

Coe Township

Financial Statements
March 31, 2014



RPC
Roslund Prestage & Company
CERTIFIED PUBLIC ACCOUNTANTS

Coe Township
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March 31, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Coe Township
Isabella County, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Coe Township (the Township), 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 table of 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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, each major fund, and the aggregate remaining fund information of the Township, as of March 31, 2014, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in the notes to the financial statements, during the year the Township implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result of the implementation of these Statements, the financial statements have been changed to reflect the new presentations required by GASB Statements No. 63 and No. 65, as applicable. Our opinion is not modified with respect to this matter.

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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2014, on our consideration of the Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.

Sincerely,

A handwritten signature in cursive script that reads "Roslund, Prestage & Company, P.C." The signature is written in black ink and is positioned above the printed name of the firm.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

September 15, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS



We, the Board of Coe Township, Isabella County, Michigan, offer citizens of the Township our financial statements with this narrative overview and analysis of the financial activities of Coe Township for the fiscal year ending March 31, 2014.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Coe Township's basic financial statements. The Township's basic financial statements comprise three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements.

This report also contains other supplementary information, in addition to the basic financial statements themselves.

Government-Wide Financial Statements

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

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

The **statement of activities** presents information showing how the Township's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Both the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (**governmental activities**) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (**business-type activities**). The governmental activities of the Township include general government, public safety and public works and community and economic development.

The government-wide financial statements can be found on pages 1-2 of this report.

Coe Township
Management's Discussion and Analysis

The table below shows a condensed, comparative statement of net position:

| | 2014 | 2012 |
|------------------------------|------------|------------|
| Assets: | | |
| Current assets | \$ 308,472 | \$ 263,138 |
| Noncurrent assets | 259,200 | 293,260 |
| Total assets | 567,672 | 556,398 |
| Liabilities: | | |
| Current liabilities | 7,019 | 6,621 |
| Net Position: | | |
| Investment in capital assets | 259,200 | 293,260 |
| Unrestricted | 301,453 | 256,517 |
| Total net position | \$ 560,653 | \$ 549,777 |

The table below shows a condensed, comparative statement of activities:

| | 2014 | 2012 |
|-------------------------------------|------------|------------|
| Program Revenues: | | |
| Charges for services | \$ 19,404 | \$ 23,977 |
| Operating grants and contributions | 15,713 | - |
| General revenues: | | |
| Property taxes | 94,023 | 89,627 |
| State grants | 116,137 | 114,939 |
| Interest | 6,689 | 10,154 |
| Other revenues | 85,958 | 84,206 |
| Total revenues | 337,924 | 322,903 |
| Program Expenses: | | |
| General government | 138,614 | 130,551 |
| Public safety | 47,070 | 41,745 |
| Public works | 127,718 | 142,276 |
| Community and economic development | 9,191 | 4,471 |
| Total expenses | 322,593 | 319,043 |
| Increase (decrease) in net position | 15,331 | 3,860 |
| Net position, beginning of year | 545,322 | 545,917 |
| Net position, end of year | \$ 560,653 | \$ 549,777 |

Fund Financial Statements

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

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

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

Coe Township adopts an annual appropriated budget for its general fund and trash collection fund. A budgetary comparison statement has been provided on pages 15 and 16 for the general fund and other major funds to demonstrate compliance with this budget.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 8-14 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Township's budget to actual comparison. Required supplementary information can be found on pages 15 and 16 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the government's financial position. In the case of Coe Township, total assets, including capital assets, exceeded liabilities by \$560,653 at the close of the most recent fiscal year.

The unrestricted net position of Coe Township exceeded its liabilities at the close of the most recent fiscal year by \$301,453, which may be used to meet the Township's ongoing obligations to citizens and creditors.

One of the most significant portions of the Township's net position reflects its careful investment in capital assets (e.g., land, building, equipment) over the years with no related debt remaining to acquire these assets. The Township uses these capital assets to provide services to citizens; consequently, these assets **are not** available for future spending.

Governmental activities increased the Township's net position by \$15,331.

Governmental Funds Financial Analysis

The focus of the Township's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. As of the close of the current fiscal year, the Township's governmental funds reported an ending fund balance of \$301,453, an increase of \$44,936 from the 2012 year fund balance.

At the end of the current fiscal year, unrestricted fund balance for the general fund was \$236,017 or 106% of total general fund expenditures.

The Township's total expenditures decreased by \$1,566 over the 2012 fiscal year expenditures.

General Fund Budgetary Highlights

There was no difference between the original budgets and final amended budgets for the General Fund and the Trash Collection Fund for fiscal year 2014.

Capital Asset and Debt Administration

Capital Assets. The Township's investment in capital assets for its governmental activities as of March 31, 2014, amount to \$259,200, which is net of accumulated depreciation. This investment in capital assets includes: land, buildings, improvements, cemetery & park facilities, equipment and computers.

There were no major capital asset purchases during the current fiscal year.

Details of the Township's capital assets are in the notes to the financial statements on page 13.

Long-Term Debt. At the end of the current fiscal year, the Township had no major debts left outstanding.

Economic Factors and Next Year's Budgets and Rates:

The Township budget for 2014-2015 fiscal year has taken into consideration low interest rate on our money market and certificate of deposits. The Township has seen a slight increase in revenue sharing for the previous year.

Request for Information

This financial report is designed to provide a general overview of the Coe Township's finances for all those with an interest in the Township's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clerk of Coe Township in writing at PO Box 477, Shepherd, Michigan 48883.

GOVERNMENT-WIDE FINANCIAL STATEMENTS



Coe Township
Statement of Net Position
March 31, 2014

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets | |
| Current assets | |
| Cash and cash equivalents | \$ 279,807 |
| Due from other funds | 2,027 |
| Due from other governmental units | <u>26,638</u> |
| Total current assets | 308,472 |
| Noncurrent assets | |
| Land | 3,750 |
| Capital assets, net of accumulated depreciation | <u>255,450</u> |
| Total noncurrent assets | 259,200 |
| Total assets | <u>567,672</u> |
| Liabilities | |
| Current liabilities | |
| Accounts payable | <u>7,019</u> |
| Net position | |
| Investment in capital assets | 259,200 |
| Unrestricted | <u>301,453</u> |
| Total net position | <u><u>\$ 560,653</u></u> |

Coe Township
Statement of Activities
For the year ended March 31, 2014

| Functions/Programs | Expenses | Program Revenues | | Net (expense) revenue and changes in net position |
|------------------------------------|-------------------|-------------------------|--|--|
| | | Charges for Services | Operating Grants and Contributions | |
| Governmental activities | | | | |
| General government | \$ 138,614 | \$ 18,494 | \$ 11,700 | \$ (108,420) |
| Public safety | 47,070 | - | - | (47,070) |
| Public works | 127,718 | - | 4,013 | (123,705) |
| Community and economic development | 9,191 | 910 | - | (8,281) |
| Total governmental activities | <u>\$ 322,593</u> | <u>\$ 19,404</u> | <u>\$ 15,713</u> | <u>(287,476)</u> |
| General revenues | | | | |
| Property taxes | | | | 94,023 |
| State grants | | | | 116,137 |
| Unrestricted investment earnings | | | | 6,689 |
| Other revenues | | | | <u>85,958</u> |
| Total general revenues | | | | <u>302,807</u> |
| Change in net position | | | | 15,331 |
| Net position - beginning of year | | | | <u>545,322</u> |
| Net position - end of year | | | | <u>\$ 560,653</u> |

FUND FINANCIAL STATEMENTS



Coe Township
Balance Sheet
Governmental Funds
March 31, 2014

| | MAJOR FUNDS | | |
|------------------------------------|-------------------|-----------------------------|--------------------------------|
| | General Fund | Trash Collection Fund | Total Governmental Funds |
| Assets | | | |
| Cash and cash equivalents | \$ 207,352 | \$ 72,455 | \$ 279,807 |
| Due from other funds | 2,027 | - | 2,027 |
| Due from other governmental units | 26,638 | - | 26,638 |
| | | | |
| Total assets | <u>\$ 236,017</u> | <u>\$ 72,455</u> | <u>\$ 308,472</u> |
| | | | |
| Liabilities | | | |
| Accounts payable | <u>\$ -</u> | <u>\$ 7,019</u> | <u>\$ 7,019</u> |
| | | | |
| Fund balance | | | |
| Restricted | - | 65,436 | 65,436 |
| Unassigned | 236,017 | - | 236,017 |
| | | | |
| Total fund balance | <u>236,017</u> | <u>65,436</u> | <u>301,453</u> |
| | | | |
| Total liabilities and fund balance | <u>\$ 236,017</u> | <u>\$ 72,455</u> | <u>\$ 308,472</u> |

Coe Township
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Position of Governmental Activities on the Statement of Net Position
for the Year Ended March 31, 2014

Total fund balance - governmental funds \$ 301,453

Amounts reported for governmental activities in the statement of net position are different because:

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

| | | |
|---------|--------------------------|------------------|
| Add: | Cost of capital assets | 487,531 |
| Deduct: | Accumulated depreciation | <u>(228,331)</u> |

Net position of governmental activities \$ 560,653

Coe Township
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended March 31, 2014

| | MAJOR FUNDS | | |
|--|-------------------|-----------------------------|--------------------------------|
| | General Fund | Trash Collection Fund | Total Governmental Funds |
| Revenues | | | |
| Taxes and penalties | \$ 94,023 | \$ - | \$ 94,023 |
| Licenses and permits | 910 | - | 910 |
| State grants | 120,150 | - | 120,150 |
| Charges for services | 18,494 | - | 18,494 |
| Interest and rentals | 6,689 | - | 6,689 |
| Other revenues | 13,478 | 84,180 | 97,658 |
| Total revenues | <u>253,744</u> | <u>84,180</u> | <u>337,924</u> |
| Expenditures | | | |
| General government | 102,342 | - | 102,342 |
| Public safety | 47,070 | - | 47,070 |
| Public works | 45,266 | 82,452 | 127,718 |
| Community and economic development | 9,191 | - | 9,191 |
| Other expenditures | 19,242 | - | 19,242 |
| Total expenditures | <u>223,111</u> | <u>82,452</u> | <u>305,563</u> |
| Excess of revenues over (under) expenditures | 30,633 | 1,728 | 32,361 |
| Fund balance - beginning of year | <u>205,384</u> | <u>63,708</u> | <u>269,092</u> |
| Fund balance - end of year | <u>\$ 236,017</u> | <u>\$ 65,436</u> | <u>\$ 301,453</u> |

Coe Township
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
for the Year Ended March 31, 2014

Net change in fund balances - total governmental funds \$ 32,361

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Deduct: Depreciation expense (17,030)

Change in net position of governmental activities \$ 15,331

Coe Township
Statement of Net Position
Fiduciary Fund
Year Ended March 31, 2014

| | <u>Tax Collection</u> |
|--------------------|---------------------------|
| Assets | |
| Cash | <u>\$ 2,027</u> |
| Total assets | <u><u>\$ 2,027</u></u> |
| | |
| Liabilities | |
| Due to other funds | <u>\$ 2,027</u> |
| Total liabilities | <u><u>\$ 2,027</u></u> |

NOTES TO THE FINANCIAL STATEMENTS



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Coe Township (the Township) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Township.

Reporting Entity

The Township is governed by an elected five-member Board. The Township receives funding from local and state sources and must comply with all of the requirements of these funding source entities. However, the Township is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the Township's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Nos. 14 and 39.

Joint Venture

The Township is a member of the Shepherd Tri-Township Fire Department, which is a joint venture between the Township and the Village of Shepherd, Chippewa Township, and Lincoln Township. All units are located in Isabella County. Each unit names two members and an alternate from its governmental body to serve as the Fire Department's Advisory Board. The Advisory Board is responsible for adopting the annual budget. Under the arrangement, each unit bears its share of the cost according to a formula which takes the ratio of population and state equalized valuation which each unit involved bears to the total population and state equalized valuation of all units and averages the two. Annual contributions are made based upon the budget. The following financial information of the joint venture was obtained from the audited financial statements of the Shepherd Tri-County Fire Department for the year ended November 30, 2013, the most recent financial statements available:

| | |
|--------------------|------------|
| Total Assets | \$ 536,185 |
| Total Liabilities | 15,699 |
| Total Equity | 520,486 |
| Total Revenues | 231,485 |
| Total Expenditures | \$ 284,007 |

For the Fire Department's year ended November 30, 2013 the share of the annual budget for each participating unit was:

| Governmental Unit | Share of Budget |
|---------------------|-----------------|
| Village of Shepherd | 13% |
| Chippewa Township | 43% |
| Lincoln Township | 24% |
| Coe Township | 20% |
| Total | 100% |

The Township is unaware of any circumstances that would cause it an additional benefit or burden in the near future. Complete financial statements for the year ended November 30, 2013 can be obtained by writing to: Shepherd Tri-Township Fire Department, 410 N. Chippewa, Shepherd, MI 48883.

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 primary government and its component units. *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 or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to consumers who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Net position is restricted when constraints placed on it are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund 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 when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, claims and judgments, are recorded only when payment is due.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fiduciary Fund Financial Statements - Fiduciary funds account for assets held by the Township as a trustee or agency capacity on behalf of others and, therefore, are not available to support Township operations. The reporting focus is upon net position and changes in net position and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements as they are not an asset of the Township available to support Township's operations. The Township currently maintains an agency fund to account for the monies collected and paid to various governmental entities for property tax collections.

The Township reports the following major funds:

Governmental Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Governmental Fund - The Trash Collection Fund accounts for funds received through special assessments and related payments made for trash collection.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Budgetary Data

Budgets are adopted by the Township for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

The Township does not maintain a formalized encumbrance accounting system.

Cash and Cash Equivalents

The Township's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit with a maturity of 3 months or less.

Receivables

Receivables have been recognized for all significant amounts due the Township as of March 31st. Valuation reserves have not been provided since their collection is not considered doubtful and any uncollected amounts would be immaterial.

Due from other governmental units consists primarily of amounts due from the State of Michigan.

Inventories

Inventories, which are immaterial in amount, are not recognized as an asset in these financial statements. Inventories are recorded as expenditures at the time of purchase in the governmental and proprietary fund types.

Capital Assets

Capital assets, which include property, plant and equipment, of the governmental activities are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the Township as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Coe Township
Notes to Financial Statements

Capital assets of the Township are depreciated using the straight line method over the following estimated useful lives:

| Assets | Years |
|--------------------------|----------------------------------|
| Land | Not Applicable – Not Depreciated |
| Buildings & Improvements | 25 |
| Equipment | 5 |
| Computers | 3 |

Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Township has no items that qualify of reporting in this category.

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Township has no items that qualify for reporting in this category.

Governmental Fund – Fund Balance Designations

Beginning with fiscal year 2012, the Township implemented GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance—amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance—amounts constrained to specific purposes by the Township itself, using its highest level of decision-making authority (Board of Trustees). To be reported as committed, amounts cannot be used for any other purpose unless the Township takes the same highest level action to remove or change the constraint.
- Assigned fund balance—amounts the Township intends to use for a specific purpose. Intent can be expressed by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority.
- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The Township would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.

Property Taxes

Property taxes are levied on each December 1st on the taxable valuation of property located in the Township as of the preceding December 31st. These taxes are due on February 14th with the final collection date of February 28th before they are added to the county delinquent tax rolls.

For Township operations, the 2013 Taxable Valuation of the Township totaled \$76,310,394, on which 0.99960 mill was levied.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end. The Township does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended March 31, 2014, the Township incurred expenditures in excess of the amounts appropriated as shown in the back of this report.

NOTE 3 - DETAILED NOTES

Cash and Cash Equivalents

At March 31, the carrying amount of the Township's cash and cash equivalents was as follows:

| | |
|-------------------------|------------|
| Cash Deposits | \$ 163,200 |
| Certificates of Deposit | 116,607 |
| Total | \$ 279,807 |

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Township's deposits might not be recovered. At year-end, the carrying amount of the Township's deposits was \$279,807 and the bank balance was \$310,535, of which 261,083 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks.

Investments

State statutes authorize the Township to invest in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. As of year-end, the Township had no such investments.

The Township's investment policy complies with the State statutes and has no additional investment policies that would limit its investment choices.

Interest Rate Risk – Investments

Under State statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Township's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Coe Township
Notes to Financial Statements

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Township will not be able to recover the value of its investments that are in the possession of an outside party. The Township requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts. The Township does not have any additional policies for custodial credit risk over investments.

Credit Risk

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks. The Township's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Township places no limit on the amount it may invest in any one issuer.

Capital Assets

A summary of changes in general fund capital assets follows:

| | Beginning Balance | Additions | Disposals | Ending Balance |
|---------------------------------|------------------------------|--------------------|------------------|---------------------------|
| Assets | | | | |
| Land | \$ 3,750 | \$ - | \$ - | \$ 3,750 |
| Buildings & Improvements | 442,750 | - | - | 442,750 |
| Equipment | 26,515 | - | - | 26,515 |
| Computers | 14,516 | - | - | 14,516 |
| Sub-totals | 487,531 | - | - | 487,531 |
| Accumulated Depreciation | | | | |
| Buildings & Improvements | (170,270) | (17,030) | - | (187,300) |
| Equipment | (26,515) | - | - | (26,515) |
| Computers | (14,516) | - | - | (14,516) |
| Sub-totals | (211,301) | (17,030) | - | (228,331) |
| Totals | \$ 276,230 | (\$ 17,030) | \$ - | \$ 259,200 |

Depreciation expense was charged to the general government function.

Employees Retirement System – Defined Contribution Pension Plan

Plan Description

Coe Township participates in the John Hancock Defined Contribution Pension Plan for Michigan Township Employees. The name of the plan is the Township of Coe Group Pension Plan.

All elected officials are eligible to participate in the plan. As of March 31, 2014, the pension plan's current membership was 5 elected officials.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined. The amounts participants receive depend solely on the amount contributed to the participant's account and the returns earned on those contributions.

Funding Policy

Employer contributions for each participant will be 20% of compensation. There are no employee contributions to this plan.

Employees are 100% vested in employer contributions upon 24 months of service with the Township.

During the year, the Township's actual contributions to the plan amounted to \$7,944.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

Risk Management

The Township is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Township has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years.

Change in Accounting Principle

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The 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 format to certain financial statements to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, when applicable.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this statement recognizes certain items previously reported as assets and liabilities as outflows of resources and inflows of resources.

These statements impact the format and reporting of amounts in the statement of net position and the balance sheet at the government-wide level and the fund level, respectively.

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE



Coe Township
 Budgetary Comparison Schedule
 General Fund
 Year Ended March 31, 2014

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance</u> |
|---|-------------------------|-------------------|-------------------|------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes and penalties | \$ 87,200 | \$ 87,200 | \$ 94,023 | \$ 6,823 |
| Licenses and permits | 605 | 605 | 910 | 305 |
| State grants | 119,000 | 119,000 | 120,150 | 1,150 |
| Charges for services | 17,650 | 17,650 | 18,494 | 844 |
| Interest and rentals | 50 | 50 | 6,689 | 6,639 |
| Other revenues | 100 | 100 | 13,478 | 13,378 |
| Total revenues | <u>224,605</u> | <u>224,605</u> | <u>253,744</u> | <u>29,139</u> |
| Expenditures | | | | |
| General government | 117,435 | 116,235 | 102,342 | 13,893 |
| Public safety | 42,000 | 42,000 | 47,070 | (5,070) |
| Public works | 47,500 | 47,500 | 45,266 | 2,234 |
| Community and economic development | 14,150 | 14,150 | 9,191 | 4,959 |
| Other expenditures | 18,500 | 19,700 | 19,242 | 458 |
| Total expenditures | <u>239,585</u> | <u>239,585</u> | <u>223,111</u> | <u>16,474</u> |
| Excess of revenues over (under) expenditures | (14,980) | (14,980) | 30,633 | 45,613 |
| Fund balance - beginning of year | <u>205,384</u> | <u>205,384</u> | <u>205,384</u> | <u>-</u> |
| Fund balance - end of year | <u>\$ 190,404</u> | <u>\$ 190,404</u> | <u>\$ 236,017</u> | <u>\$ 45,613</u> |

Coe Township
 Budgetary Comparison Schedule
 Trash Collection Fund
 Year Ended March 31, 2014

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance</u> |
|---|-------------------------|-------------------------|-------------------------|------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Other revenues | \$ 82,620 | \$ 82,620 | \$ 84,180 | \$ 1,560 |
| Total revenues | <u>82,620</u> | <u>82,620</u> | <u>84,180</u> | <u>1,560</u> |
| Expenditures | | | | |
| Public works | <u>82,588</u> | <u>82,588</u> | <u>82,452</u> | <u>136</u> |
| Total expenditures | <u>82,588</u> | <u>82,588</u> | <u>82,452</u> | <u>136</u> |
| Excess of revenues over (under) expenditures | 32 | 32 | 1,728 | 1,696 |
| Fund balance - beginning of year | <u>63,708</u> | <u>63,708</u> | <u>63,708</u> | <u>-</u> |
| Fund balance - end of year | <u><u>\$ 63,740</u></u> | <u><u>\$ 63,740</u></u> | <u><u>\$ 65,436</u></u> | <u><u>\$ 1,696</u></u> |



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Coe Township
Isabella County, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Coe Township (the Township) 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 and have issued our report thereon dated September 15, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Township'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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as 2014-1 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and responses as 2014-2 and 2014-3 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Township's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Coe Township's Response to Findings

Coe Township's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Township's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Roslund, Prestage & Company, P.C.".

Roslund, Prestage & Company, P.C.
Certified Public Accountants

September 15, 2014

Finding 2014-1

MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITOR

Material journal entries for the proper recognition of various financial statement amounts were proposed by the auditor. These misstatements were not detected by the Township's internal control over financial reporting. These entries were necessary to adjust accounts payable, due from other governmental entities and beginning fund balance.

Management is responsible for establishing, maintaining and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, including the proper recording of journal entries to assure the trial balances from which the financial statements are prepared are in conformity with accounting principles generally accepted in the United States of America (GAAP). The auditor cannot be a part of internal controls.

We recommend that the Township take steps to ensure that material journal entries are not necessary at the time a future audit is performed.

Client Response

We are aware of this weakness and will work to ensure that material journal entries are no longer required in the future.

Finding 2014-2

PREPARATION OF THE FINANCIAL STATEMENTS IN ACCORDANCE WITH GAAP

Governmental entities are required to issue financial statements that are prepared in accordance with GAAP. Statement on Auditing Standards No. 115 (SAS 115), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that responsibility for the financial statements rests with the Township's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related note disclosures.

The Township, like many other small governments, relies on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements. This reliance makes the independent auditors effectively part of the Township's internal controls. By definition, independent auditors cannot be part of the Township's internal controls.

We recommend that the Township consider providing employees with training that would allow them to obtain the knowledge required to fully understand the GAAP financial statement preparation process.

Client Response

We are aware of this weakness and will consider providing the required training to our employees.

Finding 2014-3

LACK OF DOUBLE ENTRY ACCOUNTING SYSTEM

Governmental entities are required to record all financial activity in the general ledger. Currently the Township records all activity in manual ledgers monthly. However, during the audit it was noted that not all activity was posted to the manual general ledger for the year. This condition makes it difficult for the board to accurately monitor activity of the Township and assess budget verses actual revenues and expenditures.

We recommend that the Township incorporate the use of accounting software which will track all accounts of the Township and related activity for the year. By incorporating the use of accounting software and confirming cash balances between the treasurer and clerk regularly, the Township Board will have access to more reliable and timely data upon which to make informed financial decisions regarding the use of Township resources.

Client Response

We are aware of this weakness and have purchased the software needed to address this internal control weakness. We will work to implement the software and provide accurate and complete reports to the Board monthly.

Coe Township
Financial Statements
March 31, 2014

