

**Township of Ovid
Branch County, Michigan**

FINANCIAL STATEMENTS

March 31, 2014

Township of Ovid
Branch County, Michigan
March 31, 2014

BOARD OF TRUSTEES

Sue Miller	Supervisor
Judy Sabaitis	Clerk
Nancy Price	Treasurer
Ron Sampsel	Trustee
Larry Omo	Trustee

Township of Ovid
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INDEPENDENT AUDITOR'S REPORT

To the Members of the Township Board
Township of Ovid
Branch County, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and aggregate remaining fund information of the Township of Ovid (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.

Managements 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, the major fund, and aggregate remaining fund information of the Township of Ovid, 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 Note I, the Township implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the year. As a result of this implementation, the format and reporting of the financial statements has changed to reflect the required components of GASB Statement No. 65, as applicable. Our opinions are 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 as identified 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.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 11, 2014

Township of Ovid

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2014

The following is a discussion and analysis of the Township of Ovid (the Township's) financial performance and position, providing an overview of the activities for the year ended March 31, 2014. This analysis should be read in conjunction with the Independent Auditor's Report and with the Township's financial statements, which follow this section. This discussion and analysis provides comparisons with the previous year.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2014:

- State shared revenue increased approximately \$3,311 or approximately 1.95%.
- General Fund tax revenues increased by approximately \$984 from the prior year.
- The fund balance of the Township's General Fund increased by \$36,516 as a result of the Township spending significantly less on road repairs than in previous years.

Using this Annual 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 of Ovid as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Township of Ovid in more detail than the government-wide financial statements by providing information about the Township's most significant funds.

The Township as a Whole

The following table shows, in a condensed format, the net position as of March 31, 2014 and March 31, 2013.

	March 31,	
	2014	2013
Assets		
Current and other assets	\$ 1,240,212	\$ 1,179,717
Capital assets, net	<u>175,453</u>	<u>180,506</u>
Total assets	1,415,665	1,360,223
Liabilities		
Current liabilities	<u>202,771</u>	<u>178,792</u>
Net position		
Investment in capital assets	175,453	180,506
Unrestricted	<u>1,037,441</u>	<u>1,000,925</u>
Total net position	<u>\$ 1,212,894</u>	<u>\$ 1,181,431</u>

The Township's net position was \$1,212,894 at March 31, 2014. Unrestricted net position (the part of net position that can be used to finance day-to-day operations) was \$1,037,441.

Township of Ovid

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2014

The following table shows the changes in net position for the year ended March 31, 2014 and March 31, 2013.

	March 31,	
	2014	2013
Revenue		
Program revenues		
Charges for services	\$ 114,615	\$ 99,941
General revenues		
Property taxes	120,535	119,551
State shared revenue	172,913	169,602
Investment earnings	9,531	10,308
Other	8,788	10,520
	<u>426,382</u>	<u>409,922</u>
Program Expenses		
General government	163,752	169,586
Public safety	66,000	66,000
Public works	140,546	84,098
Community and economic development	24,621	23,076
	<u>394,919</u>	<u>342,760</u>
Change in net position	<u>\$ 31,463</u>	<u>\$ 67,162</u>

Governmental Activities

The Township's governmental revenues totaled \$426,382 with the greatest revenue source being state shared revenues which made up approximately 41 percent of total governmental revenue. The second largest revenue, property taxes, made up approximately 28 percent of total revenues.

The Township incurred expenses of \$394,919 during the year. The majority of expenses are associated with the general government and public works functions, which includes various general governmental activities, maintenance of highways, streets, and bridges as well as drains.

The Township Fund

The analysis of the Township's major fund begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the only fund of the Township, the General Fund. If/when necessary, the Township of Ovid's Board of Trustees creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as property tax millages.

The General Fund pays for all of the Township's governmental services. The most significant services provided during the fiscal year were general governmental activities of \$157,199 and public works activities which include drains and utilities expenses, which incurred expenditures of \$140,546 for the fiscal year. These activities are funded primarily through state shared revenues and property taxes.

General Fund Budgetary Highlights

Over the course of the fiscal year, the Township Board made necessary budget adjustments to fund unanticipated expenditures during the year. The total expenditure budget had a favorable variance of \$43,894.

There were no amendments made within the General Fund expenditure budget during the year.

Township of Ovid

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2014

Capital Assets

At the end of the fiscal year, the Township had approximately \$239,117 in historical cost in the township hall, land improvements, and Township equipment. There was \$63,664 in accumulated depreciation on this asset with a resulting investment in capital assets (net book value) of \$175,453. See Note C in the financial statements for more details.

Current Economic Factors

Revenue sharing is the most significant budgetary concern at this time. The State of Michigan continues to experience significant budget problems, and as they look for solutions, revenue sharing continues to be under attack.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Township Clerk or Treasurer or the Township Hall.

BASIC FINANCIAL STATEMENTS

Township of Ovid
STATEMENT OF NET POSITION
March 31, 2014

	Governmental Activities
ASSETS	
Current assets	
Cash	\$ 700,711
Investments	400,843
Accounts receivable	690
Due from other governmental units	12,968
Total current assets	1,115,212
Noncurrent assets	
Investments	125,000
Capital assets, net of accumulated depreciation	175,453
Total noncurrent assets	300,453
TOTAL ASSETS	1,415,665
LIABILITIES	
Current liabilities	
Accounts payable	2,663
Accrued wages	988
Due to others	199,120
TOTAL LIABILITIES	202,771
NET POSITION	
Investment in capital assets	175,453
Unrestricted	1,037,441
TOTAL NET POSITION	\$ 1,212,894

See accompanying notes to financial statements.

Township of Ovid
STATEMENT OF ACTIVITIES
Year Ended March 31, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
Governmental activities:			
General government	\$ 163,752	\$ 93,682	\$ (70,070)
Public safety	66,000	-	(66,000)
Public works	140,546	20,933	(119,613)
Community and economic development	<u>24,621</u>	<u>-</u>	<u>(24,621)</u>
Total governmental activities	<u>\$ 394,919</u>	<u>\$ 114,615</u>	(280,304)
General revenues:			
Property taxes			120,535
State shared revenue			172,913
Investment earnings			9,531
Other			<u>8,788</u>
Total general revenues			<u>311,767</u>
Change in net position			31,463
Net position, beginning of year			<u>1,181,431</u>
Net position, end of the year			<u>\$ 1,212,894</u>

See accompanying notes to financial statements.

Township of Ovid
 Governmental Fund
 BALANCE SHEET
 March 31, 2014

	General
ASSETS	
Cash	\$ 700,711
Investments	525,843
Accounts receivable	690
Due from other governmental units	12,968
TOTAL ASSETS	\$ 1,240,212
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 2,663
Accrued wages	988
Due to others	199,120
TOTAL LIABILITIES	202,771
FUND BALANCE	
Committed for fire protection	70,000
Committed for road improvements	90,915
Unassigned	876,526
TOTAL FUND BALANCE	1,037,441
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,240,212

Township of Ovid

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION

March 31, 2014

Total fund balance - governmental fund \$ 1,037,441

Amounts reported for the 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 as assets in the governmental fund.

The cost of capital assets is	\$ 239,117	
Accumulated depreciation is	<u>(63,664)</u>	
Capital assets, net		<u>175,453</u>
Net position of governmental activities		<u><u>\$ 1,212,894</u></u>

Township of Ovid

Governmental Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year Ended March 31, 2014

	<u>General</u>
REVENUES	
Taxes	\$ 180,833
Licenses and permits	38,496
Intergovernmental	172,913
Charges for services	600
Interest	9,531
Other	<u>24,009</u>
TOTAL REVENUES	426,382
EXPENDITURES	
Current	
General government	157,199
Public safety	66,000
Public works	140,546
Community and economic development	24,621
Capital outlay	<u>1,500</u>
TOTAL EXPENDITURES	<u>389,866</u>
NET CHANGE IN FUND BALANCE	36,516
Fund balance, beginning of year	<u>1,000,925</u>
Fund balance, end of year	<u><u>\$ 1,037,441</u></u>

Township of Ovid

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2014

Net change in fund balance - governmental fund \$ 36,516

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

Capital outlays are reported as expenditures in the governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, this amount is:

Capital outlay	\$ 1,500	
Depreciation expense	<u>(6,553)</u>	
Excess of depreciation expense over capital outlay		<u>(5,053)</u>

Change in net position of governmental activities \$ 31,463

Township of Ovid

Fiduciary Fund

STATEMENT OF ASSETS AND LIABILITIES

March 31, 2014

ASSETS

Cash

\$ 822

LIABILITIES

Due to others

\$ 822

Township of Ovid

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township of Ovid, Michigan was organized as a Township under provisions of the constitution and general law of the State of Michigan. The Township is one of sixteen (16) townships in Branch County. The Township operates under an elected Township Board which consists of a Supervisor, Clerk, Treasurer, and two trustees and provides services in many areas including fire protection, roads, and zoning.

The financial statements of the Township have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Township governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Township's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; these financial statements present all financial activities of the Township of Ovid. The Township has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Township of Ovid contain all the funds controlled by the Township Board.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the government-wide statements) present information for the Township as a whole.

The statement of activities presents the direct functional expenses of the Township and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services that are restricted to meeting the operational requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest, and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Township's individual major fund.

The Township reports the following major governmental fund:

- a. General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide financial statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for the fiduciary agency funds since assets equal liabilities.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes.

The government-wide financial statements are prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Revenues for grants and contributions are recognized when all eligibility requirements imposed by the provider have been met. Unearned revenue is recorded in the government-wide statements when resources are received by the Township before it has legal claim to them, such as when program fees are received.

Governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used 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 period. Revenues susceptible to accrual include state and federal grants and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

If/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.

5. Budgets and Budgetary Accounting

The General Fund budget shown in the required supplementary information of the financial statements was prepared on a basis not substantially different than the basis used to reflect actual results.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to April 1, the General Fund budget is legally adopted on a total fund level through passage of a Board resolution after a public hearing is held to obtain taxpayer comments. After the budget is adopted, all transfers of budgeted amounts between activities or any revisions that alter the total expenditures of the fund or activity must be approved by the Township Board.
- b. Formal budgetary integration is employed as a management control device during the year.

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting - continued

- c. The Township does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at March 31 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted or amended by the Township Board during the year. Individual amendments were appropriately approved by the Township Board as required.

6. Cash and Investments

Cash consists of checking and savings accounts. Investments consist of certificates of deposit with an original maturity of greater than 90 days. Investments are recorded at market value.

7. Capital Assets

Capital assets include a building, equipment, and land improvements and are recorded net of accumulated depreciation in the government-wide financial statements. The Township does not have a formal policy in place establishing capitalization thresholds, etc. but in practice, capital assets are those material assets with an estimated useful life of more than one year. Capital acquisitions and construction are reflected as expenditures in the governmental fund, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Building	50 years
Equipment	5 years
Land improvements	15 years

8. Due From Other Governmental Units

Due from other governmental units consists of unpaid property taxes that are still owed to the Township at year-end.

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or the fund level balance sheet 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/fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position and/or the fund level balance sheet 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/fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The Township currently has no items which qualify for reporting in these categories.

Township of Ovid

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Property Taxes

The Township of Ovid bills and collects both its own property tax levy and the tax levy for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are as follows:

Property taxes are levied twice per year. A summer tax is levied on July 1 and a winter tax is levied on December 1. The tax levies are due September 14 and February 14, respectively. All taxes not paid by their due dates are deemed delinquent. Delinquent real property taxes are turned over to the Branch County Treasurer on March 1 of the year following the levy. The Branch County Treasurer remits payment to all taxing units on all delinquent real property taxes. Delinquent personal property taxes are retained by the Township for subsequent collection. Property taxes are recognized as revenues in the period for which they are levied.

The Township is permitted to levy up to \$1 per \$1,000 and of assessed valuation for general governmental service and additional amounts for debt service. For the year ended March 31, 2014 the Township levied 0.7502 mills per \$1,000 of assessed valuation for general governmental services. The total taxable value for the 2013 levy for property within the Township was \$158,219,754 which generated \$120,535 in property tax revenue in the General Fund in the current year.

11. Due to Others

Amounts due to others are funds previously collected by the Township from taxpayers to pay for future construction projects or amounts owed back to taxpayers for overpayments related to the property tax collection process.

12. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Township of Ovid is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.

Township of Ovid

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

NOTE B: CASH AND INVESTMENTS - CONTINUED

5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2014, the carrying amount of the Township's deposits was \$1,227,376 and the bank balance was \$1,254,111, of which \$600,000 was covered by federal depository insurance. The remaining balance of \$654,111 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Township held as cash increased significantly. As a result, the amount of uninsured and uncollateralized cash was substantially higher at these peak periods than at year-end.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of March 31, 2014, the Township did not have any accounts that would be subject to rating.

Interest rate risk

The Township has not adopted a policy that indicates how the Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of credit risk

The Township has not adopted a policy that indicates how the Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer.

Custodial credit risk

The Township has not adopted a policy that indicates how the Township will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

The cash and investments referred to above have been reported in the cash or investment captions on the financial statements, based on criteria disclosed in Note A. The following summarizes the categorization of these amounts as of March 31, 2014:

	<u>Governmental Activities</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash	\$ 700,711	\$ 822	\$ 701,533
Investments - current	400,843	-	400,843
Investments - noncurrent	125,000	-	125,000
	<u>\$ 1,226,554</u>	<u>\$ 822</u>	<u>\$ 1,227,376</u>

Township of Ovid

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

NOTE C: CAPITAL ASSETS

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

	Balance April 1, 2013	Additions	Deletions	Balance March 31, 2014
Capital assets being depreciated				
Building	\$ 220,600	\$ -	\$ -	\$ 220,600
Land improvements	7,048	1,500	-	8,548
Equipment	9,969	-	-	9,969
Subtotal	237,617	1,500	-0-	239,117
Less accumulated depreciation for:				
Building	(52,944)	(4,412)	-	(57,356)
Land improvements	(958)	(553)	-	(1,511)
Equipment	(3,209)	(1,588)	-	(4,797)
Subtotal	(57,111)	(6,553)	-0-	(63,664)
Net capital assets	<u>\$ 180,506</u>	<u>\$ (5,053)</u>	<u>\$ -0-</u>	<u>\$ 175,453</u>

Depreciation expense of \$6,553 was allocated to the general government function on the statement of activities.

NOTE D: RISK MANAGEMENT

The Township has commercial insurance for various risks of loss including liability, auto, crime, inland marine, and property losses.

The Township participates in a pool, the Michigan Municipal League Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Township has not been informed of any special assessments being required.

NOTE E: RETIREMENT PLAN

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 instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account and the returns earned on the investments of those contributions. The Ovid Township Group Pension Plan is administered by John Hancock Life Insurance Company.

The Township is required to contribute 25% of eligible participating employee's gross compensation to the plan with immediate vesting. Eligible participating employees are defined in the plan documents. Contributions to the pension plan by the Township for the year ended March 31, 2014, were \$17,509.

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

NOTE F: COMMITMENTS

The Township has entered into an agreement with the Lakeland Volunteer Fire Department to provide fire protection at an annual expense of \$70,000 for the year ending March 31, 2015.

In May 2014, the Township signed an agreement with the Branch County Road Commission for road improvements of approximately \$90,915 to be completed in the Township's 2014 - 2015 fiscal year.

NOTE G: RELATED PARTY TRANSACTION

The Township contracted with a business owned by an individual who was also a board member during the current fiscal year to provide assessing services to the Township. The amounts for contractual services that were paid to the board member for these services were reviewed annually and approved at a board meeting. During the year ended March 31, 2014, the contractual services totaled \$28,890 and were considered to be "arms-length" transactions.

NOTE H: DETAILS OF FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five (5) fund balance classifications under this standard:

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after nonspendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, the Township's highest level of decision-making authority is the Township Board of Trustees. Formal action that is required to be taken to establish a fund balance commitment is a resolution of the Township Board.

For assigned fund balance, the Township has not approved a policy indicating who is authorized to assign amounts to a specific purpose. As a result, this authority is retained by the Township Board of Trustees.

The Township of Ovid has not formally adopted a policy that determines when both restricted and unrestricted fund balances are available which should be used first, therefore restricted resources will be used first, then unrestricted resources if they are needed.

Township of Ovid

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

NOTE I: CHANGE IN ACCOUNTING PRINCIPLE

GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, was implemented during the current year. This statement established accounting and financial reporting standards that reclassified, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, when applicable. This statement also provides other financial reporting guidance related to the impact of the financial statement elements reflected as deferred outflows of resources and deferred inflows of resources, when applicable.

REQUIRED SUPPLEMENTARY INFORMATION

Township of Ovid

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property taxes	\$ 130,100	\$ 130,100	\$ 120,535	\$ (9,565)
Tax administration fee	58,000	58,000	60,298	2,298
Total taxes	188,100	188,100	180,833	(7,267)
Licenses and permits	35,500	35,500	38,496	2,996
Intergovernmental				
State shared revenue	170,000	170,000	172,913	2,913
Charges for services	1,000	1,000	600	(400)
Interest	5,400	5,400	9,531	4,131
Other				
Reimbursements	7,750	7,750	23,673	15,923
Other	45	45	336	291
Total other	7,795	7,795	24,009	16,214
TOTAL REVENUES	407,795	407,795	426,382	18,587
EXPENDITURES				
Current				
General government				
Township board	52,150	52,150	45,142	7,008
Supervisor	14,060	14,060	13,750	310
Clerk	18,400	18,400	17,967	433
Board of review	1,900	1,900	1,655	245
Treasurer	29,950	29,950	29,391	559
Assessor	31,890	31,890	31,579	311
Elections	4,000	4,000	2,718	1,282
Cemetery	18,000	18,000	14,997	3,003
Total general government	170,350	170,350	157,199	13,151
Public safety	66,000	66,000	66,000	-0-
Public works	162,050	162,050	140,546	21,504

Township of Ovid

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended March 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES - CONTINUED				
Current - continued				
Community and economic development				
Zoning	\$ 28,860	\$ 28,860	\$ 24,621	\$ 4,239
Capital outlay	<u>6,500</u>	<u>6,500</u>	<u>1,500</u>	<u>5,000</u>
TOTAL EXPENDITURES	<u>433,760</u>	<u>433,760</u>	<u>389,866</u>	<u>43,894</u>
NET CHANGE IN FUND BALANCE	(25,965)	(25,965)	36,516	62,481
Fund balance, beginning of year	<u>1,000,925</u>	<u>1,000,925</u>	<u>1,000,925</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 974,960</u>	<u>\$ 974,960</u>	<u>\$ 1,037,441</u>	<u>\$ 62,481</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS

To the Members of the Township Board
Township of Ovid
Branch County, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Township of Ovid (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 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 discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be 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 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 following deficiency in the Township's internal control to be a material weakness:

MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Material journal entries for the adjustment of due from other funds and due to others were proposed by the auditors. These misstatements were not detected by the Township's internal control over financial reporting. These entries were brought to the attention of management and were subsequently recorded in the Township's general ledger.

Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position and 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 U.S. generally accepted accounting principles.

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

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 following deficiencies in the Township's internal control to be significant deficiencies.

PREPARATION OF FINANCIAL STATEMENTS

Governmental entities are required to issue financial statements that are prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America. That responsibility for the financial statements rests with the Township. Throughout the year, the Township prepares monthly financial reporting at the fund level and the annual audited financial statements for the year ended March 31, 2014 for the Township of Ovid required mainly only accrual audit adjustments. The staff at the Township of Ovid does understand substantially all of the information included in the financial statements, and as such are able to take responsibility for the content. However, 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 of all applicable financial statements, including the related note disclosures (i.e., external financial reporting). This issue was noted and reported in the prior year audit.

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

This recommendation is not intended to imply that the Township's contractual arrangement with the independent auditors, which includes preparation of the financial statements, is improper or should be changed.

POLICIES AND PROCEDURES

Based on our discussions with management, we noted that the Township has not formally adopted written procedures and policies for several areas of operation. This issue was noted and reported in the prior year audit. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible. Specifically, we recommend that the Township formally adopt, and implement written procedures and policies in the following areas:

- a. Fraud risk management program - We recommend that the Township develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also inform management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.
- b. Capitalization policy - We recommend the Township develop and adopt a policy that defines when an item should be included as a capital asset, method of depreciation, estimated useful lives, etc.
- c. Business continuity plan - A business continuity plan would clarify the Township's position if an interruption of critical business processes were to occur. We recommend the Township develop and implement a policy addressing business continuity and include it in the policy manual.
- d. Investment policy - During the course of our audit and through discussions with administration, it was noted that the Township has not amended their investment policy to address various areas of risk as described by GASB Statement No. 40. Deposit and investment resources often represent significant assets of the Township's funds. These resources are necessary for the delivery of the Township's services programs. GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Township's ability to provide services and meet its obligations as they become due. We recommend the Board review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, if applicable. Such policies are required to be disclosed in the notes to the Township's financial statements by GASB Statement No. 40.

POLICIES AND PROCEDURES - CONTINUED

- e. Accounting procedures manual - Accounting is an essential function of the Township. The Township may have greater risk to this function being performed improperly if the related policies and procedures are not documented. We recommend the Township adopt and implement an accounting procedures manual which will describe and explain accounting duties.
- f. Code of conduct - We recommend the Township put in place a code of conduct including a policy on conflicts of interest. The code should include a requirement that key employees and Board members periodically make a declaration of compliance with the code, particularly with respect to conflicts of interest.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with other provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance:

ELECTRONIC TRANSACTION RESOLUTION

During our analysis of compliance with certain laws, it was noted that the Board has not implemented a written electronic transaction resolution as required by Michigan Compiled Law. This issue was noted and reported in the prior year audit. Public Act 738 of 2002 requires that local units of government that utilize electronic transactions adopt a written Electronic Transaction Resolution.

We recommend the Township prepare a formal electronic transaction resolution that complies with the compiled law and adopt it through Board action as soon as possible.

This report is intended solely for the information and use of members of the Township Board of the Township of Ovid, others within the Township, and applicable departments of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 11, 2014