

**FREDERIC TOWNSHIP**  
**CRAWFORD COUNTY, MICHIGAN**  
**AUDITED FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

# **FREDERIC TOWNSHIP**

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Gaylord, MI 49734

## INDEPENDENT AUDITOR'S REPORT

December 15, 2020

To the Township Board  
Frederic Township  
Crawford County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Frederic Township, Crawford County, Michigan, as of and for the year ended June 30, 2020, 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, where 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 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 Frederic Township, Crawford County, Michigan as of June 30, 2020, and the respective changes in financial position of the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2-4 budgetary comparison information on pages 19-21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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 Frederic Township'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 relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basis 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 as a whole.

*Miller & Cook, PLC*

Miller & Cook, PLC

**FREDERIC TOWNSHIP  
MANAGEMENT'S DISCUSSION & ANALYSIS  
YEAR ENDED JUNE 30, 2020**

This section of Frederic Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended June 30, 2020. Please read it in conjunction with the financial statements, which immediately follow this section.

**Financial Highlights**

Our financial position improved as compared to the prior year.

Overall revenues were \$2,492,060, of which \$1,718,668 is classified as program revenues, and \$773,392 is classified as general revenues (consisting primarily of property taxes and state-shared revenues). Total revenues increased by \$376,889 or 18% over the year ended June 30, 2019. Overall expenses totaled \$2,497,816 which is an increase of \$460,952 from the year ended June 30, 2019.

Total assets at June 30, 2020 totaled \$2,026,233, which consists of \$1,450,408 in capital assets net of depreciation, \$400,828 in cash and \$174,997 in accounts receivable.

Liabilities as of June 30, 2020 include \$755,266 due on the installment contracts with banks.

Net position as of June 30, 2020 total \$1,270,967 which represents a decrease of \$30,549 from the prior year. \$695,142 of the total net position is invested in capital assets with \$289,274 restricted for fire/ambulance fund, \$158,398 restricted for trash fund, \$13,215 restricted for inspections, and \$114,938 being unrestricted.

During the year ended June 30, 2020 the Township incurred new debt totaling \$167,661 for the purchase of two ambulances and \$26,500 for the purchase of a new vehicle for the Fire/EMS Department.

The following table shows in condensed format, the net position as of June 30, 2020 and 2019.

	<b>Governmental Activities</b>	
	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
Current assets	\$ 575,825	\$ 662,695
Noncurrent assets	1,450,408	1,295,701
Total assets	<u>2,026,233</u>	<u>1,958,396</u>
<b>Liabilities</b>		
Accounts Payable	-	20,000
Long Term Debt	<u>755,266</u>	<u>636,880</u>
<b>Net Position</b>		
Invested in capital assets	695,142	658,821
Restricted	460,887	486,829
Unrestricted	114,938	155,866
Total net assets	<u>\$ 1,270,967</u>	<u>\$ 1,301,516</u>

## **Overview of the Financial Statements**

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

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present an overview of the government broken down by the services it provides.

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

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

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

## **Government-wide Financial Statements**

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

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

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

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

Most of the activities of the Township are reported as governmental activities. These would include the operations recorded in the General, Trash and Fire/Ambulance Funds.

## **Fund Financial Statements**

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

The Township has a Governmental Fund type fund: All of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information.

You will note that the differences between the Township's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them.

### **Capital Asset and Long-term Debt Activity**

#### **Capital Assets:**

During the year ended June 30, 2020 the Township acquired two new ambulances and a vehicle for the Fire/EMS Department with the purchases totaling \$294,161.

#### **Long Term Debt:**

The Townships long term debt is detailed in the following table:

Year ended June 30,	Governmental Activities		
	Principal	Interest	Total
2021	101,950	30,713	132,663
2022	105,714	26,970	132,684
2023	105,643	23,084	128,727
2024 - 2029	441,959	65,634	507,593
Total	<u>\$ 755,266</u>	<u>\$ 146,401</u>	<u>\$ 901,667</u>

### **Known Factors Affecting Future Operations**

None.

### **Contacting Township Management**

This financial report is designed to provide our taxpayers, creditors, investors, and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report, please contact Mr. Brandon Gabriel, Supervisor.

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Brandon Gabriel, Supervisor

Frederic Township  
Statement of Net Position  
June 30, 2020

	Governmental Activities
<b>Assets</b>	
Cash	\$ 400,828
Receivables	142,475
Land Contract Receivable	32,522
Due from other Governmental Units	-
Fixed Assets, Net of Depreciation	1,450,408
	<hr/>
Total Assets	2,026,233
	<hr/>
<b>Liabilities</b>	
Accounts payable	-
Long Term Debt Due Within One Year	101,950
Long Term Debt Due in More Than One Year	653,316
	<hr/>
Total Liabilities	755,266
	<hr/>
<b>Net Position</b>	
Investment in Fixed Assets	695,142
Restricted for	
Fire/Ambulance	289,274
Trash Collection	158,398
Inspection	13,215
Unrestricted	114,938
	<hr/>
Total Net Position	\$ 1,270,967
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements



Frederic Township  
Statement of Activities  
Year Ended June 30, 2020

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenue
<b>Programs/Functions</b>					
General Government	\$ 420,263	\$ 41,054	\$ -	\$ -	\$ (379,209)
Public Safety	1,857,105	1,481,097	-	-	(376,008)
Public Works	145,580	171,365	-	-	25,785
Community/Economic Dev.	68,301	25,152	-	-	(43,149)
Recreation/Culture	6,567	-	-	-	(6,567)
Total Governmental Activities	2,497,816	1,718,668	-	-	(779,148)
General Revenues					
General Property Taxes					92,937
Fire & Ambulance Taxes					227,581
State Shared Revenue					177,075
Interest, Rent, & Other Revenue					275,799
Total General Revenues					773,392
Change in Net Position					(5,756)
Net Position, Beginning of Year					1,276,723
Net Position, End of Year					<u>\$ 1,270,967</u>

The accompanying notes are an integral part of these financial statements

Frederic Township  
Balance Sheet  
Governmental Funds  
June 30, 2020

	General Fund	Fire/Ambulance Fund	Trash Fund	Non Major Inspection Fund	Total
<b>Assets</b>					
Cash	\$ 82,353	\$ 146,862	\$ 158,398	\$ 13,215	\$ 400,828
Receivables	63	142,412	-	-	142,475
Due from other Governments	-	-	-	-	-
Total Assets	82,416	289,274	158,398	13,215	543,303
<b>Liabilities and Fund Balance</b>					
<b>Liabilities:</b>					
Accounts payable	-	-	-	-	-
<b>Fund Balance:</b>					
Restricted for:					
Fire/Ambulance Fund	-	289,274	-	-	93,794
Trash Collection Fund	-	-	158,398	-	93,934
Inspection	-	-	-	13,215	31,324
Unassigned	82,416	-	-	-	20,482
Total Fund Balance	82,416	289,274	158,398	13,215	543,303
Total liabilities and fund balan	\$ 82,416	\$ 289,274	\$ 158,398	\$ 13,215	\$ 543,303

The accompanying notes are an integral part of these financial statements

Frederic Township  
Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Position  
June 30, 2020

<b>Total Fund Balance - Governmental Funds (Per Balance Sheet - page 7)</b>	<b>\$</b>	<b>543,303</b>
Amounts reported for governmental activities in the Statement of Net Position (page 5) are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not recorded in the funds		1,450,408
Land contract receivable is not currently due and therefore is not recorded in the funds		32,522
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds		(755,266)
<b>Total Net Position - Governmental Activities (per Statement of Net Position - page 6)</b>	<b>\$</b>	<b>1,270,967</b>

The accompanying notes are an integral part of these financial statements

Frederic Township  
Statement of Revenues, Expenditures,  
and Changes in Fund Balances  
Year Ended June 30, 2020

	General Fund	Fire/Ambulan Fund	Trash Fund	Non Major Inspection Fund	Total
<b>Revenue</b>					
Property Taxes and Assessments	\$ 92,937	\$ 227,581	\$ -	\$ -	\$ 320,518
State Revenue	177,075	-	-	-	177,075
Charges for Services	41,054	1,481,097	171,365	25,152	1,718,668
Interest and Rent	33,044	-	-	-	33,044
Miscellaneous	24,226	166,000	-	-	190,226
Reimbursements	52,529	-	-	-	52,529
Total Revenue	420,865	1,874,678	171,365	25,152	2,492,060
<b>Expenditures</b>					
Current:					
General Government	378,451	-	-	30,799	409,250
Public Safety	10,337	1,720,645	-	-	1,730,982
Public Works	-	-	145,125	-	145,125
Community/Economic Dev.	68,301	-	-	-	68,301
Recreation/Culture	2,391	-	-	-	2,391
Capital Outlay	-	294,161	-	-	294,161
Payment of Loans	-	104,068	-	-	104,068
Total Expenditures	459,480	2,118,874	145,125	30,799	2,754,278
Excess (deficiency) of revenues over (under) expenditures	(38,615)	(244,196)	26,240	(5,647)	(262,218)
<b>Other Financing Sources</b>					
Proceeds from issuance of debt	-	197,661	-	-	197,661
Excess of revenues and other sources over expenditures	(38,615)	(46,535)	26,240	(5,647)	(64,557)
Fund Balances, Beginning of Year	121,031	335,809	132,158	18,862	607,860
Fund Balances, End of Year	\$ 82,416	\$ 289,274	\$ 158,398	\$ 13,215	\$ 543,303

The accompanying notes are an integral part of these financial statements

Frederic Township  
Reconciliation of the Statement of Revenues, Expenditures, and  
Changes in Fund Balance of Governmental Funds  
to the Statement of Activities  
Year Ended June 30, 2020

<b>Net change in fund balances - Governmental activities (page 9)</b>	<b>\$ (64,557)</b>
Amounts reported for governmental activities in the Statement of Activities (Page 6) are different because:	
Depreciation expense is recorded in the statement of activities but not the governmental fund financial statements	(139,454)
Payments on long-term debt are recorded as an expenditure in the fund financial statements but are a reduction to outstanding balances in the government-wide statements	104,068
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	294,161
Governmental funds report loan proceeds as other financing sources; however, in the go	(197,661)
The principle collection of a long term receivable on the sale of an asset is recorded as a revenue in the fund financial statements	(2,313)
<b>Change in Net Position - Governmental Activities (Per Statement of Activities - Page 6)</b>	<b>\$ (5,756)</b>

The accompanying notes are an integral part of these financial statements

**FREDERIC TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2019**

**NOTE 1: ENTITY**

The Township of Frederic is a general law township of the State of Michigan located in Crawford County, Michigan. It operates under an elected board and provides service to its residents in many areas including fire and ambulance services, community enrichment, and human services. The criteria established for determining various governmental functions to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, the financial statements include all of the governmental functions of Frederic Township.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**INTRODUCTION**

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

**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 are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customer or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary 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.

**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 is the fiduciary fund financial statement. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**FREDERIC TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2019**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (continued)**

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 provided have been met.

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 measure 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 Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include property taxes and state-shared revenue. All other revenue items are considered to be available only when cash is received by the township.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The Township reports the following major governmental fund:

*General Fund* - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state distributions and interest earnings.

*Fire and Ambulance Fund* - This fund is used to account for financial activities of the Frederic Township Fire/Ambulance Department. Revenues are derived primarily from property taxes for fire protection and user fees for ambulance services to the residents.

*Trash Collection Fund* – This fund is used to account for financial activities of the Trash Collection Department. Revenues are derived primarily from a special assessment.

Additionally, the Township reports the following fund type:

*Agency Fund* – The Agency Fund accounts for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

**FREDERIC TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2019**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (continued)**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statement to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

**PROPERTY TAXES**

The property tax calendar is as follows:

Levy Dates	July 1, 2019 (summer collection) December 1, 2019 (winter collection)
Due Dates	September 15, 2019 (summer collection) February 15, 2020 (winter collection)

The real property tax rolls were turned over to the County of Crawford on March 1, 2019. Collection of personal property taxes remains the responsibility of the Township. Amounts collected after the due date are assessed interest and / or penalty provisions. A county revolving fund normally pays the balance of the Township's real property tax levy by May 31. The entire Township levy is recorded as revenue in the current year.

The tax rates for the year ended June 30, 2020, were as follows:

<b>Purpose</b>	<b>Rate / Assessed Valuation</b>
General	0.8148 mills per \$1,000
Fire (operating)	1.9338 mills per \$1,000
Fire (purchases)	1.0000 mills per \$1,000
Ambulance	0.9669 mills per \$1,000



**FREDERIC TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2019**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**ASSETS, LIABILITIES, AND NET POSITION / FUND BALANCE**

**Bank Deposits and Investments**

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

**Receivables and Payables**

Outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” All trade receivables are shown net of allowance for uncollectible amounts.

**Capital Assets**

The Township’s property, plant, and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The Township generally capitalizes assets with historical cost of \$5,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

The following ranges are proposed as guidelines in estimating useful lives for asset reporting:

Buildings and improvements	5 – 50
Land improvements	2 – 50
Machinery and equipment	3 – 30
Furniture and fixtures	3 – 30
Vehicles	5 – 25

Land and construction in progress are not depreciated.

With respect to asset improvements, costs over \$5,000 should be capitalized if:

1. The estimated life of the asset is extended by more than 25%, or
2. The cost results in an increase in the capacity of the asset, or
3. The efficiency of the asset is increased by more than 10%, or
4. Significantly changes the character of the asset, or
5. In the case of streets and roads, if the work done impacts the “base” structure.
6. Otherwise, the cost should be expensed as repair and maintenance.

**FREDERIC TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2019**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Balance**

In the fund financial statements, fund balances may be presented in five possible categories, each of which identifies the extent to which the Township is bound to honor constraints on the specific purpose for which amounts can be spent:

*Non-spendable* – Amounts that are not in spendable form or are legally or contractually required to be maintained intact.

*Restricted* – Amounts that are restricted by outside parties, constitutional provision, or enabling legislation for use for a specified purpose.

*Committed* – Amounts that have been formally set aside by the Township Board for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Township Board.

*Assigned* – Intent to spend resources on specific purposes expressed by the Township Board

*Unassigned* – Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been restricted, committed, or assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

It is the Township's policy to first use restricted fund balance prior to the use of unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The Township's policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**BUDGET**

Public Act 621 of 1978 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 and budgeted expenditures for the budgetary funds have been shown on a functional and activity basis. The approved budgets of the Township for these budgetary funds were adopted on a fund basis.

During the year ended June 30, 2020, the Township overspent their fire fund budget. The fire fund overspent their budget due, for the most part, to a final payment on a new ambulance and new equipment that were not budgeted for. Although this is a recurrence for this budget to be overspent, management feels this is an isolated incident due to the onetime nature of the expenditures.

**FREDERIC TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2019**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BUDGET (continued)**

Budgets as adopted end on June 30, of each year. There are no carryover budget items. Budgets are adopted on the modified accrual basis of accounting. Amendments are made to the budgets when determined to be necessary throughout the year. The budgets presented are both the original and final amended amounts.

**ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 3: BANK ACCOUNTS**

The Township has a bank account for each of its funds. Balances as of June 30, 2020, are as follows:

General	\$ 82,353
Trash	158,398
Fire	146,862
Inspection	13,215
Total	<u>\$ 400,828</u>

**NOTE 4: CASH AND CASH EQUIVALENTS**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan.

The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds and investment pools composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated one bank for the deposit of its funds. The Investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs.

Frederic Township's deposits and investment policies are in accordance with statutory authority.

**FREDERIC TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2019**

**NOTE 4: CASH AND CASH EQUIVALENTS (continued)**

The Township's cash and investments are subject to custodial credit risk which is examined in more detail below:

**Custodial credit risk of bank deposits:**

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year-end, the Township had \$170,698 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**NOTE 5: CAPITAL ASSETS**

Capital asset activity of the Township was as follows:

	Balance 6/30/2019	Additions	Disposals	Balance 6/30/2020
Capital assets being depreciated:				
Building and improvements	\$ 697,410	\$ -	\$ -	\$ 697,410
Equipment	469,559	-	-	469,559
Vehicles	1,693,451	294,161	-	1,987,612
Subtotal	<u>2,860,420</u>	<u>294,161</u>	<u>-</u>	<u>3,154,581</u>
Accumulated depreciation:	(1,564,719)	(139,454)	-	(1,704,173)
Net capital assets	\$ 1,295,701			\$ 1,450,408

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

General government	\$ 8,700
Public safety	126,123
Public works	455
Recreation and culture	<u>4,176</u>
Total accumulated depreciation	<u>\$ 139,454</u>

**FREDERIC TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2019**

**NOTE 6: LONG-TERM DEBT**

Long-term debt at June 30, 2020 consists of the following:

Type of Indebtedness	Maturity	Interest Rate	Principal Payments	Loan Amount	Year End Balance
Installment note pick up truck	2/1/2022	2.49%	\$3,314-3,840	\$25,000	\$11,264
Installment note tanker and pumper	8/1/2028	4.46%	\$51,902-72,472	\$601,810	\$601,810
Installment note ambulances	12/22/2023	2.84%	\$47,359-51,510	\$197,661	\$197,661

Long-term debt activity for the year is summarized as follows:

Installment note	Balance	Additions	Retirements	Balance	One Year
Ambulances	\$23,806	-	23,806	\$ -	-
Pick up Truck	11,264	-	3,567	\$ 7,697	3,746
Tanker and Pumper	601,810	-	51,902	\$ 549,908	50,845
Ambulances	-	197,661	-	\$ 197,661	47,359
	<u>\$636,880</u>	<u>\$ 197,661</u>	<u>\$ 79,275</u>	<u>\$ 755,266</u>	<u>\$101,950</u>

Annual debt service requirements to maturity for the Township's note obligations are as follows:

Year ended June 30,	Governmental Activities		
	Principal	Interest	Total
2021	101,950	30,713	132,663
2022	105,714	26,970	132,684
2023	105,643	23,084	128,727
2024-2029	441,959	65,634	507,593
	<u>\$ 755,266</u>	<u>\$ 146,401</u>	<u>\$ 901,667</u>

**NOTE 7: INSURANCE**

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The Township participates in the Michigan Municipal Liability and Property Pool, a self-insured group. The pool is considered a public entity risk pool. The Township pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expense for a policy year exceed the total normal annual premiums for said years, all members of the pool's year may be subject to special assessment to make up the deficiency.

The pool maintains reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type of coverage of reinsurance. The Township has not been informed of any special assessments being required. There were no significant changes in coverage, nor were there any significant claims for the year. The Township carries commercial insurance for other types of losses, including accident insurance.

Frederic Township  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
General Fund  
Year Ended June 30, 2020

	Original Budget	Final Amended Budget	Actual	Variance From Final Budget
<b>Revenue</b>				
Property Taxes and Assessments	\$ 106,500	\$ 106,500	\$ 92,937	\$ (13,563)
State Revenue	177,163	177,163	177,075	(88)
Charges for Services	105,331	105,331	41,054	(64,277)
Interest and Rent	33,900	33,900	33,044	(856)
Miscellaneous	15,730	15,730	24,226	8,496
Reimbursements	50,600	50,600	52,529	1,929
Total Revenue	489,224	489,224	420,865	(68,359)
<b>Expenditures</b>				
General Government	362,000	362,000	378,451	(16,451)
Public Safety	16,900	16,900	10,337	6,563
Community/Economic Dev.	94,450	94,450	68,301	26,149
Recreation/Culture	5,000	5,000	2,391	2,609
Total Expenditures	478,350	478,350	459,480	18,870
Change in Fund Balance	10,874	10,874	(38,615)	(49,489)
Fund Balance, Beginning of Year	121,031	121,031	121,031	-
Fund Balance, End of Year	\$ 131,905	\$ 131,905	\$ 82,416	\$ (49,489)

Frederic Township  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
Fire/Ambulance Fund  
Year Ended June 30, 2020

	Original Budget	Final Amended Budget	Actual	Variance From Final Budget
<b>Revenues</b>				
Property Taxes	\$ 223,837	\$ 223,837	\$ 227,581	\$ 3,744
Charges for Services	1,373,860	1,373,860	1,481,097	107,237
Interest	-	-	-	-
Miscellaneous	91,000	91,000	166,000	75,000
Total Revenues	1,688,697	1,688,697	1,874,678	185,981
<b>Expenditures</b>				
Public Safety	1,583,200	1,583,200	1,720,645	(137,445)
Capital Outlay/Payment of Loans	117,337	117,337	398,229	(280,892)
Total Expenditures	1,700,537	1,700,537	2,118,874	(418,337)
Change in Fund Balance	(11,840)	(11,840)	(244,196)	(232,356)
<b>Other Financing Sources</b>				
Proceeds from issuance of debt	17,500	17,500	197,661	180,161
Excess of revenues and other sources over expenditures	(5,660)	(5,660)	46,535	(52,195)
Fund Balance, Beginning of Year	335,809	335,809	335,809	-
Fund Balance, End of Year	\$ 341,469	\$ 341,469	\$ 289,274	\$ (52,195)

Frederic Township  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
Trash Fund  
Year Ended June 30, 2020

	Original Budget	Final Amended Budget	Actual	Variance From Final Budget
<b>Revenue</b>				
Charges for Services	\$ 171,923	\$ 171,923	\$ 171,365	\$ (558)
<b>Expenditures</b>				
Public Works	145,350	145,350	145,125	225
Change in Fund Balance	26,573	26,573	26,240	(333)
Fund Balance, Beginning of Year	132,158	132,158	132,158	-
Fund Balance, End of Year	\$ 158,731	\$ 158,731	\$ 158,398	\$ (333)





715 S. Wisconsin Ave  
P.O. Box 962  
Gaylord, MI 49734

## **AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS**

December 15, 2020

To the Township Board  
Frederic Township  
Crawford County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Frederic Township for the year ended June 30, 2020. As required by auditing standards generally accepted in the United States of America, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### 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 Frederic Township are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2020. We noted no transactions entered into by Frederic Township 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 governmental activities of the Township were:

Management's estimate of the useful lives of capital assets is based on previous history. We evaluated the key factors and assumptions used to develop the estimates 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.

**PHONE (989) 732-7515, FAX (989) 732-7790**

### *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.

### *Disagreements 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 December 15, 2020.

### *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 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*

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.

### Other Matters

We applied certain limited procedures to the Management Discussion and Analysis and the Budgetary Comparison Schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

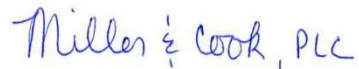
We were engaged to report on combining nonmajor fund financial statements which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine 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.

Restriction on Use

This information 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.

Respectfully Yours,

A handwritten signature in blue ink that reads "Miller & Cook, PLC". The signature is written in a cursive, flowing style.

Miller and Cook, PLC



715 S. Wisconsin Ave  
P.O. Box 962  
Gaylord, MI 49734

## AUDIT COMMUNICATION OF MATERIAL WEAKNESSES

December 15, 2020

To the Township Board  
Frederic Township  
Crawford County, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Frederic Township as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered Frederic Township's internal control over financial reporting (internal control) as a basis for designing 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 Frederic Township's internal control. Accordingly, we do not express an opinion on the effectiveness of Frederic Township's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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 following deficiencies in internal control to be material weaknesses:

1) *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.

Cause: This condition is primarily the result of staffing constraints typical of smaller governmental units. Some of the control activities 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 or 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 staff and applies its judgement in determining how best to allocate the government's resources to provide and appropriately balance between sound internal controls and fiscal prudence.

## 2) *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 entities, the government has historically relied on its independent external auditor to assist with 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 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.

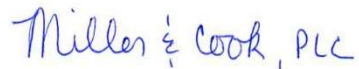
Recommendations: Due to the size and minimal activity, we recommend that the government continue to outsource financial statement preparation.

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 interest of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation,

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

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 other than these specified parties.

Respectfully Yours,

A handwritten signature in blue ink that reads "Miller & Cook, PLC". The signature is written in a cursive, flowing style.

Miller and Cook, PLC