



TOWNSHIP OF DENVER

ISABELLA COUNTY, MICHIGAN

Financial Statements

For the Year Ended March 31, 2014



SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

**Township of Denver
Isabella County, Michigan**

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SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

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A VETERAN OWNED BUSINESS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Denver Township
Isabella County, MI

We have audited the accompanying financial statements of the governmental activities and the major fund of *Denver 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. 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 and the major fund of *Denver 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.

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 on pages 3-6 and 21 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise *Denver Township's* basic financial statements. The schedule of expenditures is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Change in Accounting Principle

As described in Note 1 to the financial statements, the Township adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflow of Resources, and Net Position*. Our opinions are not modified with respect to this matter.

Smith + Klaczynski PC

Saginaw, Michigan

July 21, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Denver Township's financial performance provides an overview of the financial activities for the year ended March 31, 2014. Please read it in conjunction with the Township's financial statements.

Financial Highlights

- Net position for the Township were \$524,726 for the year ended March 31, 2014.
- The Township's operating revenues totaled \$273,737 for the year ended March 31, 2014, while operating expenses totaled \$281,370 for the year ended March 31, 2014.

Using This Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances.

Reporting the Township as a Whole

One of the most important questions asked about the Township's finances is "Is the Township, as a whole, better off or worse as a result of the year's activities"? The Statement of Net Position and Statement of Activities report information about the Township as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expense are taken into account regardless of when cash is received or paid. These two statements report the Township's net position and changes in it. You can think of the Township's net position – the difference between assets and liabilities – as one way to measure the Township's financial health, or financial position. Over time, increases - decreases in the Township's net position are one indicator of whether its financial health is improving or deteriorating.

Reporting the Township's Fund

The Township's fund financial statements provide detailed information about the General fund, a governmental fund.

- Governmental funds – The Township's activities are reported in the governmental fund, which focuses on how money flows into and out of the General fund and the balances remaining at year-end available for spending in future periods. This fund is reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a short-term view of the Township's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the

Township's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the notes to the financial statements.

Township-Wide Financial Analysis

The Statement of Net Position provides the perspective of the Township as a whole. The following provides a summary of the Township's net position as of March 31, 2014.

Current and other assets	\$ 502,468
Capital assets not being depreciated	13,979
Capital assets being depreciated, net	<u>9,183</u>
 Total assets	 <u>525,630</u>
 Current liabilities	 904
 Net position:	
Net investment in capital assets	23,162
Unrestricted	<u>501,564</u>
 Total net position	 <u>\$ 524,726</u>

This analysis focuses on net position. The Township's net position was \$524,726 at March 31, 2014. Capital assets totaling \$23,162 is calculated as the original cost to acquire the assets, less depreciation. For the year ended March 31, 2014 the Township had no debt financing related to capital assets.

The \$501,564 in unrestricted net position represents the accumulated results of all past years' operations.

The results of this year's operations for the Township as a whole are reported in the Statement of Activities, as summarized below. This shows the changes in net position for the year ended March 31, 2014.

Revenues:	
Charges for service	\$ 4,439
Operating grants	115,890
Capital grants	39,176
Property taxes	34,752
Investment income	38,315
Other revenue	<u>5,165</u>
Total revenues	237,737
Expenses	<u>281,370</u>
Increase (decrease) in net position	(43,633)
Net position at beginning of year	<u>568,359</u>
Net position at end of year	<u>\$ 524,726</u>

General Fund Budgetary Highlights

The General Fund's budget for revenues and expenditures increased \$70,176 between the original and final amended budgets. This change in the budgets was due to unanticipated Tribal grant proceeds and the related expenditures for road projects. Expenditures were \$317,173 under budget. This occurred because the Township did not incur significant road projects as projected.

Capital Assets

At March 31, 2014, the Township had a net investment of \$23,162 in a broad range of capital assets, including land, buildings, furniture and equipment and improvements. This amount represents a net decrease (including additions and disposals) of \$1,259 or 5.2% from the prior audit.

More detailed information is presented in the notes to the financial statements on page 19.

Factors Expected to Have an Effect on Future Operations

Denver Township expects the following factors to have an effect on future operations: State Shared Revenue has been decreasing and it is expected to continue to decrease. Tribal 2% applications are submitted in the spring and fall of each year. Denver Township generally receives an allocated amount from this source. The amount varies and is sometimes allocated for specific projects (ie: roads or improvements). If it is not allocated, it is labeled as general allocation and deposited in the General Fund as such. The Township expects to continue to make secondary road improvements with either gravel or crushed concrete added to existing road beds. The Isabella County Road Commission has informed the Township that they applied for a Bridge grant from the Federal Government and it is being used on a bridge in the Township. The

Township may expect to incur a 5% cost for this project with the remaining 80% paid from federal and 15% from the State.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in Denver Township. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Denver Township
8397 East Rosebush
Mt. Pleasant, MI 48858

Township of Denver
Statement of Net Position
March 31, 2014

	Governmental Activities
Assets:	
Cash and cash equivalents	\$ 56,416
Receivables	55,772
Investments	390,280
Capital assets, net	
Assets not being depreciated	13,979
Assets being depreciated, net	9,183
Total assets	525,630
Liabilities:	
Accounts payable	904
Net Position:	
Net investment in capital assets	23,162
Unrestricted	501,564
Total net position	\$ 524,726

The accompanying notes are an integral part of these financial statements.

Township of Denver

Statement of Activities

For the Year Ended March 31, 2014

	Program Revenue				Governmental
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Activities Net (Expense) Revenue and Changes in Net Position
Functions / Programs					
Governmental activities:					
Legislative	\$ 16,177	\$ -	\$ -	\$ -	\$ (16,177)
General government	67,029	4,439	84,890	-	22,300
Public safety	24,325	-	-	-	(24,325)
Public works	172,864	-	31,000	39,176	(102,688)
Culture and recreation	975	-	-	-	(975)
Total governmental activities	\$ 281,370	\$ 4,439	\$ 115,890	\$ 39,176	(121,865)
General revenues:					
Property taxes					34,752
Interest					38,315
Miscellaneous					5,165
Total general revenues					78,232
Change in net position					(43,633)
Net position, beginning of year					568,359
Net position, end of year					\$ 524,726

The accompanying notes are an integral part of these financial statements.

Township of Denver

Balance Sheet

Governmental Fund

March 31, 2014

	General Fund
Assets:	
Cash and cash equivalents	\$ 56,416
Accounts receivable	1,327
Interest receivable	42,024
Due from other governmental units	12,421
Investments	390,280
Total assets	<u>\$ 502,468</u>
Liabilities and fund balance:	
Liabilities:	
Accounts payable	<u>\$ 904</u>
Fund balance:	
Committed for subsequent years expenditures	288,780
Unassigned	<u>212,784</u>
Total fund balance	<u>501,564</u>
Total liabilities and fund balance	<u>\$ 502,468</u>

The accompanying notes are an integral part of these financial statements.

Township of Denver
Reconciliation of Fund Balance of the Governmental Fund
to Net Position of Governmental Activities

March 31, 2014

Total fund balance - governmental fund	\$ 501,564
Amount reported for governmental activities in the Statement of Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	119,699
Accumulated depreciation	<u>(96,537)</u>
Total net position - governmental activities	<u><u>\$ 524,726</u></u>

The accompanying notes are an integral part of these financial statements.

Township of Denver
Statement of Revenues, Expenditures and
Changes in Fund Balance
Governmental Fund

For the Year Ended March 31, 2014

	General Fund
Revenues:	
Property taxes	\$ 32,704
Other taxes - swamp tax	2,048
State revenue sharing	84,890
Local grants and contributions	70,176
Interest	38,315
Miscellaneous	9,604
Total revenues	237,737
Expenditures:	
Legislative	16,177
General government	65,770
Public safety	24,325
Public works	172,864
Culture and recreation	975
Total expenditures	280,111
Net change in fund balance	(42,374)
Fund balance, beginning of year	543,938
Fund balance, end of year	\$ 501,564

The accompanying notes are an integral part of these financial statements.

Township of Denver
Reconciliation of Net Change in Fund Balance
of the Governmental Fund to Change in Net Position
of Governmental Activities

For the Year Ended March 31, 2014

Total net change in fund balance - governmental fund \$ (42,374)

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

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Subtract: depreciation expense (1,259)

Change in net position of governmental activities \$ (43,633)

The accompanying notes are an integral part of these financial statements.

Township of Denver

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of *Denver Township* (the “Township”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

Reporting Entity

The Township has determined that no entities should be consolidated into its financial statements as component units. The criteria for including a component unit includes significant operational or financial relationships with the Township. Therefore, the reporting entity consists only of the primary government.

Joint Operations

Isabella Northeast Fire District

The Township is a member of the Isabella Northeast Fire District, which is a joint venture of the Townships of Denver, Isabella and Vernon, and the Village of Rosebush. Each unit appoints a representative to serve on the five-member Fire District Board along with a member selected at large. The Fire District Board is responsible for adopting the annual budget. The costs of operation of the Fire District are shared among the units based on their portion of the total State Equalized Valuation of the Fire District. Annual contributions to the Fire District are made based upon the budget. For the fiscal year ended March 31, 2014, *Denver Township* paid \$24,325 to Isabella Northeast Fire District. The Fire District is required to be audited biannually and was audited as of June 30, 2013. The latest available financial data of the joint venture can be obtained directly from them.

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 non-fiduciary activities of the government. For the most part, the effect of inter-fund activity has been removed from these statements.

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 customers or applicants 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 revenues*.

Township of Denver

Notes to 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*. 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 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. Revenue is considered to be *available* if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are 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.

Property taxes, franchise taxes, licenses, intergovernmental revenues 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.

The Township reports the following major fund:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the Township.

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.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

The Township also administers a Tax Collection Agency Fund (the "Current Tax Fund"). The Current Tax Fund is an Agency Fund and is used to account for resources held by the Township in a purely custodial capacity. Activity in this fund represents deposits from current tax collections and payments to taxing agencies. At year-end, the Current Tax Fund had no assets or liabilities and is therefore, excluded from presentation in the basic financial statements. Activity of the Current Tax Fund is excluded from the government-wide financial statements.

Assets, Liabilities, and Net Position

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Township of Denver

Notes to Financial Statements

Investments

Investments consist of certificates of deposit with maturities of three months or more when acquired.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Capital Assets

Capital assets, which include property and equipment are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500 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 market value at the date of donation. The governmental activities have no infrastructure assets.

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.

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

Buildings, additions and improvements	25 to 35 years
Furniture and equipment	5 to 10 years

Fund Equity

In the financial statements, the fund financial statements report the following components of fund balance:

Nonspendable

Amounts that are not in spendable form or are legally or contractually required to be maintained intact are reported as nonspendable fund balance.

Restricted

Amounts that are legally restricted by externally imposed constraints that are placed on the use of resources by grantors, contributors, or laws or regulations of other governments are reported as restricted fund balance.

Committed

Amounts that have been formally set aside by the Township Board for use for specific purposes are reported as committed fund balance. Commitments are made, and can only be rescinded by resolution of the Township Board.

Assigned

Amounts that are constrained by the Township's *intent* to be used for specific purposes, but are neither restricted nor committed are reported as assigned fund balance. The Township Board has not adopted a policy to authorize anyone the authority to assign fund balance on behalf of the Township.

Township of Denver

Notes to Financial Statements

Unassigned

Amounts that have not been restricted, committed or assigned to specific purposes are reported as unassigned fund balance.

When the Township incurs expenditures for purposes for which various fund balance classifications can be used, it is the Township's policy to use restricted fund balance first, then committed fund balance, assigned fund balance and finally unassigned fund balance.

Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent 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.

Implementation of New Accounting Standard

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The Township implemented GASB Statement No. 63 during the year ended March 31, 2014. The objective of this statement is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. When implementing the new standard it was determined that the Township has no deferred outflows of resources, nor deferred inflows of resources, therefore the only applicable implementation from this standard was to change the term "net assets" to "net position" in the governmental activities financial statements and footnotes.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Comparisons to budget are presented for general and special revenue fund types as required by generally accepted accounting principles. The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The original adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.

Township of Denver
Notes to Financial Statements

9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

NOTE 3 - DEPOSITS AND INVESTMENTS

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments.

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997

The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory as listed above.

The Township's deposits and investment policy are in accordance with statutory authority.

Deposits and Investments

A reconciliation of cash and cash equivalents and investments as shown in the financial statements to the Township's deposits and investments is as follows:

	<u>Carrying Amount</u>
Government-wide Financial Statement Captions:	
Primary government:	
Cash and cash equivalents	\$ 56,416
Investments	<u>390,280</u>
Total	<u><u>\$ 446,696</u></u>

Township of Denver
Notes to Financial Statements

	<u>Carrying Amount</u>
Notes to Financial Statements	
Deposits	\$ 56,416
Certificates of deposits	<u>390,280</u>
Total	<u><u>\$ 446,696</u></u>

Investment and Deposit Risk

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Township’s deposits may not be returned. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$496,062 of bank deposits (checking, savings, and certificate of deposit accounts), of which \$182,304 was potentially uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, that the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year end, the Township had no investments.

Interest Rate Risk. Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. State law limits the allowable investments and the maturities of some of the allowable investments. At year end, the Township had no investments.

Township of Denver
Notes to Financial Statements

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the Township for the current year was as follows:

Governmental Activities	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 13,979	\$ -	\$ -	\$ 13,979
Capital assets being depreciated				
Buildings	55,083	-	-	55,083
Land improvements	43,041	-	-	43,041
Equipment	<u>7,596</u>	<u>-</u>	<u>-</u>	<u>7,596</u>
Total assets being depreciated	<u>105,720</u>	<u>-</u>	<u>-</u>	<u>105,720</u>
Less accumulated depreciation for:				
Buildings	(44,641)	(1,259)	-	(45,900)
Land improvements	(43,041)	-	-	(43,041)
Equipment	<u>(7,596)</u>	<u>-</u>	<u>-</u>	<u>(7,596)</u>
Total accumulated depreciation	<u>(95,278)</u>	<u>(1,259)</u>	<u>-</u>	<u>(96,537)</u>
Net capital assets being depreciated	<u>10,442</u>	<u>(1,259)</u>	<u>-</u>	<u>9,183</u>
Net capital assets	<u>\$ 24,421</u>	<u>\$ (1,259)</u>	<u>\$ -</u>	<u>\$ 23,162</u>

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

Governmental activities:	
General government	\$ <u>1,259</u>

NOTE 5 - RECEIVABLES

The Township's year-end receivables in the aggregate, are as follows:

	<u>Governmental Activities</u>
Intergovernmental	\$ 12,421
Miscellaneous	1,327
Interest	<u>42,024</u>
Total	<u>\$ 55,772</u>

Township of Denver

Notes to Financial Statements

NOTE 6 - PROPERTY TAXES

Township property taxes are attached as an enforceable lien on property as of December 1st and recorded in the Township ledgers as receivables as of that date. Township taxes are levied December 1st and are due without penalty on or before February 14th. The December tax bills include the Township's own property taxes, special assessments and taxes billed on behalf of Isabella County.

Real property and special assessment taxes not collected as of March 1 are turned over to Isabella County for collection, which advances the Township 100% for those delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the Township Treasurer.

Property taxes levied in December of each year and collected within sixty days after the fiscal year-end are recognized as revenue in that fiscal year.

The Township acts as a collection agent for Isabella County and the local public school district for property taxes. Taxes collected on behalf of Isabella County and the school district and are turned over to the districts and the County following collection and are accounted for in the Agency Fund.

NOTES 7 – PENSION PLAN

The Township has a defined contribution pension plan covering all full-time employees. The Township contributes 20% of each employee's annual salary to the plan. Employees are not required to contribute to the plan. Currently there are five employees that participate in the plan. Pension expense for the fiscal year ended March 31, 2014, was \$7,831.

NOTE 8 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation). The Township has purchased commercial insurance for these types of claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.



Township of Denver

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

General Fund

For the Year Ended March 31, 2014

	Original Budget	Final Budget	Actual	Over (Under) Budget
Revenues:				
Property taxes	\$ 31,000	\$ 31,000	\$ 32,704	\$ 1,704
Other taxes - swamp tax	1,500	1,500	2,048	548
State revenue sharing	84,000	84,000	84,890	890
Local grants	35,000	105,176	70,176	(35,000)
Interest	500	500	38,315	37,815
Miscellaneous	4,900	4,900	9,604	4,704
Total revenues	<u>156,900</u>	<u>227,076</u>	<u>237,737</u>	<u>10,661</u>
Expenditures:				
Legislative:				
Township Board	32,000	32,000	16,177	(15,823)
General government:				
Supervisor	17,050	17,050	10,279	(6,771)
Elections	10,400	10,400	2,449	(7,951)
Assessor	16,000	16,000	12,825	(3,175)
Clerk	17,450	17,450	11,833	(5,617)
Board of review	4,700	4,700	1,428	(3,272)
Treasurer	19,450	19,450	12,822	(6,628)
Building and grounds	11,700	11,700	2,786	(8,914)
Cemetery	32,500	32,500	5,114	(27,386)
Other	128,858	138,858	6,234	(132,624)
Public safety	30,000	30,000	24,325	(5,675)
Public works	205,000	265,176	172,864	(92,312)
Culture and recreation	2,000	2,000	975	(1,025)
Total expenditures	<u>527,108</u>	<u>597,284</u>	<u>280,111</u>	<u>(317,173)</u>
Net change in fund balance	(370,208)	(370,208)	(42,374)	327,834
Fund balance, beginning of year	<u>543,938</u>	<u>543,938</u>	<u>543,938</u>	<u>-</u>
Fund balance, end of year	<u>\$ 173,730</u>	<u>\$ 173,730</u>	<u>\$ 501,564</u>	<u>\$ 327,834</u>

Township of Denver
Schedule of Expenditures (Continued)
General Fund

For the Year Ended March 31, 2014

Township Board:	
Wages	\$ 7,256
Pension	7,831
Dues	616
Miscellaneous	474
	16,177
Supervisor:	
Wages	10,218
Miscellaneous	61
	10,279
Elections	2,449
Assessor	12,825
Clerk:	
Wages	11,428
Miscellaneous	405
	11,833
Board of Review:	
Wages	1,279
Miscellaneous	149
	1,428
Treasurer:	
Wages	11,349
Miscellaneous	1,473
	12,822
Building and grounds:	
Wages	636
Supplies	31
Contracted services	600
Utilities	1,385
Maintenance	134
	2,786

Township of Denver
Schedule of Expenditures (Concluded)
General Fund
For the Year Ended March 31, 2014

Cemetery:		
Sexton	\$	898
Contracted services		3,224
Miscellaneous		992
		5,114
Insurance		5,970
Fire protection		24,325
Highways and streets		171,089
Street lights		1,134
Drains		641
Recreation		975
Contingencies		264
Total expenditures	\$	280,111



SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

THOMAS J. SMITH, CPA 989-751-1167

ROBERT R. KLACZKIEWICZ, CPA 989-751-3064

A VETERAN OWNED BUSINESS

To Members of the Board of Trustees
and Management of Denver Township

In planning and performing our audit of the financial statements of the governmental activities and the major fund of *Denver Township* (the "Township") 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's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. In addition, because of 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 certain deficiencies in internal control that we consider to be material weaknesses.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies presented in the attached schedule to be material weaknesses:

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 presented in the attached schedule to be significant deficiencies in internal control.

This communication is intended solely for the information and use of management, members of the Board of Trustees and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

The Township's written responses to the significant deficiencies and material weaknesses identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Smith + Klaczkiwicz PC

Saginaw, Michigan

July 21, 2014

Schedule of Control Deficiencies

Item 2014-1 **Preparation of Financial Statements in Accordance with GAAP (repeated from 2012)**

- Criteria:** The Township is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of 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 (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).
- Condition:** As is the case with many smaller and medium-sized entities, the Township has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes 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* auditors, who cannot by definition be considered a part of the government's *internal* controls.
- Cause:** This condition was caused by the Township's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
- Effect:** As a result of this condition, the Township lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
- Response:** The Township has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP and determined that it is in its best interests to outsource this task to its external auditors and to carefully review the draft financial statements and footnotes prior to approving them and accepting responsibility for their content and presentation.

Schedule of Control Deficiencies

Item 2014-2 **Lack of Segregation of Duties** *(repeated from 2012)*

- Criteria:** The Township’s management is responsible for establishing and maintaining effective internal controls over financial reporting and for safeguarding the Township’s assets.
- Condition:** During the course of our audit, we noted instances where multiple key financial duties were being performed by the same individual and there were no mitigating controls in place to ensure effective internal controls.
- Cause:** As is the case with many organizations of similar size, the Township lacks a sufficient number of personnel in order to ensure a complete segregation of duties within its accounting function.
- Effect:** The Township’s current system of internal control does not appear to have sufficient safeguards in place to ensure that fraud or abuse is prevented or can be detected in a timely manner. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and be able to conceal it.
- Response:** The Township understands the increased risk due to the inherent lack of segregation of duties and has concluded that the cost of implementing the segregation of duties does not warrant the benefit of the lower risk obtained. However, management will maintain a heightened awareness and continually review the mitigating controls over these areas.