

**Clayton Township
Arenac County, Michigan
Financial Report
With Supplemental Information
March 31, 2013**

Clayton Township

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INDEPENDENT AUDITOR'S REPORT

Township Board
Clayton Township
Arenac County, Michigan

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility for the Financial Statements

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 of material misstatement.

An audit includes 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 Clayton Township as of March 31, 2013, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and page 24 through 25 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.

Robertson & Carpenter CPAs, P.C.
Rose City, Michigan
September 9, 2013

Management's Discussion and Analysis

As management of Clayton Township (the "Township"), we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2013.

Financial Highlights

- The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$582,208 (*net position*). Of this amount, \$310,912 (*unrestricted net position*) may be used to meet the Township's ongoing obligations.
- The Township's total net position increased by \$26,805.
- As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$363,086, an increase of \$39,978 in comparison with the prior year. The fund balance in the General Fund is \$310,912 at March 31, 2013, 86% of total fund balances. The fund balance in the Road Fund is \$52,174.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$310,912 or 287% of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to 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 information on all of the Township's assets and liabilities, with the difference between the two 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 in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements present 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 works, community development and recreation and culture. The Township does not have any business-type activities as of and for the year ended March 31, 2013.

The government-wide financial statements can be found on pages 9-10 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. 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 evaluating a Township'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 two 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 and Road Fund.

The Township adopts an annual appropriated budget for its general and special revenue fund. Budgetary comparison statements or schedules have been provided for the General Fund and Road Fund herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 11-12 of this report.

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

The basic fiduciary fund financial statements can be found on pages 14-15 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16-23 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the Township, assets exceeded its liabilities by \$582,208 at the close of the most recent fiscal year.

A portion of the Township’s net position (38%) reflects its investment in capital assets (e.g., infrastructure, land, buildings, and equipment). The Township uses these capital assets to provide services to the community; consequently, these assets are *not* available for future spending.

Township's Net Position

	Governmental Activities	Governmental Activities
	<u>March 31, 2013</u>	<u>March 31, 2012</u>
Current and Other Assets	\$ 375,239	\$ 331,286
Capital Assets, Net	<u>219,122</u>	<u>232,295</u>
Total Assets	\$ 594,361	\$ 563,581
Current Liabilities	\$ <u>12,153</u>	\$ <u>8,178</u>
Total Liabilities	\$ 12,153	\$ 8,178
Net Position:		
Invested in Capital Assets	219,122	232,295
Restricted for Road Improvements	52,174	36,494
Unrestricted	<u>310,912</u>	<u>286,614</u>
Total Net Position	\$ <u><u>582,208</u></u>	\$ <u><u>555,403</u></u>

The Township's net position increased by \$26,805 during the current fiscal year. Unrestricted net position—the part of net position that can be used to finance day to day operations, increased by \$24,298 or 9%, during year ended March 31, 2013.

Township's Changes in Net Position

	<u>Governmental Activities March 31, 2013</u>	<u>Governmental Activities March 31, 2012</u>
Revenue:		
Program Revenue:		
Charges for Services	\$ 12,129	\$ 13,714
Operating Grants and Contributions	-	-
General Revenue:		
Property Taxes	65,398	65,393
State-Shared Revenues	83,482	81,288
Interest Earnings	2,863	1,088
Other	2,953	6,776
	<u>166,825</u>	<u>168,259</u>
Total Revenue	\$ 166,825	\$ 168,259
Expenses:		
General Government	\$ 98,137	\$ 92,882
Public Works	35,475	38,390
Community Development	5,982	5,045
Recreation and Culture	426	281
	<u>140,020</u>	<u>136,598</u>
Total Expenses	\$ 140,020	\$ 136,598
Increase (Decrease) in Net Position	26,805	31,661
Net Position, Beginning of Year	<u>555,403</u>	<u>523,742</u>
Net Position, End of Year	<u><u>\$ 582,208</u></u>	<u><u>\$ 555,403</u></u>

Governmental activities. The governmental revenues of the Township decreased by \$1,434 compared to the prior fiscal year. Interest earnings decreased by \$1,775. Expenses increased by \$3,422. Election expenses increased by \$4,162 compared to the prior fiscal year.

Financial Analysis of the Government's Funds

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

As of the end of the current fiscal year, the Township’s governmental funds reported combined ending fund balances of \$363,086, an increase of \$39,978 in comparison with the prior year. The *unassigned fund balance*, which is available for spending at the Township’s discretion, is \$310,912 (86% of this total amount).

The General Fund is the principal operating fund of the Township. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$310,912. As a measure of the General Fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance and total fund balance each represent 287% of total General Fund expenditures.

The fund balance of the General Fund increased by \$24,298 during the current fiscal year.

General Fund Budgetary Highlights

The Township’s budgets are prepared in accordance with Michigan Law. The most significant budgeted fund is the General Fund. The General Fund budget was not amended during the year. General Fund expenditures were \$ 27,266 less than budgeted.

Capital Asset and Debt Administration

Capital assets. The Township’s investment in capital assets for its governmental activities as of March 31, 2013, amounted to \$219,122 (net of accumulated depreciation). Investment in capital assets includes infrastructure, land, buildings and equipment. Additions totaled \$1,234 during the fiscal year.

Township's Capital Assets
(net of depreciation)

	March 31, 2013	March 31, 2012
Infrastructure	\$ 164,898	\$ 176,330
Land and land improvements	25,470	25,499
Buildings	17,523	18,488
Furniture and Equipment	11,231	11,978
Total	\$ 219,122	\$ 232,295

Additional information on the Township’s capital assets can be found in note 4 on page 21 of this report.

Factors Bearing on the Township's Future

The following factors were considered in preparing the Township's budget for the 2013-2014 fiscal year:

- The State of Michigan has made significant cuts in their operating budgets due to a downturn in the economy. For 2012-2013, the Township received \$80,679 in state shared revenue, representing 61% of the revenues in the General Fund. The amounts of state shared revenues for future periods are uncertain and will affect the Township's budgets. Property tax revenues are uncertain with declining taxable values in the Township. The 2012 taxable values decreased slightly compared to the 2011. Our budgets were prepared with these factors in mind and will be amended as required.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Clayton Township
Township Hall
Sterling, Michigan

Clayton Township
Statement of Net Position
March 31, 2013

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents (Note 3)	\$ 343,981
Accounts receivable	882
Due from Fiduciary Fund (Note 5)	10,519
Receivable - intergovernmental	19,857
Capital assets-net (Note 4)	<u>219,122</u>
Total assets	<u>594,361</u>
 Liabilities	
Accounts payable	12,153
Due to other governments	<u>-</u>
Total liabilities	<u>12,153</u>
 Net Position	
Invested in capital assets	219,122
Restricted for Road improvement	52,174
Unrestricted	<u>310,912</u>
Total net position	<u>\$ 582,208</u>

See accompanying notes which are an integral part of the financial statements.

Clayton Township
Statement of Activities
Year ended March 31, 2013

		Program Revenues		Governmental Activities
Functions/Programs	Expenses	Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Position
Governmental Activities				
General government	\$ 98,137	\$ 9,098	\$ -	\$ (89,039)
Public works	35,475	2,287	-	(33,188)
Community development	5,982	744	-	(5,238)
Recreation and culture	426	-	-	(426)
Total governmental activities	\$ 140,020	\$ 12,129	\$ 0	\$ (127,891)
General Revenues:				
Property taxes levied for:				
General purpose				36,108
Road				29,290
State revenues				83,482
Interest and investment earnings				2,863
Other				2,953
Total general revenues				154,696
Change in Net Position				26,805
Net Position - Beginning of Year				555,403
Net Position - End of Year				\$ 582,208

See accompanying notes which are an integral part of the financial statements.

Clayton Township
Governmental Funds
Balance Sheet
March 31, 2013

	General Fund	Road Fund	Total Governmental Funds
Assets			
Cash and investments	\$ 291,807	\$ 52,174	\$ 343,981
Accounts receivable	882	-	882
Due from Fiduciary Fund	10,519	-	10,519
Due from other governments	19,857	-	19,857
Total assets	\$ 323,065	\$ 52,174	\$ 375,239
Liabilities			
Accounts payable	\$ 12,153	\$ -	\$ 12,153
Due to other funds	-	-	-
Due to other governments	-	-	-
Deferred revenue	-	-	-
Total liabilities	12,153	-	12,153
Fund balances			
Restricted:			
Road improvement	-	52,174	52,174
Unassigned	310,912	-	310,912
Total fund balances	310,912	52,174	363,086
Total liabilities and fund balances	\$ 323,065	\$ 52,174	\$ 375,239

Fund Balances - Total Governmental Funds \$ 363,086

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

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

The cost of capital assets is	\$ 334,164	
Accumulated depreciation is	(115,042)	
		219,122

Net Position of Governmental Activities \$ 582,208

See accompanying notes which are an integral part of the financial statements.

Clayton Township
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year ended March 31, 2013

	<u>General Fund</u>	<u>Road Fund</u>	<u>Total Governmental Funds</u>
Revenues			
Property taxes and fees	\$ 36,108	\$ 29,290	\$ 65,398
State revenues	80,679	2,803	83,482
Charges for services	10,829	-	10,829
Interest and rentals	4,163	-	4,163
Other	953	2,000	2,953
Total revenues	<u>132,732</u>	<u>34,093</u>	<u>166,825</u>
Expenditures			
Current:			
General government	95,250	-	95,250
Public works	5,630	18,413	24,043
Community development	5,982	-	5,982
Recreation and culture	338	-	338
Capital outlay	1,234	-	1,234
Total expenditures	<u>108,434</u>	<u>18,413</u>	<u>126,847</u>
Net changes in fund balances	24,298	15,680	39,978
Fund Balances - Beginning of Year	<u>286,614</u>	<u>36,494</u>	<u>323,108</u>
Fund Balances - End of Year	\$ <u><u>310,912</u></u>	\$ <u><u>52,174</u></u>	\$ <u><u>363,086</u></u>

See accompanying notes which are an integral part of the financial statements.

Clayton Township
 Governmental Funds
 Reconciliation of the Statement of Revenues, Expenditures and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities
 Year ended March 31, 2013

Net Change in Fund Balances - Total Governmental Funds \$ 39,978

Amounts reported for governmental activities are different because:

Government funds report capital outlays as expenditures;
 in the statement of activities these costs are allocated
 over their estimated useful lives as depreciation.

Depreciation expense	\$	(14,407)	
Capital Outlay		<u>1,234</u>	(13,173)

Change in Net Position of Governmental Activities \$ 26,805

See accompanying notes which are an integral part of the financial statements.

Clayton Township
 Fiduciary Funds
 Statement of Net Position
 March 31, 2013

	Trust Fund- Pension Fund	Agency Fund Type (Property Tax Collection Fund)
Assets		
Cash	\$ -	\$ 14,481
Receivables - employer	-	-
Investments - at fair value	68,903	-
Total assets	\$ 68,903	\$ 14,481
 Liabilities		
Due to other funds	-	10,519
Due to other units of government	-	3,962
Total liabilities	-	\$ 14,481
Net Position - Held in Trust for Pension Benefits	\$ 68,903	

See accompanying notes which are an integral part of the financial statements.

Clayton Township
 Fiduciary Funds
 Statement of Changes in Net Position
 Year ended March 31, 2013

	<u>Trust Fund- Pension Fund</u>
Additions	
Contributions	
Employer	\$ 6,523
Employee	570
Investment earnings	<u>8,516</u>
Total Additions	15,609
Deductions	
Benefits	46,992
Administrative expenses	<u>1,456</u>
Total deductions	48,448
Net decrease	(32,839)
Net Position Held in Trust for Pension Benefits	
Beginning of the year	<u>101,742</u>
End of the year	<u><u>\$ 68,903</u></u>

See accompanying notes which are an integral part of the financial statements.

Clayton Township
Notes to Financial Statements
March 31, 2013

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity

The Township is governed by an elected five member Township Board. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Township's reporting entity, and which organizations are legally separate, component units of the Township. Based on the application criteria, the Township does not contain any component units.

Government-wide and Fund Financial Statements

The Government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the Township. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities. The Township does not have any business-type activities.

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. Program revenue includes (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a certain function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

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. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Clayton Township
Notes to Financial Statements
March 31, 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, state-shared revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the cash is received by the Township.

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.

The Road Fund is used to account for a voted millage for road improvements in the Township.

Additionally, the Township reports the following funds:

The Pension Trust Fund accounts for the activity of the Township defined contribution retirement plan, which accumulated resources for pension benefit payments to qualified employees.

The Tax Collection Fund accounts for property taxes collected and disbursed to other taxing authorities by the Township as required by law.

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

Amounts reported as program revenue include: (1) charges to customers for goods, services or privileges provided and (2) operating grants and contributions. General revenue includes all taxes.

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

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Clayton Township
Notes to Financial Statements
March 31, 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The taxpayers of the Township have their properties assessed as of December 31 and the related property taxes are levied and become a lien on December 1 for 100% of the taxes which are due February 28. The 2012 taxable value of the Township was \$29,451,434. The 2012 tax levy was .8525 for general operating purposes and 1.0000 for roads, raising \$24,987 for general operating purposes and \$29,290 for roads.

Capital Assets - Capital assets, which include land, buildings, equipment, and infrastructure assets (e.g., amounts paid to the Road Commission for the intangible right to use the roads), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation. Infrastructure assets acquired prior to implementation of GASB 34 are not included in the financial statements.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	20 years
Buildings and additions	50 years
Vehicles	5 years
Office furnishings	5-20 years
Other equipment	5-20 years

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

Compensated Absences - There is no liability for compensated absences reported in the government-wide financial statements since no Township employees are provided with sick or vacation pay benefits.

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Township does not have any deferred outflows of resources.

Clayton Township
Notes to Financial Statements
March 31, 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources (Continued) - In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (receipts) until that time. The Township does not have any deferred inflows of resources.

Fund Balance - Government 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 the resources by grantors, contributors, or laws or regulations of other governments. As applicable, *committed* fund balance is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the Township's highest level of decision making authority, the Township Board. The Township reports *assigned* fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted or committed. *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, then committed fund balance, and finally unassigned fund balance.

Comparative Data/Reclassifications - Comparative data is not included in the Township's financial statements.

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state laws for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Township adopt its budgets by April 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits Townships to amend its budget during the year. There were no budget amendments during the year.

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until the receipt of materials or services. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances are reappropriated in the next year.

Note 2 - Stewardship, Compliance and Accountability

Excess of expenditures over appropriations in budgeted funds:

The Township incurred expenditures in excess of amounts budgeted as follows:

<u>Fund and Function</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Unfavorable Variance</u>
General Fund			
Community development	\$ 5,000	\$ 5,982	\$ 982

Clayton Township
Notes to Financial Statements
March 31, 2013

Note 3 - Deposits and Investments

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Township Total
Cash and cash equivalents	\$ 343,981	\$ 14,481	\$ 358,462
Investments-pension	-	-	-
Total	\$ 343,981	\$ 14,481	\$ 358,462

The breakdown between deposits and investments for the Township is as follows:

Deposits (checking, savings and certificates of deposit)	\$ 358,462
Investments-pension	-
	\$ 358,462

Investment and deposit risk:

Interest rate risk

In accordance with its investment policy, the Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by investing operating funds primarily in shorter term securities and limiting the average maturity in accordance with the Township's cash requirements.

Credit risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRPs). The Township has no investments for which ratings are required.

Custodial credit risk - deposits

In the case of deposits, there is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. State law does not require and the Township does not have a policy for custodial credit risk. At March 31, 2013, \$66,153 of the Township's bank balances of \$399,146 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Township Board is authorized to designate depositories for Townships funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

a. Bonds, securities, and other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States with remaining maturities of two years or less.

b. Certificates of deposit of a bank which is a member of the Federal Deposit Insurance Corporation.

Clayton Township
Notes to Financial Statements
March 31, 2013

Note 3 - Deposits and Investments (Continued)

c. Commercial paper rated at the time of purchase within the two highest classifications by not less than two standard rating services.

The Township's deposits are in accordance with statutory authority.

Note 4 - Capital Assets

Capital assets activity of the Township's Governmental activities were as follows:

	<u>Balance</u> <u>April 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>March 31, 2013</u>
Capital assets not depreciated:				
Land	\$ 25,149	\$ -	\$ -	\$ 25,149
Capital assets being depreciated:				
Infrastructure	228,638	-	-	228,638
Land improvements	575	-	-	575
Buildings	42,842	-	-	42,842
Furniture & equipment	35,726	1,234	-	36,960
Subtotal	<u>332,930</u>	<u>1,234</u>	<u>-</u>	<u>334,164</u>
Accumulated Depreciation				
Infrastructure	52,308	11,432	-	63,740
Land improvements	225	29	-	254
Buildings	24,354	965	-	25,319
Furniture & equipment	23,748	1,981	-	25,729
Subtotal	<u>100,635</u>	<u>14,407</u>	<u>-</u>	<u>115,042</u>
Net capital assets being depreciated	<u>232,295</u>	<u>(13,173)</u>	<u>-</u>	<u>219,122</u>
Governmental Activities				
Total Capital Assets net of Depreciation	<u>\$ 232,295</u>	<u>\$ (13,173)</u>	<u>\$ 0</u>	<u>\$ 219,122</u>

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

Governmental activities:	
General government	\$ 2,887
Public works	11,432
Recreation	88
Total governmental activities	<u>\$ 14,407</u>

Clayton Township
Notes to Financial Statements
March 31, 2013

Note 5 - Receivables, Payables and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	\$ 10,519	General Fund	\$ -
Fiduciary Funds	-	Fiduciary Funds	10,519
Total	\$ <u>10,519</u>	Total	\$ <u>10,519</u>
<u>Transfers In</u>		<u>Transfers Out</u>	
None	\$ <u>0</u>	None	\$ <u>0</u>

Note 6 - Risk Management

Clayton Township is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent insurance companies. Settled claims from these risks have not exceeded insurance coverage for the last three years.

Note 7 - Pension Plan

Clayton Township has a defined contribution plan for board members, through John Hancock Life Insurance Company. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of these contributions, and forfeitures of other participant's benefits that may be allocated to such participant's

The Township pension plan agreement specifies which Township positions are covered by the plan. Contributions made by a board member and the Township vest immediately. An board member that leaves the employment of the Township is entitled to his or her account balance consisting of the employee and Township contributions, as well as earnings in the account.

During the year, the Township's required contributions amounted to \$6,523 which was 15% of its current year covered payroll. Covered payroll was \$42,847. Total payroll was \$51,529.

Employer	\$ 6,523
Employee	570
Total	\$ <u>7,093</u>

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees. The plan held no securities of the Township or other related parties during the year or at the close of the fiscal year.

Clayton Township
Notes to Financial Statements
March 31, 2013

Note 8 - Joint Area Fire Board

The last audit of the Sterling Area Fire Board was for the year ended December 31, 2011. The financial statements included the following information:

Total Assets	\$ 190,883	<u>Contributions - 2011</u>	
Total Liabilities	787	Adams Township	\$ 15,095
Total Equity	190,096	Clayton Township	26,693
Total Revenue	100,235	Deep River Township	<u>56,729</u>
Total Expenditures	105,217		
Decrease in Fund Balance	(4,981)	Total	<u><u>\$ 98,517</u></u>

The Fire Board receives one mill levied on properties served by the Fire Board.

A copy of financial statements may be obtained from the Administration of Sterling Area Fire Board at 2282 Hart Road, Standish, MI 48658.

Note 9 - Recent Accounting Pronouncements

Effective April 1, 2012, the Township adopted the provisions of the following accounting pronouncement:

Governmental Accounting Standards Board (GASB) Statement 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"*. This Statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This Statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Adoption of this standard did not result in restatement or reclassification of opening net position or fund balances.

Required Supplemental Information

Clayton Township
 Budgetary Comparison Schedule - General Fund
 Year ended March 31, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
Revenues				
Property tax and fees	\$ 41,000	\$ 41,000	\$ 36,108	\$ (4,892)
State revenues	70,000	70,000	80,679	10,679
Charges for services	3,700	3,700	10,829	7,129
Interest and rentals	2,700	2,700	4,163	1,463
Other	5,500	5,500	953	(4,547)
Total revenues	<u>122,900</u>	<u>122,900</u>	<u>132,732</u>	<u>9,832</u>
Expenditures				
General government				
Township board			22,456	
Supervisor			6,859	
Elections			5,261	
Assessor			14,848	
Clerk			7,989	
Board of review			3,118	
Treasurer			15,829	
Township hall			6,962	
Cemetery			11,928	
Total general government	<u>115,150</u>	<u>115,150</u>	<u>95,250</u>	<u>19,900</u>
Public works	5,750	5,750	5,630	120
Community development	5,000	5,000	5,982	(982)
Recreation and culture	8,500	8,500	338	8,162
Capital outlay	1,300	1,300	1,234	66
Total expenditures	<u>135,700</u>	<u>135,700</u>	<u>108,434</u>	<u>27,266</u>
Excess of Revenues Over (Under) Expenditures	(12,800)	(12,800)	24,298	37,098
Fund Balances - Beginning of Year	<u>286,614</u>	<u>286,614</u>	<u>286,614</u>	<u>-</u>
Fund Balances - End of Year	<u>\$ 273,814</u>	<u>\$ 273,814</u>	<u>\$ 310,912</u>	<u>\$ 37,098</u>

Clayton Township
 Budgetary Comparison Schedule - Road Fund
 Year ended March 31, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
Revenues				
Property tax and fees	\$ 25,000	\$ 25,000	\$ 29,290	\$ 4,290
State revenues	-	-	2,803	2,803
Other	-	-	2,000	2,000
Total revenues	<u>25,000</u>	<u>25,000</u>	<u>34,093</u>	<u>9,093</u>
Expenditures				
Public works	<u>45,000</u>	<u>45,000</u>	<u>18,413</u>	<u>26,587</u>
Total expenditures	<u>45,000</u>	<u>45,000</u>	<u>18,413</u>	<u>26,587</u>
Excess of Revenues Over (Under) Expenditures				
	(20,000)	(20,000)	15,680	35,680
Fund Balances - Beginning of Year	<u>36,494</u>	<u>36,494</u>	<u>36,494</u>	<u>-</u>
Fund Balances - End of Year	<u><u>\$ 16,494</u></u>	<u><u>\$ 16,494</u></u>	<u><u>\$ 52,174</u></u>	<u><u>\$ 35,680</u></u>



ROBERTSON & CARPENTER CPAs, P.C.

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Other office: Mio, Michigan

Rodney C. Robertson, CPA
Robert J. Carpenter, CPA

September 9, 2013

To the Township Board
Clayton Township
Arenac County, Michigan

In planning and performing our audit of the financial statements of the governmental activities and each major fund of Clayton Township as of and for the year ended March 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered Clayton Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of 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 identified a certain deficiency in internal control that we consider to be a significant deficiency.

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the Township's internal control to be a significant deficiency:

Lack of adequate controls to produce full-disclosure GAAP basis financial statements.

Requirement: All Michigan governmental units are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Township's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

Condition: The Township, as is common with smaller and medium-sized entities, has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes 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 auditors, who cannot by definition be considered part of the government's internal controls.

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

Effect: The result of this condition is that the Township lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

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

This significant deficiency is a repeat comment from our letter to you dated September 12, 2011.

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

Robertson & Carpenter CPAs, P.C.
Certified Public Accountants
Rose City, Michigan



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Rodney C. Robertson, CPA

Robert J. Carpenter, CPA

September 9, 2013

To the Township Board
Clayton Township
Arenac County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clayton Township for the year ended March 31, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 13, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Clayton Township are described in Note 1 to the financial statements. The Township changed its accounting for net position by adopting GASB Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Number 65, *Items Previously Recognized as Assets and Liabilities* in the current fiscal year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are 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 9, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

Clerk's accounting records

The Clerk's journals and general ledger were not posted in a timely manner for the audit period. The accounting records should be posted and balanced each month as soon as possible after month end. This is a repeat comment.

Payroll Reporting and Remittances

Form 941s were not prepared and filed timely. The payroll taxes due were not remitted by the due dates. All payroll reports should be filed timely and remittances made by the due dates. This is a repeat comment.

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

Very truly yours,

Robertson & Carpenter CPAs, P.C.
Certified Public Accountants