the related capital assets of the Sewer Fund.

At March 31, 2013, debt service requirements, with the exception of the cumulative draws on the 2012 contract payable, are as follows:

<i>Year ended</i>	<i>Business-type activity</i>	
	<i>Principal</i>	<i>Interest</i>
<i>March 31:</i>		
2014	\$ 173,451	\$ 202,111
2015	172,871	196,240
2016	172,244	190,400
2017	175,510	184,323
2018	176,567	177,963
2019 - 2023	1,098,452	763,980
2024 - 2028	1,319,735	497,458
2029 - 2032	<u>1,286,935</u>	<u>158,039</u>
Totals	<u>\$ 4,575,765</u>	<u>\$ 2,370,514</u>

**NOTE 7 - PAYABLES**

Payables as of March 31, 2013, for the Township's individual major funds and nonmajor funds, in the aggregate, were as follows:

<i>Fund</i>	<i>Accounts</i>	<i>Payroll</i>	<i>Interest</i>	<i>Inter-governmental</i>	<i>Totals</i>
Governmental:					
General	\$ 28,299	\$ 13,300	\$ -	\$ 27,997	\$ 69,596
Fire	9,720	8,300	-	-	18,020
Nonmajor	<u>3,317</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,317</u>
Total governmental funds	<u>\$ 41,336</u>	<u>\$ 21,600</u>	<u>\$ -</u>	<u>\$ 27,997</u>	<u>\$ 90,933</u>
Proprietary - Sewer	<u>\$ 68</u>	<u>\$ 200</u>	<u>\$ 122,800</u>	<u>\$ 29,083</u>	<u>\$ 152,151</u>

**NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES**

At March 31, 2013, the composition of interfund balances was as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
General	\$ <u>12,660</u>	Fire	\$ <u>12,660</u>

The amount payable to the General Fund represents temporary cash flow assistance. The balance is scheduled to be collected in the subsequent year.

**NOTE 9 - FUND BALANCE ASSIGNMENTS**

At March 31, 2013, the Township has assigned a portion of available fund balances as follows:

	<u>General</u>	<u>Fire</u>	<u>Recreation</u>	<u>Totals</u>
Assigned fund balances:				
Technology enhancements	\$ 16,891	\$ -	\$ -	\$ 16,891
Road improvements	35,205	-	-	35,205
Fire truck replacement	-	132,144	-	132,144
Trail repairs and maintenance	-	-	85,372	85,372
	<u>-</u>	<u>-</u>	<u>85,372</u>	<u>85,372</u>
Totals	<u>\$ 52,096</u>	<u>\$ 132,144</u>	<u>\$ 85,372</u>	<u>\$ 269,612</u>

**NOTE 10 - DEFINED CONTRIBUTION PENSION PLAN**

The Township provides pension benefits for substantially all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Michigan statutes assign the authority to establish and amend benefit provisions to the Township Board of Trustees. Employees are eligible to participate after six months of employment. The Township contributes 12% of each qualified employee's base salary to the plan and the contributions are fully vested immediately. The Township and its employees made required contributions of \$60,220 and \$6,293, respectively. The Township is not a trustee of the plan, nor is the Township responsible for investment management of plan assets. Accordingly, plan assets and changes therein are not reported in these financial statements.

**NOTE 11 - TAX REVENUE**

The 2012 taxable valuation of the Township approximated \$551,406,000 on which ad valorem taxes levied consisted of 0.838 mills for operating purposes, 0.940 mills for fire protection, and 0.376 mills for recreation, raising approximately \$462,000 for operating purposes, \$518,000 for fire protection, and \$207,000 for recreation. These amounts are recognized in the fund financial statements as property tax revenue.

**NOTE 12 - CONSTRUCTION CODE ACT**

A summary of construction code enforcement transactions for the year ended March 31, 2013, is as follows:

Revenues	\$ 111,790
Expenses	<u>124,975</u>
Deficiency of revenues over expenses	<u>\$ (13,185)</u>



**NOTE 13 - JOINT VENTURE**

*North Kent Sewer Authority:*

The Township is a participant in the North Kent Sewer Authority (the Authority). The Administrative Board of the Authority consists of members appointed by each participating unit. The Authority was formed for the purpose of acquiring and operating a sanitary sewer system.

The Township utilizes the Authority to transport sewage to the Authority's PARCC Side Cleanwater Plant for treatment and disposal. The Township has no equity interest in the Authority; therefore, financial information of the Authority has not been included in the Township's financial statements. Costs of operations and capital asset acquisitions of the Authority are supported by contributions from the participating municipalities based on their share of sewage flow through the system. During the year ended March 31, 2013, the Township paid the Authority \$768,845. Payables of the Sewer Fund include amounts due to the Authority for interest (\$122,800) (See Note 7).

All of the Township's debt, in the amount of \$4,738,658, represents contracts payable to the North Kent Sewer Authority that are backed by the full faith and credit of the Township (See Note 6).

The Township is unaware of any indication that the Authority is accumulating significant financial resources or is experiencing fiscal stress that may cause a benefit or burden on the Township in the near future.

Complete financial statements for the Authority can be obtained from the Authority's Administrative Office at P.O. Box 561, Rockford, Michigan 49341-0561.

**NOTE 14 - RISK MANAGEMENT**

The Township is exposed to various risks of loss related to general liability, property and casualty, and employee injuries (workers' compensation). The risks of loss arising from general liability, building contents, workers' compensation, and casualty are managed through purchased commercial insurance. Claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**NOTE 15 - RECENT ACCOUNTING PRONOUNCEMENTS**

Effective April 1, 2012, the Township adopted the provisions of the following accounting pronouncements:

Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989, that is included in FASB statements and interpretations, APB opinions, and accounting research bulletins of the AICPA Committee on Accounting Procedure. Adoption of this standard did not result in restatement or reclassification of opening net position (formerly net assets) or fund balances.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This Statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Adoption of this standard did not result in restatement or reclassification of opening net position or fund balances.

**NOTE 16 - PENDING ACCOUNTING PRONOUNCEMENTS**

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Township is currently evaluating the impact this standard will have on the financial statements when adopted during the fiscal year beginning April 1, 2013.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for periods beginning after June 15, 2014. This Statement generally carries forward the requirements of Statement No. 27 for employer accounting and financial reporting for defined contribution plans. In this Statement, the definition of defined contribution pensions, as well as the accounting requirements for such pensions, includes provisions to accommodate circumstances in which the timing of payments into individual accounts does not coincide with the period of employee service to which defined contributions pertain (as when a nonvested employee accumulates credits for which the employer delays payment into the employee's account until vesting provisions have been satisfied). This Statement also establishes requirements to address accounting for forfeitures. The Statement also enhances accountability and transparency through revised note disclosures. The Township is currently evaluating the impact this standard will have on the financial statements when adopted during the fiscal year beginning April 1, 2015.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Township of Cannon**

**BUDGETARY COMPARISON SCHEDULE - General Fund**

Year ended March 31, 2013

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
<b>REVENUES</b>				
Property taxes	\$ 466,850	\$ 466,850	\$ 469,030	\$ 2,180
Licenses and permits	121,400	121,400	132,870	11,470
State grants	909,000	909,000	983,203	74,203
Charges for services	113,850	113,850	116,630	2,780
Interest and rentals	47,200	47,200	47,410	210
Other	1,700	1,700	3,357	1,657
	<u>1,660,000</u>	<u>1,660,000</u>	<u>1,752,500</u>	<u>92,500</u>
<b>EXPENDITURES</b>				
Legislative	<u>26,365</u>	<u>28,365</u>	<u>28,208</u>	<u>157</u>
General government:				
Supervisor	34,433	41,833	40,757	1,076
Elections	21,800	24,000	15,387	8,613
Assessor	97,800	97,800	95,368	2,432
Clerk	148,375	148,375	146,309	2,066
Treasurer	141,565	141,565	137,193	4,372
Board of review	2,180	2,950	2,941	9
Information technology	56,500	56,500	51,501	4,999
Administrative support	63,250	63,250	57,169	6,081
Professional services	49,000	49,000	31,283	17,717
Fringe benefits	4,100	4,100	2,378	1,722
Hall and grounds	65,700	65,700	58,389	7,311
Cemetery	15,700	15,700	12,605	3,095
Other	<u>30,500</u>	<u>37,250</u>	<u>36,551</u>	<u>699</u>
Total general government	<u>730,903</u>	<u>748,023</u>	<u>687,831</u>	<u>60,192</u>
Public safety:				
Law enforcement	261,000	261,000	236,883	24,117
Building inspection	<u>124,450</u>	<u>125,280</u>	<u>124,975</u>	<u>305</u>
Total public safety	<u>385,450</u>	<u>386,280</u>	<u>361,858</u>	<u>24,422</u>

**Township of Cannon**

**BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**

Year ended March 31, 2013

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
<b>EXPENDITURES (Continued)</b>				
Public works:				
Road construction and maintenance	\$ 157,600	\$ 157,600	\$ 143,670	\$ 13,930
Public transportation	2,000	2,000	1,911	89
Watershed	17,250	18,750	18,638	112
Total public works	<u>176,850</u>	<u>178,350</u>	<u>164,219</u>	<u>14,131</u>
Community and economic development - planning and zoning	<u>99,010</u>	<u>111,450</u>	<u>92,144</u>	<u>19,306</u>
Recreation and culture:				
Parks and recreation	3,000	4,200	4,163	37
Historical society	8,015	8,015	7,691	324
Total recreation and culture	<u>11,015</u>	<u>12,215</u>	<u>11,854</u>	<u>361</u>
Capital outlay	<u>74,000</u>	<u>87,137</u>	<u>63,228</u>	<u>23,909</u>
Total expenditures	<u>1,503,593</u>	<u>1,551,820</u>	<u>1,409,342</u>	<u>142,478</u>
<b>NET CHANGES IN FUND BALANCES</b>	156,407	108,180	343,158	234,978
<b>FUND BALANCES - BEGINNING</b>	<u>1,684,682</u>	<u>1,684,682</u>	<u>1,684,682</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 1,841,089</u>	<u>\$ 1,792,862</u>	<u>\$ 2,027,840</u>	<u>\$ 234,978</u>

**Township of Cannon**

**BUDGETARY COMPARISON SCHEDULE - Fire Fund**

Year ended March 31, 2013

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
<b>REVENUES</b>				
Property taxes	\$ 519,600	\$ 519,600	\$ 519,278	\$ (322)
Interest	6,100	6,100	3,742	(2,358)
Other	500	500	5,021	4,521
Total revenues	<u>526,200</u>	<u>526,200</u>	<u>528,041</u>	<u>1,841</u>
<b>EXPENDITURES</b>				
Public safety	407,650	407,650	377,933	29,717
Capital outlay	39,500	39,500	36,506	2,994
Total expenditures	<u>447,150</u>	<u>447,150</u>	<u>414,439</u>	<u>32,711</u>
<b>NET CHANGES IN FUND BALANCES</b>	79,050	79,050	113,602	34,552
<b>FUND BALANCES - BEGINNING</b>	<u>788,336</u>	<u>788,336</u>	<u>788,336</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 867,386</u>	<u>\$ 867,386</u>	<u>\$ 901,938</u>	<u>\$ 34,552</u>

Township of Cannon

**BUDGETARY COMPARISON SCHEDULE - Recreation Fund**

Year ended March 31, 2013

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
<b>REVENUES</b>				
Property taxes	\$ 204,000	\$ 204,000	\$ 207,666	\$ 3,666
Interest	3,000	3,000	5,593	2,593
Total revenues	<u>207,000</u>	<u>207,000</u>	<u>213,259</u>	<u>6,259</u>
<b>EXPENDITURES</b>				
Recreation and culture	81,500	81,500	14,244	67,256
Capital outlay	585,000	585,000	4,956	580,044
Total expenditures	<u>666,500</u>	<u>666,500</u>	<u>19,200</u>	<u>647,300</u>
<b>NET CHANGES IN FUND BALANCES</b>	(459,500)	(459,500)	194,059	653,559
<b>FUND BALANCES - BEGINNING</b>	<u>751,145</u>	<u>751,145</u>	<u>751,145</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 291,645</u>	<u>\$ 291,645</u>	<u>\$ 945,204</u>	<u>\$ 653,559</u>

**SUPPLEMENTARY INFORMATION**



**COMBINING BALANCE SHEET - nonmajor governmental funds**

March 31, 2013

	<u>Special revenue funds</u>		
	<u>Street Lighting</u>	<u>Weed Control</u>	<u>Totals</u>
<b>ASSETS</b>			
Investments	\$ 30,123	\$ 50,615	\$ 80,738
Receivables	<u>799</u>	<u>1,039</u>	<u>1,838</u>
Total assets	<u>\$ 30,922</u>	<u>\$ 51,654</u>	<u>\$ 82,576</u>
<b>FUND BALANCES</b>			
Liabilities - payables	\$ 3,317	\$ -	\$ 3,317
Fund balances - restricted for public works	<u>27,605</u>	<u>51,654</u>	<u>79,259</u>
Total liabilities and fund balances	<u>\$ 30,922</u>	<u>\$ 51,654</u>	<u>\$ 82,576</u>

*Township of Cannon*

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

*Year ended March 31, 2013*

	<u>Special revenue funds</u>		
	<u>Street Lighting</u>	<u>Weed Control</u>	<u>Totals</u>
<b>REVENUES</b>			
Interest	\$ 58	\$ 167	\$ 225
Other - special assessments	<u>47,588</u>	<u>23,103</u>	<u>70,691</u>
Total revenues	47,646	23,270	70,916
<b>EXPENDITURES</b>			
Public works	<u>39,870</u>	<u>13,966</u>	<u>53,836</u>
<b>NET CHANGES IN FUND BALANCES</b>	7,776	9,304	17,080
<b>FUND BALANCES - BEGINNING</b>	<u>19,829</u>	<u>42,350</u>	<u>62,179</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 27,605</u>	<u>\$ 51,654</u>	<u>\$ 79,259</u>

*Township of Cannon*

**COMBINING STATEMENT OF FIDUCIARY NET POSITION - *agency funds***

*March 31, 2013*

	<i>Tax</i>		
	<i>Collection</i>	<i>Escrow</i>	<i>Totals</i>
<b>ASSETS</b>			
Cash	\$ 353	\$ 11,467	\$ 11,820
<b>LIABILITIES</b>			
Due to other governmental units	\$ 353	\$ -	\$ 353
Due to others	-	11,467	11,467
Total liabilities	\$ 353	\$ 11,467	\$ 11,820

# Siegfried Crandall PC

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July 3, 2013

To the Board of Trustees  
Township of Cannon

We have audited the financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Township of Cannon for the year ended March 31, 2013. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 13, 2013. Professional standards also require that we communicate to you the following information related to our audit.

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Township of Cannon are described in Note 1 to the financial statements. Except as described in Note 15 to the financial statements, no new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2013. We noted no transactions entered into by the Township of Cannon during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.

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

The financial statement disclosures are neutral, consistent, and clear.

#### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Audit Adjustments***

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

***Disagreements with Management***

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

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated July 3, 2013.

***Other Issues***

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

***Other Matters***

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

***Communication Regarding Internal Control***

In planning and performing our audit of the financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Township of Cannon as of and for the year ended March 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Township of Cannon's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Township's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in the Township of Cannon's internal control to be a material weakness:

Material audit adjustments and financial statement preparation:

*Condition and criteria:* Policies and procedures to prepare financial statements in accordance with accounting principles generally accepted in the United States of America, including procedures to record revenue accruals and deferrals, expense accruals, changes in capital assets and related long-term debt, and to develop appropriate footnote disclosures were not in place. Having the auditor draft the annual financial statements is allowable under current auditing standards and ethical guidelines and may be the most efficient and effective method for preparation of the Township's financial statements. However, when an entity (on its own) lacks the ability to produce financial statements that conform to generally accepted accounting principles, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses. This is a repeat finding.

*Effect:* The Township's financial reporting system does not produce financial statements in accordance with accounting principles generally accepted in the United States of America.

*Cause:* As in prior years, the Township has relied upon the auditor to identify and develop material adjustments necessary to prepare the financial statements and appropriate disclosures.

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

*Management Response:* Management has made an evaluation of the respective costs and benefits of obtaining internal or external resources, specifically for the preparation of financial statements, and has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so.

Board of Trustees  
Page 4  
July 3, 2013

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

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

*Sigfried Crandall P.C.*