

SHERMAN TOWNSHIP
KEWEENAW COUNTY, MICHIGAN

FINANCIAL REPORT

For the Year ended March 31, 2023

David A. Heinonen, CPA, PC

P O Box 637
Laurium, MI 49913
Telephone No. (906) 337-2910
Fax No. (906) 337-2912
Email Address: david@dahcpapc.com

Sherman Township

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David A Heinonen CPA PC

INDEPENDENT AUDITORS' REPORT

To the Township Board Members
Sherman Township
Lake Linden, MI 49945

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Sherman Township, Michigan, as of and for the year ended March 31, 2023, 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 that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Sherman Township, Michigan, as of March 31, 2023, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and budgetary comparison schedule as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who consider 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2023 on our consideration of the Sherman Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sherman Township's internal control over financial reporting and compliance.

David A. Heinonen, CPA, PC

Calumet, Michigan
September 15, 2023

**SHERMAN TOWNSHIP
MANAGEMENT DISCUSSION AND ANALYSIS
March 31, 2023**

This section presents our discussion and analysis of the Sherman Township (Township) financial performance to provide an overview of the financial activities for the year ended March 31, 2023. It is intended to be read in conjunction with the Township's financial statements; which immediately follow this section on page 9.

FINANCIAL HIGHLIGHTS

The Township's net position is being reported, under the provisions of Government Accounting Standards Board (GASB), Statement Numbers 34, and 63. Prior year comparative information will be presented in the various schedules throughout this Management Discussion and Analysis (MD&A).

USING THIS ANNUAL REPORT

This discussion and analysis, is intended to serve as an introduction to Sherman Township's basic financial statements. The Township's basic financial statements are comprised of three components: 1.) government-wide financial statements, 2.) fund financial statements, and 3.) notes to the financial statements. This report also contains supplementary information, in addition to the basic financial statements.

Report Components

Government-wide Financial Statements: The Statement of Net Position and the Statement of Activities provide information about the activities of the Township government-wide (or "as a whole") and present a longer-term view of the Township's finances.

Fund Financial Statements: Fund Financial Statements focus on the individual parts of the Township Government. Fund financial statements also report the Township's operations in more detail than the government-wide statements by providing information about the Township's most significant ("major") funds. For governmental entities these statements tell how these services were financed in the short term as well as what remains for future spending. For proprietary activities, these statements offer short-term and long-term financial information about the activities of the Township that operate like businesses such as the sewage disposal and water distribution services. For fiduciary activities, the statements account for assets held by the Township as an agent or trustee for others and include the property tax collections and distributions to other governmental entities

Notes to Financial Statements: The notes to the financial statements are an integral part of the government-wide and fund financial statements that provide expanded explanation and detail regarding information reported in the statements.

Required Supplementary Information: This Management Discussion and Analysis and the Budgetary Comparison Schedules represent financial information required to be presented by the GASB. Such information provides users with additional data that supplements the "basic financial statements" which include the government-wide statements, and fund financial statements.

Other supplementary information: This part of the annual report (if necessary) includes optional financial information such as combining statements for non-major funds, which are added together and shown in the fund statements in a single column and a federal program section. This other supplemental financial information is provided to address certain specific needs of various users of the Township's annual report.

**SHERMAN TOWNSHIP
MANAGEMENT DISCUSSION AND ANALYSIS**

March 31, 2023

(Continued)

REPORTING THE TOWNSHIP AS A WHOLE

Our analysis of the Township begins on page 9. One of the most important questions asked about the Township's finances is "Is the Township, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Township as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is like the accounting methods used by most private-sector companies.

All the current year's revenues and expenses are considered regardless of when cash is received or paid. These two statements report the Township's net position and changes in it. You can think of the Township's net position—the difference between assets and liabilities – as one way to measure the Township's financial health, or *financial position*. Over time, increases or decreases in the Township's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the local population, and related demographics.

The Statement of Net Position and the Statement of Activities is divided into two types of activities:

Governmental activities - Most of the Township's basic services are reported here, including the police, fire, general administration, public works, and recreation. Property taxes, state statutory aid and state and federal grants finance most of these activities.

Business-type activities - The Township charges fees to its water/sewage customers to help cover all or most of the costs of these services they provide.

THE TOWNSHIP AS A WHOLE

In a condensed format, the table below provides a summary of the Township's net position (in thousands of dollars). The Township's combined net position at March 31, 2023 increased \$34,445, from March 31, 2022.

Table 1 - Net Position

	(in thousands)					
	Governmental Activities		Business-Type Activities		Total	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Current assets	\$ 206.4	\$ 165.2	\$ 226.9	\$ 207.5	\$ 433.3	\$ 372.7
Non-current assets	315.0	324.6	805.7	835.7	1,120.6	1,160.4
Total assets	<u>521.4</u>	<u>489.8</u>	<u>1,032.6</u>	<u>1,043.3</u>	<u>1,554.0</u>	<u>1,533.1</u>
Current liabilities	2.4	1.9	17.9	18.1	20.3	20.1
Non-current liabilities	0.0	0.0	265.0	279.3	265.0	279.3
Total liabilities	<u>2.4</u>	<u>1.9</u>	<u>282.9</u>	<u>297.4</u>	<u>285.3</u>	<u>299.4</u>
Net Position						
Investment in capital assets, net of related debt	315.0	324.6	514.5	529.4	829.5	854.0
Restricted net position	12.6	6.9	150.3	150.9	162.9	157.7
Unrestricted net position	191.4	157.7	85.7	65.6	277.0	223.2
Net Position	<u>\$ 518.9</u>	<u>\$ 489.1</u>	<u>\$ 750.5</u>	<u>\$ 745.8</u>	<u>\$ 1,269.4</u>	<u>\$ 1,234.9</u>

**SHERMAN TOWNSHIP
MANAGEMENT DISCUSSION AND ANALYSIS
March 31, 2023
(Continued)**

THE TOWNSHIP AS A WHOLE (Continued)

Net position of the Township was \$1,269,430, at March 31, 2023, and \$1,234,984 in 2022. Unrestricted net position was \$277,031, and \$223,259, respectively, and restricted net position was \$162,898, and \$157,722 respectively. In general, the Township's unrestricted net position is used to fund operations of the Township, and restricted net position is used for specific purposes (i.e., Community Hall Projects), bond principal and interest repayments, bond reserves, and water and sewer system repairs.

Table 2 - Changes in Net Position

	(in thousands)					
	Governmental Activities		Business-Type Activities		Total	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Program revenues: Charges for services	\$ 0.0	\$ 0.0	\$ 67.5	\$ 54.9	\$ 67.5	\$ 54.9
Program grants and subsidies	44.0	38.1	0.0	0.0	44.0	38.1
General revenues	91.2	91.2	15.7	22.6	106.8	113.8
Total revenues	<u>135.1</u>	<u>129.2</u>	<u>83.2</u>	<u>77.5</u>	<u>218.3</u>	<u>206.7</u>
Operating expenses	109.3	126.7	78.5	85.2	187.8	211.9
Transfers-out	0.0	2.5	0.0	0.0	0.0	2.5
Total expenses	<u>109.3</u>	<u>129.2</u>	<u>78.5</u>	<u>85.2</u>	<u>187.8</u>	<u>214.4</u>
Increase (decrease) in net position	25.8	0.1	4.7	(7.7)	30.5	(7.6)
Net position - beginning of the year	<u>489.1</u>	<u>489.1</u>	<u>745.8</u>	<u>753.3</u>	<u>1,234.9</u>	<u>1,242.5</u>
Prior Period Adjustment	4.0	0.0	0.0	0.0	4.0	0.0
Net position - end of year	<u>\$ 518.9</u>	<u>\$ 489.1</u>	<u>\$ 750.5</u>	<u>\$ 745.8</u>	<u>\$ 1,269.5</u>	<u>\$ 1,234.9</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year, the Township has \$2,370,737, invested in a variety of capital assets including land, buildings, equipment, and sewer/water systems as follows:

Table 3 - Cost of Capital Assets at March 31, 2023

	(in thousands)					
	Governmental Activities		Business-Type Activities		Total	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Land (not depreciated)	\$ 0.0	\$ 0.0	\$ 3.0	\$ 3.0	\$ 3.0	\$ 3.0
Buildings and improvements	595.6	581.4	0.0	0.0	595.6	581.4
Equipment	441.6	441.6	10.2	10.2	451.8	451.8
Water and sewer systems	0.0	0.0	1,320.3	1,320.3	1,320.3	1,320.3
Total depreciable assets cost	<u>1,037.2</u>	<u>1,023.0</u>	<u>1,330.5</u>	<u>1,330.5</u>	<u>2,367.7</u>	<u>2,353.5</u>
Total Cost of Capital Assets	<u>\$ 1,037.2</u>	<u>\$ 1,023.0</u>	<u>\$ 1,333.5</u>	<u>\$ 1,333.5</u>	<u>\$ 2,370.7</u>	<u>\$ 2,356.5</u>

**SHERMAN TOWNSHIP
MANAGEMENT DISCUSSION AND ANALYSIS
March 31, 2023
(Continued)**

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Debt Administration

Long-term Debt

At fiscal year end, the township had \$279,300, in long-term debt outstanding, and \$293,600, in long-term debt last year as indicated in the table below.

Table 4 - Long-term Debt at March 31, 2023

	(in thousands)					
	Governmental Activities		Business-Type Activities		Total	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Notes/loans payable	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Bonds payable	0.0	0.0	279.3	293.6	279.3	293.6
	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 279.3</u>	<u>\$ 293.6</u>	<u>\$ 279.3</u>	<u>\$ 293.6</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Township's appointed officials considered many factors when setting the budget for the fiscal year 2023 budget. In the upcoming year, we do not anticipate any significant changes in the local demographics, number of taxpayers or customers or their related consumption, or other factors that would provide any substantial change in revenues. There continues to be a variety of inflationary costs and expense issues. These and other factors were taken into consideration during the 2023 budget process.

CONTACTING THE TOWNSHIP'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Township's Supervisor or Treasurer in their offices during regular business hours at (906) 296-1211.

SHERMAN TOWNSHIP
Statement of Net Position
 March 31, 2023

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 190,651	\$ 29,030	\$ 219,681
Accounts receivable, net	0	41,858	41,858
Taxes receivable	1,178	7,701	8,879
Internal balances	1,948	(1,948)	0
Restricted assets-cash	12,613	150,285	162,898
Total Current Assets	206,390	226,926	433,316
Non-current assets			
Capital Assets, net of accumulated depreciation	314,967	793,834	1,108,801
Total non-current assets	314,967	793,834	1,108,801
Other assets			
Deferred bond issue costs, net of accumulated amortization	0	11,840	11,840
Total other assets	0	11,840	11,840
TOTAL ASSETS	\$ 521,357	\$ 1,032,600	\$ 1,553,957
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 478	\$ 1,112	\$ 1,591
Accrued payroll related expenses	1,948	0	1,948
Accrued interest	0	2,456	2,456
Current maturities on loan/bonds	0	14,300	14,300
Total Current Liabilities	2,426	17,869	20,295
Non-current Liabilities			
Bonds payable	0	279,300	279,300
Less: current maturities on loan/bonds	0	(14,300)	(14,300)
Total Non-current Liabilities	0	265,000	265,000
TOTAL LIABILITIES	2,426	282,869	285,295
NET POSITION			
Investment in capital assets, net of related debt	314,967	514,534	829,501
Restricted net position	12,613	150,285	162,898
Unrestricted net position	191,351	85,680	277,031
TOTAL NET POSITION	\$ 518,930	\$ 750,499	\$ 1,269,430

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

SHERMAN TOWNSHIP**Statement of Activities**

For the Year ended March 31, 2023

FUNCTIONS/PROGRAMS	Net Revenues (Expenses) & Changes in Net Position						Total
	Expenses	Program Revenue			Primary Government		
		Charges for Services	Operating Grants and Contributions	Non-Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
Primary Government:							
Governmental Activities							
General Government	\$ 81,086	\$	\$	\$	(81,086)	\$	(81,086)
Public Safety:	24,541			0	(24,541)		(24,541)
Public Services	0				0		0
Parks and recreation	3,711				(3,711)		(3,711)
Depreciation	21,578				(21,578)		(21,578)
Total governmental activities	<u>130,916</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(130,916)</u>		<u>(130,916)</u>
Business-Type Activities							
Water utility	47,887	45,538	0	0		(2,349)	(2,349)
Sewage disposal	30,582	21,836	0	0		(8,745)	(8,745)
Total business-type activities	<u>78,468</u>	<u>67,374</u>	<u>0</u>	<u>0</u>		<u>(11,095)</u>	<u>(11,095)</u>
Total primary government	<u>\$ 209,384</u>	<u>\$ 67,374</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (130,916)</u>	<u>(11,095)</u>	<u>(142,011)</u>
General Revenues:							
Property taxes/Special assessments					61,956	15,676	77,632
Donations					27,209	0	27,209
State shared revenue					33,209	0	33,209
Federal/State Grants					10,765	0	10,765
Unrestricted investment earnings					278	73	351
Miscellaneous					1,719	0	1,719
Total general revenues					<u>135,135</u>	<u>15,749</u>	<u>150,885</u>
Transfers in (out)					<u>0</u>	<u>0</u>	<u>0</u>
Change in net position					4,219	4,655	8,874
Net position, beginning of the year					489,140	745,844	1,234,984
Prior Period Adjustments					25,571	0	25,571
Net position, end of year					<u>\$ 518,930</u>	<u>\$ 750,499</u>	<u>\$ 1,269,429</u>

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

SHERMAN TOWNSHIP

Governmental Funds - Balance Sheet

March 31, 2023

	<u>General Fund</u>	<u>Fire Department Fund</u>	<u>Non-Major Government Fund</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 120,657	\$ 59,819	\$ 10,175	\$ 190,651
Restricted cash	12,613	0	0	12,613
Taxes receivable	0	1,178	0	1,178
Due from other funds	1,948	0	0	1,948
Total Assets	\$ <u>135,218</u>	\$ <u>60,997</u>	\$ <u>10,175</u>	\$ <u>206,390</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accruals	\$ 2,426	\$ 0	\$ 0	\$ 2,426
Total Liabilities	<u>2,426</u>	<u>0</u>	<u>0</u>	<u>2,426</u>
FUND BALANCES				
Unassigned	120,179	60,997	10,175	191,351
Restricted	12,613	0	0	12,613
Total Fund Balances	<u>132,791</u>	<u>60,997</u>	<u>10,175</u>	<u>203,963</u>
Total Liabilities and Fund Balances	\$ <u>135,218</u>	\$ <u>60,997</u>	\$ <u>10,175</u>	

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

Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.

314,967

Some expenses reported in the statement of activities do not require the use of current resources and, therefore are not as expenditures in government funds.

Payment of prior year accrued expenditures

Net Position of Governmental Activities

\$ 518,930

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

SHERMAN TOWNSHIP**Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balance**

For the Year ended March 31, 2023

	<u>General Fund</u>	<u>Fire Department Fund</u>	<u>Non-Major Government Fund</u>	<u>Total</u>
Revenues				
Taxes	\$ 46,649	\$ 15,307	\$	61,956
Intergovernmental				
State shared revenue	30,059	3,150		33,209
Federal/State Grants	7,365	3,400		10,765
Interest	268	10		278
Donations	10,200	17,009	0	27,209
Other	1,380	339	\$	1,719
Total Revenues	<u>95,921</u>	<u>39,214</u>	<u>0</u>	<u>135,135</u>
Expenditures				
General Government	81,086	0		81,086
Public Safety	4,966	19,575		24,541
Public Services	0	0		0
Parks and recreation	2,508	0	1,203	3,711
Capital Outlay/Debt Service	14,250	0	0	14,250
Total Expenditures	<u>102,811</u>	<u>19,575</u>	<u>1,203</u>	<u>123,588</u>
Excess of revenues over(under) expenditures	<u>(6,890)</u>	<u>19,640</u>	<u>(1,203)</u>	<u>11,547</u>
Other financing sources (uses)				
Transfers in (out)	<u>(5,000)</u>	<u>0</u>	<u>5,000</u>	<u>0</u>
Total other financing sources (uses)	<u>(5,000)</u>	<u>0</u>	<u>5,000</u>	<u>0</u>
Net Change in Fund Balance	<u>(11,890)</u>	<u>19,640</u>	<u>3,797</u>	<u>11,547</u>
Fund balance-beginning of the year	<u>147,109</u>	<u>41,357</u>	<u>6,378</u>	
Fund balance-end of year	<u>\$ 135,218</u>	<u>\$ 60,997</u>	<u>10,175</u>	

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

Governmental funds report capital outlay as expenditures. In the statement activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount by which depreciation exceeds capital outlay. (7,328)

Prior year corrections in the governmental activities statement 25,571

Change in Net Position of Governmental Activities \$ 29,790

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

SHERMAN TOWNSHIP**Proprietary Funds - Statement of Net Position**

March 31, 2023

	<u>Water Fund</u>	<u>Sewage Fund</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 17,562	\$ 11,468	\$ 29,030
Accounts receivable, net	26,958	14,900	41,858
Taxes/assessments receivable	3,438	4,263	7,701
Prepaid insurance	448	320	768
Restricted assets	101,303	48,982	150,285
Total Current Assets	<u>149,708</u>	<u>79,934</u>	<u>229,642</u>
Noncurrent assets			
Capital assets, net of accumulated depreciation	<u>518,670</u>	<u>275,164</u>	<u>793,834</u>
Total noncurrent assets	<u>518,670</u>	<u>275,164</u>	<u>793,834</u>
Other assets			
Deferred bond issue costs, net	<u>8,890</u>	<u>2,950</u>	<u>11,840</u>
Total other assets	<u>8,890</u>	<u>2,950</u>	<u>11,840</u>
TOTAL ASSETS	<u><u>677,268</u></u>	<u><u>358,048</u></u>	<u><u>1,035,316</u></u>
LIABILITIES			
Current liabilities			
Accounts payable	859	254	1,112
Accrued interest	1,746	710	2,456
Due to other funds	1,337	611	1,948
Current maturities on bonds	<u>11,300</u>	<u>3,000</u>	<u>14,300</u>
Total Current Liabilities	<u>15,241</u>	<u>4,576</u>	<u>19,817</u>
Noncurrent liabilities			
Bonds payable	183,300	96,000	279,300
Less: current maturities on bonds	<u>(11,300)</u>	<u>(3,000)</u>	<u>(14,300)</u>
Total noncurrent liabilities	<u>172,000</u>	<u>93,000</u>	<u>265,000</u>
TOTAL LIABILITIES	<u><u>187,241</u></u>	<u><u>97,576</u></u>	<u><u>284,817</u></u>
NET POSITION			
Investment in capital assets, net of related debt	335,370	179,164	514,534
Restricted net position ***	101,303	48,982	150,285
Unrestricted net position	<u>53,354</u>	<u>32,326</u>	<u>85,680</u>
TOTAL NET POSITION	<u><u>\$ 490,026</u></u>	<u><u>\$ 260,472</u></u>	<u><u>\$ 750,499</u></u>

*** See Note G --Commitments and Contingencies

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

SHERMAN TOWNSHIP**Proprietary Funds - Statement of Revenues, Expenses, and Changes in Net Position**

For the Year ended March 31, 2023

	<u>Water Fund</u>	<u>Sewage Fund</u>	<u>Total</u>
OPERATING REVENUES			
User fees	\$ 43,138	\$ 21,836	\$ 64,974
Other operating income	2,400	0	2,400
TOTAL OPERATING REVENUES	<u>45,538</u>	<u>21,836</u>	<u>67,374</u>
OPERATING EXPENSES			
Wages and taxes	9,502	5,837	15,339
Utilities	3,900	3,037	6,938
Repairs and maintenance	1,247	2,023	3,270
Administrative	8,487	1,723	10,210
Depreciation expense	15,698	13,449	29,147
TOTAL OPERATING EXPENSES	<u>38,835</u>	<u>26,069</u>	<u>64,903</u>
OPERATING INCOME (LOSS)	6,703	(4,232)	2,471
NON-OPERATING INCOME (EXPENSE)			
Taxes/assessments	9,267	6,409	15,676
Donations	0	0	0
Interest Income	61	12	73
Interest expense	(8,292)	(4,366)	(12,658)
Amortization expense	(760)	(148)	(908)
TOTAL NON-OPERATING INCOME(EXPENSE)	<u>276</u>	<u>1,908</u>	<u>2,184</u>
CHANGE IN NET POSITION	6,979	(2,324)	4,655
NET POSITION - BEGINNING OF THE YEAR	483,047	262,797	745,845
Prior Period Adjustment	0	0	0
NET POSITION - END OF YEAR	<u>\$ 490,026</u>	<u>\$ 260,472</u>	<u>\$ 750,499</u>

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

SHERMAN TOWNSHIP**Proprietary Funds - Statement of Cash Flows**

For the Year ended March 31, 2023

	<u>Water Fund</u>	<u>Sewage Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 30,044	\$ 12,971	\$ 43,014
Cash payments to suppliers for goods and services	(14,197)	(7,310)	(21,507)
Cash payments for wages and related benefits	(8,705)	(5,901)	(14,606)
Net cash from operating activities	<u>7,141</u>	<u>(241)</u>	<u>6,901</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash received from tax assessments	9,267	5,937	15,204
Donations	0	0	0
Net cash from noncapital financing activities	<u>9,267</u>	<u>5,937</u>	<u>15,204</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Amortization expense	(760)	(148)	(908)
Transfers from (to) restricted accounts	1,665	0	1,665
Water & Sewer system improvements	0	0	0
Interest expense	(8,292)	(4,366)	(12,658)
Bond Principal	(11,300)	(3,000)	(14,300)
Net cash used by capital and related financing activities	<u>(18,687)</u>	<u>(7,513)</u>	<u>(26,200)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Income	61	12	73
Net cash from investing activities	<u>61</u>	<u>12</u>	<u>73</u>
Net increase (decrease) in cash	<u>(2,217)</u>	<u>(1,804)</u>	<u>(4,022)</u>
CASH AND EQUIVALENTS - BEGINNING OF THE YEAR	19,779	13,272	33,051
CASH AND EQUIVALENTS - END OF YEAR	<u>\$ 17,562</u>	<u>\$ 11,468</u>	<u>\$ 29,029</u>
INTEREST PAID IN CASH IN FYE 2023	<u>\$ 8,292</u>	<u>\$ 4,366</u>	<u>\$ 12,658</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 6,703	\$ (4,232)	\$ 2,471
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	15,698	13,449	29,147
Changes in current assets and liabilities:			
Decrease (Increase) in receivables	(13,901)	(8,866)	(22,767)
Decrease (Increase) in prepaids	(448)	(320)	(768)
Increase (Decrease) in accounts payable	(115)	(207)	(322)
Increase (Decrease) in due to other funds	(797)	(64)	(861)
Net cash from operating activities	<u>\$ 7,141</u>	<u>\$ (241)</u>	<u>\$ 6,901</u>

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

SHERMAN TOWNSHIP
Fiduciary Fund - Statement of Assets and Liabilities
March 31, 2023

ASSETS

Cash	\$	<u>46,460</u>
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LIABILITIES

Due to other funds/governmental units	\$	<u>46,460</u>
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The accompanying notes are an integral part of the financial statements.

SHERMAN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Sherman Township (Township) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed later within this Note.

THE REPORTING ENTITY

The Township was organized as a General Law Township in Keweenaw County, Michigan. It covers an area of approximately 65 square miles. The Township operates under an elected Board of Trustees consisting of five members, which are the supervisor, clerk, treasurer and two trustees. The Township provides many services including law enforcement, fire protection, water supply system, solid waste disposal, sanitation, recreation, and community enrichment.

Component Unit

In evaluating how to define the Township, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14.

The Financial Reporting Entity

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that the Township is not a component unit of any other governmental unit, nor is any unit a component of the Township.

BASIS OF PRESENTATION

The Township has implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement Nos. 34, and 63, which substantially revised the financial statement presentation as described below.

SHERMAN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023
(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

Government-Wide Financial Statements:

The Government-Wide financial statements (i.e., the statement of net position and the statement of activities) report information of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from the statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on user fees and charges for support.

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

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

Fund financial statements of the reporting entity are organized into funds, each of which are a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, net position/fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Township or meets certain criteria.

The following fund types are reported by the Township:

Governmental Funds

General Fund – The general fund is the primary operating fund Township and is always classified as a major fund. It is used to account for all activities except those legally and administratively required to be accounted for in another fund.

Fire Department Fund (a Major Governmental Fund) – This fund is used to account for the Township monies to operate the fire department portion of public safety.

In addition to the above major governmental funds, the Township reports the Park Fund as a non-major Governmental fund.

SHERMAN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2023

(Continued)

Proprietary Funds

Enterprise Funds – Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on the net income measurement like the private sector. This fund type includes both the Water and Sewage Funds.

Fiduciary Funds

Agency Funds - This fund type is used to account for assets held by the Township in a trustee or agency capacity for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. This fund type includes the Current and Delinquent Tax Funds.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The governmental funds financial statements are presented on a modified accrual basis of accounting. Under the modified accrual of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. Available means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Financial Statement Amounts

Cash and Equivalents - The Township’s cash and equivalents as reported in the Statement of Cash Flows and the Statement of Net Position are cash on hand, demand deposits and short-term investments with maturities of three months or less, and apply to both restricted and unrestricted cash and equivalents.

Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Prepaid Expenses - All prepaid expenses, such as insurance premiums, which are expected to be written off within the next fiscal year are included in net current assets.

Restricted Assets - Cash – Certain resources set aside for the repayment of revenue bonds and interest payments, repair, replacements, and improvements are classified as restricted assets on the balance sheet because their use is limited by the applicable bond covenant, grant agreement or local ordinance.

SHERMAN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2023

(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Amounts (Continued)

Capital Assets – Capital Assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received. Capital assets include land and improvements, buildings, furniture, equipment, vehicles, and the water and sewage systems. 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. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Interest costs incurred during construction of assets are also capitalized. Depreciation on all assets is provided on the straight-line basis over their estimated useful lives; which may range from five to fifty years.

Compensated Absences – The Township has no compensated absences for which employees will be paid, such as vacation and sick leave.

Long-Term Debt

In the government-wide financial statements, outstanding debt is reported as a liability. Bond issuance costs, bond discounts or premiums, and the difference between any reacquisition price and the net carrying value of refunded debt are capitalized over the terms of their respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Interest costs are reported as expenditures.

Net Position

Restrictions of net position in the government-wide financial statements indicate restrictions that have been imposed by other sources which preclude a portion of net position from their unrestricted purposes.

Fund Balances of the governmental funds is classified in these statements as follows:

Restricted-amounts that can be spent only for specific purposes because of constitutional provisions, enabling legislation by board action, or because of constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.

Unassigned-a residual classification for the general fund and can include residual deficits for all other governmental funds.

Revenues and Expenses

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing or investing activities. Expenses are classified by operating and non-operating and are sub-classified by function such as salaries, supplies and contracted services.

SHERMAN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023
(Continued)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Amounts (Continued)

Inter-fund Activity

Inter-fund activities are recorded as: loans, provided services, reimbursements, or transfers. Loans are reported as inter-fund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other inter-fund transactions are treated as transfers. Transfers between government or proprietary funds are netted as part of the reconciliation to the government-wide financial statements. Any residual balances outstanding between governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances”.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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.

Subsequent Events

Management evaluates events occurring after the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor’s report, which is the date the financial statements were available to be issued.

Prior Period Adjustments

The two prior year adjustments were in the depreciation schedule adjusting the accumulated depreciation and a tax revenue cut-off correction in the general fund within the governmental fund statements.

Stewardship, Compliance and Accountability

Budgets and Budgetary Accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the various fund types as well as those prescribed or permitted by the Township. All annual appropriations lapse at the fiscal year end. The legal level of budgetary control adopted by the Township is the activity level. The budget has been amended to reflect the ongoing changes as necessary as a management control device.

SHERMAN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2023

(Continued)

Stewardship, Compliance and Accountability (Continued)

Deposits

Michigan law (Act 196 PA 1997) authorizes the Township to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers' acceptance of United States Banks.
- f. Obligations of this State or any of its political subdivisions at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-4 to 80a-64, with the Township to purchase investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in a. through g. if purchased through an inter-local agreement under the Urban Cooperation's Act of 1967, 1967 (Ex Sess.) PA 7 MCL 123.512.
- i. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 29.111 to 129.118.
- j. The investment pools organized under the Local Government Investment Pool Act, 1985 PA 21, MCL 129.141. to 129.150.

Michigan Law (Section 3, Act 40, PA 1932, as amended) prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

SHERMAN TOWNSHIP

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023
(Continued)**

Stewardship, Compliance and Accountability (Continued)

Deposits (Continued)

Cash and equivalents consisted of:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Petty cash	\$ 50	\$ 0	\$ 0	\$ 50
Cash (checking and savings)	190,601	29,030	46,460	266,091
Total cash and equivalents	<u>\$ 190,651</u>	<u>\$ 29,030</u>	<u>\$ 46,460</u>	<u>\$ 266,141</u>
Restricted (certificate of deposit)	\$ 0	\$ 0	\$ 0	\$ 0
Restricted (checking and savings)	12,613	150,285	0	162,898
Total restricted cash	<u>\$ 12,613</u>	<u>\$ 150,285</u>	<u>\$ 0</u>	<u>\$ 162,898</u>

There was no *Custodial Credit Risk*, or *Concentration of Credit Risk* in that the cash and equivalents for both the unrestricted and restricted accounts were fully insured at March 31, 2023.

Compliance – Required Reserves

The ordinances authorizing the Water Supply and Sewer System Special Assessment and Revenue Bonds require that the Township establish Revenue Bond and Interest Redemption Funds, Bond Reserve Funds, Repair, Replacement, and Improvement Funds in amounts not less than the stated annual requirements. The reserve accounts that are required by the bond ordinances, along with their balances are presented in the tables that follow:

**Water System Expansion Project- Special Assessment Bonds
Reserve Requirements**

I. Bond Reserve Accounts:

These accounts are required to be funded per bond issue. The fund shall be used solely for payment of principal and interest on the bond as to which would otherwise be in default.

Bond Reserve Account:

The 2006 Special Assessment Bond Issue requires the Township to set aside the greater of the earnings in the account or 1/12th of the previous year bond principal and interest amounts.

Bond and Interest Redemption Account:

The 2006 Special Assessment Bond Issue requires the Township to set aside the cumulative excess collections from the special assessment levy over the actual bond principal and interest amounts

II. Repair, Replacement, and Improvement Account:

This account is required to be funded per bond issue and board action. This fund is to be used for repairs, replacement, or improvements to the water system.

SHERMAN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023
(Continued)

Stewardship, Compliance and Accountability (Continued)

Compliance – Required Reserves (Continued)

Repair, Replacement, and Improvement Account (Continued):

The 2006 Special Assessment Bond Issue requires the Township to set aside an amount each quarter of not less than \$687.50; less the cumulative cost of the repairs, replacements, and improvements to the water supply system.

The required balance in the Water Fund Repair, Replacement, and Improvement Account is determined as follows:

The cumulative quarterly amount of \$687.50, since water bond issuance	\$	44,000
Less: the cumulative cost of repair, replacement, and improvements	\$	<u>(70,279)</u>
Required balance at March 31, 2023	\$	<u><u>(26,279)</u></u>

Compliance – Reserve - Limited Tax General Obligation Bonds

2018 Capital Improvement Bonds Debt Retirement Fund (Water Fund):

The resolution authorizing the 2018 Capital Improvement Bond issuance requires the Township to establish a Debt Service Account from which the principal and interest on the bonds will be paid. The Township has levied a surcharge on the periodic customer water billings to be deposited in the Debt Service Account. General Monies of the Township will potentially be needed if the Surcharge is not enough to cover the annual debt service payments.

Sewer System Project- Special Assessment Bonds

Reserve Requirements

I. Bond and Bond Interest Reserve Accounts:

These accounts are required to be funded per bond issue. The fund shall be used solely for payment of principal and interest on the bond as to which would otherwise be in default.

Bond and Interest Redemption Account:

The 2004 Special Assessment Bond Issue requires the Township to set aside the cumulative excess collections from the special assessment levy over the actual bond principal and interest amounts

II. Repair, Replacement, and Improvement Account:

This account is required to be funded per bond issue and board action. This fund is to be used for repairs, replacement or improvements to the sewer system.

Repair, Replacement, and Improvement Account:

The 2004 Special Assessment Bond Issue requires the Township to set aside an amount each quarter of not less than \$312.50; less the cumulative cost of the repairs, replacements, and improvements to the sewer system.

SHERMAN TOWNSHIP

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023
(Continued)**

Stewardship, Compliance and Accountability (Continued)

The required balance in the Sewer Fund Repair, Replacement, and Improvement Account is determined as follows:

The cumulative quarterly amount of \$312.50, since sewer bond issuance	\$	23,750
Less: the cumulative cost of repair, replacement, and improvements	\$	<u>(49,576)</u>
Required balance at March 31, 2023	\$	<u><u>(25,826)</u></u>

Compliance – Required Reserves (Continued)

	<u>Required Funding</u>		<u>Actual Funding</u>
<u>Water System Bonds</u>			
Bond & Interest Redemption	\$ 47,944	\$	52,389
Bond Reserve	\$ 1,919	\$	1,919
Repair, Replacement & Improvement	\$ (26,279)	\$	43,157
Totals for Water System Bonds	\$ 23,584	\$	97,465
<u>Sewer System Bonds</u>			
Bond & Interest Redemption	\$ 40,501	\$	40,925
Repair, Replacement & Improvement	\$ (25,826)	\$	8,057
Totals for Sewer System Bonds	\$ 14,675	\$	48,982

The actual funding in the reserve accounts exceeds the required funding in all cases for both the water and sewer bond issues.

Accountability

The Restricted Net Position of \$12,613, in the General Fund, consists of the Community Hall savings account in the amount of \$561, and a depreciation funding reserve of \$12,052. The money in the Community Hall account is acquired and expended only for the repair, maintenance, and improvement of the Community Hall property, and a depreciation funding reserve has been established in the amount of \$10,000 per fiscal year; but has not been fully expended for significant repair and maintenance, or replacement, or future acquisitions of General Fund assets. Two \$10,000 payments were made during the current fiscal year. During the current fiscal year \$14,250, has been expended for the above types of expenditures, leaving that balance of \$12,052.

NOTE B – PENSION PLAN

The Township contributes to a defined contribution pension plan in lieu of funding Social Security in accordance with IRS regulations and approval.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual’s account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits of participant will receive depend solely on the amount contributed to the participant’s account, the returns earned on investments of those contributions, and forfeitures of other participants’ benefits that may be allocated to remaining participant’s accounts.

SHERMAN TOWNSHIP

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023
(Continued)**

Pension Plan (Continued)

As established by the Township, all officials and full and permanent part-time employees are eligible under the plan. Contributions made by an employee or the Township vest 100% immediately. An employee that leaves employment of the Township is entitled to his or her contributions and the Township's contributions in the form of a retirement benefit that can be provided by his accrued benefit under the given annuity contract. The Township currently contributes 6% of wages paid. Participants under the plan can voluntarily contribute 6% of their wages to their respective account. The Township's pension expense amounted to \$4,611, for the year ended March 31, 2023.

NOTE C – CAPITAL ASSETS

A summary of capital assets as of March 31, 2023 is presented as follows:

	<u>Balance</u> <u>4/1/2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>3/31/2023</u>
<u>Governmental Activities</u>				
<u>Capital Assets</u>				
Land (Non-depreciable)	\$ 0	\$ 0	\$ 0	\$ 0
Buildings	581,303	0	0	581,303
Equipment	441,391	0	0	441,391
Construction in progress	0	14,250	0	14,250
Total Capital Assets	<u>1,022,694</u>	<u>14,250</u>	<u>0</u>	<u>\$ 1,036,944</u>
Less: accumulated depreciation	<u>(698,072)</u>	<u>(21,578)</u>	<u>(2,327)</u>	<u>(721,977)</u>
Net Capital Assets	<u>\$ 324,622</u>	<u>\$ (7,328)</u>	<u>\$ (2,327)</u>	<u>\$ 314,967</u>
	<u>Balance</u> <u>4/1/2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>3/31/2023</u>
<u>Business-Type Activities</u>				
<u>Capital Assets</u>				
Land (Non-depreciable)	\$ 3,000	\$ 0	\$ 0	\$ 3,000
Water/Sewer Systems	1,330,478	0	0	1,330,478
Equipment	10,230	0	0	10,230
Total Capital Assets	<u>1,343,708</u>	<u>0</u>	<u>0</u>	<u>\$ 1,343,708</u>
Less: accumulated depreciation	<u>(520,728)</u>	<u>(29,146)</u>	<u>0</u>	<u>(549,874)</u>
Net Capital Assets	<u>\$ 822,980</u>	<u>\$ (29,146)</u>	<u>\$ 0</u>	<u>\$ 793,834</u>

SHERMAN TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2023

(Continued)

Capital Assets (Continued)

Depreciation expense is charged to programs of the Township as follows:

Governmental Activities		
General government	\$	2,698
Public Safety		14,059
Public Works		2,287
Parks and recreation		2,534
Total Governmental Activities	\$	<u>21,578</u>
Business-Type Activities		
Water System	\$	15,698
Sewer System		13,448
Total Business-Type Activities	\$	<u>29,146</u>

NOTE D – 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; injuries to employees; and natural disasters. The Township maintains commercial insurance covering these risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Township. Settled claims (if any) have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE E – LONG-TERM DEBT

Special Assessment Bonds

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds, contractual agreements, loans, and installment purchase agreements are direct obligations and are backed by the full faith and credit of the Township. Special Assessment Bonds typically involve a millage of a specific nature levied to help pay the debt service on certain projects. The long-term debt for these business-type activities is summarized below.

Capital Improvement Bonds-Limited Tax General Obligation

The Township has issued Limited Tax General Obligation Bonds known as the 2018 Capital Improvement Bonds through its Water Fund. The purpose of the bonds is to pay the cost of acquiring improvements to the Township's water system, consisting generally of the acquisition and installation of a new potable well, associated piping and electrical, and other related equipment and improvements and to pay the bond issuance costs. The bonds will be repaid from an increase in the water rates. The bonds will mature ratably over the next 6 years.

SHERMAN TOWNSHIP

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023
(Continued)**

NOTE E – LONG-TERM DEBT – (Continued)

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

Governmental Activities

Year end	<u>March 31</u>	<u>Principal</u>	<u>Interest</u>
2024	\$	0	\$ 0
2025		0	0
2026		0	0
2027		0	0
2028		0	0
2029-2033		0	0
2034-2038		0	0
2039-2043		0	0
2044-2047		0	0
		<u>\$ 0</u>	<u>\$ 0</u>

Business-Type Activities

Year end	<u>Sewer Bond</u>		<u>Water Bond Series 2006A</u>		<u>Water Bond Series 2006B</u>		<u>2018 Capital Impr Bonds</u>	
<u>March 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 3,000	4,253	3,000	5,058	300	538	8,000	2,340
2025	3,500	4,106	3,000	4,930	300	525	8,000	1,980
2026	3,500	3,949	3,000	4,803	300	512	9,000	1,620
2027	3,500	3,791	3,000	4,675	400	499	9,000	1,215
2028	4,000	3,713	4,000	4,548	400	481	9,000	810
2029-2033	21,500	15,311	20,000	20,188	2,100	2,144	9,000	405
2034-2038	26,500	9,911	25,000	15,513	2,600	1,641	0	0
2039-2043	30,500	3,476	31,000	9,775	3,200	1,159	0	0
2044-2047	0	0	27,000	2,763	2,700	424	0	0
	<u>\$ 96,000</u>	<u>\$ 48,510</u>	<u>\$ 119,000</u>	<u>\$ 72,250</u>	<u>\$ 12,300</u>	<u>\$ 7,923</u>	<u>\$ 52,000</u>	<u>\$ 8,370</u>

SHERMAN TOWNSHIP

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023
(Continued)**

NOTE E – LONG-TERM DEBT – (Continued)

	Interest Rate	Principal Matures	Beginning Balance	Additions (Reductions)	Ending Balance	Due within one year
<u>Governmental-Type Activities</u>						
None			0	0	0	0
Total Governmental-Type Activities			0	0	0	0
<u>Business-Type Activities</u>						
Limited Tax General Obligation-Water System Improvements						
2018 Capital Impr Bonds-4.5%	4.5%	12/1/2028	60,000	(8,000)	52,000	8,000
Special Assessment Bonds-Water System Expansion						
2006A Series Bonds	4.25%	12/1/2047	122,000	(3,000)	119,000	3,000
2006B Series Bonds	4.25%	12/1/2047	12,600	(300)	12,300	300
			134,600	(3,300)	131,300	3,300
Special Assessment Bonds-Sewer System						
2004 Series Bonds	4.50%	8/1/2042	99,000	(3,000)	96,000	3,000
Total Business-Type Activities			293,600	(14,300)	279,300	14,300

NOTE F – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Inter-fund balances

Water Fund due to the General Fund	\$1,337
Sewer Fund due to the General Fund	\$ 611
General Fund from the Water Fund	\$1,337
General Fund from the Sewer Fund	\$ 611

Inter-fund transfers

General Fund to Non-major governmental Fund	\$5,000
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NOTE G – COMMITMENTS AND CONTINGENCIES

The Township receives Federal and State grants for specific purposes that are subject to review and audit by those Federal and State agencies. Such audits could result in a request for reimbursement by the Federal and State agencies for expenditures disallowed under the terms and conditions of the appropriate agency. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Township expects such amounts, if any, would not be significant to the Township's financial statements.

The restricted cash in the water fund is comprised of the 2018 debt retirement savings account of \$3,838, plus the water system bond related restricted cash from the table on page 24 in the amount of \$97,465, for a total restricted cash amount in the Water Fund of \$101,303.

Required Supplementary Information

SHERMAN TOWNSHIP
Budgetary Comparison Schedule
General Fund
 March 31, 2023

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Beginning of Year Fund Balance	\$ 147,109	\$ 147,109	\$ 147,109	\$
Resources (Inflows)				
Taxes	47,700	49,026	46,649	(2,377)
State aid	14,300	34,232	30,059	(4,173)
Federal aid	0	7,365	7,365	(0)
Interest and rents	500	13	268	255
Other revenue	0	27,928	11,580	(16,348)
Transfer in	0	0	0	0
Amounts available for appropriation	<u>209,609</u>	<u>265,673</u>	<u>243,030</u>	<u>(22,643)</u>
Charges to appropriations (Outflows)				
Legislative/general government	54,437	91,477	81,086	10,391
Public safety	2,400	8,089	4,966	3,123
Public works	0	157	0	157
Parks and recreation	900	2,508	2,508	0
Depreciation/capital outlay/transfers out	10,000	43,700	19,250	24,450
Total charges to appropriations	<u>67,737</u>	<u>145,931</u>	<u>107,811</u>	<u>38,121</u>
Budgetary Fund Balance -March 31, 2023	<u>\$ 141,872</u>	<u>\$ 119,742</u>	<u>\$ 135,218</u>	<u>\$ 15,477</u>

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

SHERMAN TOWNSHIP
Budgetary Comparison Schedule
Fire Department Fund
 March 31, 2023

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Beginning of Year Fund Balance	\$ 41,357	\$ 41,357	\$ 41,357	\$
Resources (Inflows)				
VFD Millage	15,993	14,129	15,307	1,178
State Shared revenue	0	3,150	3,150	(0)
Federal/State Grants	0	3,400	3,400	0
Interest	0	10	10	(0)
Other revenue	4,500	17,348	17,348	0
Amounts available for appropriation	<u>61,850</u>	<u>79,394</u>	<u>80,571</u>	<u>1,177</u>
Charges to appropriations (Outflows)				
Public safety	6,980	11,686	19,575	(7,889)
Depreciation/capital outlay/transfers out	0	0	0	0
Total charges to appropriations	<u>6,980</u>	<u>11,686</u>	<u>19,575</u>	<u>(7,889)</u>
Budgetary Fund Balance -March 31, 2023	<u>\$ 54,870</u>	<u>\$ 67,708</u>	<u>\$ 60,997</u>	<u>\$ (6,712)</u>

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

Other Supplementary Information

SHERMAN TOWNSHIP
Combining Balance Sheet
Non-major Governmental Fund
 March 31, 2023

	Special Revenue Fund			Total Non-major Governmental Fund
	Park Fund			Fund
ASSETS				
Cash & equivalents	\$ 10,175			\$ 10,175
TOTAL ASSETS	\$ 10,175			\$ 10,175
LIABILITIES				
Due to General Fund	0			0
FUND BALANCES				
Unassigned	\$ 10,175			\$ 10,175
Restricted				
TOTAL FUND BALANCES	\$ 10,175	\$ 0	\$ 0	\$ 10,175

SHERMAN TOWNSHIP
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Non-major Governmental Fund
For the Year ended March 31, 2023

	<u>Special Revenue Fund</u>			<u>Total</u> <u>Non-major</u> <u>Governmental</u> <u>Fund</u>
	<u>Park</u> <u>Fund</u>			
Revenues				
Taxes	\$ 0	\$	\$	\$ 0
Federal/State Grants	0			0
Interest	0			0
Other-donations	0			0
Total Revenues	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Expenditures				
Legislative	\$ 0	\$	\$	\$ 0
General Government	0			0
Public Safety	0			0
Public Services	1,203			1,203
Other	0			0
Capital outlay	0			0
Interest on long-term debt	0			0
Total Expenditures	<u>1,203</u>	<u>0</u>	<u>0</u>	<u>1,203</u>
Excess of revenue over(under) expenditures	(1,203)			(1,203)
Other financing sources (uses)				
Transfers in (out)	5,000			5,000
Total other financing sources (uses)	<u>5,000</u>			<u>5,000</u>
Net Change in Fund Balance	3,797	0	0	3,797
Fund balance-beginning	6,378	0	0	6,378
Fund balance-ending	<u>\$ 10,175</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 10,175</u>

Federal Programs

David A Heinonen CPA PC

**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 Members
Sherman Township
Lake Linden MI 49945

We audited in accordance with generally accepted auditing standards 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, the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of Sherman Township, Michigan, as of and for the year ended March 31, 2023, and the related notes to the financial statements, which collectively comprise Sherman Township, Michigan's basic financial statements and have issued our report thereon dated September 15, 2023.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and prevent and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control as described in the accompanying Schedule of Audit Findings and Responses, as item numbers 2023-001 and 2023-002; that we consider to be significant deficiencies.

**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
(Continued)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sherman Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect of 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*.

Sherman Township's Response to Findings

Sherman Township's responses to the findings identified in our audit are described in the accompanying schedules of audit findings and responses. Sherman Township's responses were not subjected to the auditing procedures applied in the audit of 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 my 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 its compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

David A. Heinonen, CPA, PC

Calumet, Michigan
September 15, 2023

SHERMAN TOWNSHIP

Schedule of Audit Findings and Responses

For the year ended March 31, 2023

FINDINGS – FINANCIAL STATEMENT AUDIT

INTERNAL CONTROLS

2023-001 Lack of Segregation of Duties

Condition: Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

Criteria: Management is responsible for protecting the Township's assets. As such, a proper segregation of duties is needed to ensure protection and accurate financial reporting. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

Cause: The Township has a limited number of personnel available to adequately segregate all incompatible duties.

Effect: As a result of this condition, the same individuals are responsible for all accounting functions. The result is the possibility that intentional or unintentional errors could be made and not be detected.

Recommendation: As noted above, due to small size of the Township and the limited funds of the Township, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the Township's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the Township Board assumes a higher level of oversight responsibilities to help mitigate risks related to this lack of segregation of duties.

Views of Responsible Officials and Planned Corrective Actions: The Township agrees with the finding and the recommended procedures have been implemented.

2023-002 Ability to Prepare Financial Statements

Condition: Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America

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

SHERMAN TOWNSHIP

Schedule of Audit Findings and Responses (Continued)

For the year ended March 31, 2023

2023-002 Ability to Prepare Financial Statements (Continued)

Cause: The condition noted in the preceding paragraph exists at the Township. The cause for this condition is because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditor than to incur the time and expense of having employees and/or management obtain the necessary training and expertise required to perform this function internally.

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

Recommendation: Due principally to the small size of the Township and the limited funds available to the Township, the hiring of accounting personnel capable of writing the Township's financial statements and related notes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.

Views of Responsible Officials and Planned Corrective Actions: The Township agrees with the finding and the recommended procedures have been implemented.

P O Box 637
Laurium, MI 49913
Email: david@dahcpape.com
Phone (906) 337-2910
Fax (906) 337-2912

David A Heinonen CPA PC

September 15, 2023

To the Township Board Members
Sherman Township
Lake Linden, MI 49945

We have audited the financial statements of the Sherman Township for the year ended March 31, 2023, and have issued our report thereon dated September 15, 2023. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 20, 2022, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statement does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 10, 2023.

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 the Sherman Township are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies has not changed during 2022-2023. We noted no transactions by the Township during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 estimates affecting the financial statements were:

Management's estimates of depreciation expense and accumulated depreciation are based upon the estimated useful lives of the assets acquired. We evaluated the key factors and assumptions used to develop depreciation expense and accumulated depreciation estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no known or likely misstatements identified during the audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether 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 our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 15, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, like 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

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 Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Trustees and management of the Sherman Township, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

David A. Heinonen, CPA, PC