

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

FINANCIAL REPORT WITH  
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2014

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

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# CAMPBELL AUDITING CPA, PLC

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## INDEPENDENT AUDITOR'S REPORT

April 16, 2014

To the Township Board  
Township of Nottawa  
Isabella County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, including the related notes to the financial statements, of the Township of Nottawa, Isabella County, Michigan as of and for the year ended March 31, 2014, which collectively comprise the Township of Nottawa's basic financial statements as listed in the table of contents.

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.

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.

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 of Nottawa, Isabella County, Michigan, as of March 31, 2014 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America which consisted of inquiries of management about the methods

of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Campbell Auditing CPA, PLC*

CAMPBELL AUDITING CPA, PLC

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended March 31, 2014

The Management's Discussion and Analysis report of the Township of Nottawa covers the Township's financial performance during the year ended March 31, 2014.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year.

Overall revenues were \$348,874.00 from governmental activities with a \$2,433.91 decrease in net position.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net position includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net position and how it has changed. Net position is the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net position are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

CONDENSED FINANCIAL INFORMATION  
For the Year Ended March 31, 2014

	Total Governmental Activities 2014	Total Governmental Activities 2013
Current Assets	326 616	312 997
Capital Assets	263 629	279 962
Total Assets	590 245	592 959
Current Liabilities	562	842
Non-current Liabilities	-	-
Total Liabilities	562	842
Net Position:		
Invested in Capital		
Assets	263 629	279 962
Unrestricted	326 054	312 155
Total Net Position	589 683	592 117
	Total Governmental Activities 2014	Total Governmental Activities 2013
Program Revenues:		
Fees and charges for services	5 632	5 289
General Revenues:		
Property taxes	63 121	66 368
State revenue sharing	174 404	171 159
Casino revenue sharing	101 330	41 436
Interest	752	391
Miscellaneous	3 635	4 579
Total Revenues	348 874	289 222
Program Expenses:		
Legislative	17 872	16 111
General Government	86 912	90 301
Public Safety	48 634	49 264
Public Works	174 239	59 284
Recreation and Culture	23 651	22 764
Total Expenses	351 308	237 724
Change in Net Position	(2 434)	51 498
Net Position, April 1	592 117	540 619
Net Position, March 31	589 683	592 117

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended March 31, 2014

FUND FINANCIAL STATEMENTS (cont.)

The Township has the following types of funds:

Governmental funds: All of the Township's activities are included in the governmental category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental activities include the General Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Our cash position in the governmental activities remains stable. Net position decreased by \$2,433.97 totaling \$589,683.46 at the end of the year. The decrease was due in part to increased road expenditures. Refer to page 4 for a summary of the Township's financial activities.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for most of the Township's governmental services. The most significant is Highways and streets which incurred expenses of \$154,358.41.

BUDGETARY HIGHLIGHTS

The Township's budget was compiled and adopted prior to the beginning of the fiscal year. Revenue came in significantly over budget with a variance of \$67,922.00 due to casino revenue sharing being \$60,530.00 over budget. Expenses were under budget by \$24,532.01 due to fire protection being less than it has been in previous years.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$2,448.21 in capital assets.

The Township's governmental activities paid \$0 in principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Townships finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact the Township at 1887 N. Winn Road, Weidman, Michigan 48893.

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET POSITION

March 31, 2014

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	<u>326 615 99</u>
Total Current Assets	<u>326 615 99</u>
NON-CURRENT ASSETS:	
Capital Assets	409 703 30
Less: Accumulated Depreciation	<u>(146 074 08)</u>
Total Non-current Assets	<u>263 629 22</u>
TOTAL ASSETS	<u><u>590 245 21</u></u>
LIABILITIES AND NET POSITION:	
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	<u>561 75</u>
Total Current Liabilities	<u>561 75</u>
NON-CURRENT LIABILITIES	<u>-</u>
Total Non-current Liabilities	<u>-</u>
Total Liabilities	<u>561 75</u>
NET POSITION:	
Invested in Capital Assets, Net of Related Debt	263 629 22
Unrestricted	<u>326 054 24</u>
Total Net Position	<u>589 683 46</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>590 245 21</u></u>

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



TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
Year ended March 31, 2014

	<u>Expenses</u>	<u>Program Revenue</u>  <u>Charges for Services</u>	<u>Governmental Activities</u> <u>Net (Expense) Revenue and Changes in Net Position</u>
<b>FUNCTIONS/PROGRAMS</b>			
Governmental Activities:			
Legislative	17 871 47	-	(17 871 47)
General government	86 912 01	5 632 00	(81 280 01)
Public safety	48 633 72	-	(48 633 72)
Public works	174 239 40	-	(174 239 40)
Culture and recreation	23 651 37	-	(23 651 37)
<b>Total Governmental Activities</b>	<u>351 307 97</u>	<u>5 632 00</u>	<u>(345 675 97)</u>
General Revenues:			
Property taxes			63 120 80
State revenue sharing			174 403 81
Casino revenue sharing			101 330 00
Interest			751 95
Miscellaneous			<u>3 635 44</u>
<b>Total General Revenues</b>			<u>343 242 00</u>
Change in net position			(2 433 97)
Net position, beginning of year			<u>592 117 43</u>
<b>Net Position, End of Year</b>			<u>589 683 46</u>

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

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS  
March 31, 2014

	<u>General</u>
<u>Assets</u>	
Cash in bank	326 362 76
Due from other funds	<u>253 23</u>
Total Assets	<u><u>326 615 99</u></u>
<u>Liabilities and Fund Equity</u>	
Liabilities:	
Accounts payable	<u>561 75</u>
Total liabilities	<u>561 75</u>
Fund equity:	
Fund balances:	
Unassigned	<u>326 054 24</u>
Total fund equity	<u>326 054 24</u>
Total Liabilities and Fund Equity	<u><u>326 615 99</u></u>

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

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
March 31, 2014

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	326 054 24
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 governmental funds balance sheet:	
Capital assets at cost	409 703 30
Accumulated depreciation	<u>(146 074 08)</u>
TOTAL NET POSITION – GOVERNMENTAL ACTIVITIES	<u><u>589 683 46</u></u>

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

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
Year ended March 31, 2014

	General
Revenues:	
Property taxes	63 120 80
State revenue sharing	174 403 81
Casino revenue sharing	101 330 00
Charges for services	5 632 00
Interest	751 95
Miscellaneous	3 635 44
Total revenues	348 874 00
Expenditures:	
Legislative:	
Township Board	17 871 47
General government:	
Supervisor	10 144 92
Elections	1 049 50
Assessor	19 898 75
Clerk	10 792 20
Board of Review	1 076 54
Treasurer	14 587 25
Building and grounds	3 043 48
Cemetery	6 458 52
Unallocated	13 326 04
Public safety:	
Liquor control	753 72
Fire protection	47 880 00
Public works:	
Highways and streets	154 358 41
Street lights	8 456 34
Drains	11 424 65
Culture and recreation:	
Parks and recreation	11 404 70
Capital outlay	2 448 21
Total expenditures	334 974 70
Excess (deficiency) of revenues over expenditures	13 899 30
Fund balance, April 1, 2013	312 154 94
Fund Balance, March 31, 2014	326 054 24

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

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year ended March 31, 2014

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 13 899 30

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

Governmental funds report capital outlays as expenditures; in the Statement of Activities,  
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(18 781 48)
Capital Outlay	<u>2 448 21</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES (2 433 97)

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

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
Year ended March 31, 2014

	<u>Balance</u> <u>4/1/13</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/14</u>
<u>Assets</u>				
Cash in Bank	<u>169 15</u>	<u>2 002 493 01</u>	<u>2 002 408 93</u>	<u>253 23</u>
<u>Liabilities</u>				
Due to other funds	169 15	64 453 44	64 369 36	253 23
Due to other units	<u>-</u>	<u>1 938 039 57</u>	<u>1 938 039 57</u>	<u>-</u>
Total Liabilities	<u>169 15</u>	<u>2 002 493 01</u>	<u>2 002 408 93</u>	<u>253 23</u>

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Nottawa, Isabella County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Nottawa. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Position and the Statement of Changes in Net Position) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

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

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is 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. When an expense is incurred for purposes for which both restricted and unrestricted net position are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is 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. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Position or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2013 tax roll millage rate was 1.0000 mills, and the taxable value was \$63,159,806.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.



TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$100.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	15-30 years
Furniture and equipment	15 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.

The proposed budgets include expenditures as well as the methods of financing them.

Public hearings are held to obtain taxpayer comments.

The budgets are adopted at the activity level by a majority vote of the Township Board.

The budgets are adopted on the modified accrual basis of accounting.

The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.

The adopted budgets are used as a management control device during the year for all budgetary funds.

Budget appropriations lapse at the end of each fiscal year.

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2014

Note 2 – Budgets and Budgetary Accounting (continued)

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

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated one financial institution for the deposit of Township funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

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

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>326 615 99</u>
Amounts in the bank balances are without considering deposits in transit or uncleared checks.	
	<u>Bank Balances</u>
Insured (FDIC)	250 000 00
Uninsured and Uncollateralized	<u>80 630 10</u>
Total Deposits	<u>330 630 10</u>

The Township of Nottawa did not have any investments as of March 31, 2014.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Township manages its exposure to interest rate risk is by participating in financial institution pooled funds and in mutual funds which hold diverse investments that are authorized by law for direct investments.

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

Note 3 – Deposits and Investments (continued)

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The financial institution pooled funds are the mutual funds and do not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Township contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Township's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Township's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investment, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	<u>Balance 4/1/13</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/14</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	66 820 44	-	-	66 820 44
Subtotal	<u>66 820 44</u>	<u>-</u>	<u>-</u>	<u>66 820 44</u>
Capital assets being depreciated:				
Buildings	224 369 71	-	-	224 369 71
Equipment	<u>116 064 94</u>	<u>2 448 21</u>	-	<u>118 513 15</u>
Subtotal	<u>340 434 65</u>	<u>2 448 21</u>	<u>-</u>	<u>342 882 86</u>
Total	<u>407 255 09</u>	<u>2 448 21</u>	<u>-</u>	<u>409 703 30</u>
Accumulated Depreciation:				
Buildings	(56 357 66)	(10 894 36)	-	(67 252 02)
Equipment	<u>(70 934 94)</u>	<u>(7 887 12)</u>	<u>-</u>	<u>(78 822 06)</u>
Total	<u>(127 292 60)</u>	<u>(18 781 48)</u>	<u>-</u>	<u>(146 074 08)</u>
Net Capital Assets	<u>279 962 49</u>	<u>(16 333 27)</u>	<u>-</u>	<u>263 629 22</u>

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

Note 4 – Capital Assets (continued)

Depreciation expense was charged to the following activities:

General government	6 534 81
Culture and recreation	<u>12 246 67</u>
	<u>18 781 48</u>

Note 5 – Pension Plan

The Township has a defined contribution pension plan covering all full time employees. The Township contributes an amount of each employee's annual salary to the plan. The net pension expense for the fiscal year ended March 31, 2014, was \$5,973.04.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Risk Management

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

Note 8 – Building Permits

The Township of Nottawa does not issue building permits. Building permits are issued by the County of Isabella.

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

Year ended March 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	63 128 00	63 128 00	63 120 80	(7 20)
State revenue sharing	167 072 50	167 072 50	174 403 81	7 331 31
Casino revenue sharing	40 800 00	40 800 00	101 330 00	60 530 00
Charges for services	1 500 00	1 500 00	5 632 00	4 132 00
Interest	350 00	350 00	751 95	401 95
Miscellaneous	8 101 50	8 101 50	3 635 44	(4 466 06)
Total revenues	280 952 00	280 952 00	348 874 00	67 922 00
Expenditures:				
Legislative:				
Township Board	24 360 00	24 360 00	17 871 47	(6 488 53)
General government:				
Supervisor	10 170 00	10 170 00	10 144 92	(25 08)
Elections	1 600 00	1 600 00	1 049 50	(550 50)
Assessor	20 000 00	20 000 00	19 898 75	(101 25)
Clerk	11 220 00	11 220 00	10 792 20	(427 80)
Board of Review	1 600 00	1 600 00	1 076 54	(523 46)
Treasurer	15 575 00	15 575 00	14 587 25	(987 75)
Building and grounds	5 850 00	5 850 00	3 043 48	(2 806 52)
Cemetery	8 550 00	8 635 00	6 458 52	(2 176 48)
Unallocated	15 100 00	15 100 00	13 326 04	(1 773 96)
Public safety:				
Liquor control	760 00	760 00	753 72	(6 28)
Fire protection	57 500 00	54 075 35	47 880 00	(6 195 35)
Public works:				
Highways and streets	98 000 00	154 436 71	154 358 41	(78 30)
Street lights	9 000 00	9 000 00	8 456 34	(543 66)
Drains	8 000 00	11 424 65	11 424 65	-
Culture and recreation:				
Parks and recreation	12 700 00	12 700 00	11 404 70	(1 295 30)
Capital outlay	3 000 00	3 000 00	2 448 21	(551 79)
Total expenditures	302 985 00	359 506 71	334 974 70	(24 532 01)
Excess (deficiency) of revenues over expenditures	(22 033 00)	(78 554 71)	13 899 30	92 454 01
Fund balance, April 1, 2013	22 033 00	78 554 71	312 154 94	233 600 23
Fund Balance, March 31, 2014	-	-	326 054 24	326 054 24

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year ended March 31, 2014

Township Board:		
Salaries		5 299 84
Printing and publishing		1 413 85
Supplies		8 463 57
Dues		1 483 64
Miscellaneous		1 210 57
		17 871 47
Supervisor:		
Salary		9 999 96
Miscellaneous		144 96
		10 144 92
Elections		1 049 50
Assessor:		
Wages		19 898 75
Clerk:		
Salary		10 499 96
Miscellaneous		292 24
		10 792 20
Board of Review:		
Wages		1 000 00
Miscellaneous		76 54
		1 076 54
Treasurer:		
Salary		14 344 46
Miscellaneous		242 79
		14 587 25
Building and grounds:		
Repairs and maintenance		1 060 00
Utilities		1 983 48
		3 043 48
Cemetery:		
Repairs and maintenance		3 723 73
Wages		1 850 00
Utilities		884 79
		6 458 52
Unallocated:		
Professional services		2 600 00
Insurance		4 753 00
Pension		5 973 04
		13 326 04
Liquor law enforcement:		
Wages		753 72
Fire protection:		
Contracted services		47 880 00

TOWNSHIP OF NOTTAWA  
Isabella County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year ended March 31, 2014

Highways and streets:	
Repairs and maintenance	<u>154 358 41</u>
Street lighting:	
Utilities	<u>8 456 34</u>
Drains:	
Repairs and maintenance	<u>11 424 65</u>
Parks and recreation:	
Repairs and maintenance	10 919 56
Utilities	<u>485 14</u>
	<u>11 404 70</u>
Capital outlay	<u>2 448 21</u>
Total Expenditures	<u><u>334 974 70</u></u>

# CAMPBELL AUDITING CPA, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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## AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

April 16, 2014

To the Township Board  
Township of Nottawa  
Isabella County, Michigan

We have audited the financial statements of the Township of Nottawa for the year ended March 31, 2014. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Nottawa in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."



To the Township Board  
Township of Nottawa  
Isabella County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments are available to review.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

The Township's system of internal control is affected by the size of the staff that it can employ.

The ultimate accounting system would include enough employees to completely segregate all aspects of each transaction. Different departments or individuals would handle: transaction authorization, transaction execution, asset handling, recording of transactions, review of transactions and subsequent control of assets.

The Township cannot enact a complete segregation of all aspects of each transaction due to the nature of local units of government. The "cost to benefit" relationship also would not justify a complete segregation of all duties.

We recommend that the Township Board understand these circumstances when performing their oversight responsibilities.

#### **PREPARATION OF FINANCIAL STATEMENTS**

Government units are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the governmental unit rests with the governmental unit'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 accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

It has historically been common for many governmental units to rely 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, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal control.

To the Township Board  
Township of Nottawa  
Isabella County, Michigan

**COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**  
(cont.)

PREPARATION OF FINANCIAL STATEMENTS (cont.)

The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the governmental unit's annual financial statements and notes to the financial statements in accordance with GAAP. The governmental unit relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

We do not recommend any changes to this situation at this time and we communicate this as required by professional standards.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements for the year ended March 31, 2014.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell Auditing CPA, PLC*

CAMPBELL AUDITING CPA, PLC