

**Township of Peaine, Michigan**

**BASIC FINANCIAL STATEMENTS**

**March 31, 2016**

**TOWNSHIP OF PEAINE, MICHIGAN**

**ELECTED OFFICIALS**

TOWNSHIP SUPERVISOR

WILLIAM KOHLS

TOWNSHIP TREASURER

LARRY KUBIC

TOWNSHIP CLERK

COLLEEN MARTIN

TOWNSHIP TRUSTEE

ERNEST MARTIN

TOWNSHIP TRUSTEE

PAUL WELKE

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMA, CPA, PRINCIPAL  
AMBER N. MACK, CPA, PRINCIPAL

PHILLIP J. WOLF, CPA  
JON D. SWANSON, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Township of Peaine, Michigan  
Peaine, Michigan

***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Peaine, Michigan, as of and for the year ended March 31, 2016, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

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

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Peaine, Michigan, as of March 31, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedules on pages 4 through 6 and pages 23 through 27 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Peaine, Michigan's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Board of Trustees  
Township of Peaine, Michigan

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2017 on our consideration of the Township of Peaine, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township of Peaine, Michigan's internal control over financial reporting and compliance.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**  
**Kincheloe, Michigan**

February 2, 2017

## **Management's Discussion and Analysis**

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**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 as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

**The Township as a Whole**

The Township's combined net position decreased less than 1% from a year ago decreasing from \$4,876,685 to \$4,855,673.

In a condensed format, the table below shows the net position of Township of Peaine, Michigan.

	Governmental Activities	
	2016	2014
Current Assets	\$ 1,093,586	\$ 1,421,471
Capital Assets	4,054,943	3,683,882
Total Assets	<u>\$ 5,148,529</u>	<u>\$ 5,105,353</u>
Current Liabilities	\$ 16,136	\$ 240,998
Noncurrent Liabilities	276,720	330,806
Total Liabilities	<u>292,856</u>	<u>571,804</u>
Net Position		
Net Investment in		
Capital Assets	3,762,087	3,315,912
Restricted	492,042	776,300
Unrestricted	<u>601,544</u>	<u>441,337</u>
Total Net Position	<u>\$ 4,855,673</u>	<u>\$ 4,533,549</u>

The current level of unrestricted net position for our governmental activities stands at \$601,544, or about 63% of expenses.

The following table shows the activities of the Township.

	Governmental Activities	
	2016	2014
Program Revenues		
Charges for Services	\$ 250,611	\$ 214,957
Operating Grants and Contributions	159,456	189,517
Capital Grants and Contributions	-	1,040,450
General Revenues		
Property Taxes	471,584	476,304
State Revenue Sharing	19,847	21,707
Investment Earnings	510	1,009
Other Revenues	24,809	20,520
<b>Total Revenues</b>	<b>926,817</b>	<b>1,964,464</b>
Program Expenses		
Legislative	36,216	29,422
General Government	206,105	121,553
Public Works	338,265	355,367
Public Safety	13,644	48,516
Health and Welfare	290,472	197,677
Recreation and Culture	27,443	50,280
Community and Economic Development	22,196	21,727
Interest Expense	9,563	12,959
Other Expenses	3,925	-
<b>Total Expenses</b>	<b>947,829</b>	<b>837,501</b>
Changes in Net Position	(21,012)	1,126,963
Net Position - Beginning	4,876,685	3,406,586
Net Position - Ending	<b>\$ 4,855,673</b>	<b>\$ 4,533,549</b>

**Governmental Activities**

The Township's total governmental revenues are comprised of charges for services, operating grants and contributions, property taxes, revenue sharing, investment earnings, and other revenue.

The most significant governmental expenses are for public works of \$338,265 and health and welfare of \$290,472.

**The Township's Funds**

Our analysis of the Township's major funds begins on page 9, following the entity wide financial statements. The fund financial statements provide more detailed information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2016 include the General, EMS, Waste Management, and Airport funds.

The General Fund pays for most of the Township's governmental services. The most significant is general government, which incurred expenses of \$117,286 in 2016. These services are largely supported by property taxes and revenue sharing, which are recorded in the general fund.

**Budgetary Highlights**

Over the course of the year, the Township Board did not amend the budget to take into account events during the year. Revenues were more than expectations by \$45,461 for the general fund and total expenditures were over budget by \$33,696. Yet the general fund's fund balance increased from \$473,145 a year ago to \$480,799 at March 31, 2016.

**Capital Asset and Debt Administration**

At the end of 2016, the Township had \$4,054,943 invested in a broad range of capital assets, including land, buildings, vehicles, and equipment. In addition, the Township has invested significantly in roads within the Township. These assets are not reported in the Township's financial statements because of Michigan law, which makes these roads the property of the County Road Commission (along with the responsibility to maintain them). The Township reduced its outstanding debt by \$15,617 to an ending balance of \$292,856.

**Economic Factors and Next Year's Budgets and Rates**

Looking to the next several years regarding property tax revenue, Peaine Township should see a slight increase. Even though new state legislation has exempted many small businesses from personal property tax, there have been some significant increases in our Industrial personal tax class, specifically in new capital expenditures by our utility companies.

**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 to show the Township's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Township Clerk's office at (906) 478-5041.

## **Basic Financial Statements**

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# Township of Peaine, Michigan

## Statement of Net Position March 31, 2016

	Governmental Activities
<b>ASSETS:</b>	
Cash and Equivalents - Unrestricted	\$ 992,225
Accounts Receivable	45,810
Taxes Receivable	37,071
Inventory	18,480
Capital Assets (not depreciated)	1,731,742
Capital Assets (net of accumulated depreciation)	<u>2,323,201</u>
TOTAL ASSETS	<u>5,148,529</u>
<b>LIABILITIES:</b>	
Installment Notes Payable - due within one year	16,136
Installment Notes Payable - due in more than one year	<u>276,720</u>
TOTAL LIABILITIES	<u>292,856</u>
<b>NET POSITION:</b>	
Net Investment in Capital Assets	3,762,087
Restricted	492,042
Unrestricted	<u>601,544</u>
TOTAL NET POSITION	<u>\$ 4,855,673</u>

# Township of Peaine, Michigan

## Statement of Activities For the Year Ended March 31, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Total
<b>Governmental Activities:</b>				
Legislative	\$ 36,216	\$ -	\$ -	\$ (36,216)
General Government	206,105	-	-	(206,105)
Public Works	338,265	115,031	88,029	(135,205)
Public Safety	13,644	-	16,563	2,919
Health and Welfare	290,472	131,351	47,864	(111,257)
Recreation and Culture	27,443	2,629	7,000	(17,814)
Community and Economic Development	22,196	1,600		(20,596)
Interest Expense	9,563	-	-	(9,563)
Other Expenses	3,925	-	-	(3,925)
Total Governmental Activities	<u>\$ 947,829</u>	<u>\$ 250,611</u>	<u>\$ 159,456</u>	<u>(537,762)</u>
<b>General Revenues:</b>				
Taxes				471,584
State Revenue Sharing				19,847
Other				24,809
Investment Earnings				510
<b>Total General Revenues</b>				<u>516,750</u>
Changes in Net Position				(21,012)
Net Position - Beginning				<u>4,876,685</u>
<b>Net Position - Ending</b>				<u>\$ 4,855,673</u>

# Township of Peaine, Michigan

## Balance Sheet Governmental Funds March 31, 2016

	General	EMS	Waste Management	Airport	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>						
Cash and Equivalents	\$ 459,991	\$ 17,685	\$ 206,073	\$ 210,064	\$ 98,412	\$ 992,225
Accounts Receivable	-	45,810	-	-	-	45,810
Taxes Receivable	20,808	5,505	3,128	3,777	3,853	37,071
Inventory	-	-	-	18,480	-	18,480
<b>TOTAL ASSETS</b>	<b>\$ 480,799</b>	<b>\$ 69,000</b>	<b>\$ 209,201</b>	<b>\$ 232,321</b>	<b>\$ 102,265</b>	<b>\$ 1,093,586</b>
<b>FUND BALANCES:</b>						
Nonspendable	\$ -	\$ -	\$ -	\$ 18,480	\$ -	\$ 18,480
Restricted	-	69,000	209,201	213,841	-	492,042
Assigned	14,934	-	-	-	102,265	117,199
Unassigned	465,865	-	-	-	-	465,865
<b>TOTAL FUND BALANCES</b>	<b>480,799</b>	<b>69,000</b>	<b>209,201</b>	<b>232,321</b>	<b>102,265</b>	<b>1,093,586</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 480,799</b>	<b>\$ 69,000</b>	<b>\$ 209,201</b>	<b>\$ 232,321</b>	<b>\$ 102,265</b>	

**Reconciliation to amounts reported for governmental activities in the statement of net position:**

Capital assets used by governmental activities	4,054,943
Long-term notes and bonds payable for governmental activities	(292,856)
<b>Net position of governmental activities</b>	<b>\$ 4,855,673</b>

# Township of Peaine, Michigan

## Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended March 31, 2016

	General	EMS	Waste Management	Airport	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>						
Taxes	\$ 271,481	\$ 68,209	\$ 37,649	\$ 47,657	\$ 46,588	\$ 471,584
Licenses & Permits	1,600	-	-	-	-	1,600
State Sources	19,847	-	-	-	7,000	26,847
Local Sources	-	47,864	40,203	47,826	16,563	152,456
Charges for Services	2,629	131,351	90,459	24,572	-	249,011
Interest and Rentals	10,324	5	179	102	73	10,683
Other Revenue	5,277	5,395	980	1,591	1,393	14,636
<b>TOTAL REVENUES</b>	<b>311,158</b>	<b>252,824</b>	<b>169,470</b>	<b>121,748</b>	<b>71,617</b>	<b>926,817</b>
<b>EXPENDITURES:</b>						
Legislative	36,216	-	-	-	-	36,216
General Government	117,286	-	-	-	-	117,286
Public Works	-	-	219,324	106,979	50,279	376,582
Public Safety	11,293	-	-	-	-	11,293
Community & Economic Development	22,196	-	-	-	-	22,196
Health and Welfare	-	290,472	-	-	-	290,472
Recreation and Culture	27,002	-	-	-	441	27,443
Debt Service	-	-	-	-	16,563	16,563
Capital Outlay	17,586	-	-	-	-	17,586
Other Expenditures	3,925	-	-	-	-	3,925
<b>TOTAL EXPENDITURES</b>	<b>235,504</b>	<b>290,472</b>	<b>219,324</b>	<b>106,979</b>	<b>67,283</b>	<b>919,562</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>75,654</b>	<b>(37,648)</b>	<b>(49,854)</b>	<b>14,769</b>	<b>4,334</b>	<b>7,255</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Operating Transfers In	-	68,000	-	-	-	68,000
Operating Transfers Out	(68,000)	-	-	-	-	(68,000)
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>7,654</b>	<b>30,352</b>	<b>(49,854)</b>	<b>14,769</b>	<b>4,334</b>	<b>7,255</b>
<b>FUND BALANCES, April 1</b>	<b>473,145</b>	<b>38,648</b>	<b>259,055</b>	<b>217,552</b>	<b>97,931</b>	<b>1,086,331</b>
<b>FUND BALANCES, March 31</b>	<b>\$ 480,799</b>	<b>\$ 69,000</b>	<b>\$ 209,201</b>	<b>\$ 232,321</b>	<b>\$ 102,265</b>	<b>\$ 1,093,586</b>



## Township of Peaine, Michigan

### Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended March 31, 2016

Net changes in fund balances – total governmental funds \$ 7,255

The change in net position reported for governmental activities in the statement of activities is different because:

Repayment of principal 15,617

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$91,170) exceeded capital outlay \$47,286 in the current period.

(43,884)

Changes in net position – statement of activities \$ (21,012)

**Statement of Fiduciary Net Position  
Fiduciary Fund  
March 31 2016**

	<u>Tax Collection Fund</u>
<b>ASSETS:</b>	
Cash and Equivalents	\$ <u>769</u>
 TOTAL ASSETS	 \$ <u><u>769</u></u>
 <b>LIABILITIES:</b>	
Due to Other Governments	\$ <u>769</u>
 TOTAL LIABILITIES	 \$ <u><u>769</u></u>

## **Notes to Financial Statements**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Township of Peaine, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the Township:

**A – Reporting Entity:**

Township of Peaine, Michigan ("The Township") is a regular law Michigan Township located in Charlevoix County of Michigan.

The Township operates under an elected Board of Trustees and provides services to its residents in many areas including public safety, community enrichment and development, public works, recreation and culture, and health and welfare services.

The Township, for financial purposes, includes all of the funds relevant to the operations of Township of Peaine, Michigan. The financial statements herein do not include agencies which have been formed under applicable State laws or separate and distinct units of government apart from Township of Peaine, Michigan.

**B – Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. 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.

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

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

**C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are fiduciary fund financial statements. 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. Restricted revenues are used first, and then unrestricted revenues are utilized.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable – Current or Property Taxes

The Township of Peaine, Michigan property tax is levied on each December 1st on the taxable valuation of property (as defined by State statutes) located in Township of Peaine, Michigan as of the preceding December 31st.

The 2015 taxable valuation of the Township of Peaine, Michigan totaled \$68,157,727, on which ad valorem taxes levied consisted of 3.400 mills for the Township Operating, 1.000 mills for Fire, .5683 for Transfer Station, .6803 for Airport, and .7000 mills for Roads. These amounts are recognized in the respective General Fund, Special Revenue Funds, and Debt Service Fund financial statements as tax revenue.

The Township reports the following major governmental funds:

**General Fund**

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

**EMS Fund**

This fund accounts for the revenue collected provide fire and ambulance services within the Township.

**Waste Management Fund**

This fund accounts for the revenues and expenditures to operate the Township's transfer station.

**Airport Fund**

This fund accounts for the revenues used to operate the Township's airport.

Additionally, the Township reports the following fund types:

**Special Revenue Funds**

These funds are used to account for specific revenues derived primarily from sources (other than major capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Agency Funds**

Agency Funds are used to account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

All other revenue items are considered to be available only when cash is received by the government.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's tax collection function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided and (2) operating grants and contributions including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

**D - Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance:**

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

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items – Fuel inventory for the Airport Fund is valued at the lower of cost or market using the first-in, first-out method (FIFO). All other inventories, including the cost of supplies, are expensed when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. No prepaid items existed as of March 31, 2016.

Capital Assets – Capital assets, which include land, buildings and equipment are reported in the governmental type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Land, buildings, and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Equipment	3 to 7 years

Grants and Other Intergovernmental Revenues – Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the respective grants.

Interfund Transfers – During the course of normal operations, the Township has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. The classification of amounts recorded as subsidies, advances, or equity contributions is determined by Township management.

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

Deferred Inflows of Resources – In addition to liabilities, the statement of net position and governmental funds 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 that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has no items that qualify for reporting in this category.

Fund Balance Classification – The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Township is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Township has classified Inventory as being Nonspendable as they are not expected to be converted to cash or are not expected to be converted to cash within the next year. The Township currently has \$18,480 in nonspendable funds.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Township currently has \$492,042 in restricted funds.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Township. These amounts cannot be used for any other purpose unless the Township removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- Assigned: This classification includes amounts that are constrained by the Township's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Township through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Township would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control – The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Each March, after receiving input from the individual departments, the Board of Trustees prepares a proposed operating budget for the fiscal period commencing April 1 and lapses on March 31. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to April 1, the budget is legally enacted through a resolution passed by the Township Board.
- d. Budgetary control is exercised at the board level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the Board of Trustees. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The Township does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Board of Trustees during the year. The modified accrual basis of accounting is used for budgetary purposes.



**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)**

The General Fund budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 (the Budgeting Act) requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General fund was modified throughout the year through various budget amendments. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

**NOTE 3 - CASH AND EQUIVALENTS**

At year end, the Township’s cash and equivalents were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>
Cash and Equivalents – Unrestricted	<u>\$ 992,225</u>	<u>\$ 769</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>
Bank Deposits (checking and savings accounts	\$ 889,303	\$ 769
Certificates of Deposit	31,430	-
Money Markets	<u>71,492</u>	<u>-</u>
Total	<u>\$ 992,225</u>	<u>\$ 769</u>

**Investment and Deposit Risk**

*Interest Rate Risk.* Through its investment policy, the Township manages its exposure risk to fair value losses arising from increasing interest rates by limiting the duration of its investment portfolio to one year or less.

*Credit Risk.* The Township’s policy limits investments in bonds, bills, or notes of the United States; certificates of deposits; commercial paper rated prime 1 or prime 2, maturing 270 days or less.

*Custodial credit risk.* Custodial credit risk is the risk that in the event of a bank failure, the Township’s deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year end, \$809,645 of the Township’s bank balance of \$1,059,648 was exposed to credit risk because it was uninsured and uncollateralized.

*Custodial investment credit risk.* Custodial investment credit risk 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 or securities that are in the possession of an outside party. The Township’s investments are in the name of the Township and therefore, are not exposed to this risk.

**NOTE 3 - CASH AND EQUIVALENTS (Continued)**Statutory Authority:

Public Act 152, entitled “An act relative to the investment of funds of public corporations of the state; and to validate certain investments,” by amending section 1 (MCL 129.91), as amended by 2009 PA 21.

Except as provided in section 5, the governing body by resolution may authorize its investment officer to invest the funds of that public corporation in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2); certificates of deposit obtained through a financial institution as provided in subsection (5); or deposit accounts of a financial institution as provided in subsection (6).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers’ acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
  - (i) The purchase of securities on a when-issued or delayed delivery basis.
  - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
  - (iii) The limited ability to borrow and pledge a like portion of the portfolio’s assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the primary government during the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,714,156	\$ 17,586	\$ -	\$ 1,731,742
Construction in Progress	<u>1,621,102</u>	<u>-</u>	<u>(1,621,102)</u>	<u>-</u>
Subtotal	<u>3,335,258</u>	<u>17,586</u>	<u>(1,621,102)</u>	<u>1,731,742</u>
<i>Capital assets being depreciated:</i>				
Buildings	1,132,982	29,700	1,621,102	2,783,784
Equipment	<u>302,740</u>	<u>-</u>	<u>-</u>	<u>302,740</u>
Subtotal	<u>1,435,722</u>	<u>29,700</u>	<u>1,621,102</u>	<u>3,086,524</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(447,419)	(69,662)	-	(517,081)
Equipment	<u>(224,734)</u>	<u>(21,508)</u>	<u>-</u>	<u>(246,242)</u>
Subtotal	<u>(672,153)</u>	<u>(91,170)</u>	<u>-</u>	<u>(763,323)</u>
Net Capital Assets Being Depreciated	<u>763,569</u>	<u>(61,470)</u>	<u>1,621,102</u>	<u>2,323,201</u>
Capital Assets - Net	<u>\$ 4,098,827</u>	<u>\$ (43,884)</u>	<u>\$ -</u>	<u>\$ 4,053,943</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental Activities</b>	
General government	\$ 88,819
Public Safety	<u>2,351</u>
 Total Depreciation Expense - Governmental Activities	 <u>\$ 91,170</u>

**NOTE 5 - LONG-TERM DEBT**

General Long-Term Debt - The bonds payable reflected in the basic financial statements consist of general obligation bonds incurred by the Township of Peaine, Michigan. The Township has pledged the general full faith and credit of the Township for the payment of principal and interest on the bonds.

Changes in long-term debt during the year ending March 31, 2016 are summarized as follows:

	<u>Balance</u> <u>04/01/15</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>03/31/16</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
<b>Governmental Activities:</b>					
\$100,000 note payable in annual installments of \$11,523 through August 2023, including interest of 3.3% per annum.	\$ 92,473	\$ -	\$ 8,617	\$ 83,856	\$ 9,136
\$270,000 note payable in semi-annual installments through April 2034, including interest of 4.5% per annum.	<u>216,000</u>	<u>-</u>	<u>7,000</u>	<u>209,000</u>	<u>7,000</u>
Total Long-Term Debt	<u>\$ 308,473</u>	<u>\$ -</u>	<u>\$ 15,617</u>	<u>\$ 292,856</u>	<u>\$ 16,136</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End March 31</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 16,136	\$ 12,785
2018	16,437	12,143
2019	17,749	11,465
2020	18,070	10,754
2021	19,403	10,007
2022-2026	84,061	29,104
2027-2031	61,000	22,302
2032-2034	<u>60,000</u>	<u>5,997</u>
Total	<u>\$ 292,856</u>	<u>\$ 114,557</u>

**NOTE 6 - INTERFUND TRANSFERS**

At March 31, 2016, no amounts were reported as interfund receivables and payables in the fund financial statements. For the year then ended, interfund transfers consisted of a transfer of \$68,000 from the General Fund to the EMS Fund.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE 7 - RISK MANAGEMENT**

Risk Management – The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Township joined together with other governments and created a public entity risk pool currently operating as a common risk management and insurance program. The government pays an annual premium to the pool for its general insurance coverage.

The government continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The government is unable to provide an estimate of the amounts of additional assessments.

**NOTE 8 - CONTINGENT LIABILITIES**

The Township has received significant financial assistance from state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Township. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Township at March 31, 2016.

**NOTE 9 - NET ASSET RESTRICTIONS/FUND BALANCE RESERVES**

Net position restrictions of governmental funds are described as follows:

EMS	\$	69,000	To carry out said fund purpose
Waste Management	\$	209,201	To carry out said fund purpose
Airport	\$	213,841	To carry out said fund purpose

**NOTE 10 - EXCESS EXPENDITURES OVER APPROPRIATIONS**

Public Act 2 of 1968, as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Township’s actual expenditures were in excess of amounts appropriated as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Public Safety	3,650	11,293	(7,643)
Recreation and Culture	21,720	27,002	(5,282)
Capital Outlay	-	17,586	(17,586)
Other	-	3,925	(3,925)

## **Required Supplementary Information**

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**Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
For the Year Ended March 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget - Positive (Negative)
<b>REVENUES:</b>				
Taxes	\$ 217,067	\$ 217,067	\$ 271,481	\$ 54,414
Licenses & Permits	1,675	1,675	1,600	(75)
State Sources	6,360	6,360	19,847	13,487
Charges for Services	1,935	1,935	2,629	694
Interest and Rentals	8,575	8,575	10,324	1,749
Other Revenue	30,085	30,085	5,277	(24,808)
<b>TOTAL REVENUES</b>	<b>265,697</b>	<b>265,697</b>	<b>311,158</b>	<b>45,461</b>
<b>EXPENDITURES:</b>				
Legislative:				
Township Board	36,370	36,370	36,216	154
General Government:				
Supervisor	19,637	19,637	19,606	31
Treasurer	21,078	21,078	21,559	(481)
Clerk	21,093	21,093	20,122	971
Assessor	21,015	21,015	25,461	(4,446)
Board of Review	1,245	1,245	1,208	37
Buildings & Grounds	31,000	31,000	26,560	4,440
Elections	2,800	2,800	2,770	30
<b>Total General Government</b>	<b>117,868</b>	<b>117,868</b>	<b>117,286</b>	<b>582</b>
Public Safety:				
Deputy	3,650	3,650	11,293	(7,643)
<b>Total Public Safety</b>	<b>3,650</b>	<b>3,650</b>	<b>11,293</b>	<b>(7,643)</b>
Community & Economic Development:				
Planning & Zoning	22,200	22,200	22,196	4
Recreation and Culture:				
Parks & Trails	7,220	7,220	12,733	(5,513)
Fireworks	2,500	2,500	2,750	(250)
Beaver Island Historical Society	12,000	12,000	11,519	481
<b>Total Recreation and Culture</b>	<b>21,720</b>	<b>21,720</b>	<b>27,002</b>	<b>(5,282)</b>

**Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
For the Year Ended March 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget - Positive (Negative)
Capital Outlay	-	-	17,586	(17,586)
Other Expenditures:				
Other	-	-	3,925	(3,925)
Total Other Expenditures	-	-	3,925	(3,925)
<b>TOTAL EXPENDITURES</b>	<u>201,808</u>	<u>201,808</u>	<u>235,504</u>	<u>(33,696)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	63,889	63,889	75,654	11,765
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers Out	<u>(68,000)</u>	<u>(68,000)</u>	<u>(68,000)</u>	-
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<u>\$ (4,111)</u>	<u>\$ (4,111)</u>	7,654	<u>\$ 11,765</u>
FUND BALANCE, April 1			<u>473,145</u>	
FUND BALANCE, March 31			<u>\$ 480,799</u>	



**Required Supplementary Information  
Budgetary Comparison Schedule  
Emergency Medical Services Fund  
For the Year Ended March 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 68,094	\$ 68,094	\$ 68,209	\$ 115
Charges for Services	123,700	123,700	131,351	7,651
Local	46,074	46,074	47,864	1,790
Interest and Rentals	50	50	5	(45)
Other Revenue	19,000	19,000	5,395	(13,605)
<b>TOTAL REVENUES</b>	<b>256,918</b>	<b>256,918</b>	<b>252,824</b>	<b>(4,094)</b>
<b>EXPENDITURES:</b>				
Health & Welfare	291,330	291,330	290,472	858
<b>TOTAL EXPENDITURES</b>	<b>291,330</b>	<b>291,330</b>	<b>290,472</b>	<b>858</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(34,412)</b>	<b>(34,412)</b>	<b>(37,648)</b>	<b>(3,236)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers In	-	-	68,000	68,000
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ (34,412)</b>	<b>\$ (34,412)</b>	<b>30,352</b>	<b>\$ 64,764</b>
FUND BALANCE, April 1			38,648	
FUND BALANCE, March 31			<u>\$ 69,000</u>	

# Township of Peaine, Michigan

## Required Supplementary Information Budgetary Comparison Schedule Waste Management For the Year Ended March 31, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 51,000	\$ 51,000	\$ 37,649	\$ (13,351)
Charges for Services	90,000	90,000	90,459	459
Local Sources	51,000	51,000	40,203	(10,797)
Interest and Rentals	350	350	179	(171)
Other Revenue	35,000	35,000	980	(34,020)
<b>TOTAL REVENUES</b>	<u>227,350</u>	<u>227,350</u>	<u>169,470</u>	<u>(57,880)</u>
EXPENDITURES:				
Public Works	271,021	271,021	219,324	51,697
<b>TOTAL EXPENDITURES</b>	<u>271,021</u>	<u>271,021</u>	<u>219,324</u>	<u>51,697</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (43,671)</u>	<u>\$ (43,671)</u>	(49,854)	<u>\$ (6,183)</u>
FUND BALANCE, April 1			<u>259,055</u>	
FUND BALANCE, March 31			<u>\$ 209,201</u>	

**Township of Peaine, Michigan**

**Required Supplementary Information  
Budgetary Comparison Schedule  
Airport Fund  
For the Year Ended March 31, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 46,802	\$ 46,802	\$ 47,657	\$ 855
Charges for Services	64,000	64,000	24,572	(39,428)
Local	46,802	46,802	47,826	1,024
Interest and Rentals	200	200	102	(98)
Other Revenue	2,000	2,000	1,591	(409)
<b>TOTAL REVENUES</b>	<u>159,804</u>	<u>159,804</u>	<u>121,748</u>	<u>(38,056)</u>
<b>EXPENDITURES:</b>				
Public Works	243,304	243,304	106,979	136,325
<b>TOTAL EXPENDITURES</b>	<u>243,304</u>	<u>243,304</u>	<u>106,979</u>	<u>136,325</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ (83,500)</u>	<u>\$ (83,500)</u>	14,769	<u>\$ 98,269</u>
<b>FUND BALANCE, April 1</b>			<u>217,552</u>	
<b>FUND BALANCE, March 31</b>			<u>\$ 232,321</u>	

## **Other Information**

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# Township of Peaine, Michigan

## Combining Balance Sheet Nonmajor Governmental Funds March 31, 2016

	<u>Special Revenue Funds</u>			
	<u>Phragmites</u>	<u>Road</u>	<u>Fire Debt</u>	<u>Totals</u>
<b>ASSETS:</b>				
Cash and Equivalents	\$ 21,983	\$ 48,031	\$ 28,398	\$ 98,412
Taxes Receivable	-	3,853	-	3,853
<b>TOTAL ASSETS</b>	<u>\$ 21,983</u>	<u>\$ 51,884</u>	<u>\$ 28,398</u>	<u>\$ 102,265</u>
<b>FUND BALANCE:</b>				
Assigned	<u>\$ 21,983</u>	<u>\$ 51,884</u>	<u>\$ 28,398</u>	<u>\$ 102,265</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 21,983</u>	<u>\$ 51,884</u>	<u>\$ 28,398</u>	<u>\$ 102,265</u>

**Township of Peaine, Michigan**

**Combining Statement of Revenues, Expenditures, and  
Changes in Fund Balance - Nonmajor Governmental Funds  
For the Year Ended March 31, 2016**

	Special Revenue Funds			Totals
	Phragmites	Road	Fire Debt	
<b>REVENUES:</b>				
Taxes	\$ -	\$ 46,588	\$ -	\$ 46,588
State	7,000	-	-	7,000
Local	-	-	16,563	16,563
Interest and Rentals	19	33	21	73
Other	1,210	183	-	1,393
<b>TOTAL REVENUES</b>	<b>8,229</b>	<b>46,804</b>	<b>16,584</b>	<b>71,617</b>
<b>EXPENDITURES:</b>				
Public Works	-	50,279	-	50,279
Recreation & Culture	441	-	-	441
Debt Service	-	-	16,563	16,563
<b>TOTAL EXPENDITURES</b>	<b>441</b>	<b>50,279</b>	<b>16,563</b>	<b>67,283</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>7,788</b>	<b>(3,475)</b>	<b>21</b>	<b>4,334</b>
<b>FUND BALANCES, April 1</b>	<b>14,195</b>	<b>55,359</b>	<b>28,377</b>	<b>97,931</b>
<b>FUND BALANCES, March 31</b>	<b>\$ 21,983</b>	<b>\$ 51,884</b>	<b>\$ 28,398</b>	<b>\$ 102,265</b>

# **Report on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMA, CPA, PRINCIPAL  
AMBER N. MACK, CPA, PRINCIPAL

PHILLIP J. WOLF, CPA  
JON D. SWANSON, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

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

Board of Trustees  
Township of Peaine, Michigan  
Peaine, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Peaine, Michigan, as of and for the year ended March 31, 2016, and the related notes to the financial statements, which collectively comprise the Township of Peaine, Michigan's basic financial statements and have issued our report thereon dated February 2, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Township of Peaine, Michigan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township of Peaine, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township of Peaine, Michigan's internal control.

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



Board of Trustees  
Township of Peaine, Michigan

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies listed as 2016-001 and 2016-002.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Township of Peaine, Michigan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2016-003, 2016-004 and 2016-005.

### **Township of Peaine, Michigan's Response to Finding**

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

### **Purpose of this Report**

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



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**  
**Kincheloe, Michigan**

February 2, 2017

**Internal Control Over Financial Reporting**

*Significant Deficiencies*

**Preparation of the Financial Statements in Accordance  
with Generally Accepted Accounting Principles**

*Finding 2016-001*

*Condition:* As part of the audit process, the Township, like some other governments, has historically relied 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. Management feels it is more cost effective to outsource the preparation of the 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.

*Criteria:* Governmental entities are required to issue financial statements that are prepared in accordance with GAAP. Statement on Auditing Standards No. 115 (SAS 115), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that responsibility for the financial statements 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).

*Effect:* The Township 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. This reliance makes the independent auditors effectively part of the Township's internal controls. By definition, independent auditors should not be part of the Township's internal controls.

*Cause:* Change in application of auditing standards.

*Recommendation:* We recommend that the Township consider providing applicable employees with training that would allow them to attain the qualification required to fully understand the GAAP financial statements preparation process. Should the Board choose not to address this issue, management and the Board of should realize that an increased risk is present.

*Management's Response – Corrective Action:* Historically it has been the practice for the independent auditors of the Township to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements. The Board needs to evaluate the cost benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP or outsourcing this task to its external auditors in determining the best interests of the Township.

- *Contact Person(s) Responsible for Correction:*  
William Kohls, Supervisor

**Internal Control Over Financial Reporting**

*Significant Deficiencies*

**Material Journal Entries Proposed by Auditors**

***Finding 2016-002***

*Condition:* Material journal entries in many areas were proposed by the auditors. These adjustments were detected by the Township's internal control over financial reporting. These entries were subsequently recorded in the general ledger.

*Criteria:* Statement on Auditing Standards No. 115 (SAS 115), *Communicating Internal Control Related Matters Identified in and Audit*, emphasizes that 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, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal control.

*Effect:* Through the posting of material journal entries (that were identified by management); the auditors are effectively part of the Township's internal controls.

*Cause:* Unknown.

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

*Management's Response – Corrective Action Plan:* Historically it has been the practice for the independent auditors of the Township to assist in the preparation of the financial statements, as well as the related notes to the financial statements. This has always included the preparation by or suggestion from the auditors of material journal entries. The Township will strive to correct this in future reporting.

- *Contact Person(s) Responsible for Correction:*  
William Kohls, Supervisor

**Compliance and Other Matters**

*Significant Deficiencies – Noncompliance with State Statutes*

**Excess Expenditures Over Appropriations**

*Finding 2016-003*

*Condition:* Our examination of procedures used by the Township to adopt and maintain operating budgets for the Township’s budgetary funds revealed the following instance of noncompliance with the provisions of Public Act 621 of 1978, Section 18(1), as amended, the Uniform Budgeting and Accounting Act.

The Township’s 2015-16 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. During the fiscal year ended March 31, 2016, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund on pages 23 and 24 of the financial statements.

*Criteria:* The expenditures of funds in excess of appropriations are contrary to the provisions of Public Act 621 of 1978, as amended.

During the year ended March 31, 2016, the Township incurred expenditures in certain budgetary funds, which were in excess of the amount appropriated as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Public Safety	3,650	11,293	(7,643)
Recreation and Culture	21,720	27,002	(5,282)
Capital Outlay	-	17,586	(17,586)
Other	-	3,925	(3,925)

*Effect:* The Township has not complied with various State Statutes.

*Cause:* Failure to amend the budget for the General Fund during the year.

*Recommendation:* We recommend that the Township and personnel responsible for administering the activities of the various funds of the Township, develop budgetary control procedures for the General Fund, which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

*Management’s Response – Corrective Action Plan:* Management has agreed to correct the problem by monitoring the budgets more closely and performing budget amendments on a timely basis.

- *Contact Person(s) Responsible for Correction:*  
William Kohls, Supervisor

*Noncompliance with State Statutes*

**Credit Card Policy**

***Finding 2016-004***

*Criteria:* In accordance with PA 266 of 1995, local units of government are required to adopt a credit card policy with specific statutory requirements.

*Condition:* The Township has not implemented a credit card policy as required by PA 266 of 1995, specifically:

- An employee who is issued a credit card shall return the credit card to the Business Manager upon termination of his or her employment or service with the board.
- The Board shall not approve a payment to the entity issuing the credit card until all transactions have been verified, including the approval of all transactions invoices, if issued.

*Effect:* The Township is violating the above stated act and as a result could have inappropriate use of credit cards.

*Cause:* Unknown.

*Recommendation:* The Township should adopt a credit card policy to comply with PA 266 of 1995, to insure proper use of the Township's credit cards.

*Management's Response – Corrective Action Plan:* The Township will adopt the appropriate credit card policy as soon as possible.

- *Contact Person(s) Responsible for Correction:*  
William Kohls, Supervisor

*Noncompliance with State Statutes*

**Annual Local Unit Fiscal Report (F-65) and Financial Statement Audit**

***Finding 2016-005***

*Criteria:* As issued under the authority of PA 71 of 1919, PA 2 of 1968, and PA 140 of 1971, complete and timely filing of an Annual Local Unit Fiscal Report (F-65) and performance of an annual financial statement audit is required.

*Condition:* The Township has not submitted an F-65 report or had a financial statement audit performed within six months of their fiscal year end.

*Effect:* The Township is violating the above stated act and as a result could lose state revenue sharing funds.

*Cause:* Unknown.

*Recommendation:* The Township should develop necessary policies and educate key employee's on required filing due dates to ensure future compliance.

*Management's Response – Corrective Action Plan:* The Township will take the necessary measures to comply with future required filing deadlines.

- *Contact Person(s) Responsible for Correction:*  
William Kohls, Supervisor



**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMA, CPA, PRINCIPAL  
AMBER N. MACK, CPA, PRINCIPAL

PHILLIP J. WOLF, CPA  
JON D. SWANSON, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

Board of Trustees  
Township of Peaine, Michigan  
Peaine, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Township of Peaine, Michigan for the year ended March 31, 2016, and have issued our report thereon dated February 2, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter dated October 20, 2016, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Township of Peaine. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Township of Peaine's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the management's discussion and analysis and budgetary comparison schedules, which supplement(s) the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

We have been engaged to report on combining fund financial statements, which accompany the financial statements but are not RSI. Our responsibility for this supplementary information, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on October 20, 2016.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township of Peaine, Michigan are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions that have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the allowance for uncollectible accounts receivable is based on past experience and future expectations for collection of various account balances and has been determined to be \$0.

The financial statement disclosures are neutral, consistent, and clear.

#### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.



### ***Disagreement with Management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated February 2, 2017.

### ***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### ***Comments and Recommendations***

The following is a summary of our observations with suggestions for improvements we believe should be brought to your attention. We noted no material matters involving the internal control over financial reporting and compliance, as reported in a separate letter in accordance with Government Auditing Standards of the basic financial statement audit report.

### **Policies**

Over the course of our fieldwork, it was noted that the Township lacked various formal policies. Without proper policies in place, the Township is exposed to the risk of employee abuse and potential fraud. It is our recommendation that policies be immediately drafted and implemented.

### **Other Matters**

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

We were engaged to report on the combining fund financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

**Conclusion**

This letter is intended solely for the information and use of the Board of Trustees, management, federal awarding agencies, pass through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of any further assistance, please contact us.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**  
**Kincheloe, Michigan**

February 2, 2017