

**CLEON TOWNSHIP, MANISTEE COUNTY**

**COPEMISH, MICHIGAN**

**MARCH 31, 2013**



**Baird, Cotter & Bishop, P.C.**  
SERVING YOUR PAST, PRESENT & FUTURE

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601 PHONE: (231) 775-9789 FAX: (231) 775-9749  
[www.bcbcpa.com](http://www.bcbcpa.com)

CLEON TOWNSHIP, MANISTEE COUNTY  
COPEMISH, MICHIGAN

MARCH 31, 2013

TABLE OF CONTENTS

	<u>PAGES</u>
<b>Independent Auditor's Report</b>	i-ii
<b>Management's Discussion and Analysis</b>	iii-ix
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds	
Balance Sheet	3
Reconciliation of the Balance Sheet to the Statement of Net Position	4
Statement of Revenues, Expenditures, and Changes in Fund Balance	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	6
Fiduciary Fund	
Statement of Fiduciary Net Position	7
Notes to Financial Statements	8-18
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule - Major Governmental Funds	19



# **Baird, Cotter & Bishop, P.C.**

SERVING YOUR PAST, PRESENT & FUTURE

CERTIFIED PUBLIC ACCOUNTANTS  
134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601 PHONE: (231) 775-9789 FAX: (231) 775-9749  
www.bcbcpa.com

July 25, 2013

## INDEPENDENT AUDITOR'S REPORT

To the Township Board  
Cleon Township  
Manistee County  
Copemish, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cleon Township, Manistee County, Copemish, Michigan, as of and for the year ended March 31, 2013, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements 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. According, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonable 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 Cleon Township, Manistee County, Copemish, Michigan as of March 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iii through ix and budgetary comparison information on page 19 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.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

CLEON TOWNSHIP, MANISTEE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2013

As management of Cleon Township (“the Township”), we offer readers of the Township’s financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2013. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

**Financial Highlights**

- ❖ The assets of Cleon Township exceeded its liabilities at the close of the most recent fiscal year by \$798,352 (*net position*). Of this amount, \$303,797 represents unrestricted net position, which may be used to meet the Township’s ongoing obligations to citizens and creditors.
- ❖ At the close of the current fiscal year, the Township’s governmental funds reported combined fund balances of \$522,341, an increase of \$25,708 in comparison with the prior year. Approximately 55% of this amount (\$288,797) is available for spending at the Township’s discretion (*unassigned fund balance*).
- ❖ At the end of the current fiscal year, unrestricted fund balance (the total of *committed, assigned, and unassigned* components of fund balance) for the general fund was \$303,797.
- ❖ The Township’s total outstanding long-term debt decreased by \$15,000 during the current fiscal year.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Township’s basic financial statements. The Township’s basic financial statements consist of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional details to support the basic financial statements themselves.

**Government-Wide Financial Statements.** The *Government-Wide Financial Statements* are designed to provide readers with a broad overview of the Township’s finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents financial information on all of the Township’s assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future periods.

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

CLEON TOWNSHIP, MANISTEE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2013

public safety and public works, community and economic development, recreation and culture, and debt service.

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

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

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

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

The Township maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund, Fire Fund, Cemetery Fund, and Debt Service Fund, which are considered to be major funds.

The Township adopts an annual budget for all major special revenue funds. A budgetary comparison has been provided for all major special revenue funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 3-6 of this report.

**Fiduciary Funds** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. The Township maintains one type of fiduciary fund. The Agency Fund reports resources held by the Township in a custodial capacity for other governments.

The fiduciary fund financial statement can be found on page 7 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is necessary to acquire a full understanding of the data provided in the governmental-wide and fund financial statements. The notes can be found on pages 8-18 of this report.

CLEON TOWNSHIP, MANISTEE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2013

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents *Required Supplementary Information* (RSI) that explains and supports the information presented in the financial statements.

**Government-Wide Overall Financial Analysis**

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of Cleon Township, assets and deferred outflows of resources exceeded liabilities by \$798,352, at the close of the most recent fiscal year.

**Cleon Township**  
**Net Position as of March 31, 2013**

	<b>Governmental Activities</b>
<b>Assets</b>	
Current Assets	\$ 536,415
Non Current Assts	
Capital Assets	792,613
Less: Accumulated Depreciation	(343,602)
Total Non Current Assets	449,011
<b>Total Assets</b>	<b>985,426</b>
<b>Liabilities</b>	
Current Liabilities	19,074
Non Current Liabilities	168,000
<b>Total Liabilities</b>	<b>187,074</b>
<b>Net Position</b>	
Net Investment in Capital Assets	276,011
Restricted for Specific Purposes	218,544
Unrestricted	303,797
<b>Total Net Position</b>	<b>\$ 798,352</b>

A large portion of the Township's net position (35%) reflects its net investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related outstanding debt that was used to acquire those assets. The Township uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the Township's net investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CLEON TOWNSHIP, MANISTEE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2013

An additional portion of the Township's net position (27%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$303,797 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net position. The same situation held true for the prior fiscal year.

Cleon Township's overall net position increased by \$66,994 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for the governmental activities.

**Cleon Township**  
**Change in Net Position**  
**for the Fiscal Year Ended March 31, 2013**

	<b>Governmental Activities</b>
<b><u>Revenues</u></b>	
<b>Program Revenues</b>	
Charges for Services	\$ 10,363
Operating Grants and Contributions	2,715
Capital Grants and Contributions	44,491
<b>General Revenues</b>	
Taxes	117,451
Licenses and Permits	1,246
State Grants	55,390
Investment Earnings	978
Other	2,483
<b>Total Revenues</b>	<b>235,117</b>
<b><u>Expenses</u></b>	
General Government	92,455
Public Safety	46,235
Public Works	6,036
Community and Economic Development	9,518
Recreation and Culture	2,000
Interest on Long-Term Debt	7,750
Other Functions	4,129
<b>Total Expenses</b>	<b>168,123</b>
Changes in Net Position	66,994
<u>NET POSITION</u> - Beginning of Year	731,358
<u>NET POSITION</u> - End of Year	<b>\$ 798,352</b>

CLEON TOWNSHIP, MANISTEE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2013

**Governmental Activities**

The most significant part of the revenue for all governmental activities of Cleon Township comes from taxes. The Township levied millages for the township bond payments and fire protection, in addition to the cemetery operating millage and general operating millage this fiscal year. The Township levied 1.5 mills for operating purposes and .25 mills for cemetery operating purposes, .61 mills for bond payments, and 1.25 mills for fire protection. State shared revenues are also a significant portion of the revenues for Cleon Township. State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax.

The Township's governmental activities expenses are dominated by general government expenses that total \$92,455. Public Safety represented the next largest expense at \$46,235.

**Financial Analysis of the Governmental Funds**

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

***Governmental Funds*** The focus of Cleon Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Township itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Township Board.

At March 31, 2013, Cleon Township's governmental funds reported combined fund balances of \$522,341, an increase of \$25,708 in comparison with the prior year. Approximately 55% of this amount (\$288,797) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable*, *restricted*, *committed*, or *assigned* to indicate that it is 1) not in spendable form, 2) legally required to be maintained intact, 3) restricted for particular purposes (\$218,544), 4) committed for particular purposes, or 5) assigned for particular purposes (\$15,000).

**General Fund** – The General Fund increased its fund balance by \$26,067 which brings the fund balance to \$303,797. Of the General Fund's fund balance, \$288,797 is unassigned.

**Road Fund** – The Road Fund increased its fund balance by \$1,086 which brings the fund balance to \$29,803. This balance is restricted and must be used for road improvements.

**Fire Fund** – The Fire Fund decreased its fund balance by \$239 which brings the fund balance to \$140,935. This balance is restricted and must be used for fire protection.

**Cemetery Fund** – The Cemetery Fund increased its fund balance by \$3,906 which brings the fund balance to \$23,666. This balance is restricted and must be used for cemetery expenditures.

CLEON TOWNSHIP, MANISTEE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2013

**Debt Service Fund** – The Debt Service Fund decreased its fund balance by \$5,112 which brings the fund balance to \$24,140. This balance is restricted and must be used for debt service.

**General Fund Budgetary Highlights**

The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Total Revenues	\$ 111,100	\$ 111,100	\$ 120,173
Total Expenditures	\$ 121,100	\$ 121,100	\$ 94,106

Both tax and state-shared revenues were higher than budgeted. The Township Board spent less in building and grounds and Township Board expenses than budgeted.

**Capital Assets and Debt Administration**

**Capital Assets.** The Township's investment in capital assets for its governmental activities as of March 31, 2013, amounts to \$449,011 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvement, and equipment.

**Cleon Township**  
**Capital Assets as of March 31, 2013**

	<b><u>Governmental Activities</u></b>
Land	\$ 52,211
Buildings and Improvements	420,385
Equipment	320,017
	792,613
Less Accumulated Depreciation	(343,602)
<b>Net Capital Assets</b>	<b>\$ 449,011</b>

CLEON TOWNSHIP, MANISTEE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2013

Major capital asset events during fiscal year 2013 included the following:

- Building improvements at a cost of \$44,491.

**Long-Term Debt.** At the end of the current fiscal year, the Township had total bonded debt outstanding of \$173,000. The entire amount of debt is backed by the full faith and credit of the government.

The Township's total debt decreased by \$15,000 during the current fiscal year. Additional information on the Township's long-term debt can be found in the notes to the financial statements section.

**Economic Condition and Outlook**

It appears that state-shared revenues have stabilized. The Township continues to look for ways to improve the services it provides to its residents in a manner that is financially responsible.

This factor was considered in preparing the Township's budgets for the 2013-14 fiscal year.

**Request for Information**

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Cleon Township at 16505 Imhoff Drive Copemish, MI 49625.

CLEON TOWNSHIP, MANISTEE COUNTY  
COPEMISH, MICHIGAN

STATEMENT OF NET POSITION  
MARCH 31, 2013

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 444,894
Investments	63,491
Receivables	
Taxes	14,815
External Parties (Fiduciary Fund)	245
Due from Other Governments	12,970
	12,970
Total Current Assets	536,415
<u>CAPITAL ASSETS</u>	
Land	52,211
Buildings and Improvements	420,385
Equipment	320,017
	792,613
Less Accumulated Depreciation	343,602
Net Capital Assets	449,011
TOTAL ASSETS	985,426
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Payroll Taxes and Withholdings	1,574
Unearned Revenue	12,500
Current Portion of Non Current Liabilities	5,000
	5,000
Total Current Liabilities	19,074
<u>NON-CURRENT LIABILITIES</u>	
Debt Service Loan Payable	173,000
Less Current Portion of	
Non Current Liabilities	(5,000)
	(5,000)
Total Non-Current Liabilities	168,000
TOTAL LIABILITIES	187,074
<u>NET POSITION</u>	
Net Investment in Capital Assets	276,011
Restricted for Specific Purposes	218,544
Unrestricted	303,797
	303,797
TOTAL NET POSITION	\$ 798,352

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

CLEON TOWNSHIP, MANISTEE COUNTY  
COPEMISH, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2013

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	TOTALS
<u>GOVERNMENTAL ACTIVITIES</u>					
General Government	\$ 92,455	\$ 8,580	\$ 0	\$ 0	\$ (83,875)
Public Safety	46,235	1,783	0	44,491	39
Public Works	6,036	0	2,715	0	(3,321)
Community and Economic Development	9,518	0	0	0	(9,518)
Recreation and Culture	2,000	0	0	0	(2,000)
Interest on Long-Term Debt	7,750	0	0	0	(7,750)
Other Functions	4,129	0	0	0	(4,129)
Total Governmental Activities	\$ 168,123	\$ 10,363	\$ 2,715	\$ 44,491	(110,554)
<u>GENERAL REVENUES</u>					
Taxes					117,451
Licenses and Permits					1,246
State Grants					55,390
Investment Earnings					978
Other					2,483
Total General Revenues					177,548
Change in Net Position					66,994
<u>NET POSITION</u> - Beginning of Year					731,358
<u>NET POSITION</u> - End of Year					\$ 798,352

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

CLEON TOWNSHIP, MANISTEE COUNTY

COPEMISH, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET

MARCH 31, 2013

	GENERAL FUND	ROAD FUND	FIRE FUND	CEMETERY FUND	DEBT SERVICE FUND	TOTALS
<u>ASSETS</u>						
Cash	\$ 256,952	\$ 29,803	\$ 113,616	\$ 22,712	\$ 21,811	\$ 444,894
Taxes Receivable	6,759	0	4,773	954	2,329	14,815
Investments	28,377	0	35,114	0	0	63,491
Due from Other Governments	12,970	0	0	0	0	12,970
Due from Other Funds	245	0	0	0	0	245
Total Assets	<u>\$ 305,303</u>	<u>\$ 29,803</u>	<u>\$ 153,503</u>	<u>\$ 23,666</u>	<u>\$ 24,140</u>	<u>\$ 536,415</u>
<u>LIABILITIES AND FUND BALANCE</u>						
<u>LIABILITIES</u>						
Payroll Taxes and Withholdings	\$ 1,506	\$ 0	\$ 68	\$ 0	\$ 0	\$ 1,574
Unearned Revenue	0	0	12,500	0	0	12,500
Total Liabilities	<u>1,506</u>	<u>0</u>	<u>12,568</u>	<u>0</u>	<u>0</u>	<u>14,074</u>
<u>FUND BALANCE</u>						
Restricted for:						
Road Improvements	0	29,803	0	0	0	29,803
Fire Protection	0	0	140,935	0	0	140,935
Cemetery	0	0	0	23,666	0	23,666
Debt Service	0	0	0	0	24,140	24,140
Unrestricted						
Assigned for Subsequent Year Budget	15,000	0	0	0	0	15,000
Unassigned	288,797	0	0	0	0	288,797
Total Fund Balance	<u>303,797</u>	<u>29,803</u>	<u>140,935</u>	<u>23,666</u>	<u>24,140</u>	<u>522,341</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 305,303</u>	<u>\$ 29,803</u>	<u>\$ 153,503</u>	<u>\$ 23,666</u>	<u>\$ 24,140</u>	<u>\$ 536,415</u>

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

CLEON TOWNSHIP, MANISTEE COUNTY  
COPEMISH, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION  
MARCH 31, 2013

Total Fund Balances for Governmental Funds	\$	522,341	
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Land	\$	52,211	
Buildings and Improvements		420,385	
Equipment		320,017	
Accumulated Depreciation		<u>(343,602)</u>	449,011
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Debt Service Loan Payable			<u>(173,000)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$		<u><u>798,352</u></u>

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

CLEON TOWNSHIP, MANISTEE COUNTY  
COPEMISH, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
YEAR ENDED MARCH 31, 2013

	GENERAL FUND	ROAD FUND	FIRE FUND	CEMETERY FUND	DEBT SERVICE FUND	TOTALS
<u>REVENUES</u>						
Taxes	\$ 56,209	\$ 0	\$ 36,191	\$ 7,234	\$ 17,634	\$ 117,268
Licenses and Permits	1,246	0	0	0	0	1,246
State Grants	55,390	2,715	0	0	0	58,105
Charges for Services	2,755	0	350	5,525	0	8,630
Interest and Rents	728	227	238	85	4	1,282
Other Revenue	3,845	0	44,741	0	0	48,586
Total Revenues	120,173	2,942	81,520	12,844	17,638	235,117
<u>EXPENDITURES</u>						
General Government	74,279	0	0	8,938	0	83,217
Public Safety	0	0	81,759	0	0	81,759
Public Works	4,180	1,856	0	0	0	6,036
Community and Economic Development	9,518	0	0	0	0	9,518
Recreation and Culture	2,000	0	0	0	0	2,000
Other Functions	4,129	0	0	0	0	4,129
Debt Service	0	0	0	0	22,750	22,750
Total Expenditures	94,106	1,856	81,759	8,938	22,750	209,409
Excess (Deficiency) of Revenues Over Expenditures	26,067	1,086	(239)	3,906	(5,112)	25,708
<u>FUND BALANCE - Beginning of Year</u>	277,730	28,717	141,174	19,760	29,252	496,633
<u>FUND BALANCE - End of Year</u>	\$ 303,797	\$ 29,803	\$ 140,935	\$ 23,666	\$ 24,140	\$ 522,341

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

CLEON TOWNSHIP, MANISTEE COUNTY  
COPEMISH, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
MARCH 31, 2013

Net Change in Fund Balance - Total Governmental Funds	\$ 25,708
Amounts reported for governmental activities are different because:	
Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities).	15,000
Governmental funds report capital outlay as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.	
Capital Outlay	44,491
Depreciation Expense	<u>(18,205)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 66,994</u>

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

CLEON TOWNSHIP, MANISTEE COUNTY  
COPEMISH, MICHIGAN

FIDUCIARY FUND

STATEMENT OF FIDUCIARY NET POSITION  
MARCH 31, 2013

	<u>AGENCY</u>
<u>ASSETS</u>	\$ 245
<u>LIABILITIES</u>	
Due to Other Funds	<u>245</u>
<u>NET POSITION</u>	<u>\$ 0</u>

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

CLEON TOWNSHIP, MANISTEE COUNTY  
COPEMISH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of Government-Wide Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary governmental is financially accountable. Cleon Township does not have any *business-type activities* or *component units*.

**B. Reporting Entity**

Cleon Township is a general law township located in Manistee County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

**C. Basis of Presentation – Government-Wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

**D. Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Cleon Township reports the following major governmental funds:

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

The *Road Fund* accounts for revenue sources that are legally restricted to expenditures for road maintenance.

CLEON TOWNSHIP, MANISTEE COUNTY  
COPEMISH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013

The *Fire Fund* accounts for revenue sources that are legally restricted to expenditures for fire protection.

The *Cemetery Fund* accounts for revenue sources that are legally restricted to expenditures for the cemetery.

The *Debt Service Fund* accounts for revenue sources that are legally restricted to expenditures for debt service.

Additionally Cleon Township reports the following fund types:

*Fiduciary funds* are accounted for using the accrual method of accounting. Fiduciary funds account for assets held by the Township in a trustee capacity or as an agent on behalf of others. This fund is custodial in nature and does not involve measurement of results of operations. Accordingly, it presents only a statement of fiduciary net position and does not present a statement of changes in fiduciary net position. Fiduciary funds are not included in the government-wide statements.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

#### **E. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues 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.

CLEON TOWNSHIP, MANISTEE COUNTY  
COPEMISH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

Property taxes, sales taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue resource (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

**F. Budgetary Information**

***1. Budgetary Basis of Accounting***

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on March 7, 2012, or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

**G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

***1. Cash and Cash Equivalents***

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

CLEON TOWNSHIP, MANISTEE COUNTY  
COPEMISH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013

- I. The Investment Policy adopted by the Township states that the township is limited to investments authorized by PA 20 of 1943, as amended, and may invest in 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, deposit accounts, or depository receipts of a financial institution. Authorized depositories shall be designated by the Cleon Township Board at the Board's organizational meeting after each regular election of board members.
  - (c) Commercial paper rated at the time of purchase within the 2 highest classifications established by 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) Investment pools through an Interlocal Agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
  - (g) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.

**2. *Inventories and Prepaid Items***

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. There are no prepaid items this year.

**3. *Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

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

CLEON TOWNSHIP, MANISTEE COUNTY  
COPEMISH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	30
Park Equipment and Structures	10
Maintenance Equipment	7
Furniture and Office Equipment	5

**4. *Deferred Outflows/Inflows 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 only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the governmental-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or funding debt. The Township does not have any deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The 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 only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues with two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The Township does not have any deferred inflows of resources.

**5. *Net Position Flow Assumption***

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

CLEON TOWNSHIP, MANISTEE COUNTY  
COPEMISH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013

**6. *Fund Balance Flow Assumptions***

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**7. *Fund Balance Policies***

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**8. *Use of Estimates***

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

CLEON TOWNSHIP, MANISTEE COUNTY  
COPEMISH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013

**H. Revenues and Expenditures/Expenses**

**1. Program Revenues**

Amounts reported as program revenue 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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes and other internally dedicated resources are reported as general revenues rather than as program revenues.

**2. Property Taxes**

Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and county taxes are levied and due July 1, and become delinquent after September 14. The remaining millages are levied and due December 1, and become delinquent after February 14. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations.

The 2012 taxable valuation of the Cleon Township totaled \$28,828,168, on which ad valorem taxes levied consisted of 1.5 mills for the Cleon Township operating purposes, .25 mill for Cleon Township Cemetery operating purposes, .61 mill for Cleon Township bond repayment, and 1.25 mills for Cleon Township fire protection. These levies raised approximately \$43,375 for operating purposes, \$7,225 for cemetery operating purposes, \$17,612 for debt service, and \$36,147 for fire protection. These amounts are recognized in the respective General Fund, Cemetery Fund, Debt Service Fund, and Fire Fund financial statements as tax revenue.

**II. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS**

**A. Cash Deposits with Financial Institutions**

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2013, none of the Township's bank balance of \$468,805 was exposed to custodial credit risk. Although the Township's investment policy does not directly address custodial credit risk, it typically limits its exposure by controlling who holds the Township's deposits.

*Foreign currency risk.* The Township is not authorized to invest in investments which have this type of risk; therefore, it is not addressed in the investment policy.

CLEON TOWNSHIP, MANISTEE COUNTY  
COPEMISH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013

**B. Receivables**

Receivables as of year-end for the Township's individual major funds are as follows:

	General	Fire	Cemetery	Debt Service	Total
Taxes Receivable	\$ 6,759	\$ 4,773	\$ 954	\$ 2,329	\$ 14,815
Due from Other Governments	12,970	0	0	0	12,970
<b>Total Receivables</b>	<b>\$ 19,729</b>	<b>\$ 4,773</b>	<b>\$ 954</b>	<b>\$ 2,329</b>	<b>\$ 27,785</b>

Amounts due from other governments include state-shared revenues.

The allowance for doubtful accounts is not considered to be material for disclosure.

**C. Capital Assets**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 52,211	\$ 0	\$ 0	\$ 52,211
Capital assets, being depreciated				
Buildings	149,494	0	0	149,494
Building Improvements	226,400	44,491	0	270,891
Equipment	320,617	0	0	320,617
<b>Total capital assets, being depreciated</b>	<b>696,511</b>	<b>44,491</b>	<b>0</b>	<b>741,002</b>
Less accumulated depreciation for:				
Buildings	39,863	3,738	0	43,601
Building Improvements	22,582	5,671	0	28,253
Equipment	262,952	8,796	0	271,748
<b>Total accumulated depreciation</b>	<b>325,397</b>	<b>18,205</b>	<b>0</b>	<b>343,602</b>
<b>Total capital assets, being depreciated, net</b>	<b>371,114</b>	<b>26,286</b>	<b>0</b>	<b>397,400</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 423,325</b>	<b>\$ 26,286</b>	<b>\$ 0</b>	<b>\$ 449,611</b>

CLEON TOWNSHIP, MANISTEE COUNTY  
COPEMISH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013

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

Governmental activities:

General Government	\$ 9,238
Public Works	8,967
	\$ 18,205
Total Depreciation Expense	\$ 18,205

**D. Interfund Receivables, Payables and Transfers**

Individual fund interfund receivable and payable balances at March 31, 2013, were:

FUND	INTERFUND RECEIVABLES	INTERFUND PAYABLES
General Fund	\$ 245	\$ 0
Tax Collection Fund	0	245
	\$ 245	\$ 245

Interfund receivables and payables result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

There were no interfund transfers during the fiscal year March 31, 2013.

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**E. Leases**

The rental expense for the year ended March 31, 2013, totaled \$1,153.

The rental expense consists of lease agreements a copier. The future minimum lease payments for these leases are as follows:

YEAR ENDING	LEASE PAYMENTS
2014	\$ 1,040
2015	1,040
	\$ 2,080

CLEON TOWNSHIP, MANISTEE COUNTY  
COPEMISH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013

**F. Long-Term Debt**

The following is a summary of debt transactions of the Township for the year ended March 31, 2013:

Governmental Activities:

	<b>Bond</b>
Debt Payable at April 1, 2012	\$ 188,000
New Debt Incurred	0
Debt Retired	(15,000)
Debt Payable at March 31, 2013	\$ 173,000
USDA Bond for township hall renovations due in annual installments of \$5,000 to \$12,000 through March 31, 2035; interest at 4.125% due April 1 and October 1, of each year.	\$ 173,000

The annual requirements to amortize the debt outstanding as of March 31, 2013, are as follows:

Year Ending March 31,	Principal	Interest	Total
2014	\$ 5,000	\$ 14,066	\$ 19,066
2015	5,000	13,654	18,654
2016	5,000	13,241	18,241
2017	6,000	12,788	18,788
2018	6,000	12,293	18,293
2019-2023	34,000	53,378	87,378
2024-2028	42,000	37,785	79,785
2029-2033	52,000	18,398	70,398
2034-2035	18,000	1,239	19,239
	\$ 173,000	\$ 176,842	\$ 349,842

**IV. OTHER INFORMATION**

**A. Risk Management**

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, errors and omissions insurance and workers' compensation. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of

CLEON TOWNSHIP, MANISTEE COUNTY  
COPEMISH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013

the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

**B. New GASB Standards**

Effective April 1, 2012, the Township adopted GASB Statement 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position" and GASB Statement 65, "Items Previously Recognized as Assets and Liabilities". These statements establish and clarify new components of the statement of position, "Deferred Inflows of Resources" and "Deferred Outflows of Resources". At March 31, 2013, the Township did not have items that fit the criteria for a deferred outflow of resources or a deferred inflow of resources. GASB 63 also changes the term "net assets", which was previously made up of assets less liabilities, to "net position", which is now made up of assets, deferred outflows of resources, liabilities and deferred inflows of resources. Accordingly, any reference to "net assets" has been changed to "net position".

CLEON TOWNSHIP, MANISTEE COUNTY  
COPEMISH, MICHIGAN  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS  
YEAR ENDED MARCH 31, 2013

	<u>GENERAL FUND</u>			<u>ROAD FUND</u>			<u>FIRE FUND</u>			<u>CEMETERY FUND</u>		
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>									
<u>REVENUES</u>												
Taxes	\$ 51,500	\$ 51,500	\$ 56,209	\$ 0	\$ 0	\$ 0	\$ 35,000	\$ 35,000	\$ 36,191	\$ 7,150	\$ 7,150	\$ 7,234
Licenses and Permits	2,800	2,800	1,246	0	0	0	0	0	0	0	0	0
State Grants	49,000	49,000	55,390	2,600	2,600	2,715	0	0	0	0	0	0
Charges for Services	2,850	2,850	2,755	0	0	0	1,500	1,500	350	5,500	5,500	5,525
Interest and Rents	500	500	728	3	3	227	50	50	238	40	40	85
Other Revenues	4,450	4,450	3,845	0	0	0	55,600	55,600	44,741	150	150	0
Total Revenues	111,100	111,100	120,173	2,603	2,603	2,942	92,150	92,150	81,520	12,840	12,840	12,844
<u>EXPENDITURES</u>												
General Government												
Township Board	14,790	14,790	7,603	0	0	0	0	0	0	0	0	0
Supervisor	7,770	7,770	7,692	0	0	0	0	0	0	0	0	0
Clerk	13,735	14,235	13,122	0	0	0	0	0	0	0	0	0
Board of Review	1,900	1,900	1,206	0	0	0	0	0	0	0	0	0
Treasurer	19,865	19,865	19,216	0	0	0	0	0	0	0	0	0
Assessor	10,100	10,100	9,737	0	0	0	0	0	0	0	0	0
Elections	4,100	4,300	4,281	0	0	0	0	0	0	0	0	0
Building and Grounds	20,900	20,900	11,422	0	0	0	0	0	0	0	0	0
Cemetery	0	0	0	0	0	0	0	0	0	17,840	17,840	8,938
Public Safety												
Fire	0	0	0	0	0	0	145,150	145,150	81,759	0	0	0
Public Works												
Highways, Streets, Bridges	0	0	0	7,500	7,500	1,856	0	0	0	0	0	0
Refuse Collection/Disposal	5,325	5,325	4,180	0	0	0	0	0	0	0	0	0
Community and Economic Development												
Planning	7,700	7,700	4,437	0	0	0	0	0	0	0	0	0
Zoning	6,210	6,210	5,081	0	0	0	0	0	0	0	0	0
Recreation and Culture												
Library	2,000	2,000	2,000	0	0	0	0	0	0	0	0	0
Other Functions												
Employee Benefits	4,500	4,500	4,129	0	0	0	0	0	0	0	0	0
Contingency	2,205	1,505	0	0	0	0	0	0	0	0	0	0
Total Expenditures	121,100	121,100	94,106	7,500	7,500	1,856	145,150	145,150	81,759	17,840	17,840	8,938
Excess (Deficiency) of Revenues												
Over Expenditures	(10,000)	(10,000)	26,067	(4,897)	(4,897)	1,086	(53,000)	(53,000)	(239)	(5,000)	(5,000)	3,906
FUND BALANCE - Beginning of Year	10,000	10,000	277,730	7,557	7,557	28,717	53,000	53,000	141,174	5,000	5,000	19,760
FUND BALANCE - End of Year	\$ 0	\$ 0	\$ 303,797	\$ 2,660	\$ 2,660	\$ 29,803	\$ 0	\$ 0	\$ 140,935	\$ 0	\$ 0	\$ 23,666



# Baird, Cotter & Bishop, P.C.

SERVING YOUR PAST, PRESENT & FUTURE

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601 PHONE: (231) 775-9789 FAX: (231) 775-9749

www.bcbcpa.com

July 25, 2013

## COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE AT THE CONCLUSION OF THE AUDIT

To the Township Board  
Cleon Township  
Manistee County  
Copemish, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cleon Township for the year ended March 31, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 29, 2013. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Cleon Township are described in Note I to the financial statements. Starting in 2012-2013, the Township has implemented GASB 63 and GASB 65, new standards that rename, redefine, and clarify components of net position. 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 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 Township's financial statements was:

Management's estimates of the useful lives of capital assets which is based on previous history. 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.

The financial statement disclosures are neutral, consistent and clear.

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

We encountered no 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 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 each opinion unit's financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management as 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 July 25, 2013.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about audit and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Township'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 to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

During the course of our audit of the basic financial statements of Cleon Township for the year ended March 31, 2013, we noted the following item which we feel deserves comment:

#### Condition of Accounting Records

The accounting records for the year ended March 31, 2013, were found to be in good order and in compliance with the State's uniform accounting system. We would like to commend the Clerk and Treasurer for their fine job of recordkeeping.

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

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*



**Baird, Cotter & Bishop, P.C.**  
SERVING YOUR PAST, PRESENT & FUTURE

CERTIFIED PUBLIC ACCOUNTANTS  
134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601 PHONE: (231) 775-9789 FAX: (231) 775-9749  
www.bbcpa.com

July 25, 2013

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

To the Township Board  
Cleon Township  
Manistee County  
Copemish, 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 Cleon Township, Copemish, Michigan as of and for the year ended March 31, 2013, and the related notes to the financial statements, which collectively comprise Cleon Township's basic financial statements and have issued our report thereon dated July 25, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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

## 1. *Preparation of Financial Statements in Accordance with GAAP*

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including related footnotes (i.e., external financial reporting).

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditor to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Cause: This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the government's internal controls over the preparation of financial statements in accordance with GAAP are incomplete. Instead, the government relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and noted prior to approving them and accepting responsibility for their content and presentation.

## 2. *Segregation of Incompatible Duties and Documented Independent Review*

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the government. A key element of internal control is the segregation of incompatible duties

Condition: The government has several accounting functions that are performed by the same individual and are not subject to a documented independent review and approval.

In addition, we noted several key accounting documents that are not typically subjected to a documented review and approval:

Cause: This condition is primarily the result of staffing constraints typical of smaller governmental units. Some of the control activities detailed above may be occurring on a routine basis, but are not being documented.

Effect: As a result of this condition, the government is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected by management on a timely basis.

Recommendation: There are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties. Recognizing this fact, we encourage the government to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials: Management recognizes that this limitation is a natural outgrowth of the small number of full-time staff, and applies its judgment in determining how best to allocate the government's resources to provide and appropriate balance between sound internal controls and fiscal prudence.

### Compliance and Other Matters

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

### Cleon Township's Response to Findings

Cleon Township's response to the findings identified in our audit is described above. Cleon Township's response was not subjected to the auditing procedures applied in the financial statements and, accordingly, we express no opinion on it.

### Purpose of this Report

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

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*