

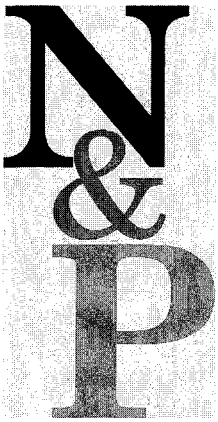
**UNION TOWNSHIP
BRANCH COUNTY, MICHIGAN**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

MARCH 31, 2014

UNION TOWNSHIP
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INDEPENDENT AUDITOR'S REPORT

To the Supervisor and
Members of the Township Board
Township of Union
Branch County, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Union Township, 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 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.

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

Norman & Paulson, P.C.

September 23, 2014

UNION TOWNSHIP, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Financial Highlights

The Township's overall financial position decreased by \$3,003 during the fiscal year ended March 31, 2014, which represents 0.3 percent of the net position at the beginning of the year.

The Township's Governmental Funds reflected a total fund balance at March 31, 2014 of \$565,171, which was an increase of \$13,713 from the prior year end.

The total Governmental Fund expenditures for the year ended March 31, 2014, amounted to \$235,617, of which \$119,976 (51 percent) was for general government; \$37,064 (16 percent) was for public safety; \$71,000 (30 percent) was for public works; and \$7,577 (3 percent) was for culture.

Using This Annual Report

This annual report consists of a series of financial statements. The statement of net position and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

UNION TOWNSHIP, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Township as a Whole

The following table shows, in a condensed format, the net assets as of the current year end and compared to the prior year end under the modified accrual basis of accounting:

(dollars presented in thousands)	Governmental Funds	
	2014	2013
Assets	\$ 573	\$ 561
Liabilities	8	10
Fund Balances		
Restricted	32	31
Committed	138	125
Unassigned	395	395
 Total Fund Equity	\$ 565	\$ 551

The following table shows, in a condensed format, the net position of the current year end and compared to the prior year end as required by GASB 34 stated under the full accrual basis.

(dollars presented in thousands)	Governmental Activities	
	2014	2013
Current and other assets	\$ 573	\$ 561
Capital assets	529	546
 Total assets	1,102	1,107
Long-term debt outstanding	-	-
Other liabilities	8	10
 Total liabilities	8	10
Net position		
Invested in capital assets, net of related debt	529	546
Restricted	32	31
Unrestricted	533	520
 Total net position	\$ 1,094	\$ 1,097

UNION TOWNSHIP, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the fund equity during the current year as compared to the prior year, under the modified accrual basis of accounting:

(dollars presented in thousands)

	Governmental Funds	
	2014	2013
Revenue		
Taxes	\$ 100	\$ 101
State sources	100	96
Charges for services	37	41
Interest	2	2
Other	<u>10</u>	<u>13</u>
Total revenue	249	253
Expenditures		
General government	120	117
Public safety	37	28
Public works	71	61
Culture	<u>7</u>	<u>8</u>
Total expenditures	<u>235</u>	<u>214</u>
Excess (deficiency)	<u>\$ 14</u>	<u>\$ 39</u>

UNION TOWNSHIP, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

The following table shows, in a condensed format, the changes in net position as of the current date as compared to the prior year, as required by GASB 34 stated under the full accrual basis of accounting.

(dollars presented in thousands)	Governmental Activities	
	2014	2013
Revenues		
Program revenues		
Charges for services	\$ 36	\$ 41
Operating grants and contributions	12	9
General revenues		
Property taxes	100	101
State shared revenues	97	95
Unrestricted investment earnings	2	2
Miscellaneous	2	5
Total revenues	249	253
Expenses		
General government	124	121
Public safety	39	28
Public works	71	61
Culture	18	19
Total expenses	252	229
Change in net position	\$ (3)	\$ 24

The Township’s Funds

Our analysis of the Township’s major funds begins on page 10, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. Major funds for the fiscal year ended March 31, 2014 include the General Fund.

The General fund pays for most of the Township’s governmental services. The primary services include cemetery services, fire protection services, road maintenance and administrative services related to general operations that support the primary services. The General Fund is funded primarily by state shared revenues and property taxes.

UNION TOWNSHIP, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

General Fund Budgetary Highlights

As shown in the required supplemental information, the Township budgeted a decrease of \$2,200 in the original budget and a decrease of \$300 in the amended budget. Actual operating results ended up as a decrease of \$611.

Capital Assets and Debt Administration

During the year ended March 31, 2014, the total capital assets of the Township remained unchanged.

The Township has no debt obligations.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Township office.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

UNION TOWNSHIP
STATEMENT OF NET POSITION
MARCH 31, 2014

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 544,997
Receivables - net	27,958
Prepaid expenses	<u>450</u>
Total current assets	573,405
Noncurrent Assets:	
Capital assets, net of accumulated depreciation	<u>528,950</u>
Total assets	1,102,355
LIABILITIES	
Current Liabilities:	
Accounts payable	394
Accrued and other liabilities	<u>7,840</u>
Total liabilities	<u>8,234</u>
NET POSITION	
Invested in capital assets	528,950
Restricted for cemetery care	31,570
Unrestricted	<u>533,601</u>
Total net position	<u>\$ 1,094,121</u>

See accompanying notes to financial statements

UNION TOWNSHIP

**STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenues and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
General government	\$ 123,555	\$ 36,562	\$ 750	\$ (86,243)
Public safety	39,464	-	-	(39,464)
Public works	71,000	-	11,146	(59,854)
Culture	18,314	-	-	(18,314)
Total governmental activities	\$ 252,333	\$ 36,562	\$ 11,896	(203,875)
		General revenues:		
				99,819
				96,793
				1,657
				2,603
			Total general revenues	200,872
			CHANGE IN NET POSITION	(3,003)
			NET POSITION – BEGINNING – AS RESTATED	1,097,124
			NET POSITION - ENDING	\$ 1,094,121

See accompanying notes to financial statements

FUND FINANCIAL STATEMENT

UNION TOWNSHIP

**GOVERNMENTAL FUNDS
BALANCE SHEET
MARCH 31, 2014**

		Special revenue funds		Capital project funds	
	General Fund	Cemetery Services Fund	Fire Services Fund	Fire Capital Equipment Fund	Cemetery Capital Improvement Fund
ASSETS					
Cash and cash equivalents	\$ 385,059	\$ -	\$ -	\$ 100,618	\$ 27,750
Accounts receivable	1,371	-	-	-	-
Due from other governmental units	26,587	-	-	-	-
Due from other funds	-	-	-	-	-
Prepaid expenditures	450	-	-	-	-
Total assets	\$ 413,467	\$ -	\$ -	\$ 100,618	\$ 27,750
 LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts payable	\$ 394	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	7,840	-	-	-	-
Due to other funds	-	-	-	-	-
Total liabilities	8,234	-	-	-	-
 FUND BALANCE					
Nonspendable - Prepaid assets	450	-	-	-	-
Restricted for:					
Cemetery care	-	-	-	-	-
Committed for:					
Capital acquisitions	-	-	-	100,618	27,750
Building maintenance	10,069	-	-	-	-
Unassigned	394,714	-	-	-	-
Total fund balance	405,233	-	-	100,618	27,750
Total liabilities and fund balance	\$ 413,467	\$ -	\$ -	\$ 100,618	\$ 27,750

See accompanying notes to financial statements

Cemetery Perpetual Care Fund	Total Governmental Funds
\$ 31,570	\$ 544,997
-	1,371
-	26,587
-	-
-	450
<u>\$ 31,570</u>	<u>\$ 573,405</u>

\$ -	\$ 394
-	7,840
-	-
-	8,234
-	450
31,570	31,570
-	128,368
-	10,069
-	394,714
<u>31,570</u>	<u>565,171</u>
<u>\$ 31,570</u>	<u>\$ 573,405</u>

UNION TOWNSHIP

**GOVERNMENTAL FUNDS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
MARCH 31, 2014**

Total governmental fund balances \$ 565,171

Amounts reported for governmental activities are
not financial resources and therefore are not
reported in the funds.

Governmental capital assets	\$ 661,751	
Less accumulated depreciation	<u>(132,801)</u>	<u>528,950</u>

Net position of governmental activities \$ 1,094,121

See accompanying notes to financial statements

UNION TOWNSHIP

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
YEAR ENDED MARCH 31, 2014**

	General Fund	Special revenue funds		Capital project funds	
		Cemetery Services Fund	Fire Services Fund	Fire Capital Equipment Fund	Cemetery Capital Improvement Fund
REVENUE					
Taxes	\$ 47,340	\$ 23,616	\$ 28,863	\$ -	\$ -
State sources	100,099	-	-	-	-
Charges for services	21,877	14,685	-	-	-
Interest	1,083	-	-	227	62
Other	10,443	-	-	-	-
Total revenue	180,842	38,301	28,863	227	62
EXPENDITURES					
Legislative	12,755	-	-	-	-
General government	62,185	45,036	-	-	-
Public safety	-	-	37,064	-	-
Public works	71,000	-	-	-	-
Culture	7,577	-	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	153,517	45,036	37,064	-	-
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	27,325	(6,735)	(8,201)	227	62
OTHER FINANCING SOURCES (USES)					
Transfers from other funds	-	6,735	8,201	10,000	3,000
Transfers to other funds	(27,936)	-	-	-	-
Total other financing sources (uses)	(27,936)	6,735	8,201	10,000	3,000
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(611)	-	-	10,227	3,062
FUND BALANCE - BEGINNING OF YEAR AS RESTATED	405,844	-	-	90,391	24,688
FUND BALANCE - END OF YEAR	\$ 405,233	\$ -	\$ -	\$ 100,618	\$ 27,750

See accompanying notes to financial statements

Cemetery Perpetual Care Fund	Total Governmental Funds
\$ -	\$ 99,819
-	100,099
-	36,562
285	1,657
<u>750</u>	<u>11,193</u>
1,035	249,330
-	12,755
-	107,221
-	37,064
-	71,000
-	7,577
<u>-</u>	<u>-</u>
<u>-</u>	<u>235,617</u>
1,035	13,713
-	27,936
<u>-</u>	<u>(27,936)</u>
<u>-</u>	<u>-</u>
1,035	13,713
<u>30,535</u>	<u>551,458</u>
<u>\$ 31,570</u>	<u>\$ 565,171</u>

UNION 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, 2014

Net change in fund balances - total governmental funds	\$ 13,713
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.	
Expenditures for capital assets	-
Depreciation expense	<u>(16,716)</u>
Change in net position of governmental activities	<u>\$ (3,003)</u>

See accompanying notes to financial statements

UNION TOWNSHIP
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
MARCH 31, 2014

	<u>Agency Funds</u>
ASSETS	
Cash	<u>\$ 22</u>
LIABILITIES	
Undistributed funds	<u>\$ 22</u>

See accompanying notes to financial statements

UNION TOWNSHIP

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Union Township is located in Branch County, Michigan, and provides services to approximately 2,900 residents in many areas including general administrative services, fire protection, roads, and cemetery operation. The Township is a general law township, and is governed by a 5-member board elected by the citizens of Union Township. The board consists of the supervisor, clerk, treasurer, and two trustees whom reside in the community.

The accounting policies of the Township of Union conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to townships. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The more significant accounting policies establishing GAAP and used by the Township are discussed below.

Reporting Entity

As required by generally accepted accounting principles, these financial statements present the Township (the primary government) and its component units, entities for which the Township is considered to be financially accountable. There are no component units to be included in these financial statements.

Basis of Accounting – Government-Wide Financial Statements – The statement of net position and the statement of activities display information about the Township as a whole. They include all funds of the reporting entity except for fiduciary funds. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in preparation of the proprietary fund financial statements but differs from the manner in which the governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the Township and for each governmental and component unit program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Some functions, such as administrative and financial services include expenses that are, in essence, indirect expenses of other functions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the Township.

UNION TOWNSHIP

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Basis of Accounting – Fund Financial Statements – Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. A fund is considered major if it is the primary operating fund of the Township or meets the following criteria:

- * Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- * Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

The Township reports the following major funds:

General Fund – The general fund is the general operating fund of the Township. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from state shared revenues and property taxes.

UNION TOWNSHIP

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Special Revenue Funds

Cemetery Services Fund – To account for cemetery operations. Revenues we derived primarily from a voter approved property tax and charges for services.

Fire Services Fund – To account for fire protection operations. Revenues we derived primarily from a voter approved property tax.

Capital Project Funds

Cemetery Capital Improvement Fund – To account for transfers from the General Fund designated for cemetery capital improvement projects.

Fire Capital Equipment Fund – To account for transfers from the General Fund designated for fire equipment capital projects.

Cemetery Perpetual Care Fund – To account for funds restricted for cemetery care.

The following is a description of three major categories and various fund types within those categories into which the funds are grouped:

Governmental Fund – All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual (i.e., when they become both measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition – "Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if it is collected within 60 days of the end of the current fiscal period. Property taxes, intergovernmental revenue, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Reimbursements due for state and federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. All other revenue is recognized as payments are received.

UNION TOWNSHIP

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Expenditure Recognition – The measurement focus of governmental accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocation of costs, such as depreciation and amortization, are not recognized in the governmental funds. The following is a description of the governmental fund types of the Township:

General Fund – The general fund is the general operating fund of the Township. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from state shared revenues and property taxes.

Proprietary Funds – All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

The following is a description of the proprietary fund types of the Township:

Fiduciary Funds (Not Included in Government-Wide Financial Statements) – Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Township programs.

Agency Funds – Agency funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

UNION TOWNSHIP

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Budgets and Budgetary Accounting – Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the general fund. The Township adopts its budget in accordance with Public Act 621, the Uniform Budgeting and Accounting Act, which mandates an annual budget process and an annual appropriation act to implement the budget. The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- * On or about March 31, the Township Board submits to the general public a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- * Public hearings are conducted to obtain taxpayer comments.
- * On or about April 1, the budget is legally enacted through passage of resolution.
- * The Township Board is authorized to transfer budgeted amounts within departments.
- * The budget for the general fund is adopted on a basis consistent with generally accepted accounting principles.
- * Appropriations for the general fund lapse at the end of the fiscal year.
- * Budgeted amounts are as originally adopted or as amended by the Board of Trustees.

Deposits and Investments – Statutes authorize the primary government and component units to invest in the following:

- * In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
- * In certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, a saving and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.

UNION TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- * In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- * In United States government of federal agency obligation repurchase agreements.
- * In banker's acceptances of United States banks.
- * In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- * In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

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.

Receivables and Payables – 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 other outstanding balances between funds are reported as "due to/due from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

UNION TOWNSHIP

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Capital Assets and Depreciation – Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$5,000 (\$10,000 for infrastructure assets) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Contributed assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets prospectively, beginning April 1, 2004. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are also capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

	<u>Depreciable Life-Years</u>
Land improvements	15-30
Buildings and improvements	15-40
Machinery and equipment	5-20
Vehicles	2-7
Furniture and other	3-7

Unearned Revenue – In the fund financial statements, governmental funds report unearned revenue in connection with resources for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

Long-Term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenditures when incurred.

UNION TOWNSHIP

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

Property Taxes – The Township's property taxes are levied as an enforceable lien on property as of December 1 and are due without penalty on or before February 14. These tax bills include the Township's own property taxes and a portion of the taxes billed on behalf of other governments and school districts within the Township's boundaries. Property taxes not collected as of March 1 are turned over to Branch County for collection. The County advances the Township 100% for delinquent property taxes. The Township's property taxes levied on December 1 provide the revenue for the current fiscal year.

Taxes collected and remitted to other governments and school districts are accounted for in the Tax Collection Fund.

The assessed and state equalized taxable value of real and personal property located in the Township totaled \$50,479,300. The Township's general operating levy for the year was based on a millage rate of 0.9739 and the fire/cemetery operating levy for the year was based on a millage rate of 1.0000.

Compensated Absences – It is the Township's policy to not pay for unused vacation or sick days and not to allow accumulation of unpaid days. Therefore, no current or long-term liability has been accrued.

Net Position and Fund Equity – The difference between fund assets and liabilities is "Net Position" on the government-wide, proprietary, and fiduciary fund statements and "Fund Balance" on governmental fund statements. Net Position are classified as "Invested in Capital Assets, Net of Related Debt," legally "Restricted" for specific purpose, or "Unrestricted" and available for appropriation for the general purposes of the fund. In governmental fund financial statements, fund balances are classified as follows:

UNION TOWNSHIP

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Net Position and Fund Equity – continued

Nonspendable – Amounts that cannot be spent either because they are a) not in a spendable form or b) legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purpose because of the Township Charter, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts that can be used only for specific purpose determined by a formal action by Township Board ordinance or resolution. These amounts can not be used for any other purpose unless the Township Board removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed.

Assigned – Amounts that are designated by the Manager for a particular purpose but are not spendable until a budget ordinance is passed by the Township Board.

Unassigned – Amounts that cannot be properly classified in one of the other four categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

Use of Restricted Resources – When an expense is incurred that can be paid using restricted or unrestricted resources (net position), the Township’s policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the Township’s policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications - committed and then assigned fund balances before using unassigned fund balances.

Use of Estimates – The preparation 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.

UNION TOWNSHIP

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014**

NOTE 2 - DEPOSITS AND INVESTMENTS

The Township's deposits and investments are included on the balance sheet under the following classifications:

	<u>Primary Government</u>
Statement of Net Position:	
Cash and cash equivalents	\$ 544,997
Statement of Fiduciary Net Position:	
Cash	22
Total	\$ 545,019

Cash – Statutes require that certificates of deposit, savings accounts, deposit accounts, and depository receipts are made with banks doing and having a place of business in the state of Michigan that are also members of a federal or national insurance corporation.

At March 31, 2014, the book balance was \$545,019 and the bank balance (without recognition of outstanding checks or deposits in transit) was \$583,145, of which \$531,593 was insured by federal depository insurance and \$51,552 was uninsured and uncollateralized.

The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution it deposits Township Funds with and assesses the level of risk of each Institution; only those institutions with an acceptable estimated risk level are used as depositories.

NOTE 3 - RECEIVABLES

Receivables as of year end for the Township's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Government</u>
Receivables:	
State revenue sharing	\$ 14,163
Property taxes	12,424
Miscellaneous	1,371
Gross receivables	27,958
Less: allowance for uncollectibles	-
Net total receivables	\$ 27,958

UNION TOWNSHIP

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014**

NOTE 4 - CAPITAL ASSETS

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

	<u>Balance April 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance March 31, 2014</u>
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 51,940	\$ -	\$ -	\$ 51,940
Capital assets, being depreciated:				
Buildings and improvements	516,858	-	-	516,858
Fire equipment	72,392	-	-	72,392
Office equipment	<u>20,561</u>	<u>-</u>	<u>-</u>	<u>20,561</u>
Subtotal	609,811	-	-	609,811
Accumulated depreciation				
Buildings and improvements	32,732	14,316	-	47,048
Fire equipment	62,792	2,400	-	65,192
Office equipment	<u>20,561</u>	<u>-</u>	<u>-</u>	<u>20,561</u>
Subtotal	<u>116,085</u>	<u>16,716</u>	<u>-</u>	<u>132,801</u>
Net capital assets being depreciated	<u>493,726</u>			<u>477,010</u>
Net capital assets	<u>\$ 545,666</u>			<u>\$ 528,950</u>

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

Governmental activities	
General government	\$ 3,579
Public safety	2,400
Culture	<u>10,737</u>
Total	<u>\$ 16,716</u>

UNION TOWNSHIP

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014**

NOTE 5 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for most risks of loss to which it is exposed. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 6 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The annual budget is prepared by the Township management and adopted by the Township Board; subsequent amendments are approved by the Township Board. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles.

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the Township were adopted on a function level basis.

During the year ended March 31, 2014, the Township incurred the following expenditures in excess of the amounts appropriated at the legal level of budgetary control.

<u>Fund</u>	<u>Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
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NONE

NOTE 7 - RESTATED NET POSITION

Net position as of March 31, 2013 has been restated to correct the following:

Net position as originally reported as of March 31, 2013	\$ 681,887
Net capital assets were understated	422,201
Accounts receivable were overstated	<u>(6,964)</u>
Net position as of March 31, 2013	<u>\$ 1,097,124</u>

UNION TOWNSHIP

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014**

NOTE 8 - RESTATED FUND BALANCES

Fund balances at March 31, 2013 have been restated to correct the following:

General Fund:

Fund balance as originally reported as of March 31, 2013	\$ 363,156
Accounts receivable were overstated	(6,964)
Portions of fund balance incorrectly reported in other funds	<u>49,652</u>
Fund balance as of March 31, 2013 as restated	<u>\$ 405,844</u>

Fire & Cemetery Special Revenue Fund:

Fund balance as originally reported as of March 31, 2013	\$ 164,521
Portions of fund balance incorrectly reported in other funds	<u>(164,521)</u>
Fund balance as of March 31, 2013 as restated	<u>\$ -</u>

Fire Capital Equipment Fund:

Fund balance as originally reported as of March 31, 2013	\$ -
Portions of fund balance incorrectly reported in other funds	<u>90,391</u>
Fund balance as of March 31, 2013 as restated	<u>\$ 90,391</u>

Cemetery Capital Improvement Fund:

Fund balance as originally reported as of March 31, 2013	\$ -
Portions of fund balance incorrectly reported in other funds	<u>24,688</u>
Fund balance as of March 31, 2013 as restated	<u>\$ 24,688</u>

Cemetery Perpetual Care Fund:

Fund balance as originally reported as of March 31, 2013	\$ 30,745
Portions of fund balance incorrectly reported in other funds	<u>(210)</u>
Fund balance as of March 31, 2013 as restated	<u>\$ 30,535</u>

REQUIRED SUPPLEMENTAL INFORMATION

UNION TOWNSHIP

**REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED MARCH 31, 2014**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
REVENUES				
Taxes	\$ 50,500	\$ 50,500	\$ 47,340	\$ (3,160)
State sources	98,000	98,000	100,099	2,099
Charges for services	24,850	24,850	21,877	(2,973)
Interest	1,200	1,200	1,083	(117)
Other	<u>8,960</u>	<u>8,960</u>	<u>10,443</u>	<u>1,483</u>
Total revenues	183,510	183,510	180,842	(2,668)
 EXPENDITURES				
Legislative	25,000	17,500	12,755	4,745
General government	64,100	63,684	62,185	1,499
Public safety	-	-	-	-
Public works	68,210	70,710	71,000	(290)
Culture	8,000	8,000	7,577	423
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>165,310</u>	<u>159,894</u>	<u>153,517</u>	<u>6,377</u>
 EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	18,200	23,616	27,325	3,709
 OTHER FINANCING (USES)				
Transfers to other funds	<u>(20,400)</u>	<u>(23,916)</u>	<u>(27,936)</u>	<u>(4,020)</u>
 EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES AND OTHER USES	(2,200)	(300)	(611)	(311)
 FUND BALANCE - Beginning of year	<u>405,844</u>	<u>405,844</u>	<u>405,844</u>	<u>-</u>
 FUND BALANCE - End of year	<u>\$ 403,644</u>	<u>\$ 405,544</u>	<u>\$ 405,233</u>	<u>\$ (311)</u>

UNION TOWNSHIP

**REQUIRED SUPPLEMENTAL INFORMATION
CEMETERY SERVICES FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED MARCH 31, 2014**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
REVENUE				
Taxes	\$ 23,400	\$ 23,400	\$ 23,616	\$ 216
Charges for services	<u>16,000</u>	<u>16,000</u>	<u>14,685</u>	<u>(1,315)</u>
Total revenues	39,400	39,400	38,301	(1,099)
 EXPENDITURES				
General government:				
Cemetery operations	<u>37,500</u>	<u>42,916</u>	<u>45,036</u>	<u>(2,120)</u>
 EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	1,900	(3,516)	(6,735)	(3,219)
 OTHER FINANCING SOURCES				
Transfers from other funds	<u>-</u>	<u>3,516</u>	<u>6,735</u>	<u>3,219</u>
 EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	1,900	-	-	-
 FUND BALANCE - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 FUND BALANCE - END OF YEAR	<u>\$ 1,900</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

UNION TOWNSHIP

**REQUIRED SUPPLEMENTAL INFORMATION
FIRE PROTECTION SERVICES FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED MARCH 31, 2014**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
REVENUE				
Taxes	\$ 28,600	\$ 28,600	\$ 28,863	\$ 263
EXPENDITURES				
Public safety:				
Fire protection	<u>35,000</u>	<u>35,000</u>	<u>37,064</u>	<u>(2,064)</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(6,400)	(6,400)	(8,201)	(1,801)
OTHER FINANCING SOURCES				
Transfers from other funds	<u>6,400</u>	<u>6,400</u>	<u>8,201</u>	<u>1,801</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	-	-	-	-
FUND BALANCE - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

UNION TOWNSHIP

**REQUIRED SUPPLEMENTAL INFORMATION
FIRE CAPITAL EQUIPMENT FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED MARCH 31, 2014**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
REVENUE				
Interest	\$ 240	\$ 240	\$ 227	\$ (13)
EXPENDITURES				
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	240	240	227	(13)
OTHER FINANCING SOURCES				
Transfer from other fund	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	10,240	10,240	10,227	(13)
FUND BALANCE - BEGINNING OF YEAR	<u>90,391</u>	<u>90,391</u>	<u>90,391</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 100,631</u>	<u>\$ 100,631</u>	<u>\$ 100,618</u>	<u>\$ (13)</u>

UNION TOWNSHIP

**REQUIRED SUPPLEMENTAL INFORMATION
CEMETERY CAPITAL IMPROVEMENT FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED MARCH 31, 2014**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
REVENUE				
Interest	\$ 60	\$ 60	\$ 62	\$ 2
EXPENDITURES				
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	60	60	62	2
OTHER FINANCING SOURCES				
Transfer from other fund	<u>4,000</u>	<u>4,000</u>	<u>3,000</u>	<u>(1,000)</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	4,060	4,060	3,062	(998)
FUND BALANCE - BEGINNING OF YEAR	<u>24,688</u>	<u>24,688</u>	<u>24,688</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 28,748</u>	<u>\$ 28,748</u>	<u>\$ 27,750</u>	<u>\$ (998)</u>

REQUIRED COMMUNICATION TO THE TOWNSHIP OF UNION
IN ACCORDANCE WITH PROFESSIONAL STANDARDS

September 23, 2014

To the Township Board
Union Township, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Union for the year ended March 31, 2014, and have issued our report thereon dated September 23, 2014. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

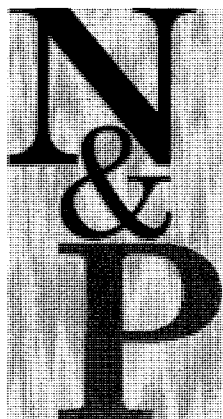
As stated in our engagement letter dated June 4, 2014, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township of Union are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the 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. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.



Norman & Paulsen, P.C.
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Michael R. Wilson, CPA
Ricky L. Strawser, CPA
Donald L. Paulsen, Retired
Jerrel T. Norman (1941-1982)

Accounting Estimates

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. There were no sensitive estimates affecting the financial statements.

Disclosures

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no difficulties 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, if any.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 23, 2014.

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.

Internal Control Matters

In planning and performing our audit of the financial statements of the Township of Union, Michigan for the year ended March 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting 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 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 consider the deficiencies described below to be material weaknesses.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (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 (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). As is the case with most small and medium-sized entities, the Township 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 a part of the government's *internal* controls. This condition was caused by the Township's determination 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.

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

Sincerely,

Norman & Paulson, P.C.

