

Township of Castleton
Barry County, Michigan

FINANCIAL STATEMENTS

Year ended March 31, 2014

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Township of Castleton, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Township of Castleton, Michigan, as of and for the year ended March 31, 2014, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements, as listed in the 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 and each major fund of the Township of Castleton, Michigan, as of March 31, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the 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.

Siegfried Crandall P.C.

September 2, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Township of Castleton's (the Township) financial performance provides a narrative overview of the Township's financial activities for the fiscal year ended March 31, 2014. Please read it in conjunction with the Township's financial statements.

FINANCIAL HIGHLIGHTS

- The Township's total net position decreased by \$21,704 (2 percent) as a result of this year's operations.
- Of the \$1,011,917 in total net position reported, \$320,410 (32 percent) is unrestricted, or available to be used at the Board's discretion.
- The General Fund's unassigned fund balance at the end of the fiscal year was \$230,797, which represents 111 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the financial statements

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

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township government, reporting the Township's operations in more detail than the government-wide financial statements.
 - Governmental funds statements explain how general government services, like public safety, were financed in the short-term, as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

A comparative analysis of the basic financial statements for 2014 and 2013 is also presented.

Government-wide financial statements

The government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

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

- Over time, increases or decreases in the Township's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township, you need to consider additional nonfinancial factors, such as changes in the Township's property tax base and the condition of the Township's capital assets.

The government-wide financial statements present governmental activities. These activities include functions most commonly associated with government (e.g., general government, public safety, public works, etc.). Property taxes and state grants generally fund these services.

Fund financial statements

The fund financial statements provide more detailed information about the Township's most significant funds - not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The Township Board establishes other funds to show that it is properly using certain revenues (like tax levies collected for fire and ambulance equipment).

The Township has one type of fund:

- *Governmental funds.* All of the Township's basic services are included in its governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flows in and out, and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship between them.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Net position

Total net position at the end of the fiscal year was \$1,011,917. Of this total, \$232,071 is invested in capital assets and \$459,436 is restricted for various purposes. Consequently, unrestricted net position was \$320,410.

Condensed financial information
Net position

	<i>Governmental activities</i>	
	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 779,993	\$ 797,549
Capital assets	<u>232,071</u>	<u>240,513</u>
Total assets	<u>1,012,064</u>	<u>1,038,062</u>
Current liabilities	<u>147</u>	<u>4,441</u>
Net position:		
Net investment in capital assets	232,071	240,513
Restricted	459,436	489,398
Unrestricted	<u>320,410</u>	<u>303,710</u>
Total net position	<u>\$ 1,011,917</u>	<u>\$ 1,033,621</u>

Changes in net position

The Township's total revenues for the current fiscal year are \$328,791. Property taxes represent 47 percent of total revenues and nearly 43 percent of the Township's revenues comes from state shared revenue.

The total cost of the Township's programs, covering a wide range of services, totaled \$350,495. About 38 percent of the Township's costs are related to general government, while public safety costs amount to 29 percent of the Township's total expenses.

*Condensed financial information
Changes in net position*

	<i>Governmental activities</i>	
	<u>2014</u>	<u>2013</u>
Program revenues:		
Charges for services	\$ 26,037	\$ 28,369
Operating grants and contributions	2,309	2,300
General revenues:		
Property taxes	155,140	160,088
State shared revenue	141,606	139,090
Interest income	3,699	4,375
	<u>328,791</u>	<u>334,222</u>
Expenses:		
General government	133,249	128,867
Public safety	103,191	50,021
Public works	52,523	45,317
Health and welfare	61,532	76,352
	<u>350,495</u>	<u>300,557</u>
Changes in net position	<u>\$ (21,704)</u>	<u>\$ 33,665</u>
Net position, end of year	<u>\$ 1,011,917</u>	<u>\$ 1,033,621</u>

Governmental activities

Governmental activities decreased the Township's net position by \$21,704 in the current fiscal year compared to a \$33,665 increase in the prior year. Net position is lower, as revenues decreased by \$5,431 and expenses increased by \$49,938. Revenues decreased, primarily because property taxes were \$4,948 lower than the prior year, due to a decrease in taxable values. Expenses increased, as public safety function costs rose by \$53,170, primarily due to the shared cost of an ambulance vehicle.

The total cost of governmental activities this year was \$350,495. After subtracting the direct charges to those who directly benefited from the programs (\$26,037) and operating grants (\$2,309), the "public benefit" portion covered by property taxes, state revenue sharing, and other general revenues was \$322,149.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

Governmental funds

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$779,846, a decrease of \$13,262 from the prior year.

The General Fund is the primary operating fund of the Township. At the end of the fiscal year, fund balance was \$320,410, an increase of \$16,700. Revenues continue to be sufficient to cover expenditures.

The Ambulance Operating Fund, a special revenue fund, experienced a \$1,956 decrease in fund balance, as expenditures were slightly more than revenues. Fund balance amounts to \$59,492 at year end.

The Fire Equipment Fund, a capital project fund, experienced a \$29,981 increase in fund balance, as revenues were sufficient to cover all expenditures in the current year. Fund balance amounts to \$362,161 at year end.

The Ambulance Equipment Fund, a capital project fund, experienced a \$57,987 decrease in fund balance, as the fund incurred significant capital outlay expenditures, in the amount of \$70,087, associated with a contribution toward the purchase of an ambulance. Fund balance amounts to \$37,783 at year end.

General Fund budgetary highlights

The Township made only minor changes to its General Fund budget during the year.

Revenues were \$6,237 higher than budgeted, as state grant revenues were \$8,915 more than expected. Expenditures were \$13,591 less than the amounts appropriated, primarily because general government expenditures were \$8,112 less than appropriated, as legislative and election costs were less than planned.

These variances resulted in a \$19,828 positive budget variance, with a \$16,700 increase in fund balance compared to a budget that anticipated a \$3,128 decrease in fund balance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The Township's investment in capital assets for its governmental activities as of March 31, 2014, amounts to \$232,071 (net of accumulated depreciation). This investment includes a broad range of assets, including buildings, equipment, and the Township's share of road costs. The decrease in the Township's net investment in capital assets for the current fiscal year was \$8,442.

The major capital asset event during the current fiscal year involved road improvements at a cost of \$32,439.

More detailed information about the Township's capital assets is presented in Note 5 of the notes to the basic financial statements.

Debt

The Township had no long-term debt at the beginning or end of the fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Township expects to be able to use current revenues to provide essential services that will allow current fund balances to be maintained. The ongoing costs of providing essential services for the citizens of the Township will need to be closely monitored in order to maintain the financial condition and operational capabilities of the Township. The Township plans to maintain all ongoing programs for fiscal year 2015.

Contacting the Township's financial management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Township's finances 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:

Cheryl Hartwell, Township Supervisor
Township of Castleton
915 Reed Street, P.O. Box 679
Nashville, MI 49073

Phone: (517) 852-9479

BASIC FINANCIAL STATEMENTS

Township of Castleton

STATEMENT OF NET POSITION

March 31, 2014

	<i>Governmental activities</i>
ASSETS	
Current assets:	
Cash	\$ 743,063
Receivables	<u>36,930</u>
Total current assets	<u>779,993</u>
Noncurrent assets:	
Capital assets not being depreciated - land	25,000
Capital assets, net of accumulated depreciation	<u>207,071</u>
Total noncurrent assets	<u>232,071</u>
Total assets	<u>1,012,064</u>
LIABILITIES	
Current liabilities - accounts payable	<u>147</u>
NET POSITION	
Net investment in capital assets	232,071
Restricted for:	
Health and welfare	59,492
Capital acquisitions	399,944
Unrestricted	<u>320,410</u>
Total net position	<u>\$ 1,011,917</u>

See notes to financial statements

Township of Castleton

STATEMENT OF ACTIVITIES

Year ended March 31, 2014

	<u>Program revenues</u>			<i>Net (expenses) revenues and change in net position</i>
	<u>Expenses</u>	<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Governmental activities</u>
Functions/Programs				
Governmental activities:				
General government	\$ 133,249	\$ 26,037	\$ -	\$ (107,212)
Public safety	103,191	-	-	(103,191)
Public works	52,523	-	2,309	(50,214)
Health and welfare	61,532	-	-	(61,532)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total governmental activities	<u>\$ 350,495</u>	<u>\$ 26,037</u>	<u>\$ 2,309</u>	<u>(322,149)</u>
General revenues:				
Property taxes				155,140
State shared revenue				141,606
Unrestricted interest income				<u>3,699</u>
Total general revenues				<u>300,445</u>
Change in net position				(21,704)
Net position - beginning				<u>1,033,621</u>
Net position - ending				<u>\$ 1,011,917</u>

See notes to financial statements

Township of Castleton

BALANCE SHEET - governmental funds

March 31, 2014

	General	Special revenue Ambulance Operating	Capital project Fire Equipment	Ambulance Equipment	Total governmental funds
ASSETS					
Cash	\$ 293,286	\$ 53,810	\$ 359,320	\$ 36,647	\$ 743,063
Receivables	<u>27,271</u>	<u>5,682</u>	<u>2,841</u>	<u>1,136</u>	<u>36,930</u>
Total assets	<u><u>\$ 320,557</u></u>	<u><u>\$ 59,492</u></u>	<u><u>\$ 362,161</u></u>	<u><u>\$ 37,783</u></u>	<u><u>\$ 779,993</u></u>
LIABILITIES AND FUND BALANCES					
Liabilities - accounts payable	<u>\$ 147</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 147</u>
Fund balances:					
Restricted for:					
Health and welfare	-	59,492	-	-	59,492
Capital outlay	-	-	362,161	37,783	399,944
Assigned for:					
General government - cemetery	6,600	-	-	-	6,600
Capital outlay	83,013	-	-	-	83,013
Unassigned	<u>230,797</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>230,797</u>
Total fund balances	<u>320,410</u>	<u>59,492</u>	<u>362,161</u>	<u>37,783</u>	<u>779,846</u>
Total liabilities and fund balances	<u><u>\$ 320,557</u></u>	<u><u>\$ 59,492</u></u>	<u><u>\$ 362,161</u></u>	<u><u>\$ 37,783</u></u>	<u><u>\$ 779,993</u></u>

Reconciliation of the balance sheet to the statement of net position:

Total fund balance - total governmental funds \$ 779,846

Amounts reported for *governmental activities* in the statement of net position (page 10) are different because:

Capital assets are not financial resources and, therefore, are not reported in the funds. 232,071

Net position of governmental activities \$ 1,011,917

Township of Castleton

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - governmental funds

Year ended March 31, 2014

	<u>General</u>	<u>Special revenue</u>		<u>Capital project</u>		<u>Total governmental funds</u>
		<u>Ambulance Operating</u>	<u>Fire Equipment</u>	<u>Ambulance Equipment</u>		
REVENUES						
Property taxes	\$ 53,874	\$ 59,568	\$ 29,784	\$ 11,914	\$ 155,140	
State grants	143,915	-	-	-	143,915	
Charges for services	22,376	-	-	-	22,376	
Interest and rentals	2,431	8	2,854	156	5,449	
Other	1,881	-	-	30	1,911	
Total revenues	<u>224,477</u>	<u>59,576</u>	<u>32,638</u>	<u>12,100</u>	<u>328,791</u>	
EXPENDITURES						
General government	125,309	-	-	-	125,309	
Public safety	30,447	-	-	-	30,447	
Public works	48,364	-	-	-	48,364	
Health and welfare	-	61,532	-	-	61,532	
Capital outlay	3,657	-	2,657	70,087	76,401	
Total expenditures	<u>207,777</u>	<u>61,532</u>	<u>2,657</u>	<u>70,087</u>	<u>342,053</u>	
NET CHANGES IN FUND BALANCES	16,700	(1,956)	29,981	(57,987)	(13,262)	
FUND BALANCES - BEGINNING	<u>303,710</u>	<u>61,448</u>	<u>332,180</u>	<u>95,770</u>	<u>793,108</u>	
FUND BALANCES - ENDING	<u>\$ 320,410</u>	<u>\$ 59,492</u>	<u>\$ 362,161</u>	<u>\$ 37,783</u>	<u>\$ 779,846</u>	

Reconciliation of the statement of revenues, expenditures, and changes in fund balances to the statement of activities:

Net change in fund balance - total governmental funds \$ (13,262)

Amounts reported for *governmental activities* in the statement of activities (page 11) are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Add - additions to capital assets	32,439
Deduct - depreciation provision	<u>(40,881)</u>

Change in net position of *governmental activities* \$ (21,704)

See notes to financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Castleton, Michigan (the Township), conform to accounting principles generally accepted in the United States of America (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the more significant accounting policies.

Reporting entity:

In accordance with generally accepted accounting principles and the Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity Omnibus*, these financial statements present the Township, located in Barry County. 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. Based upon the application of these criteria, the Township has no component units, entities for which the Township is considered to be financially accountable.

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 Township. The effect of interfund activity has been removed from these statements.

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

Separate financial statements are provided for governmental funds. 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. 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds 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 if they are collected within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the Township generally considers property tax revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, 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. All other revenue items are considered to be measurable only when cash is received by the Township.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement focus, basis of accounting, and financial statement presentation (continued):

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Ambulance Operating Fund, a special revenue fund, accounts for financial resources used to finance the Township's share of operational costs of the Ambulance Board. Revenues are primarily derived from property taxes.

The Fire Equipment Fund, a capital project fund, accounts for financial resources used to finance the Township's share of capital purchases of the Fire Board. Revenues are primarily derived from property taxes.

The Ambulance Equipment Fund, a capital project fund, accounts for financial resources used to finance the Township's share of capital purchases of the Ambulance Board. Revenues are primarily derived from property taxes.

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

Assets, liabilities, and net position or equity:

Cash - Cash is 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.

Receivables - In general, outstanding balances between funds are reported as "due to/from other funds." No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

Capital assets - Capital assets, which include land, equipment, and infrastructure (e.g., shared road costs), are reported in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$2,500 (\$10,000 for infrastructure assets) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets prospectively, beginning April 1, 2004.

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

Buildings and improvements	20 - 50 years
Equipment	3 - 10 years
Vehicles	20 - 40 years
Shared road costs	7 - 20 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, liabilities, and net position or equity (continued):

Net position - Net position represents the difference between assets and liabilities. The Township reports three categories of net position, as follows: (1) *Net investment in capital assets* consists of net capital assets reduced by outstanding balances of any related debt obligations attributable to the acquisition, construction, or improvement of those assets; (2) *Restricted net position* is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations, such as federal or state laws or buyers of the Township’s debt. Restricted net position is reduced by liabilities related to the restricted assets; (3) *Unrestricted net position* consists of all other net position that does not meet the definition of the above components and is available for general use by the Township.

Fund equity - Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws and regulations of other governments. The Township Board has retained the authority to assign fund balances. Unassigned fund balance is the residual classification for the General Fund. When the Township incurs an expenditure for purposes for which various fund balance classifications can be used, it is the Township’s policy to use restricted fund balance first, followed by assigned fund balance, and, finally, unassigned fund balance.

Property tax revenue recognition - Property taxes are levied each December 1 (lien date) on the taxable valuation of property as of the preceding December 31. Property taxes are considered delinquent on March 1 of the following year, at which time interest and penalties are assessed. It is the Township’s policy to recognize revenue from the tax levy in the current year, when the proceeds are budgeted and made available for the financing of operations.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the period.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year.

Excess of expenditures over appropriations - The following schedule includes the reportable budget variance:

<u>Fund</u>	<u>Function</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance</u>
General	Public works	\$ 47,000	\$ 48,364	\$ 1,364

NOTE 3 - CASH

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) and the Township’s investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Township’s deposits are in accordance with statutory authority. At March 31, 2014, the Township had bank deposits in the amount of \$743,063.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Township will not be able to recover its deposits. The Township’s investment policy does not specifically address custodial credit risk for deposits. At March 31, 2014, \$136,895 of the Township’s bank balances of \$756,667 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE 4 - RECEIVABLES

Receivables as of March 31, 2014, for the Township’s funds were as follows:

<u>Fund</u>	<u>Property taxes</u>	<u>Inter- governmental</u>	<u>Totals</u>
General	\$ 6,551	\$ 20,720	\$ 27,271
Ambulance Operating	5,682	-	5,682
Fire Equipment	2,841	-	2,841
Ambulance Equipment	<u>1,136</u>	<u>-</u>	<u>1,136</u>
Totals	<u>\$ 16,210</u>	<u>\$ 20,720</u>	<u>\$ 36,930</u>

All receivables are considered current and fully collectible.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2014, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated - land	\$ 25,000	\$ -	\$ -	\$ 25,000
Capital assets being depreciated:				
Buildings and improvements	117,393	-	-	117,393
Office equipment	5,107	-	-	5,107
Shared road costs	375,518	32,439	-	407,957
Subtotal	498,018	32,439	-	530,457
Less accumulated depreciation for:				
Buildings and improvements	(76,631)	(4,283)	-	(80,914)
Office equipment	(5,107)	-	-	(5,107)
Shared road costs	(200,767)	(36,598)	-	(237,365)
Subtotal	(282,505)	(40,881)	-	(323,386)
Total capital assets being depreciated, net	215,513	(8,442)	-	207,071
Governmental activities capital assets, net	\$ 240,513	\$ (8,442)	\$ -	\$ 232,071

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

Governmental activities:	
General government	\$ 4,283
Public works	36,598
Total governmental activities	\$ 40,881

NOTE 6 - TAX REVENUE

The 2013 taxable valuation of the Township approximated \$59,766,000, on which ad valorem taxes levied consisted of the following:

<i>Fund</i>	<i>Millage</i>	<i>Millage rate</i>	<i>Revenues raised</i>
General	Operating	0.8877	\$ 52,900
Fire Equipment	Fire equipment	0.5000	29,800
Ambulance Equipment	Ambulance equipment	0.2000	12,000
Ambulance Operating	Emergency medical service	1.0000	59,600

These amounts are recognized in the fund financial statements as property tax revenue.

NOTE 7 - DEFINED CONTRIBUTION PENSION PLAN

The Township provides pension benefits for all its elected officials and its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Michigan state statute assigns the authority to establish and amend benefit provisions to the Township Board of Trustees. Officials and full-time staff are eligible to participate after they are elected or become full-time. The Township contributes 10% of the participating employee's annual compensation to the plan. The Township's contributions are fully vested from the first day of the plan. The Township made the required contribution of \$4,200 for the year ended March 31, 2014. Employees are not required to contribute to the plan. The Township is not a trustee of the plan, nor is the Township responsible for investment management of plan assets. Accordingly, plan assets and changes therein are not reported in these financial statements.

NOTE 8 - JOINT VENTURES

The Township, together with the Township of Maple Grove and the Village of Nashville, has established a joint fire department and a joint EMS department under the provisions of Public Act 33 of 1951 and Public Act 7 of 1967, respectively. Membership does not convey an economic interest. The Township contributed \$28,000 to the Fire Department and \$61,408 to the EMS Department toward operating and capital costs.

The Township is unaware of any indication that the joint ventures are accumulating significant financial resources or are experiencing fiscal stress that may cause a benefit or burden on the Township in the near future. Complete financial statements can be obtained from the Departments.

NOTE 9 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for each of these claims and is neither self-insured, nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 10 - PENDING ACCOUNTING PRONOUNCEMENT

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for periods beginning after June 15, 2014. This Statement generally carries forward the requirements of Statement No. 27 for employer accounting and financial reporting for defined contribution plans. In this Statement, the definition of defined contribution pensions, as well as the accounting requirements for such pensions, includes provisions to accommodate circumstances in which the timing of payments into individual accounts does not coincide with the period of employee service to which defined contributions pertain (as when a nonvested employee accumulates credits for which the employer delays payment into the employee's account until vesting provisions have been satisfied). This Statement also establishes requirements to address accounting for forfeitures. The Statement also enhances accountability and transparency through revised note disclosures. The Township is currently evaluating the impact this standard will have on the financial statements when adopted during the fiscal year beginning April 1, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

Township of Castleton

BUDGETARY COMPARISON SCHEDULE - General Fund

Year ended March 31, 2014

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES				
Property taxes	\$ 57,200	\$ 57,200	\$ 53,874	\$ (3,326)
State grants	135,000	135,000	143,915	8,915
Charges for services	20,600	20,600	22,376	1,776
Interest and rentals	4,440	4,440	2,431	(2,009)
Other	1,000	1,000	1,881	881
Total revenues	<u>218,240</u>	<u>218,240</u>	<u>224,477</u>	<u>6,237</u>
EXPENDITURES				
General government:				
Legislative	7,900	7,900	4,046	3,854
Supervisor	7,269	7,269	7,211	58
Election	5,700	5,700	1,043	4,657
Assessor	17,100	17,100	18,694	(1,594)
Clerk	17,928	17,928	17,652	276
Board of review	2,330	2,330	2,104	226
Treasurer	18,950	18,950	19,406	(456)
Hall and grounds	10,200	10,200	11,221	(1,021)
Cemetery	9,585	9,585	9,483	102
Administration	36,459	36,459	34,449	2,010
Total general government	<u>133,421</u>	<u>133,421</u>	<u>125,309</u>	<u>8,112</u>
Public safety:				
Fire protection	28,000	28,000	28,000	-
Ambulance	-	2,447	2,447	-
Total public safety	<u>28,000</u>	<u>30,447</u>	<u>30,447</u>	<u>-</u>

Township of Castleton

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended March 31, 2014

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
EXPENDITURES (Continued)				
Public works:				
Road improvements and maintenance	\$ 35,000	\$ 35,000	\$ 36,506	\$ (1,506)
Drains	7,000	7,000	6,858	142
Recycling	5,000	5,000	5,000	-
Total public works	<u>47,000</u>	<u>47,000</u>	<u>48,364</u>	<u>(1,364)</u>
Capital outlay	<u>10,500</u>	<u>10,500</u>	<u>3,657</u>	<u>6,843</u>
Total expenditures	<u>218,921</u>	<u>221,368</u>	<u>207,777</u>	<u>13,591</u>
NET CHANGES IN FUND BALANCES	(681)	(3,128)	16,700	19,828
FUND BALANCES - BEGINNING	<u>303,710</u>	<u>303,710</u>	<u>303,710</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 303,029</u>	<u>\$ 300,582</u>	<u>\$ 320,410</u>	<u>\$ 19,828</u>

Township of Castleton

BUDGETARY COMPARISON SCHEDULE - Ambulance Operating Fund

Year ended March 31, 2014

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES				
Property taxes	\$ 61,376	\$ 61,376	\$ 59,568	\$ (1,808)
Interest	-	-	8	8
Total revenues	61,376	61,376	59,576	(1,800)
EXPENDITURES				
Health and welfare	61,376	61,376	61,532	(156)
NET CHANGES IN FUND BALANCES				
	-	-	(1,956)	(1,956)
FUND BALANCES - BEGINNING				
	61,448	61,448	61,448	-
FUND BALANCES - ENDING				
	<u>\$ 61,448</u>	<u>\$ 61,448</u>	<u>\$ 59,492</u>	<u>\$ (1,956)</u>

September 2, 2014

To the Board of Trustees
Township of Castleton

We have audited the financial statements of the governmental activities and each major fund of the Township of Castleton for the year ended March 31, 2014. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, 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 February 18, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Township of Castleton are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2014. We noted no transactions entered into by the Township of Castleton during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Township's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that they are 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.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 2, 2014.

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

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the governmental activities and each major fund of the Township of Castleton as of and for the year ended March 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Township of Castleton'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 certain deficiencies in internal control that we consider to be material weaknesses.

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

Cash reconciliations:

Condition and criteria: The Township's cash accounts were not reconciled to their respective general ledger control accounts in a timely manner.

Effect: As a result of this condition, the Township's accounting records were initially misstated by amounts that were material to the financial statements.

Cause: Reconciliations were not completed on a timely basis.

Auditor's Recommendation: Reconciliations between the bank accounts and the general ledger should be performed monthly. Reconciliations should be prepared in a standardized format, and all reconciling items should be fully explained and supported. Any entries necessary to correct the general ledger balances should be made on a timely basis.

Management's Response: Management agrees that timely and accurate cash reconciliations will improve accounting controls over the Township's cash accounts, which will enhance management's ability to make informed decisions.

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 Township Board. 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 several material audit adjustments that management reviewed and approved. Adjustments were recorded to:

- Correct cash balances
- Accrue receivables at year end
- Accrue payables at year end
- Adjust property tax revenues and receivables at year end
- Convert the fund-based data necessary to prepare the government-wide financial statements.

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. This is a repeat finding.

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. The Board will continue to review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

We did not audit the Township of Castleton's response to the internal control findings described above and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the Board of Trustees of the Township of Castleton and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Sigfried Crandall P.C.