

*Township of Cannon  
Kent County, Michigan*

**FINANCIAL STATEMENTS**

*Year ended March 31, 2014*

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Township of Cannon, Michigan

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, 2014, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements, as listed in the contents.

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

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

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

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Township of Cannon, Michigan, as of March 31, 2014, 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***

*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 supplementary information, as listed in the contents, is the responsibility of management and was derived from and relates 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

*Siegfried Crandall P.C.*

June 26, 2014

## 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, 2014. Please read it in conjunction with the Township's financial statements.

### **FINANCIAL HIGHLIGHTS**

- The Township's total net position increased by \$777,599 (7 percent) as a result of this year's operations.
- Of the \$12,537,342 total net position reported, \$3,304,810 (26 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 \$2,312,538, which represents 149 percent of the actual total General Fund expenditures for the current fiscal year.

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

The Township's annual report is comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements. 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-term 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 2014 and 2013 is also presented.

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

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

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

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

The government-wide financial statements 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-term 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 Assets and Liabilities. 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 \$12,537,342. However, \$7,028,385 of this total represents a net investment in capital assets and \$2,204,147 is restricted for various purposes. Consequently, unrestricted net position was \$3,304,810 or 26 percent of the total.

*Condensed financial information  
Net position*

	<i>Governmental activities</i>		<i>Business-type activity</i>		<i>Totals</i>	
	<b>2014</b>	2013	<b>2014</b>	2013	<b>2014</b>	2013
Current and other assets	\$ 4,645,738	\$ 4,047,336	\$ 1,027,293	\$ 965,301	\$ 5,673,031	\$ 5,012,637
Capital assets	<b>5,128,974</b>	5,162,059	<b>6,926,310</b>	6,566,789	<b>12,055,284</b>	11,728,848
Total assets	<b>9,774,712</b>	9,209,395	<b>7,953,603</b>	7,532,090	<b>17,728,315</b>	16,741,485
Current and other liabilities	<b>105,055</b>	90,933	<b>59,019</b>	152,151	<b>164,074</b>	243,084
Long-term debt	-	-	<b>5,026,899</b>	4,738,658	<b>5,026,899</b>	4,738,658
Total liabilities	<b>105,055</b>	90,933	<b>5,085,918</b>	4,890,809	<b>5,190,973</b>	<b>4,981,742</b>
Net position:						
Net investment in capital assets	<b>5,128,974</b>	5,162,059	<b>1,899,411</b>	1,828,131	<b>7,028,385</b>	6,990,190
Restricted	<b>2,204,147</b>	1,925,155	-	-	<b>2,204,147</b>	1,925,155
Unrestricted	<b>2,336,536</b>	2,031,248	<b>968,274</b>	813,150	<b>3,304,810</b>	2,844,398
Total net position	<b>\$ 9,669,657</b>	\$ 9,118,462	<b>\$ 2,867,685</b>	\$ 2,641,281	<b>\$ 12,537,342</b>	\$ 11,759,743

## Changes in net position

The Township's total revenues were \$3,826,652 in the current fiscal year. Nearly 41 percent of total revenues comes from charges for services, which are primarily user charges to finance the Township's sewer system. Approximately 32 percent of the Township's revenues comes from property taxes, while state shared revenue accounts for 26 percent of the total revenues.



**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>2014</b>	2013	<b>2014</b>	2013	<b>2014</b>	2013
Program revenues:						
Charges for services	\$ 415,093	\$ 345,765	\$ 1,138,515	\$ 1,075,646	\$ 1,553,608	\$ 1,421,411
Operating grants	17,367	14,574	-	-	17,367	14,574
Capital grants	-	5,000	9,200	43,738	9,200	48,738
General revenues:						
Property taxes	1,224,787	1,195,974	-	-	1,224,787	1,195,974
State shared revenue	986,137	968,629	-	-	986,137	968,629
Franchise fees	16,313	15,387	-	-	16,313	15,387
Interest income	16,392	17,609	2,848	2,562	19,240	20,171
Other	-	1,778	-	-	-	1,778
Total revenues	<b>2,676,089</b>	2,564,716	<b>1,150,563</b>	1,121,946	<b>3,826,652</b>	3,686,662
Expenses:						
General government	819,645	783,973	-	-	819,645	783,973
Public safety	938,826	844,659	-	-	938,826	844,659
Public works	183,370	169,974	-	-	183,370	169,974
Community and economic development	99,854	92,144	-	-	99,854	92,144
Recreation and culture	83,199	66,616	-	-	83,199	66,616
Sewer	-	-	924,159	804,249	924,159	804,249
Total expenses	<b>2,124,894</b>	1,957,366	<b>924,159</b>	804,249	<b>3,049,053</b>	2,761,615
Changes in net position	<b>\$ 551,195</b>	\$ 607,350	<b>\$ 226,404</b>	\$ 317,697	<b>\$ 777,599</b>	\$ 925,047
Net position, end of year	<b>\$ 9,669,657</b>	\$ 9,118,462	<b>\$ 2,867,685</b>	\$ 2,641,281	<b>\$ 12,537,342</b>	\$ 11,759,743

**Governmental activities**

Governmental activities increased the Township's net position by \$551,195 in the current year compared to an increase of \$607,350 in the prior year. The increase in net position was lower in the current year because expenses increased by \$167,528 and revenues increased by \$111,373.

Revenues increased in the current year due to an increase in charges for services of \$69,328 as inspection permit revenues rose due to increased construction activity in the Township, and property tax revenue increased by \$28,813 as the Township's taxable value increased. The increase in expenses relates to two functions: public safety costs increased by \$94,167, primarily due to higher compensation and equipment maintenance expenses, and general government costs increased by \$35,672, due primarily to higher professional service expenses associated with ordinance enforcement issues.

The total cost of governmental activities this year was \$2,124,894 compared to \$1,957,366 in the prior year. After subtracting the direct charges to those who directly benefited from the programs (\$415,093) and operating and capital grants (\$17,367), the "public benefit" portion covered by property taxes, state shared revenue, and other general revenues was \$1,692,434 in the current year compared to \$1,592,027 in the prior year.

**Business-type activity**

The Township's wastewater treatment activity, its lone business-type activity, increased the Township's net position by \$226,404 in the current year compared to a \$317,687 increase in the prior year. Though revenues increased by \$28,617, expenses increased by \$119,910 causing the lower increase in net position. Expenses increased as repair and maintenance costs, paid to North Kent Sewer Authority, increased by \$72,153.

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

**Governmental funds**

At March 31, 2014, the Township's governmental funds reported a combined fund balance of \$4,538,355, an increase of \$584,114.

The General Fund is the primary operating fund of the Township. The fund balance of the General Fund increased this year by \$306,368 to \$2,334,208. 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 \$108,404 to \$1,010,342 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 \$153,063 to \$1,098,267 because its revenues, primarily property taxes, were sufficient to cover the cost of recreation and culture services and no significant project costs were incurred in the current year.

The fund balances of the nonmajor governmental funds increased by \$16,279 during the year and totaled \$95,538 at the end of the year.

**Proprietary fund**

The Sewer Fund, the Township's sole proprietary fund, experienced an increase in net position of \$226,404 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 \$179,934 to reflect additional expenditures in various cost centers. The most significant expenditure increase involved building inspection costs, a component of the public safety function, which was increased by \$81,200 to reflect an increase in activity. Total budgeted revenues were increased by \$57,000 as inspection permit revenues were higher than anticipated.

Total revenues were \$35,352 more than budgeted, primarily because interest and rental revenue was \$17,243 more than expected due to a one-time cell tower rental receipt approximating \$15,000. Total expenditures were \$244,546 less than the amounts appropriated as actual expenditures were lower than appropriations in every functional category. Public safety and public works expenditures were \$64,636 and \$86,304 less than budgeted, respectively, as the costs of contractual services were lower than anticipated in both functional categories.

These conditions resulted in a \$279,898 positive budget variance with a \$306,368 increase in fund balance compared to a budgeted increase of \$26,470.

**Capital assets and debt administration**

**Capital assets**

At March 31, 2014, the Township had invested \$12,055,284 (net of accumulated depreciation) in various capital assets, including its land, buildings, equipment, vehicles, and sewer infrastructure. This amount represents a net increase of \$326,436 as current period capital asset additions were greater than depreciation expense.

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

- Shared road costs, in the amount of \$164,391, were incurred to improve local roads
- Building improvement projects were completed at a cost of \$56,640
- Presentation equipment for the board room was purchased at a cost of \$25,513
- The Sewer Fund's capital assets increased by the net amount of \$359,521. The Sewer Fund's intangible assets, related to sewer infrastructure owned by the North Kent Sewer Authority, increased by \$530,535 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 \$171,014.

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 \$5,026,899, which represents a net increase of \$288,241. 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 \$721,007 related to its share of loan draws during the current year. Contracts payable were reduced by \$191,913, due to a reduction in the Township's proportionate share of sewage flows, and by \$240,853 in principal payments.

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 2015 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.

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

The annual sewer rate increase, which 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.

**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, 2014

	<u>Governmental activities</u>	<u>Business-type activity</u>	<u>Totals</u>
<b>ASSETS</b>			
Current assets:			
Cash	\$ 3,219,877	\$ 391,335	\$ 3,611,212
Investments	1,189,164	582,668	1,771,832
Receivables	234,369	53,290	287,659
Prepaid expenses	<u>2,328</u>	<u>-</u>	<u>2,328</u>
Total current assets	<u>4,645,738</u>	<u>1,027,293</u>	<u>5,673,031</u>
Noncurrent assets:			
Capital assets not being depreciated	111,516	-	111,516
Shared road costs, net of amortization	826,743	-	826,743
Other capital assets, net of depreciation	<u>4,190,715</u>	<u>6,926,310</u>	<u>11,117,025</u>
Total noncurrent assets	<u>5,128,974</u>	<u>6,926,310</u>	<u>12,055,284</u>
Total assets	<u>9,774,712</u>	<u>7,953,603</u>	<u>17,728,315</u>
<b>LIABILITIES</b>			
Current liabilities:			
Payables	105,055	59,019	164,074
Contracts payable	<u>-</u>	<u>152,280</u>	<u>152,280</u>
Total current liabilities	105,055	211,299	316,354
Noncurrent liabilities - contracts payable	<u>-</u>	<u>4,874,619</u>	<u>4,874,619</u>
Total liabilities	<u>105,055</u>	<u>5,085,918</u>	<u>5,190,973</u>
<b>NET POSITION</b>			
Net investment in capital assets	5,128,974	1,899,411	7,028,385
Restricted for:			
Public safety	1,010,342	-	1,010,342
Public works	95,538	-	95,538
Recreation and culture	1,098,267	-	1,098,267
Unrestricted	<u>2,336,536</u>	<u>968,274</u>	<u>3,304,810</u>
Total net position	<u>\$ 9,669,657</u>	<u>\$ 2,867,685</u>	<u>\$ 12,537,342</u>

See notes to financial statements

Township of Cannon

**STATEMENT OF ACTIVITIES**

Year ended March 31, 2014

	Program revenues			Net (expenses) revenues and changes in net position			
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activity	Totals
<b>Functions/Programs</b>							
Governmental activities:							
General government	\$ 819,645	\$ 175,053	\$ 5,602	\$ -	\$ (638,990)		\$ (638,990)
Public safety	938,826	158,329	-	-	(780,497)		(780,497)
Public works	183,370	78,321	11,765	-	(93,284)		(93,284)
Community and economic development	99,854	3,390	-	-	(96,464)		(96,464)
Recreation and culture	83,199	-	-	-	(83,199)		(83,199)
Total governmental activities	2,124,894	415,093	17,367	-	(1,692,434)		(1,692,434)
Business-type activity - sewer	924,159	1,138,515	-	9,200	-	\$ 223,556	223,556
Totals	<u>\$ 3,049,053</u>	<u>\$ 1,553,608</u>	<u>\$ 17,367</u>	<u>\$ 9,200</u>	<u>(1,692,434)</u>	<u>223,556</u>	<u>(1,468,878)</u>
General revenues:							
					1,224,787	-	1,224,787
Property taxes					986,137	-	986,137
State shared revenue					16,313	-	16,313
Franchise fees					16,392	2,848	19,240
Interest income							
Total general revenues					<u>2,243,629</u>	<u>2,848</u>	<u>2,246,477</u>
Changes in net position					551,195	226,404	777,599
Net position - beginning					<u>9,118,462</u>	<u>2,641,281</u>	<u>11,759,743</u>
Net position - ending					<u>\$ 9,669,657</u>	<u>\$ 2,867,685</u>	<u>\$ 12,537,342</u>

See notes to financial statements

Township of Cannon

**BALANCE SHEET - governmental funds**

March 31, 2014

	<u>General</u>	<u>Fire</u>	<u>Recreation</u>	<u>Nonmajor funds</u>	<u>Total governmental funds</u>
<b>ASSETS</b>					
Cash	\$ 2,115,953	\$ 608,005	\$ 495,919	\$ -	\$ 3,219,877
Investments	68,945	419,705	603,781	96,733	1,189,164
Receivables	215,200	12,021	4,808	2,340	234,369
Due from other funds	<u>12,645</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,645</u>
Total assets	<u>\$ 2,412,743</u>	<u>\$ 1,039,731</u>	<u>\$ 1,104,508</u>	<u>\$ 99,073</u>	<u>\$ 4,656,055</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Payables	\$ 78,535	\$ 16,744	\$ 6,241	\$ 3,535	\$ 105,055
Due to other funds	<u>-</u>	<u>12,645</u>	<u>-</u>	<u>-</u>	<u>12,645</u>
Total liabilities	<u>78,535</u>	<u>29,389</u>	<u>6,241</u>	<u>3,535</u>	<u>117,700</u>
Fund balances:					
Restricted for:					
Public safety	-	1,010,342	-	-	1,010,342
Public works	-	-	-	95,538	95,538
Recreation and culture	-	-	1,098,267	-	1,098,267
Assigned for:					
Technology enhancements	16,961	-	-	-	16,961
Cemetery	4,709	-	-	-	4,709
Unassigned	<u>2,312,538</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,312,538</u>
Total fund balances	<u>2,334,208</u>	<u>1,010,342</u>	<u>1,098,267</u>	<u>95,538</u>	<u>4,538,355</u>
Total liabilities and fund balances	<u>\$ 2,412,743</u>	<u>\$ 1,039,731</u>	<u>\$ 1,104,508</u>	<u>\$ 99,073</u>	<u>\$ 4,656,055</u>

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

Total fund balance - total governmental funds \$ 4,538,355

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. 5,128,974

Prepaid insurance is not a current financial resource and, therefore, is not reported in the funds. 2,328

Net position of governmental activities \$ 9,669,657

See notes to financial statements



**Township of Cannon**

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

Year ended March 31, 2014

	<u>General</u>	<u>Fire</u>
<b>REVENUES</b>		
Property taxes	\$ 481,840	\$ 530,689
Licenses and permits	182,282	-
State grants	1,003,504	-
Charges for services	120,240	-
Interest and rentals	64,143	3,491
Other	<u>2,023</u>	<u>540</u>
Total revenues	<u>1,854,032</u>	<u>534,720</u>
<b>EXPENDITURES</b>		
General government	736,358	-
Public safety	408,424	410,802
Public works	185,706	-
Community and economic development	99,854	-
Recreation and culture	18,475	-
Capital outlay	<u>98,847</u>	<u>15,514</u>
Total expenditures	<u>1,547,664</u>	<u>426,316</u>
<b>NET CHANGES IN FUND BALANCES</b>	306,368	108,404
<b>FUND BALANCES - BEGINNING</b>	<u>2,027,840</u>	<u>901,938</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 2,334,208</u>	<u>\$ 1,010,342</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>
\$ 212,258	\$ -	\$ 1,224,787
-	-	182,282
-	-	1,003,504
-	-	120,240
3,875	256	71,765
<u>127</u>	<u>70,821</u>	<u>73,511</u>
<u>216,260</u>	<u>71,077</u>	<u>2,676,089</u>
-	-	736,358
-	-	819,226
-	54,798	240,504
-	-	99,854
61,083	-	79,558
<u>2,114</u>	<u>-</u>	<u>116,475</u>
<u>63,197</u>	<u>54,798</u>	<u>2,091,975</u>
153,063	16,279	584,114
<u>945,204</u>	<u>79,259</u>	<u>3,954,241</u>
<u>\$ 1,098,267</u>	<u>\$ 95,538</u>	<u>\$ 4,538,355</u>
		\$ 584,114
		295,318
		(328,403)
		<u>166</u>
		<u>\$ 551,195</u>

See notes to financial statements

*Township of Cannon*

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

*March 31, 2014*

	<u>Sewer</u>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 391,335
Investments	582,668
Receivables	<u>53,290</u>
Total current assets	1,027,293
Noncurrent assets - capital assets, net of accumulated depreciation	<u>6,926,310</u>
Total assets	<u>7,953,603</u>
<b>LIABILITIES</b>	
Current liabilities:	
Payables	59,019
Contracts payable	<u>152,280</u>
Total current liabilities	211,299
Noncurrent liabilities - contracts payable	<u>4,874,619</u>
Total liabilities	<u>5,085,918</u>
<b>NET POSITION</b>	
Net investment in capital assets	1,899,411
Unrestricted	<u>968,274</u>
Total net position	<u>\$ 2,867,685</u>

*See notes to financial statements*

*Township of Cannon*

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

*Year ended March 31, 2014*

	<u><i>Sewer</i></u>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 1,087,595
Penalties	11,618
Other	<u>3,050</u>
Total operating revenues	<u>1,102,263</u>
<b>OPERATING EXPENSES</b>	
Operation and maintenance	460,708
Depreciation	<u>171,014</u>
Total operating expenses	<u>631,722</u>
<b>OPERATING INCOME</b>	<u>470,541</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Connection fee revenues	36,252
Connection fees remitted to utility authority	(36,252)
Interest revenue	2,848
Joint system connection fee deficit	(27,928)
Interest expense	(233,562)
Less capitalized interest	<u>5,305</u>
Net nonoperating expenses	<u>(253,337)</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	217,204
<b>CAPITAL CONTRIBUTIONS - CONNECTION FEES</b>	<u>9,200</u>
<b>CHANGE IN NET POSITION</b>	226,404
<b>NET POSITION - BEGINNING</b>	<u>2,641,281</u>
<b>NET POSITION - ENDING</b>	<u><u>\$ 2,867,685</u></u>

*See notes to financial statements*

**Township of Cannon**

**STATEMENT OF CASH FLOWS - proprietary fund**

Year ended March 31, 2014

	<u>Sewer</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers and users	\$ 1,104,116
Payments to vendors and suppliers	(435,738)
Payments to employees	<u>4,698</u>
Net cash provided by operating activities	<u>673,076</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Connection fees collected	45,452
Connection fees paid to utility authority	(36,252)
Joint system connection fee deficit paid to utility authority	(27,928)
Principal payments on capital debt	(240,853)
Interest payments on capital debt, including capitalized interest	<u>(352,498)</u>
Net cash used in capital and related financing activities	<u>(612,079)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Net increase in investments	(2,409)
Interest received	<u>2,848</u>
Net cash provided by investing activities	<u>439</u>
<b>NET INCREASE IN CASH</b>	61,436
<b>CASH - BEGINNING</b>	<u>329,899</u>
<b>CASH - ENDING</b>	<u>\$ 391,335</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 470,541
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	171,014
Change in assets and liabilities:	
Receivables	1,853
Payables	<u>29,668</u>
Net cash provided by operating activities	<u>\$ 673,076</u>

See notes to financial statements

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

Year ended March 31, 2014

**NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES**

Proceeds from issuance of debt:

Debt issued	\$ 721,007
Less net decreases due to debt reallocations	(191,913)
Less increase in capital assets	(525,230)
Less financed debt issuance costs	<u>(3,864)</u>

Net proceeds from issuance of debt \$ -

Acquisition of capital assets:

Increase in capital assets	\$ 530,535
Less increase in debt	(525,230)
Less capitalized interest	<u>(5,305)</u>

Cash used to acquire capital assets \$ -

**Township of Cannon**

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - *agency funds***

*March 31, 2014*

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**ASSETS**

Cash \$ 14,746

**LIABILITIES**

Due to other governmental units \$ 2,605

Escrow deposits 12,141

Total liabilities \$ 14,746

*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. 61, *The Financial Reporting Entity Omnibus*, these financial statements present the Township, located in Kent County. 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 period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable 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 liabilities. The Township reports three categories of net position, as follows: (1) *Net investment in capital assets* consists of net capital assets reduced by outstanding balances of any related debt obligations attributable to the acquisition, construction, or improvement of those assets; (2) *Restricted net position* is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations, such as federal or state laws or buyers of the Township's debt. Restricted net position is reduced by liabilities related to the restricted assets; (3) *Unrestricted net position* consists of all other net position that does not meet the definition of the above components and is available for general use by the Township.

*Fund equity* - 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:

	<u>Governmental activities</u>	<u>Business-type activity</u>	<u>Fiduciary activities</u>	<u>Totals</u>
Cash:				
Deposits	\$ 3,219,677	\$ 391,335	\$ 14,746	\$ 3,625,758
Cash on hand	<u>200</u>	<u>-</u>	<u>-</u>	<u>200</u>
Total cash	3,219,877	391,335	14,746	3,625,958
Investments	<u>1,189,164</u>	<u>582,668</u>	<u>-</u>	<u>1,771,832</u>
Totals	<u>\$ 4,409,041</u>	<u>\$ 974,003</u>	<u>\$ 14,746</u>	<u>\$ 5,397,790</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, 2014, \$2,135,776 of the Township's bank balances of \$3,635,776 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 \$1,771,832, 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, 2014, 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	\$ 12,215	\$ 58,693	\$ 144,292	\$ -	\$ 215,200
Fire	12,021	-	-	-	12,021
Recreation	4,808	-	-	-	4,808
Nonmajor	-	-	-	2,340	2,340
	<u>29,044</u>	<u>58,693</u>	<u>144,292</u>	<u>2,340</u>	<u>234,369</u>
Total governmental activities	<u>\$ 29,044</u>	<u>\$ 58,693</u>	<u>\$ 144,292</u>	<u>\$ 2,340</u>	<u>\$ 234,369</u>
Business-type activity -					
Sewer	<u>\$ -</u>	<u>\$ 53,290</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,290</u>

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

## NOTE 5 - CAPITAL ASSETS

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

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 70,913	\$ -	\$ -	\$ 70,913
Construction in progress	14,670	25,933	-	40,603
Subtotal	85,583	25,933	-	111,516
Capital assets being depreciated/amortized:				
Buildings and land improvements	4,528,008	73,119	-	4,601,127
Shared road costs	1,098,673	170,753	-	1,269,426
Equipment	758,463	25,513	-	783,976
Vehicles	1,541,376	-	-	1,541,376
Subtotal	7,926,520	269,385	-	8,195,905
Less accumulated depreciation/ amortization for:				
Buildings and land improvements	(951,372)	(110,594)	-	(1,061,966)
Shared road costs	(329,064)	(113,619)	-	(442,683)
Equipment	(553,064)	(55,298)	-	(608,362)
Vehicles	(1,016,544)	(48,892)	-	(1,065,436)
Subtotal	(2,850,044)	(328,403)	-	(3,178,447)
Total capital assets being depreciated/amortized, net	5,076,476	(59,018)	-	5,017,458
Governmental activities capital assets, net	<u>\$ 5,162,059</u>	<u>\$ (33,085)</u>	<u>\$ -</u>	<u>\$ 5,128,974</u>
Business-type activity:				
Capital assets being depreciated - sewer system	\$ 9,146,813	\$ 722,448	\$ (191,913)	\$ 9,677,348
Less accumulated depreciation	(2,580,024)	(171,014)	-	(2,751,038)
Business-type activity capital assets, net	<u>\$ 6,566,789</u>	<u>\$ 551,434</u>	<u>\$ (191,913)</u>	<u>\$ 6,926,310</u>

**NOTE 5 - CAPITAL ASSETS (Continued)**

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

Governmental activities:	
General government	\$ 66,593
Public safety	104,252
Public works	113,619
Recreation and culture	<u>43,939</u>
Total governmental activities	<u>\$ 328,403</u>

**NOTE 6 - NONCURRENT LIABILITIES**

At March 31, 2014, 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 \$8,056, plus interest payable semi-annually at rates between 3.5% and 4.5%; final payment due May 2018	\$ 29,465
2001 North Kent Sewer Authority debt service contract (refinanced in 2012) - payable in annual installments ranging between \$26,416 to \$36,576, plus interest payable semi-annually at rates between 2.0% and 3.0%; final payment due November 2026	401,320
2005 North Kent Sewer Authority debt service contract - payable in annual installments ranging between \$15,930 to \$41,148, plus interest payable semi-annually at rates between 3.5% and 4.5%; final payment due November 2030	512,064
2006 North Kent Sewer Authority debt service contract - payable in annual installments ranging between \$76,429 to \$319,788, plus interest payable semi-annually at rates between 3.5% and 4.5%; final payment due November 2031	2,742,086
2007 North Kent Sewer Authority debt service contract - payable in annual installments ranging between \$19,304 to \$51,308, plus interest payable semi-annually at rates between 3.5% and 4.5%; final payment due May 2027	488,188
2012 North Kent Sewer Authority debt service contract - payable in annual installments ranging between \$25,039 to \$41,661, plus interest payable semi-annually at 2.5%; final payment due November 2032	631,866
2013 North Kent Sewer Authority debt service contract - cumulative draws to date, plus interest payable semi-annually at 2.5%	<u>221,910</u>
	<u>\$ 5,026,899</u>

## NOTE 6 - NONCURRENT LIABILITIES (Continued)

Noncurrent liability activity for the year ended March 31, 2014, 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	\$ 44,102	\$ -	\$ (2,147)	\$ (12,490)	\$ 29,465	\$ -
2001 NKSA contract	451,266	-	(24,098)	(25,848)	401,320	26,416
2005 NKSA contract	564,891	-	(30,748)	(22,079)	512,064	21,844
2006 NKSA contract	2,932,845	-	(103,745)	(87,014)	2,742,086	78,981
2007 NKSA contract	582,661	-	(31,175)	(63,298)	488,188	-
2012 NKSA contract	162,893	499,097	-	(30,124)	631,866	25,039
2013 NKSA contract	-	221,910	-	-	221,910	-
Totals	<u>\$ 4,738,658</u>	<u>\$ 721,007</u>	<u>\$ (191,913)</u>	<u>\$ (240,853)</u>	<u>\$ 5,026,899</u>	<u>\$ 152,280</u>

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

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, 2014, debt service requirements, with the exception of the cumulative draws on the 2013 contract payable, are as follows:

<i>Year ended March 31:</i>	<i>Business-type activity</i>	
	<i>Principal</i>	<i>Interest</i>
2015	\$ 152,280	\$ 59,180
2016	192,593	197,532
2017	195,715	191,024
2018	196,743	184,245
2019	199,441	176,497
2020 - 2024	1,267,116	740,293
2025 - 2029	1,501,492	453,282
2030 - 2032	<u>1,099,609</u>	<u>102,305</u>
Totals	<u>\$ 4,804,989</u>	<u>\$ 2,104,358</u>

**NOTE 7 - PAYABLES**

Payables as of March 31, 2014, for the Township's individual major funds and nonmajor funds, in the aggregate, were as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Payroll</u>	<u>Inter- governmental</u>	<u>Totals</u>
Governmental:				
General	\$ 45,470	\$ 14,700	\$ 18,365	\$ 78,535
Fire	7,244	9,500	-	16,744
Recreation	6,241	-	-	6,241
Nonmajor	<u>3,535</u>	<u>-</u>	<u>-</u>	<u>3,535</u>
Total governmental funds	<u>\$ 62,490</u>	<u>\$ 24,200</u>	<u>\$ 18,365</u>	<u>\$ 105,055</u>
Proprietary - Sewer	<u>\$ 1,075</u>	<u>\$ 200</u>	<u>\$ 57,744</u>	<u>\$ 59,019</u>

**NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES**

At March 31, 2014, the composition of interfund balances was as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Fund</u>	<u>Payables</u>
General	<u>\$ 12,645</u>	Fire	<u>\$ 12,645</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 - 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 \$65,596 and \$12,267, 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 10 - TAX REVENUE**

The 2013 taxable valuation of the Township approximated \$564,749,000, 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 \$473,000 for operating purposes, \$531,000 for fire protection, and \$212,000 for recreation. These amounts are recognized in the fund financial statements as property tax revenue.



**NOTE 11 - CONSTRUCTION CODE ACT**

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

Revenues	\$ 157,789
Expenses	<u>159,905</u>
Deficiency of revenues over expenses	<u>\$ (2,116)</u>

**NOTE 12 - 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, 2014, the Township paid the Authority \$859,847. Payables of the Sewer Fund include amounts due to the Authority for operating expenses (\$57,744) (See Note 7).

All of the Township's debt, in the amount of \$5,026,899, 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 13 - 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 14 - PENDING ACCOUNTING PRONOUNCEMENT**

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for periods beginning after June 15, 2014. This Statement 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, 2014

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
<b>REVENUES</b>				
Property taxes	\$ 468,650	\$ 468,650	\$ 481,840	\$ 13,190
Licenses and permits	127,500	184,500	182,282	(2,218)
State grants	1,003,000	1,003,000	1,003,504	504
Charges for services	114,400	114,400	120,240	5,840
Interest and rentals	46,900	46,900	64,143	17,243
Other	1,230	1,230	2,023	793
	<u>1,761,680</u>	<u>1,818,680</u>	<u>1,854,032</u>	<u>35,352</u>
Total revenues				
<b>EXPENDITURES</b>				
General government:				
Legislative - Township board	29,392	29,392	27,056	2,336
Supervisor	49,273	49,273	48,824	449
Elections	6,300	6,300	1,813	4,487
Assessor	98,620	98,620	98,458	162
Clerk	146,872	156,128	151,794	4,334
Treasurer	119,982	123,418	122,279	1,139
Board of review	2,540	3,660	3,078	582
Information technology	53,520	57,520	55,937	1,583
Administrative support	62,095	62,095	57,564	4,531
Professional services	42,900	65,900	53,031	12,869
Fringe benefits	1,800	2,200	1,614	586
Hall and grounds	66,800	73,200	64,373	8,827
Cemetery	25,750	25,750	15,543	10,207
Other	37,600	37,600	34,994	2,606
	<u>743,444</u>	<u>791,056</u>	<u>736,358</u>	<u>54,698</u>
Total general government				
Public safety:				
Law enforcement	267,000	267,000	248,519	18,481
Building inspection	124,860	206,060	159,905	46,155
	<u>391,860</u>	<u>473,060</u>	<u>408,424</u>	<u>64,636</u>
Total public safety				

Township of Cannon

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

Year ended March 31, 2014

	<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	\$ 253,600	\$ 254,000	\$ 167,906	\$ 86,094
Public transportation	2,000	2,000	2,051	(51)
Watershed	16,010	16,010	15,749	261
Total public works	<u>271,610</u>	<u>272,010</u>	<u>185,706</u>	<u>86,304</u>
Community and economic development - planning and zoning	<u>92,974</u>	<u>114,096</u>	<u>99,854</u>	<u>14,242</u>
Recreation and culture:				
Parks and recreation	4,000	15,600	9,775	5,825
Historical society	8,888	8,888	8,700	188
Total recreation and culture	<u>12,888</u>	<u>24,488</u>	<u>18,475</u>	<u>6,013</u>
Capital outlay	<u>99,500</u>	<u>117,500</u>	<u>98,847</u>	<u>18,653</u>
Total expenditures	<u>1,612,276</u>	<u>1,792,210</u>	<u>1,547,664</u>	<u>244,546</u>
<b>NET CHANGES IN FUND BALANCES</b>	149,404	26,470	306,368	279,898
<b>FUND BALANCES - BEGINNING</b>	<u>2,027,840</u>	<u>2,027,840</u>	<u>2,027,840</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 2,177,244</u>	<u>\$ 2,054,310</u>	<u>\$ 2,334,208</u>	<u>\$ 279,898</u>

Township of Cannon

**BUDGETARY COMPARISON SCHEDULE - Fire Fund**

Year ended March 31, 2014

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
<b>REVENUES</b>				
Property taxes	\$ 518,080	\$ 518,080	\$ 530,689	\$ 12,609
Interest	4,600	4,600	3,491	(1,109)
Other	300	300	540	240
Total revenues	<u>522,980</u>	<u>522,980</u>	<u>534,720</u>	<u>11,740</u>
<b>EXPENDITURES</b>				
Public safety	421,600	421,600	410,802	10,798
Capital outlay	20,500	20,500	15,514	4,986
Total expenditures	<u>442,100</u>	<u>442,100</u>	<u>426,316</u>	<u>15,784</u>
<b>NET CHANGES IN FUND BALANCES</b>	80,880	80,880	108,404	27,524
<b>FUND BALANCES - BEGINNING</b>	<u>901,938</u>	<u>901,938</u>	<u>901,938</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 982,818</u>	<u>\$ 982,818</u>	<u>\$ 1,010,342</u>	<u>\$ 27,524</u>

Township of Cannon

**BUDGETARY COMPARISON SCHEDULE - Recreation Fund**

Year ended March 31, 2014

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
<b>REVENUES</b>				
Property taxes	\$ 207,000	\$ 207,000	\$ 212,258	\$ 5,258
Interest	6,000	6,000	3,875	(2,125)
Other	100,000	100,000	127	(99,873)
Total revenues	<u>313,000</u>	<u>313,000</u>	<u>216,260</u>	<u>(96,740)</u>
<b>EXPENDITURES</b>				
Recreation and culture	66,000	66,000	61,083	4,917
Capital outlay	700,000	700,000	2,114	697,886
Total expenditures	<u>766,000</u>	<u>766,000</u>	<u>63,197</u>	<u>702,803</u>
<b>NET CHANGES IN FUND BALANCES</b>	(453,000)	(453,000)	153,063	606,063
<b>FUND BALANCES - BEGINNING</b>	<u>945,204</u>	<u>945,204</u>	<u>945,204</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 492,204</u>	<u>\$ 492,204</u>	<u>\$ 1,098,267</u>	<u>\$ 606,063</u>

**SUPPLEMENTARY INFORMATION**

**COMBINING BALANCE SHEET - nonmajor governmental funds**

March 31, 2014

	<u>Special revenue funds</u>		
	<u>Street Lighting</u>	<u>Weed Control</u>	<u>Totals</u>
<b>ASSETS</b>			
Investments	\$ 37,477	\$ 59,256	\$ 96,733
Receivables	<u>1,104</u>	<u>1,236</u>	<u>2,340</u>
Total assets	<u>\$ 38,581</u>	<u>\$ 60,492</u>	<u>\$ 99,073</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities - payables	\$ 3,535	\$ -	\$ 3,535
Fund balances - restricted for public works	<u>35,046</u>	<u>60,492</u>	<u>95,538</u>
Total liabilities and fund balances	<u>\$ 38,581</u>	<u>\$ 60,492</u>	<u>\$ 99,073</u>



Township of Cannon

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

Year ended March 31, 2014

	<u>Special revenue funds</u>		<u>Totals</u>
	<u>Street Lighting</u>	<u>Weed Control</u>	
<b>REVENUES</b>			
Interest	\$ 72	\$ 184	\$ 256
Other - special assessments	<u>47,830</u>	<u>22,991</u>	<u>70,821</u>
Total revenues	47,902	23,175	71,077
<b>EXPENDITURES</b>			
Public works	<u>40,461</u>	<u>14,337</u>	<u>54,798</u>
<b>NET CHANGES IN FUND BALANCES</b>	7,441	8,838	16,279
<b>FUND BALANCES - BEGINNING</b>	<u>27,605</u>	<u>51,654</u>	<u>79,259</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 35,046</u>	<u>\$ 60,492</u>	<u>\$ 95,538</u>

*Township of Cannon*

**COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - *agency funds***

*March 31, 2014*

	<i>Tax</i>		
	<i>Collection</i>	<i>Escrow</i>	<i>Totals</i>
<b>ASSETS</b>			
Cash	\$ 2,605	\$ 12,141	\$ 14,746
	<u>2,605</u>	<u>12,141</u>	<u>14,746</u>
<b>LIABILITIES</b>			
Due to other governmental units	\$ 2,605	\$ -	\$ 2,605
Due to others	-	12,141	12,141
	<u>-</u>	<u>12,141</u>	<u>12,141</u>
Total liabilities	\$ 2,605	\$ 12,141	\$ 14,746
	<u>2,605</u>	<u>12,141</u>	<u>14,746</u>

June 26, 2014

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, 2014. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 18, 2014. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Township of Cannon are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2014. 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 June 26, 2014.

#### *Other Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township of 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**

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

We were engaged to report on the combining balance sheet, combining statement of revenues, expenditures, and changes in fund balances - governmental funds, and the combining statement of fiduciary assets and liabilities - agency funds (supplementary information), which accompany the financial statements but are not RSI. With respect to the supplementary information, 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, 2014, 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 or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

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

Material audit adjustments and financial statement preparation:

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

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

- Accrue receivables at year end
- Recognize property tax revenues and receivables at year end
- Capitalize fixed asset acquisitions in the enterprise fund
- Provide for depreciation on capital assets recorded in the enterprise fund
- Correct the accounts payable balance in the enterprise fund
- Correct balances of contractual obligations in the enterprise fund
- Convert the fund-based data necessary to prepare the government-wide financial statements.

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

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

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

*Auditor's Recommendation:* We recommend that the Township Board continue to evaluate the cost versus benefit of improving its internal controls over the preparation of its financial statements in accordance with GAAP and determine if it is in the best interest of the Township to outsource this task to its external auditor.

*Management Response:* The Township Board has made an evaluation of the respective costs and benefits of improving its internal controls over the preparation of its financial statements in accordance with GAAP and determined that it is in the best interest of the Township to outsource this task to the external auditor. The Board will review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

We did not audit the Township of 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.

*Siegfried Crandall P.C.*