

**CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY**

**FRANKFORT, MICHIGAN**

**MARCH 31, 2014**



**Baird, Cotter & Bishop, P.C.**  
SERVING YOUR PAST, PRESENT & FUTURE

CERTIFIED PUBLIC ACCOUNTANTS  
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CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY  
FRANKFORT, MICHIGAN

MARCH 31, 2014

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# Baird, Cotter & Bishop, P.C.

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www.bcbcpa.com

August 4, 2014

## INDEPENDENT AUDITOR'S REPORT

To the Township Board  
Crystal Lake Township  
Benzie County  
Frankfort, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Crystal Lake Township, Benzie County, Frankfort, 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 table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, 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 Crystal Lake Township, Benzie County, Frankfort, 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 on pages iii through ix and budgetary comparison information on page 18 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.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2014

As management of Crystal Lake 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, 2014. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

**Financial Highlights**

- ❖ The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$927,639 (*net position*). Of this amount, \$314,479 represents unrestricted net position, which may be used to meet the Township's ongoing obligations to citizens and creditors.
- ❖ At the close of the current fiscal year, the Township's governmental funds reported combined fund balances of \$724,875, an increase of \$65,066 in comparison with the prior year. Approximately 43% of this amount (\$314,479) is available for spending at the Township's discretion (*unassigned fund balance*).
- ❖ At the end of the current fiscal year, unrestricted fund balance (the total of *committed, assigned, and unassigned* components of fund balance) for the general fund was \$314,479.

**Overview of the Financial Statements**

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

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

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

The *Statement of Activities* presents information showing how the Township's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future periods.

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Township include general government,

CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2014

public safety, public works, community and economic development, and other functions. The Township does not have any business-type activities.

The government-wide financial statements can be found on pages 1-2 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. Crystal Lake Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

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

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

The Township maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Cemetery Fund, and Fire Fund, which are considered to be major funds.

The Township adopts an annual budget for all major funds. A budgetary comparison has been provided for all major funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 3-6 of this report.

**Fiduciary Funds** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. 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 Township maintains one type of fiduciary fund.

The fiduciary fund financial statements can be found on page 7 of this report.

**Notes to Financial Statements** The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 8-17 of this report.

CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2014

**Other Information** In addition to the basic financial statements and accompanying notes, this report also presents *Required Supplementary Information* (RSI) that explains and supports the information presented in the financial statements.

**Government-Wide Overall Financial Analysis**

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of Crystal Lake Township, assets exceeded liabilities by \$927,639, at the close of the most recent fiscal year.

**Crystal Lake Township**  
**Net Position as of March 31,**

	<b>Governmental Activities</b>	
	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
Current Assets	\$ 746,291	\$ 676,999
Noncurrent Assets		
Capital Assets	310,000	310,000
Less: Accumulated Depreciation	<u>(107,236)</u>	<u>(103,236)</u>
Total Noncurrent Assets	<u>202,764</u>	<u>206,764</u>
<b>Total Assets</b>	<u>949,055</u>	<u>883,763</u>
<b>Liabilities</b>		
Current Liabilities	<u>21,416</u>	<u>17,190</u>
<b>Net Position</b>		
Net Investment in Capital Assets	202,764	206,764
Restricted for Specific Purposes	410,396	370,250
Unrestricted	<u>314,479</u>	<u>289,559</u>
<b>Total Net Position</b>	<u>\$ 927,639</u>	<u>\$ 866,573</u>

The largest portion of the Township's net position (44%) represents resources that are subject to external restrictions on how they may be used. Another portion of the Township's net position is investment in capital assets (e.g. land and buildings). The remaining balance of \$314,479 is unrestricted may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net position.

CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

The Township's overall net position increased by \$61,066 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for the governmental activities.

**Crystal Lake Township  
Change in Net Position  
for the Fiscal Year Ended March 31,**

<u>Revenues</u>	<b>Governmental Activities</b>	
	<b>2014</b>	<b>2013</b>
<b>Program Revenues</b>		
Charges for Services	\$ 19,936	\$ 9,657
Operating Grants and Contributions	3,081	3,065
<b>General Revenues</b>		
Taxes	232,607	195,267
State Grants	71,418	69,787
Interest Earnings	2,619	1,003
Other	3,078	5,503
<b>Total Revenues</b>	<u>332,739</u>	<u>284,282</u>
 <u>Expenses</u>		
General Government	166,427	159,176
Public Safety	67,968	61,046
Public Works	740	1,398
Community and Economic Development	24,480	15,487
Other Functions	12,058	13,358
<b>Total Expenses</b>	<u>271,673</u>	<u>250,465</u>
 Changes in Net Position	61,066	33,817
 <u>NET POSITION</u> - Beginning of Year	<u>866,573</u>	<u>832,756</u>
 <u>NET POSITION</u> - End of Year	<u>\$ 927,639</u>	<u>\$ 866,573</u>

**Governmental Activities** The most significant part of the revenue for all governmental activities of the Township comes from taxes. The Township levied .7069 mills for operating purposes and .5 mills for fire protection. State-shared revenues are also a significant portion of the revenues for the Township. State-shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax.



CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2014

The Township's governmental activities expenses are dominated by general government expenses that total \$166,427. Public Safety represented the next largest expense at \$67,968.

**Financial Analysis of the Governmental Funds**

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

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

At March 31, 2014, the Township's governmental funds reported combined fund balances of \$724,875, an increase of \$65,066 in comparison with the prior year. Approximately 43% of this amount (\$314,479) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable*, *restricted*, *committed*, or *assigned* to indicate that it is 1) not in spendable form, 2) legally required to be maintained intact, 3) restricted for particular purposes (\$410,396), 4) committed for particular purposes, or 5) assigned for particular purposes.

**General Fund** – The General Fund increased its fund balance by \$26,032 which brings the fund balance to \$316,289. Of the General Fund's fund balance, \$314,479 of it is unassigned.

**Fire Fund** – The Fire Fund increased its fund balance by \$19,866 which brings the fund balance to \$70,065. This balance is restricted and must be used for fire protection.

The Township levied a fire millage on the 2013 tax roll. This resulted in \$74,546 in tax related revenues during the current fiscal year.

**Cemetery Fund** – The Cemetery Fund increased its fund balance by \$19,168 which brings the fund balance to \$338,521. This balance is restricted and must be used for cemetery.

**General Fund Budgetary Highlights**

During the year, there were the budget was amended to decrease tax revenues and increase or decrease various expenditures.

CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
Total Revenues	\$ 203,825	\$ 197,741	\$ 246,294
Total Expenditures	\$ 184,740	\$ 148,817	\$ 177,021

The difference between budgeted and actual revenues was mostly due to underestimating the amounts for taxes and state grants. The most significant factor in the expenditure difference was due to amending the budget in February before all of the expenditures were recorded through the end of the fiscal year.

**Capital Assets**

**Capital Assets** The Township's investment in capital assets for governmental activities as of March 31, 2014, amounted to \$202,764 net of accumulated depreciation.

Capital assets summarized below include any items purchased with a cost greater than \$2,500 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

**Crystal Lake Township  
Capital Assets as of March 31,**

	<b>Governmental Activities</b>	
	<b>2014</b>	<b>2013</b>
Land	\$ 110,000	\$ 110,000
Buildings	200,000	200,000
	310,000	310,000
Less: Accumulated Depreciation	(107,236)	(103,236)
<b>Net Capital Assets</b>	<b>\$ 202,764</b>	<b>\$ 206,764</b>

There were no major capital asset events during fiscal year 2014.

**Economic Condition and Outlook**

It appears that state-shared revenues have stabilized. The Township continues to look for ways to improve the services it provides to its residents in a manner that is financially responsible.

This factor was considered in preparing the Township's budgets for the 2014-15 fiscal year.

CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2014

**Request for Information**

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Crystal Lake Township at P.O. Box 2129 Frankfort, MI 49635.

CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY  
FRANKFORT, MICHIGAN

STATEMENT OF NET POSITION  
MARCH 31, 2014

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 493,249
Receivables	
Taxes	11,086
External Party (Fiduciary Fund)	222,778
Due from Other Governments	19,178
	<hr/>
Total Current Assets	746,291
	<hr/>
<u>CAPITAL ASSETS</u>	
Land	110,000
Buildings	200,000
	<hr/>
	310,000
Less Accumulated Depreciation	(107,236)
Net Capital Assets	202,764
	<hr/>
TOTAL ASSETS	949,055
	<hr/>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	21,416
	<hr/>
<u>NET POSITION</u>	
Net Investment in Capital Assets	202,764
Restricted for:	
Metro Act Right-of-Way Maintenance	1,810
Fire Protection	70,065
Cemetery	338,521
Unrestricted	314,479
	<hr/>
TOTAL NET POSITION	\$ 927,639
	<hr/> <hr/>

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

CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY  
FRANKFORT, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2014

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	TOTAL GOVERNMENTAL ACTIVITIES
<u>GOVERNMENTAL ACTIVITIES</u>					
General Government	\$ 166,427	\$ 19,936	\$ 0	\$ 0	\$ (146,491)
Public Safety	67,968	0	0	0	(67,968)
Public Works	740	0	3,081	0	2,341
Community and Economic Development	24,480	0	0	0	(24,480)
Other Functions	12,058	0	0	0	(12,058)
TOTAL	\$ 271,673	\$ 19,936	\$ 3,081	\$ 0	(248,656)
 <u>GENERAL REVENUES</u>					
					232,607
					71,418
					2,619
					3,078
					309,722
					61,066
					866,573
					\$ 927,639

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

CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY  
FRANKFORT, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET  
MARCH 31, 2014

	<u>GENERAL</u> <u>FUND</u>	<u>FIRE</u> <u>FUND</u>	<u>CEMETERY</u> <u>FUND</u>	<u>TOTALS</u>
<u>ASSETS</u>				
Cash	\$ 142,217	\$ 12,511	\$ 338,521	\$ 493,249
Taxes Receivable	7,107	3,979	0	11,086
Due from Other Funds	152,211	70,567	0	222,778
Due from Other Governments	19,178	0	0	19,178
TOTAL ASSETS	<u>\$ 320,713</u>	<u>\$ 87,057</u>	<u>\$ 338,521</u>	<u>\$ 746,291</u>
 <u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 4,424	\$ 16,992	\$ 0	\$ 21,416
<u>FUND BALANCE</u>				
Restricted for				
Metro Act Right of Way Maintenance	1,810	0	0	1,810
Fire Protection	0	70,065	0	70,065
Cemetery	0	0	338,521	338,521
Unassigned	314,479	0	0	314,479
Total Fund Balance	<u>316,289</u>	<u>70,065</u>	<u>338,521</u>	<u>724,875</u>
 <u>TOTAL LIABILITIES</u>				
AND FUND BALANCE	<u>\$ 320,713</u>	<u>\$ 87,057</u>	<u>\$ 338,521</u>	<u>\$ 746,291</u>

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

CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY  
FRANKFORT, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION  
MARCH 31, 2014

Total Fund Balance for Governmental Funds	\$ 724,875
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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 therefore are not reported in the funds.

Land	\$ 110,000	
Buildings	200,000	
Accumulated Depreciation	<u>(107,236)</u>	<u>202,764</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 927,639</u></u>
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The accompanying notes are an integral part of the financial statements.

CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY  
FRANKFORT, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
YEAR ENDED MARCH 31, 2014

	GENERAL FUND	FIRE FUND	CEMETERY FUND	TOTALS
<u>REVENUES</u>				
Taxes	\$ 158,061	\$ 74,546	\$ 0	\$ 232,607
Licenses and Permits	3,136	0	0	3,136
State Grants	74,499	0	0	74,499
Charges for Services	7,735	0	9,065	16,800
Interest and Rents	110	65	2,444	2,619
Other Revenues	2,753	0	325	3,078
	<hr/>			
Total Revenues	246,294	74,611	11,834	332,739
<hr/>				
<u>EXPENDITURES</u>				
General Government	139,743	0	22,684	162,427
Public Safety	0	67,968	0	67,968
Public Works	740	0	0	740
Community and Economic Development	24,480	0	0	24,480
Other Functions	12,058	0	0	12,058
	<hr/>			
Total Expenditures	177,021	67,968	22,684	267,673
<hr/>				
Excess (Deficiency) of Revenues Over Expenditures	69,273	6,643	(10,850)	65,066
<hr/>				
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In (Out)	(43,241)	13,223	30,018	0
	<hr/>			
Net Change in Fund Balance	26,032	19,866	19,168	65,066
<hr/>				
<u>FUND BALANCE</u> - Beginning of Year	290,257	50,199	319,353	659,809
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<u>FUND BALANCE</u> - End of Year	\$ 316,289	\$ 70,065	\$ 338,521	\$ 724,875
<hr/>				

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



CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY  
FRANKFORT, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

MARCH 31, 2014

Net Change in Fund Balance - Total Governmental Funds	\$ 65,066
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the Statement of Activities. These costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	<u>(4,000)</u>
<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u><u>\$ 61,066</u></u></b>

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

CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY  
FRANKFORT, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION  
MARCH 31, 2014

	<u>AGENCY FUND</u>
<u>ASSETS</u>	
Cash	<u>\$ 224,075</u>
<u>LIABILITIES</u>	
Due to Other Funds	222,778
Due to Other Governments	<u>1,297</u>
 TOTAL LIABILITIES	 <u>224,075</u>
 <u>NET POSITION</u>	 <u><u>\$ 0</u></u>

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

CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of Government-Wide Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary governmental is financially accountable. Crystal Lake Township does not have any *business-type activities* or *component units*.

**B. Reporting Entity**

Crystal Lake Township is a general law township located in Benzie County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

**C. Basis of Presentation – Government-Wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

**D. Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Crystal Lake Township reports the following major governmental funds:

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

CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

The *Fire Fund* accounts for revenue sources that are legally restricted to expenditures for fire protection.

The *Cemetery Fund* accounts for revenue sources that are legally restricted to expenditures for the cemetery.

Additionally Crystal Lake Township reports the following fund types:

*Fiduciary funds* are accounted for using the accrual method of accounting. Fiduciary funds account for assets held by the Township in a trustee capacity or as an agent on behalf of others. This fund is custodial in nature and does not involve measurement of results of operations. Accordingly, it presents only a statement of fiduciary net position and does not present a statement of changes in fiduciary net position. Fiduciary funds are not included in the government-wide statements.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

**E. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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 timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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 claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

Property taxes, sales taxes, 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue resource (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

**F. Budgetary Information**

***1. Budgetary Basis of Accounting***

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on March 5, 2013, or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

**2. Excess of Expenditures over Appropriations**

	APPROPRIATIONS		EXPENDITURES
General Fund			
General Government			
Township Board	\$ 30,650	\$	34,076
Supervisor	16,003		19,327
Assessor	17,676		20,683
Election	2,329		2,377
Clerk	19,795		23,400
Board of Review	746		1,682
Building & Grounds	7,777		8,490
Community and Economic Development			
Planning	5,675		13,197
Other Functions	0		12,058
Fire Fund			
Public Safety	66,238		67,968
Cemetery Fund			
General Government	19,973		22,684

These overages were funded by greater than anticipated revenues and available fund balance.

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

**1. Cash and Cash Equivalents**

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

The Investment Policy adopted by the Township states that the township is limited to investments authorized by PA 20 of 1943, as amended, and may invest in the following:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution. Authorized depositories shall be designated by the Crystal Lake Township Board at the Board's organizational meeting after each regular election of board members.

CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

- (c) Commercial paper rated at the time of purchase within the 2 highest classifications established by not more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in subdivision (a).
- (e) Bankers' acceptances of United States banks.
- (f) Investment pools through an Interlocal Agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- (g) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.

**2. *Inventories and Prepaid Items***

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. There are no prepaid items this year.

**3. *Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building Improvements	20
Office Equipment	5-10
Infrastructure	20

CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

**4. *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.

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 (revenue) until that time. The Township does not have any deferred inflows of resources.

**5. *Net Position Flow Assumption***

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

**6. *Fund Balance Flow Assumptions***

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

**7. *Fund Balance Policies***

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).



CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

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

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

**8. *Use of Estimates***

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

**H. Revenues and Expenditures/Expenses**

**1. *Program Revenues***

Amounts reported as program revenue include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes and other internally dedicated resources are reported as general revenues rather than as program revenues.

**2. *Property Taxes***

Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and county taxes are levied and due July 1, and become delinquent after September 14. The remaining millages are levied and due December 1, and become delinquent after February 14. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations

CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

The 2013 taxable valuation of the Crystal Lake Township totaled \$150,648,130, on which ad valorem taxes levied consisted of .7069 mills for the Crystal Lake Township operating purposes, .5 mills for Crystal Lake Township fire protection. These levies raised approximately \$106,806 for operating purposes, and \$74,546 for fire protection. These amounts are recognized in the respective General Fund and Fire Fund financial statements as tax revenue.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Violations of Legal or Contractual Provisions**

Note I.F.2, on the Excess of Expenditures over Appropriations, describes a budgetary violation that occurred for the year ended March 31, 2014.

**III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS**

**A. Cash Deposits with Financial Institutions**

The Township's deposits are on deposit with State Savings Bank, West Michigan Bank & Trust, Hightower Securities, and Central State Bank.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2014, none of the Township's bank balance of \$726,976 was exposed to custodial credit risk. Although the Township's investment policy does not directly address custodial credit risk, it typically limits its exposure by controlling who holds the Township's deposits.

*Foreign currency risk.* The Township is not authorized to invest in investments which have this type of risk; therefore, it is not addressed in the investment policy.

**B. Receivables**

Receivables as of year end for the government's individual major funds are as follows:

	<u>General</u>	<u>Fire</u>	<u>Total</u>
Receivables			
Taxes Receivable	\$ 7,107	\$ 3,979	\$ 11,086
Due from Other Governments	19,178	0	19,178
	<hr/>		
Total Receivables	\$ 26,285	\$ 3,979	\$ 30,264
	<hr/>		

The allowance for doubtful accounts is not considered to be material for disclosure.

CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

**C. Capital Assets**

As of March 31, 2014, the cost and accumulated depreciation of capital assets consisted of the following:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 110,000	\$ 0	\$ 0	\$ 110,000
Capital assets, being depreciated				
Buildings	200,000	0	0	200,000
Less accumulated depreciation for:				
Buildings	103,236	4,000	0	107,236
Total capital assets, being depreciated, net	96,764	(4,000)	0	92,764
Governmental activities capital assets, net	\$ 206,764	\$ (4,000)	\$ 0	\$ 202,764

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

Governmental activities:	
General Government	\$ 4,000

**D. Interfund Receivables and Payables**

Interfund balances as of March 31, 2014, are as follows:

FUND	INTERFUND RECEIVABLES	INTERFUND PAYABLES
General	\$ 152,211	\$ 0
Fire	70,567	0
Tax Collection Fund	0	222,778
	\$ 222,778	\$ 222,778

Interfund receivables and payables result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

**E. Interfund Transfers**

Interfund transfers made during the year are as follows:

<u>FUND</u>	TRANSFERS	
	IN	OUT
General	\$ 0	\$ 43,241
Fire	13,223	0
Cemetery	30,018	0
	<u>\$ 43,241</u>	<u>\$ 43,241</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**F. Risk Management**

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, errors and omissions insurance and workers' compensation. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

**G. Related Parties**

During the fiscal year, there were several related parties involved in both appointed positions and contracted services. The Township Board approved contracts and/or payments to such individuals and companies.

**IV. OTHER INFORMATION**

**A. Endowment Fund**

In 2010 the Grand Traverse Regional Community Foundation (GTRCF) established an Endowment Fund to support, preserve, and enhance the Crystal Lake Township North Cemetery. The contributions given directly to GTRCF become a permanent endowment of the GTRCF and as such are not included as assets of Crystal Lake Township.

CRYSTAL LAKE TOWNSHIP, BENZIE COUNTY  
FRANKFORT, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS  
YEAR ENDED MARCH 31, 2014

	GENERAL FUND			FIRE FUND			CEMETERY FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<b>REVENUES</b>									
Taxes	\$ 142,000	\$ 122,135	\$ 158,061	\$ 30,000	\$ 36,888	\$ 74,546	\$ 0	\$ 0	\$ 0
Licenses and Permits	3,000	3,000	3,136	0	0	0	0	0	0
State Grants	50,000	62,241	74,499	0	0	0	0	0	0
Charges for Services	7,425	7,553	7,735	0	0	0	6,500	9,115	9,065
Interest and Rents	200	74	110	50	56	65	500	46	2,444
Other Revenues	1,200	2,738	2,753	0	0	0	0	0	325
<b>Total Revenues</b>	<b>203,825</b>	<b>197,741</b>	<b>246,294</b>	<b>30,050</b>	<b>36,944</b>	<b>74,611</b>	<b>7,000</b>	<b>9,161</b>	<b>11,834</b>
<b>EXPENDITURES</b>									
General Government									
Township Board	27,500	30,650	34,076	0	0	0	0	0	0
Supervisor	20,184	16,003	19,327	0	0	0	0	0	0
Assessor	19,167	17,676	20,683	0	0	0	0	0	0
Election	2,300	2,329	2,377	0	0	0	0	0	0
Clerk	21,405	19,795	23,400	0	0	0	0	0	0
Board of Review	500	746	1,682	0	0	0	0	0	0
Treasurer	29,284	32,558	29,708	0	0	0	0	0	0
Building and Grounds	30,000	7,777	8,490	0	0	0	0	0	0
Cemetery	0	0	0	0	0	0	34,875	19,973	22,684
Public Safety									
Fire Department	0	0	0	70,000	66,238	67,968	0	0	0
Public Works									
Highways, Streets, Bridges	1,400	740	740	0	0	0	0	0	0
Community and Economic Development									
Planning	5,000	5,675	13,197	0	0	0	0	0	0
Zoning	18,000	14,868	11,283	0	0	0	0	0	0
Other Functions	10,000	0	12,058	0	0	0	0	0	0
<b>Total Expenditures</b>	<b>184,740</b>	<b>148,817</b>	<b>177,021</b>	<b>70,000</b>	<b>66,238</b>	<b>67,968</b>	<b>34,875</b>	<b>19,973</b>	<b>22,684</b>
Excess (Deficiency) of Revenues Over Expenditures	19,085	48,924	69,273	(39,950)	(29,294)	6,643	(27,875)	(10,812)	(10,850)
<b>OTHER FINANCING SOURCES (USES)</b>									
Transfers In (Out)	(70,000)	(50,000)	(43,241)	25,000	25,000	13,223	18,000	25,000	30,018
Net Change in Fund Balance	(50,915)	(1,076)	26,032	(14,950)	(4,294)	19,866	(9,875)	14,188	19,168
<b>FUND BALANCE - Beginning of Year</b>	<b>143,000</b>	<b>143,000</b>	<b>290,257</b>	<b>26,773</b>	<b>26,773</b>	<b>50,199</b>	<b>9,175</b>	<b>0</b>	<b>319,353</b>
<b>FUND BALANCE - End of Year</b>	<b>\$ 92,085</b>	<b>\$ 141,924</b>	<b>\$ 316,289</b>	<b>\$ 11,823</b>	<b>\$ 22,479</b>	<b>\$ 70,065</b>	<b>\$ (700)</b>	<b>\$ 14,188</b>	<b>\$ 338,521</b>



# Baird, Cotter & Bishop, P.C.

SERVING YOUR PAST, PRESENT & FUTURE

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601 PHONE: (231) 775-9789 FAX: (231) 775-9749

www.bcbcpa.com

August 4, 2014

## COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE AT THE CONCLUSION OF THE AUDIT

To the Township Board  
Crystal Lake Township  
Benzie County  
Frankfort, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Crystal Lake Township for the year ended March 31, 2014. 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 April 28, 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 Crystal Lake Township are described in Note I to the financial statements. No new accounting policies were adopted and application of existing policies was not changed during 2013-14. 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 estimates of the useful lives of capital assets which is based on previous history. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.

### *Difficulties Encountered in Performing the Audit*

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

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated August 4, 2014.

### *Management Consultations with Other Independent Accountants*

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

### *Other Audit Findings or Issues*

During the course of our audit of the basic financial statements of Crystal Lake Township for the year ended March 31, 2014, we noted the following items which we feel deserve comment:

#### Budgeting

Several expenditures exceeded appropriated amounts. The Township should monitor its budgets on an ongoing basis and make budget amendments prior to incurring expenditures in excess of budgeted amounts. Budget amendments need to be made prior to the end of the fiscal year.

#### Credit Card

We recommend that the township obtain a credit card to reduce the number of reimbursements required during the year. We have supplied a sample credit card policy to be adopted if a credit card is obtained.

### Payroll

It was noted during the audit that the general ledger wages and payroll taxes did not agree to the quarterly returns which were filed. We also noted that the amounts reported on the quarterly 941 reports do not tie up in total to the W-2's reported to the Social Security Administration. It is likely that notices will be received in regards to these issues. We are available to assist the treasurer with correspondence from the IRS.

### Separate Funds

During the year, the accounting systems for the general fund and cemetery fund were combined. We recommend that these funds be accounted for in separate accounting systems.

### Condition of Accounting Records and Accounting Controls

We would like to thank the accounting personnel for their efforts in accumulating the information needed for our audit. We encourage you to review your internal and accounting controls on an annual basis to ensure they are adequate and operating as intended.

### Other Matters

We applied certain limited procedures to the Management Discussion and Analysis and the Budgetary Comparison Schedule, 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.

### Restriction on Use

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

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*





**Baird, Cotter & Bishop, P.C.**

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August 4, 2014

## COMMUNICATION OF MATERIAL WEAKNESSES

To the Township Board  
Crystal Lake Township  
Benzie County  
Frankfort, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund information, and the aggregate remaining fund information of Crystal Lake Township 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 Crystal Lake 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 Crystal Lake Township's internal control. Accordingly, we do not express an opinion on the effectiveness of Crystal Lake 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 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in Crystal Lake Township's internal control to be material weaknesses:

1) *Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements*

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

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditor to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

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

Effect: As a result of this condition, the government's internal controls over the preparation of financial statements in accordance with GAAP are incomplete. Instead, the government relies, in part, on its external auditors for assistance with this task.

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

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

## 2) *Segregation of Incompatible Duties and Documented Independent Review*

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

Condition: The government has several accounting functions that are performed by the same individual and are not subject to a documented independent review and approval.

Cause: This condition is primarily the result of staffing constraints typical of smaller governmental units. Some of the control activities detailed above may be occurring on a routine basis, but are not being documented.

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

Recommendation: There are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties. Recognizing this fact, we encourage the government to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials: Management recognizes that this limitation is a natural outgrowth of the small number of staff, and applies its judgment in determining how best to allocate the government's resources to provide and appropriate balance between sound internal controls and fiscal prudence.

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

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

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*