

TOWNSHIP OF MULLETT, MICHIGAN

ANNUAL FINANCIAL REPORT

YEAR ENDED MARCH 31, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Township Board
Township of Mullett

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Mullett (the "Township"), as of and for the year ended March 31, 2021, 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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township, as of March 31, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As stated in Note 8 to the basic financial statements, the Township adopted GASB Statement No. 84 *Fiduciary Activities* in 2021, which represents a change in its policy for reporting fiduciary activities. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as 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 considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining and individual 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.



Gabridge & Company, PLC
Traverse City, Michigan
September 30, 2021

Management's Discussion and Analysis

Township of Mullett
Management's Discussion and Analysis
March 31, 2021

As management of the Township of Mullett, Michigan (The "Township" or "government") we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2021. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$3,007,146 (*net position*). Of this amount, \$1,017,802 represents *unrestricted net position*, which may be used to meet the government's ongoing obligations to citizens and creditors.
- During the year, the Township received \$726,035 in revenues and incurred \$569,701 in expenditures, resulting in an increase in net position of \$156,334.
- At the close of the current fiscal year, the Township's general fund reported fund balance of \$1,017,802, an increase of \$88,250 in comparison with the prior year. Of the total general fund reported fund balance, \$1,017,802 is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,017,802, or approximately 306.3% of total general fund expenditures.

Overview of the Financial Statements

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

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net position* presents financial information on all of the Township's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the Township's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying

event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., depreciation of capital assets).

Both of the government-wide financial statements display functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the Township include general government, public safety, road maintenance, and recreation and culture.

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

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

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

The Township maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, library fund, and the fire fund, which are considered to be major funds. The street light fund and liquor law enforcement fund are considered nonmajor funds and are aggregated as other governmental funds. More detailed combining statements for the street light and liquor law enforcement funds can be found in the other supplemental information section of this report.

The Township adopts an annual appropriated budget for the general fund and each of its special revenue funds. A budgetary comparison schedule for the general fund and each major special revenue fund has been provided to demonstrate compliance with these budgets.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The Township has one type of fiduciary fund, a *custodial fund*. The custodial fund reports resources held by the Township in a custodial capacity for individuals, private organizations, and other governments.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Township's budgetary comparison schedules. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the Township, assets exceeded liabilities by \$3,007,146 at the close of the most recent fiscal year, as summarized in the following schedule:

Township of Mullett's Net Position

ASSETS	2021	2019
<i>Current Assets</i>		
Cash and Investments	\$ 1,734,359	\$ 1,476,331
Taxes Receivable	24,739	24,347
Special Assessments Receivable	1,110	-
Due from Other Governments	19,740	17,341
Total Current Assets	1,779,948	1,518,019
<i>Noncurrent Assets</i>		
Capital Assets, net	1,248,848	1,473,579
Total Assets	3,028,796	2,991,598
LIABILITIES		
<i>Current Liabilities</i>		
Accounts Payable	21,650	5,286
Accrued Interest	-	241
Current Portion Long-term Debt	-	37,914
<i>Noncurrent Liabilities</i>		
Long-term Debt	-	81,406
Total Liabilities	21,650	124,847
NET POSITION		
Net Investment in Capital Assets	1,248,848	1,354,259
Restricted	740,496	670,484
Unrestricted	1,017,802	842,008
Total Net Position	\$ 3,007,146	\$ 2,866,751

A portion of the Township's net position (\$1,248,848, or 41.5%) reflects its investment in capital assets (e.g., land and land improvements, buildings and improvements, and equipment). The Township uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending.

An additional portion of the Township's net position (\$740,496, or 24.6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,017,802 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

The Township's cash and cash equivalents increased \$258,250 since fiscal 2019 primarily as a result of the increase in unrestricted net position of \$175,794 plus an additional increase in unrestricted net position of \$70,012 over the same timeframe.

The Township's capital assets have decreased by \$224,731 since fiscal 2019 as depreciation expense reported on the Township's capital assets has exceeded capital asset additions for the past two years.

The Township Board determined that it would be prudent to payoff the installment contract payable (used to acquire a firetruck) early and, accordingly, the current portion of long-term debt and long-term debt decreased by \$37,914 and \$81,406, respectively, since fiscal 2019.

At the end of the current fiscal year, the Township is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its governmental activities. The same situation held true for the prior audited year.

A comparative analysis of the changes in net position for the Township follows:

Township of Mullett's Changes in Net Position

Revenues	2021	2019
Program Revenues		
Charges for Services	\$ 93,122	\$ 48,613
Operating Grants and Contributions	29,984	18,050
Total Program Revenues	<u>123,106</u>	<u>66,663</u>
General Revenues		
Property Taxes	482,119	451,419
Unrestricted State Aid	116,932	120,237
Interest	3,878	4,485
Total General Revenues	<u>602,929</u>	<u>576,141</u>
Total Revenues	<u>726,035</u>	<u>642,804</u>
Expenses		
General Government	242,388	193,725
Public Safety	188,902	168,110
Public Works	34,047	33,877
Recreation and Culture	99,110	100,361
Interest on Long-term Debt	5,254	-
Total Expenses	<u>569,701</u>	<u>496,073</u>
Change in Net Position	<u>156,334</u>	<u>146,731</u>
<i>Net Position at the Beginning of Period</i>	<u>2,850,812</u>	<u>2,720,020</u>
Net Position at the End of Period	<u>\$ 3,007,146</u>	<u>\$ 2,866,751</u>

During fiscal 2021, net position increased \$156,334 from the prior fiscal year for an ending balance of \$3,007,146. Property taxes increased slightly by \$30,700 over the prior audit period due to an increase in taxable value. Charges from services increased by \$44,509 compared to fiscal 2019 as penal fines improved from \$11,113 during 2019 to \$37,779 during 2021. The increase in penal fines was related to a one-time adjustment from fines collected within the Library’s district that were inadvertently withheld. Additionally, a street lighting special assessment generated \$20,022 additional revenues for the Township during 2021.

Expenses increased from \$496,073 during fiscal 2019 to \$569,01 during fiscal 2021 for the following reasons:

- Depreciation expense increased by \$12,243 because additional assets have been placed in service by the Township since 2019, which in turn, increased annual depreciation expense.
- Various expenditures within the building and grounds department, associated with repair and maintenance, increased by approximately \$25,000 compared to 2019.
- The Township’s cost of providing fire protection services increased by approximately \$15,000.

Financial Analysis of Governmental Funds

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

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

The general fund is the chief operating fund of the Township. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,017,802. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund expenditures. Unassigned fund balance represents approximately 306.3% of total general fund expenditures. The fund balance of the Township's general fund increased by \$88,250 during the current fiscal year.

The library fund, a major fund, accounts for revenues and expenditures incurred by the Township library. The library fund increased its fund balance by \$29,435 as a result of increased contributions and donations.

The fire fund, a major fund, accounts for revenues and expenditures incurred by the Township for fire protection. The fire fund decreased its fund balance by \$12,647 which is as a result of making additional payments on the fire truck installment contract to pay it off during the year.

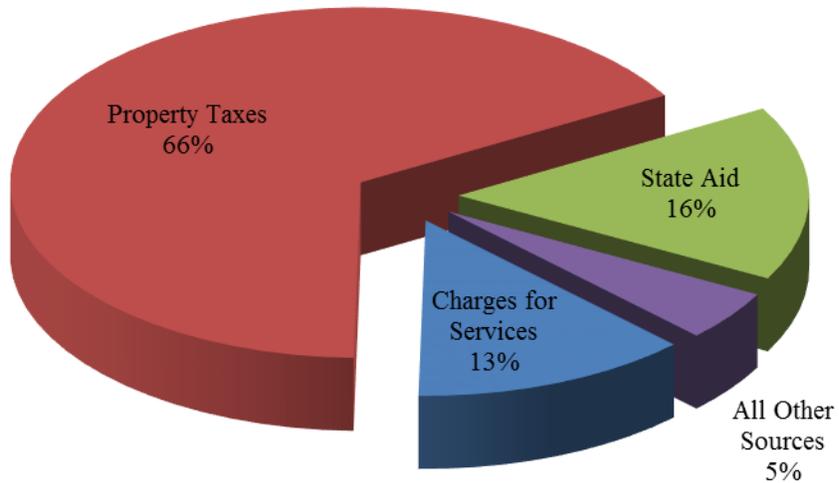
The street light fund, a nonmajor fund, accounts for revenues and expenditures incurred by the Township for street lighting. The street light fund increased its fund balance by \$8,616, with an ending fund balance of \$25,575. This increase was due to the newly issued special assessments.

The liquor law enforcement fund, a nonmajor fund, decreased its fund balance by \$751 for an ending fund balance of \$11.

Governmental Activities

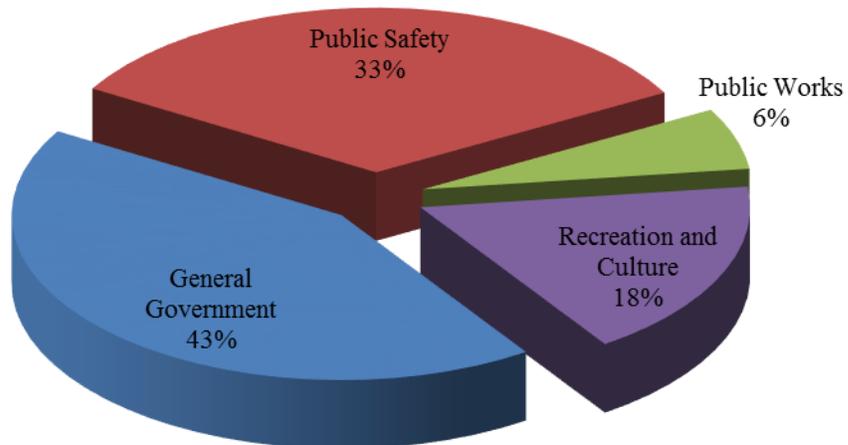
The following chart summarizes the revenue sources for the governmental activities of the Township for the most recent fiscal year-end:

Governmental Activities Revenues



The following chart summarizes the expenses for the governmental activities of the Township for the most recent fiscal year-end:

Governmental Activities Expenses



General Fund Budgetary Highlights

Original budget compared to final budget. During the year there was no need for any significant amendments to increase either the original estimated revenues or original budgeted appropriations.

Final budget compared to actual results. During the current fiscal year the Township had no budget variances between the final budget compared to actual results within the general fund.

Capital Assets

Capital assets

The Township's investment in capital assets for its governmental activities as of March 31, 2021, amounts to \$1,248,848 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment, vehicles, and library materials. Additional information about the Township's capital assets can be found in notes to the financial statements.

Economic Condition and Outlook

Management estimates \$411,300 of revenues will be available for appropriation in the general fund in the 2022 budget. Expenditures are expected to change by small amounts compared to 2021. The Township continues to review all budget line items for opportunities to reduce expenditures when possible. The budget will be monitored during the year to identify any necessary amendments. In 2022, the Township plans again to use current revenues to provide essential services and to maintain the Township's financial reserves at similar levels. The ongoing costs of providing essential services for the citizens of the Township will again need to be monitored in order to maintain the financial condition of the Township.

Additionally, the Township Board is currently working to determine the significance that the COVID-19 Pandemic will have on the Township's upcoming revenues and expenditures, including an estimated \$132,406 of American Rescue Plan Act funds which are available to the Township for expenditure for various public safety reimbursements and infrastructure projects through 2024.

Contacting the Township

This financial report is designed to provide a general overview of the Township's finances to its citizens, customers, investors, and creditors and to demonstrate the Township's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Township of Mullett
P.O. Box 328
Topinabee, MI 49791

Basic Financial Statements

**Township of Mullett
Statement of Net Position
March 31, 2021**

ASSETS

Current Assets

Cash and Investments	\$	1,734,359
Taxes Receivable		24,739
Special Assessments Receivable		1,110
Due from Other Governments		19,740
Total Current Assets		<u>1,779,948</u>

Noncurrent Assets

Capital Assets Not Being Depreciated		539,606
Capital Assets Being Depreciated, net		709,242
Total Assets		<u>3,028,796</u>

LIABILITIES

Current Liabilities

Accounts Payable		21,650
Total Liabilities		<u>21,650</u>

NET POSITION

Investment in Capital Assets		1,248,848
<i>Restricted for:</i>		
Public Safety		659,585
Public Works		25,575
Recreation and Culture		55,336
<i>Unrestricted</i>		1,017,802
Total Net Position	\$	<u>3,007,146</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

**Township of Mullett
Statement of Activities
For the Year Ended March 31, 2021**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General Government	\$ 242,388	\$ 4,370	\$ 3,229	\$ --	\$ (234,789)
Public Safety	188,902	30,951	605	--	(157,346)
Public Works	34,047	20,022	--	--	(14,025)
Recreation and Culture	99,110	37,779	26,150	--	(35,181)
Interest on Long-term Debt	5,254	--	--	--	(5,254)
Total	\$ 569,701	\$ 93,122	\$ 29,984	\$ --	(446,595)

General Purpose Revenues:

Taxes	482,119
Unrestricted State Aid	116,932
Interest	3,878
Total General Revenues	602,929
Change in Net Position	156,334
<i>Net Position at Beginning of Period</i>	<i>2,850,812</i>
Net Position at End of Period	\$ 3,007,146

The Notes to the Financial Statements are an integral part of these Financial Statements

**Township of Mullett
Balance Sheet
Governmental Funds
March 31, 2021**

	<u>Special Revenue</u>			<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Library Fund</u>	<u>Fire Fund</u>		
ASSETS					
Cash and Investments	\$ 1,000,005	\$ 58,664	\$ 651,214	\$ 24,476	\$ 1,734,359
Taxes Receivable	15,058	--	9,681	--	24,739
Special Assessments Receivable	--	--	--	1,110	1,110
Due from Other Governments	19,740	--	--	--	19,740
<i>Total Assets</i>	<u>\$ 1,034,803</u>	<u>\$ 58,664</u>	<u>\$ 660,895</u>	<u>\$ 25,586</u>	<u>\$ 1,779,948</u>
LIABILITIES					
Accounts Payable	\$ 17,001	\$ 3,328	\$ 1,321	\$ --	\$ 21,650
<i>Total Liabilities</i>	<u>17,001</u>	<u>3,328</u>	<u>1,321</u>	<u>--</u>	<u>21,650</u>
FUND BALANCE					
Restricted	--	55,336	659,574	25,586	740,496
Unassigned	1,017,802	--	--	--	1,017,802
<i>Total Fund Balance</i>	<u>1,017,802</u>	<u>55,336</u>	<u>659,574</u>	<u>25,586</u>	<u>1,758,298</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 1,034,803</u>	<u>\$ 58,664</u>	<u>\$ 660,895</u>	<u>\$ 25,586</u>	<u>\$ 1,779,948</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Mullett
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
March 31, 2021

Total Fund Balance - Governmental Funds	\$ 1,758,298
General government capital assets of \$2,776,726, net of accumulated depreciation of \$1,527,878, are not financial resources and, accordingly, are not reported in the funds.	1,248,848
Total Net Position - Governmental Activities	\$ <u>3,007,146</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Mullett
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended March 31, 2021

	<u>Special Revenue</u>			Other Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>Library Fund</u>	<u>Fire Fund</u>		
Revenues					
Taxes	\$ 295,030	\$ --	\$ 187,089	\$ --	\$ 482,119
Special Assessments	--	--	--	20,022	20,022
Intergovernmental	120,161	1,050	--	605	121,816
Charges for Services	1,826	--	30,951	--	32,777
Penal Fines	--	37,779	--	--	37,779
Other	2,544	25,100	--	--	27,644
Interest	985	79	2,804	10	3,878
Total Revenues	<u>420,546</u>	<u>64,008</u>	<u>220,844</u>	<u>20,637</u>	<u>726,035</u>
Expenditures					
General Government	232,624	--	--	--	232,624
Public Safety	--	--	139,195	1,356	140,551
Public Works	22,631	--	--	11,416	34,047
Recreation and Culture	51,059	30,747	--	--	81,806
Capital Outlay	25,982	3,826	7,395	--	37,203
Debt Service - Principal	--	--	81,406	--	81,406
Debt Service - Interest	--	--	5,495	--	5,495
Total Expenditures	<u>332,296</u>	<u>34,573</u>	<u>233,491</u>	<u>12,772</u>	<u>613,132</u>
Excess of Revenues Over (Under) Expenditures	<u>88,250</u>	<u>29,435</u>	<u>(12,647)</u>	<u>7,865</u>	<u>112,903</u>
Net Change in Fund Balance	88,250	29,435	(12,647)	7,865	112,903
<i>Fund Balance at Beginning of Period</i>	929,552	25,901	672,221	17,721	1,645,395
Fund Balance at End of Period	<u>\$ 1,017,802</u>	<u>\$ 55,336</u>	<u>\$ 659,574</u>	<u>\$ 25,586</u>	<u>\$ 1,758,298</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Mullett
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended March 31, 2021

Total Net Change in Fund Balances - Governmental Funds	\$	112,903
Changes to accrued interest are not shown in the fund financial statements.		241
Governmental fund report capital outlay as expenditures; however, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which capital outlay expenditures of \$37,203 are exceeded by depreciation expense of \$77,419.		(38,216)
Current year long-term debt principal payments are expenditures in the fund financial statements but are reductions in long-term debt in the government-wide financial statements.		81,406
Changes in Net Position - Governmental Activities	\$	<u>156,334</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

**Township of Mullett
Statement of Fiduciary Net Position
Fiduciary Fund
March 31, 2021**

	Custodial Fund
ASSETS	
Cash and Cash Equivalents	\$ 6,974
<i>Total Assets</i>	6,974
LIABILITIES	
Due to Other Governments	6,974
<i>Total Liabilities</i>	6,974
NET POSITION	
Restricted for Individuals, organizations, and other governments	\$ -

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Mullett
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Year Ended March 31, 2021

	Custodial Fund
Additions	
Taxes Collected for Other Governments	\$ 3,469,256
<i>Total Additions</i>	<i>3,469,256</i>
Deductions	
Payments of Property Taxes to Other Governments	3,469,256
<i>Total Deductions</i>	<i>3,469,256</i>
<i>Change in Net Position</i>	<i>--</i>
Net Position at Beginning of Period	<i>--</i>
<i>Net Position at End of Period</i>	<i>\$ --</i>

The Notes to the Financial Statements are an integral part of these Financial Statements

Notes to the Financial Statements

Township of Mullett

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The financial statements of the Township of Mullett (the “Township” or “government”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township’s accounting policies are described below.

Reporting Entity

The Township is located in Cheboygan County, Michigan, and provides services to its residents in many areas including fire protection, community enrichment and development, and human services. The Township is a general law township governed by a five-member board elected by the citizens of the Township. The Township Board consists of the supervisor, clerk, treasurer, and two trustees.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 61, "*The Financial Reporting Entity*," these financial statements present the Township. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. There are no other units that should be included in the financial statements.

The following entities are not included in the Township’s financial statements but do represent an ongoing financial interest or responsibility:

Jointly Governed Organization

Joint Cemetery Boards

The Township jointly operates two separate cemeteries with Burt and Aloha Townships of Cheboygan County. Both the Mullett-Burt Cemetery and Aloha Township Cemetery have separate independent boards. Burt and Aloha Townships have historically reported the financial activity for each cemetery. Mullett Township’s share of the costs is shown as expenditures of the general fund.

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. The Township reports its activities as *governmental activities*, which normally are supported by taxes and intergovernmental revenues.

Township of Mullett

Notes to the Financial Statements

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and compensated absences expenditures are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, intergovernmental revenue, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The Township of Mullett reports the following major governmental funds:

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

Township of Mullett

Notes to the Financial Statements

The *fire fund* accounts for the township's fire protection services. Funding is primarily through property tax revenue.

The *library fund* accounts for the township's public library. Funding is primarily through penal fines, state aid, and contributions from the general fund.

In addition, the Township reports the following governmental funds.

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or assigned to expenditure for specific purposes other than debt service or capital projects.

Fiduciary funds are custodial in nature and do not present results of operations or have a measurement focus. Custodial funds are accounted for using the accrual basis of accounting. These funds are used to account for asset that the government holds for others in a custodial capacity (such as taxes collected for other governments).

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

Budgetary Basis of Accounting

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The general fund and special revenue funds are subject to legal budgetary accounting controls and all are budgeted annually. The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Township Clerk submits to the Township Board a proposed operating budget for the fiscal year commencing the following April 1.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to the first day of the following fiscal year, the budget is legally enacted through passage of a resolution.
4. The legal level of budgetary control is at the activity level.
5. Budget appropriations lapse at year-end.
6. Adoption and amendments of all budgets used by the Township are governed by Public Act 621, which was followed for the year ended March 31, 2021. Expenditures may not exceed appropriations. Any amendment to the original budget must meet the requirements of Public Act 621.

Township of Mullett

Notes to the Financial Statements

Assets, Liabilities, and Net Position or Equity

Cash and Investments

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

State statutes and Township policy authorize the Township to invest in:

- Bonds, securities, other obligations, and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
- Repurchase agreements consisting of bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- Bankers' acceptances of United States banks.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- Obligations described above if purchased through an inter-local agreement under the Urban Cooperation Act of 1967.
- Investment pools organized under the Surplus Fund Investment Pool Act (Public Act 367 of 1982)

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements, outstanding at the end of the fiscal year, are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Township of Mullett

Notes to the Financial Statements

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

Capital assets are depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Library Books and Materials	3 - 5
Equipment	5 - 10
Fire Vehicles	5 - 20
Buildings and Improvements	15 - 40

Long-term Obligations

In the government-wide financial statements, the long-term debt and other long-term obligations are reported as liabilities in the statement of net position. For new bond issuances of governmental funds after the implementation of GASB Statement No. 34, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period that the bond is issued.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position Flow Assumption

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

Township of Mullett

Notes to the Financial Statements

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumptions

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

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either: a) not in spendable form or b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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

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

Unassigned fund balance is the residual classification for the Township's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the Board.

Township of Mullett

Notes to the Financial Statements

Revenues and Expenditures / Expenses

Property Tax Revenue Recognition

The Township's property tax is levied on each December 1 on the taxable valuation of property located in the Township as of the preceding December 31. It is the Township's policy to recognize revenues in the current year when the proceeds are budgeted and made available for the financing of Township operations. Payment from the county for the 2020 delinquent taxes, which it purchased subsequent to March 31, is recorded as delinquent taxes receivable in all funds that levy a tax.

The 2020 taxable value of the Township amounted to \$126,281,365 on which ad valorem taxes of 1.9646 mills were levied for Township operating purposes and 1.4735 mills for fire protection.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Note 2 - Budgetary Compliance

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The Township had no expenditures in excess of the amount appropriated during the year ended March 31, 2021.

Note 3 - Cash

The Township Board has designated five banks for the deposit of Township funds. The investment policy adopted by the Board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in note 1. The Township's deposits and investment policy are in accordance with statutory authority as all balances are held in checking, savings, or money market accounts. At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Total</u>
Statement of Net Position	
Cash and Investments	\$ 1,734,359
Statement of Fiduciary Net Position	
Cash and Investments	<u>6,974</u>
<i>Total Cash and Investments</i>	<u>\$ 1,741,333</u>

Township of Mullett

Notes to the Financial Statements

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the Township's deposits might not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year-end, \$635,832 of the Township's bank balance of \$1,763,383 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the Township believes it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Capital Assets

Capital asset activity for the year ended March 31, 2021 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital Assets not Being Depreciated				
Land	\$ 524,005	\$ -	\$ -	\$ 524,005
Construction in Progress	2,000	13,601	-	15,601
Total Capital Assets Not Being Depreciated	526,005	13,601	-	539,606
Capital Assets Being Depreciated				
Buildings and Improvements	829,855	4,590	-	834,445
Office and Other Equipment	79,845	14,186	-	94,031
Fire Equipment	256,979	-	-	256,979
Fire Vehicles	1,036,626	-	-	1,036,626
Library Books and Materials	11,212	3,826	-	15,038
Total Capital Assets Being Depreciated	2,214,517	22,602	-	2,237,119
Less Accumulated Depreciation				
Buildings and Improvements	411,875	25,194	-	437,069
Office and Other Equipment	62,743	3,908	-	66,651
Fire Equipment	230,429	8,850	-	239,279
Fire Vehicles	741,854	35,730	-	777,584
Library Books and Materials	3,557	3,737	-	7,294
Total Accumulated Depreciation	1,450,458	77,419	-	1,527,877
Net Capital Assets	\$ 1,288,064	\$ (54,817)	\$ -	\$ 1,248,848

Depreciation expense was charged to the Township as follows:

Governmental Activities	
General Government	\$ 9,764
Public Safety	48,351
Recreation and Culture	19,304
Total Depreciation	\$ 77,419

Township of Mullett

Notes to the Financial Statements

Note 5 - Long-term Debt

The Township entered into a direct placement installment contract for a fire truck in the amount of \$157,299 with annual payments of \$40,802 at an interest rate of 2.42% to be paid off in May 2023. The Township paid the installment contract in full during the fiscal year ended March 31, 2021.

Long-term debt activity for the fiscal year ended March 31, 2021 was as follows:

	<u>Balance</u> <u>March 31, 2020</u>	<u>(Deletions)</u>	<u>Balance</u> <u>March 31, 2021</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:				
Installment Contract - Fire Truck	\$ 81,406	\$ 81,406	-	\$ -

The debt service payments were paid by the Township's fire fund.

Note 6 - Risk Management

The Township participates in the Michigan Township Participating Plan for general liability, property loss, professional, public official errors and omissions liabilities. This plan is a self-insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. This plan, through its risk manager, secures insurance policies or reinsurance treaties to cover the risks undertaken on behalf of the Township. The Township pays an annual premium to the Michigan Participating Plan for its general insurance coverage and has no additional liability beyond the premiums made to this plan. The Township continues to carry commercial insurance for all other risks of loss, including worker's compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 7 - Subsequent Events

The Township may be affected by the recent and ongoing outbreak of the Coronavirus (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. COVID-19 has caused significant government and business disruptions through mandated and voluntary closings and stay at home orders. The Board is currently working to determine the significance that the COVID-19 Pandemic will have on the Township's upcoming revenues and expenditures, including an estimated \$132,406 of American Rescue Plan Act funds which are available to the Township for expenditure for various public safety reimbursements and infrastructure projects through 2024.

Township of Mullett

Notes to the Financial Statements

Note 8 - Change in Accounting Principle

The Township adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, in the current year. There was no change in the beginning fund balance for any funds.

Required Supplementary Information

Township of Mullett
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended March 31, 2021

	Budgeted Amounts		Actual	Variance
	Original	Final		(Unfavorable) Final to Actual
Revenues				
Taxes	\$ 280,800	\$ 280,800	\$ 295,030	\$ 14,230
Intergovernmental	107,800	107,800	120,161	12,361
Charges for services	1,700	1,700	1,826	126
Other	500	500	2,544	2,044
Interest	1,500	1,500	985	(515)
Total Revenues	<u>392,300</u>	<u>392,300</u>	<u>420,546</u>	<u>28,246</u>
Expenditures				
General Government				
Trustees	15,600	15,600	12,345	3,255
Supervisor	14,500	15,100	14,799	301
Clerk	28,200	28,200	24,956	3,244
Deputy clerk	17,400	17,400	10,294	7,106
Audit	6,500	6,500	2,475	4,025
Surveyor	6,000	6,000	--	6,000
Board of Review	7,650	7,650	4,302	3,348
Treasurer	25,500	25,500	24,900	600
Deputy Treasurer	6,000	6,000	1,114	4,886
Assessor	27,100	27,100	25,205	1,895
Computer Service	4,100	4,100	3,751	349
Election	13,450	13,450	6,241	7,209
Town Hall	61,691	59,941	48,696	11,245
Attorney	10,000	10,500	10,411	89
Other General Government	42,700	43,300	43,135	165
Total General Government	<u>286,391</u>	<u>286,341</u>	<u>232,624</u>	<u>53,717</u>
Public Works				
Signage	350	400	364	36
Cemetery	4,500	4,500	4,500	--
Sidewalk	1,500	1,500	34	1,466
Road	27,150	27,150	13,936	13,214
Engineering	8,000	8,000	--	8,000
Blight and Clean-up	13,500	13,500	3,797	9,703
Total Public Works	<u>55,000</u>	<u>55,050</u>	<u>22,631</u>	<u>32,419</u>
Recreation and Culture				
Parks	54,200	54,200	50,849	3,351
School House	20,000	20,000	210	19,790
Total Recreation and Culture	<u>74,200</u>	<u>74,200</u>	<u>51,059</u>	<u>23,141</u>
Capital Outlay	<u>324,309</u>	<u>324,309</u>	<u>25,982</u>	<u>298,327</u>
Total Expenditures	<u>739,900</u>	<u>739,900</u>	<u>332,296</u>	<u>407,604</u>
Other Financing Uses				
Transfers Out	35,800	35,800	--	35,800
Total Expenditures	<u>775,700</u>	<u>775,700</u>	<u>332,296</u>	<u>443,404</u>
Excess (Deficiency) of Revenues				
Over Expenditures and Financing Uses	<u>(383,400)</u>	<u>(383,400)</u>	<u>88,250</u>	<u>471,650</u>
Net Change in Fund Balance	<u>(383,400)</u>	<u>(383,400)</u>	<u>88,250</u>	<u>471,650</u>
<i>Fund Balance at Beginning of Period</i>	929,552	929,552	929,552	--
Fund Balance at End of Period	<u>\$ 546,152</u>	<u>\$ 546,152</u>	<u>\$ 1,017,802</u>	<u>\$ 471,650</u>

Township of Mullett
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Library Fund
For the Year Ended March 31, 2021

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable) Final to Actual
Revenues				
Intergovernmental	\$ 800	\$ 800	\$ 1,050	\$ 250
Penal fines	10,000	10,000	37,779	27,779
Other	2,000	2,000	25,100	23,100
Interest	20	20	79	59
Total Revenues	<u>12,820</u>	<u>12,820</u>	<u>64,008</u>	<u>51,188</u>
Other Financing Sources				
Transfers in	<u>35,000</u>	<u>35,000</u>	<u>--</u>	<u>(35,000)</u>
Total Revenues and Other Financing Sources	<u>47,820</u>	<u>47,820</u>	<u>64,008</u>	<u>16,188</u>
Expenditures				
Library	55,900	55,900	30,747	25,153
Capital outlay	<u>12,000</u>	<u>12,000</u>	<u>3,826</u>	<u>8,174</u>
Total Expenditures	<u>67,900</u>	<u>67,900</u>	<u>34,573</u>	<u>33,327</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	<u>(20,080)</u>	<u>(20,080)</u>	<u>29,435</u>	<u>49,515</u>
Net Change in Fund Balance	<u>(20,080)</u>	<u>(20,080)</u>	<u>29,435</u>	<u>49,515</u>
Fund Balance at Beginning of Period	<u>25,901</u>	<u>25,901</u>	<u>25,901</u>	<u>--</u>
Fund Balance at End of Period	<u>\$ 5,821</u>	<u>\$ 5,821</u>	<u>\$ 55,336</u>	<u>\$ 49,515</u>

Township of Mullett
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Fire Fund
For the Year Ended March 31, 2021

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable) Final to Actual
Revenues				
Taxes	\$ 181,000	\$ 181,000	\$ 187,089	\$ 6,089
Charges for services	31,500	31,500	30,951	(549)
Interest	3,100	3,100	2,804	(296)
Total Revenues	<u>215,600</u>	<u>215,600</u>	<u>220,844</u>	<u>5,244</u>
Expenditures				
Fire protection	228,100	218,400	139,195	79,205
Capital outlay	45,000	11,200	7,395	3,805
Debt service	44,500	88,000	86,901	1,099
Total Expenditures	<u>317,600</u>	<u>317,600</u>	<u>233,491</u>	<u>84,109</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>(102,000)</u>	<u>(102,000)</u>	<u>(12,647)</u>	<u>89,353</u>
Net Change in Fund Balance	<u>(102,000)</u>	<u>(102,000)</u>	<u>(12,647)</u>	<u>89,353</u>
Fund Balance at Beginning of Period	672,221	672,221	672,221	--
Fund Balance at End of Period	<u>\$ 570,221</u>	<u>\$ 570,221</u>	<u>\$ 659,574</u>	<u>\$ 89,353</u>

OTHER SUPPLEMENTARY INFORMATION

**Township of Mullett
Combining Balance Sheet
Nonmajor Governmental Funds
March 31, 2021**

	<u>Special Revenue</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Street Light Fund</u>	<u>Liquor Law Enforcement Fund</u>	
ASSETS			
Cash and Investments	\$ 24,465	\$ 11	\$ 24,476
Special Assessments Receivable	1,110	--	1,110
<i>Total Assets</i>	<u>\$ 25,575</u>	<u>\$ 11</u>	<u>\$ 25,586</u>
FUND BALANCE			
Restricted	25,575	11	25,586
Unassigned	--	--	--
<i>Total Fund Balance</i>	<u>\$ 25,575</u>	<u>\$ 11</u>	<u>\$ 25,586</u>

Township of Mullett
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended March 31, 2021

	<u>Special Revenue</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Street Light Fund</u>	<u>Liquor Law Enforcement Fund</u>	
Revenues			
Special Assessments	\$ 20,022	\$ --	\$ 20,022
Intergovernmental	--	605	605
Interest	10	--	10
<i>Total Revenues</i>	<u>20,032</u>	<u>605</u>	<u>20,637</u>
Expenditures			
Public Safety	--	1,356	1,356
Public Works	11,416	--	11,416
<i>Total Expenditures</i>	<u>11,416</u>	<u>1,356</u>	<u>12,772</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>8,616</u>	<u>(751)</u>	<u>7,865</u>
<i>Net Change in Fund Balance</i>	8,616	(751)	7,865
<i>Fund Balance at Beginning of Period</i>	16,959	762	17,721
<i>Fund Balance at End of Period</i>	<u>\$ 25,575</u>	<u>\$ 11</u>	<u>\$ 25,586</u>

September 30, 2021

To the Township Board
Township of Mullett

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Mullett (the “Township”) for the year ended March 31, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 19, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Township are described in Note 1 to the financial statements. No new accounting policies were adopted and, except as stated in Note 8 to the financial statements, the application of existing policies was not changed during 2021. We noted no transactions entered into by the 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(s) affecting the Township’s financial statements was:

Management’s estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

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 September 30, 2021.

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 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.

Other Matters

We applied certain limited procedures to the management's discussion and analysis and budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of 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 the combining and individual 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.

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township as of and for the year ended March 31, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we have identified 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Township's financial statements will not be prevented, or detected and corrected, on a timely basis.

We consider the following deficiencies to be material weaknesses:

Material audit adjustments and financial statement preparation:

Criteria: All governmental units in Michigan are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the 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 notes to the financial statements (i.e. external financial reporting).

Condition: We identified and proposed material audit adjustments that management reviewed and approved. We also assisted management with preparing the basic financial statements and the related footnotes.

As is the case with many small and medium-sized governmental units, the Township has historically relied on its independent external auditor to assist with the preparation of the financial statements, the related notes, and the management's discussion and analysis as part of its external financial reporting process. Accordingly, the Township's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditor, who cannot, by definition, be considered part of the Township's internal controls. Having the auditor draft the annual financial statements is allowable under current auditing standards and ethical guidelines and may be the most efficient and effective method for preparation of the Township's financial statements. However, when an entity (on its own) lacks the ability to produce financial statements that conform to GAAP, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses.

Cause: This condition was caused by the Township's decision to outsource the preparation of its annual financial statements to the external auditor rather than incur the costs of obtaining the necessary training and expertise required for the Township to perform this task internally because outsourcing the task is considered more cost effective.

Effect: The Township's accounting records were initially misstated by amounts material to the financial statements. In addition, the Township lacks complete internal controls over the preparation of its financial statements in accordance with GAAP, and, instead, relies, at least in part, on assistance from its external auditor for assistance with this task.

Auditor's Recommendation: We recommend that management continue to monitor the relative costs and benefits of securing the internal or other external resources necessary to develop material adjustments and prepare a draft of the Township's annual financial statements versus contracting with its auditor for these services.

Management Response: Management has made an ongoing evaluation of the respective costs and benefits of obtaining internal or external resources, specifically for the preparation of financial statements, and has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so. Management will continue to review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Lack of segregation of incompatible duties:

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

Condition/Finding: The Township has accounting functions which are performed by the same individual and are not subject to a documented independent review and approval. These areas include journal entries, cash reconciliations, and accounts payable transactions.

Cause: This condition is a result of the limited size of the Township's accounting staff.

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

Auditor's Recommendation: While 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, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

Management's Response: The Township concurs with this finding. The Township will require appropriate sign-offs of a second responsible person for key accounting functions

We did not audit the Township's response to the internal control finding described above and, accordingly, we express no opinion on it.

Restriction on Use

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

Very truly yours,

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in dark ink and is positioned above the printed name of the company.

Gabridge & Company, PLC
Traverse City, MI