

Township of Paw Paw
Van Buren County, Michigan

FINANCIAL STATEMENTS

Year ended June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Township of Paw Paw, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Township of Paw Paw, Michigan, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements, as listed in the contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Township of Paw Paw, Michigan, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required supplementary information

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

Management has omitted the budgetary comparison schedule of the Eagle Lake Weed Control Fund, a major special revenue fund, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinions on the basic financial statements are not affected by this missing information.

Supplementary information

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

The combining nonmajor governmental fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor governmental fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Siegfried Crandall P.C.

October 28, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Township of Paw Paw's (the Township) financial performance provides a narrative overview of the Township's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the Township's financial statements.

FINANCIAL HIGHLIGHTS

- The Township's total net position increased by \$153,368 as a result of this year's activities. Net position of the governmental activities increased by \$245,474 and net position of the business-type activity decreased by \$92,106.
- Of the \$6,006,671 total net position reported, \$1,743,206 is unrestricted.
- The General Fund's unassigned fund balance at the end of the fiscal year was \$1,093,612, which represents 203 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the financial statements

The Township's annual report is comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township government, reporting the Township's operations in more detail than the government-wide financial statements.
 - Governmental funds statements explain how government services, like general government, public safety, and public works, were financed in the short-term, as well as what remains for future spending.
 - Proprietary funds statements offer short-term and long-term financial information about the sewer system activities the government operates like a business.
 - Fiduciary funds statements provide information about the financial relationships in which the Township acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by sections of required supplementary information and other supplementary information that further explain and support the information in the financial statements.

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

Government-wide financial statements

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

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

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

The government-wide financial statements are divided into two categories:

- *Governmental activities* - Most of the Township's basic services are included here, such as general government and public safety activities. State shared revenue and property taxes finance most of these activities.
- *Business-type activity* - The Township charges fees to customers to help it cover the costs of certain services it provides. The Township's sewer system is reported here.

Fund financial statements

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

- Some funds are required by state law.
- The Township Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and other revenues.

The Township has three types of funds:

- *Governmental funds.* Most of the Township's basic services are included in its governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flows in and out, and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship between them.
- *Proprietary funds.* Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds statements, like the government-wide statements, provide both long-term and short-term financial information. In fact, the Township's enterprise fund is the same as its business-type activity but provides more detail and additional information, such as cash flows.
- *Fiduciary funds.* These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the Township. The Township is responsible for ensuring that the assets reported in the fiduciary funds are used for their intended purposes. The Township's fiduciary balances are reported in a separate Statement of Fiduciary Assets and Liabilities. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Net position

Total net position at the end of the fiscal year was \$6,006,671, an increase of 3 percent compared to the prior year. Of this total, \$3,337,019 is invested in capital assets and \$926,446 is restricted for various purposes. Consequently, unrestricted net position was \$1,743,206, or 29 percent of the total.

*Condensed financial information
Net position*

	<i>Governmental activities</i>		<i>Business-type activity</i>		<i>Totals</i>	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 2,312,999	\$ 1,972,337	\$ 497,123	\$ 527,022	\$ 2,810,122	\$ 2,499,359
Capital assets	2,068,902	2,071,850	1,268,117	1,325,012	3,337,019	3,396,862
Total assets	4,381,901	4,044,187	1,765,240	1,852,034	6,147,141	5,896,221
Current liabilities	127,710	35,470	12,760	7,448	140,470	42,918
Net position:						
Net investment in capital assets	2,068,902	2,071,850	1,268,117	1,325,012	3,337,019	3,396,862
Restricted	926,446	819,109	-	-	926,446	819,109
Unrestricted	1,258,843	1,117,758	484,363	519,574	1,743,206	1,637,332
Total net position	\$ 4,254,191	\$ 4,008,717	\$ 1,752,480	\$ 1,844,586	\$ 6,006,671	\$ 5,853,303

Changes in net position

The Township's total revenues were \$1,288,444. Nearly 35 percent of the revenues comes from charges for services. Approximately 39 percent of the total revenues comes from property taxes and nearly 21 percent comes from state shared revenue.

The total cost of the Township's programs totaled \$1,135,076. Approximately 48 percent of the Township's costs relates to public works services. General government accounts for approximately 31 percent and public safety accounts for about 15 percent of the Township's total costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

*Condensed financial information
Changes in net position*

	<i>Governmental activities</i>		<i>Business-type activity</i>		<i>Totals</i>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Program revenues:						
Charges for services	\$ 249,289	\$ 219,192	\$ 205,045	\$ 205,141	\$ 454,334	\$ 424,333
Operating grants and contributions	6,274	8,665	-	-	6,274	8,665
Capital grants and contributions	-	-	6,000	6,000	6,000	6,000
General revenues:						
Property taxes	496,362	491,849	-	-	496,362	491,849
State shared revenue	268,979	264,051	-	-	268,979	264,051
Cable franchise fees	45,585	21,113	-	-	45,585	21,113
Interest	8,597	3,801	2,313	765	10,910	4,566
Total revenues	<u>1,075,086</u>	<u>1,008,671</u>	<u>213,358</u>	<u>211,906</u>	<u>1,288,444</u>	<u>1,220,577</u>
Expenses:						
General government	355,347	371,086	-	-	355,347	371,086
Public safety	167,880	155,920	-	-	167,880	155,920
Public works	235,519	170,523	305,464	269,489	540,983	440,012
Health and welfare	63,706	65,928	-	-	63,706	65,928
Community and economic development	7,160	6,591	-	-	7,160	6,591
Total expenses	<u>829,612</u>	<u>770,048</u>	<u>305,464</u>	<u>269,489</u>	<u>1,135,076</u>	<u>1,039,537</u>
Changes in net position	<u>\$ 245,474</u>	<u>\$ 238,623</u>	<u>\$ (92,106)</u>	<u>\$ (57,583)</u>	<u>\$ 153,368</u>	<u>\$ 181,040</u>
Net position, end of year	<u>\$ 4,254,191</u>	<u>\$ 4,008,717</u>	<u>\$ 1,752,480</u>	<u>\$ 1,844,586</u>	<u>\$ 6,006,671</u>	<u>\$ 5,853,303</u>

Governmental activities

Governmental activities increased the Township's net position by \$245,474 compared to \$238,623 last year. Revenues increased by \$66,415, largely due to an increase in cable franchise fee revenue of \$24,472 and an increase in charges for services of \$30,097, primarily arising from weed control assessments. Expenses increased by \$59,564, primarily due to an increase in public works depreciation charges.

The total cost of governmental activities this year was \$829,612. After subtracting the direct charges to those who directly benefited from the programs (\$249,289) and operating grants (\$6,274), the "public benefit" portion covered by property taxes, state revenue sharing, and other general revenues was \$574,049, compared to \$542,191 in 2013.

Business-type activity

The business-type activity decreased the Township's net position by \$92,106 in the current year compared to a decrease of \$57,583 in the prior year. Decreases in net position continue as user charges are not set at levels sufficient to cover the depreciation expense of the sewer system.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

Governmental funds

As of the June 30, 2014, the Township's governmental funds reported combined ending fund balances of \$2,097,758, an increase of \$248,022 from the previous year.

The General Fund is the primary operating fund of the Township. As of June 30, 2014, its fund balance was \$1,108,080, an increase of \$160,350 during the year, as revenues continue to exceed expenditures.

The Fire Fund, which is restricted for fire protection expenditures, reported a fund balance at June 30, 2014, of \$655,680, an increase of \$80,340 during the year, as this year's fire protection revenues (\$231,636) exceeded expenditures (\$151,296).

The Eagle Lake Weed Control Fund, which is restricted for public works expenditures, reported a fund balance at June 30, 2014, of \$ -0- , as all revenues (\$20,086) and transfers (\$8,764) were fully expended.

Proprietary fund

The sole proprietary fund, the Sewer Fund, experienced an operating loss of \$100,419 for the reasons discussed previously under business-type activity.

General Fund budgetary highlights

The Township amended the General Fund budgeted revenues and expenditures during the year. Appropriations for board of review, hall and grounds, inspection activities, drains, and capital outlay were increased by \$180, \$2,800, \$3,000, \$7,000, and \$200, respectively, to reflect additional costs that were not anticipated at the beginning of the year.

Revenues were \$44,180 more than budgeted, while expenditures were \$111,856 less than the amounts appropriated, as certain costs for highways and streets maintenance and other contingencies provided for in the budget were not expended. A transfer of \$8,764 was not anticipated in the original or final budgets. These variances resulted in a \$147,272 positive budget variance, with a \$160,350 increase in fund balance compared to a budget that showed a \$13,078 increase in fund balance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The Township's investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounts to \$3,337,019 (net of accumulated depreciation). This investment includes buildings, equipment, road infrastructure, and sewer facilities. The decrease in the Township's net investment in capital assets for the current fiscal year was \$59,843, as current asset additions were less than depreciation expense.

The major capital asset addition during the current fiscal year consisted of road infrastructure in the amount of \$146,123.

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

Debt

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Township anticipates small increases in property taxes in 2015. The Township plans to maintain all ongoing programs for 2015.

Contacting the Township's financial management

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

David Richardson, Township Supervisor
Township of Paw Paw
114 North Gremps Street
Paw Paw, MI 49079-0020

Phone: (269) 657-4340

BASIC FINANCIAL STATEMENTS

Township of Paw Paw**STATEMENT OF NET POSITION**

June 30, 2014

	<i>Governmental activities</i>	<i>Business-type activity</i>	<i>Totals</i>
ASSETS			
Current assets:			
Cash	\$ 2,105,263	\$ 474,881	\$ 2,580,144
Receivables	120,205	22,242	142,447
Prepaid expenses	87,531	-	87,531
Total current assets	<u>2,312,999</u>	<u>497,123</u>	<u>2,810,122</u>
Noncurrent assets:			
Capital assets not being depreciated - land	85,126	-	85,126
Capital assets, net of depreciation	<u>1,983,776</u>	<u>1,268,117</u>	<u>3,251,893</u>
Total noncurrent assets	<u>2,068,902</u>	<u>1,268,117</u>	<u>3,337,019</u>
Total assets	<u>4,381,901</u>	<u>1,765,240</u>	<u>6,147,141</u>
LIABILITIES			
Payables	<u>127,710</u>	<u>12,760</u>	<u>140,470</u>
NET POSITION			
Net investment in capital assets	2,068,902	1,268,117	3,337,019
Restricted for:			
Nonexpendable - perpetual care	10,000	-	10,000
Expendable:			
Public safety	771,356	-	771,356
Public works	145,090	-	145,090
Unrestricted	<u>1,258,843</u>	<u>484,363</u>	<u>1,743,206</u>
Total net position	<u>\$ 4,254,191</u>	<u>\$ 1,752,480</u>	<u>\$ 6,006,671</u>

See notes to financial statements

Township of Paw Paw

STATEMENT OF ACTIVITIES

Year ended June 30, 2014

Functions/Programs	<u>Expenses</u>	<u>Program revenues</u>		
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>
Governmental activities:				
General government	\$ 355,347	\$ 141,683	\$ -	\$ -
Public safety	167,880	24,673	1,651	-
Public works	235,519	79,933	4,623	-
Health and welfare	63,706	-	-	-
Community and economic development	<u>7,160</u>	<u>3,000</u>	<u>-</u>	<u>-</u>
Total governmental activities	829,612	249,289	6,274	-
Business-type activity - sewer	<u>305,464</u>	<u>205,045</u>	<u>-</u>	<u>6,000</u>
Totals	<u>\$ 1,135,076</u>	<u>\$ 454,334</u>	<u>\$ 6,274</u>	<u>\$ 6,000</u>

General revenues:

Property taxes

Cable television franchise fees

State shared revenue

Unrestricted interest income

Total general revenues

Changes in net position

Net position - beginning

Net position - ending

***Net (expenses) revenues and
changes in net position***

<i>Governmental activities</i>	<i>Business-type activity</i>	<i>Totals</i>
\$ (213,664)		\$ (213,664)
(141,556)		(141,556)
(150,963)		(150,963)
(63,706)		(63,706)
<u>(4,160)</u>		<u>(4,160)</u>
(574,049)		(574,049)
<u>-</u>	<u>\$ (94,419)</u>	<u>(94,419)</u>
<u>(574,049)</u>	<u>(94,419)</u>	<u>(668,468)</u>
496,362	-	496,362
45,585	-	45,585
268,979	-	268,979
<u>8,597</u>	<u>2,313</u>	<u>10,910</u>
<u>819,523</u>	<u>2,313</u>	<u>821,836</u>
245,474	(92,106)	153,368
<u>4,008,717</u>	<u>1,844,586</u>	<u>5,853,303</u>
<u>\$ 4,254,191</u>	<u>\$ 1,752,480</u>	<u>\$ 6,006,671</u>

See notes to financial statements

Township of Paw Paw

BALANCE SHEET - governmental funds

June 30, 2014

	<u>General</u>	<u>Fire</u>	<u>Eagle Lake Weed Control</u>	<u>Nonmajor funds</u>	<u>Total governmental funds</u>
ASSETS					
Cash	\$ 1,078,639	\$ 655,680	\$ 28,850	\$ 342,094	\$ 2,105,263
Receivables	<u>116,900</u>	<u>-</u>	<u>-</u>	<u>3,305</u>	<u>120,205</u>
Total assets	<u>\$ 1,195,539</u>	<u>\$ 655,680</u>	<u>\$ 28,850</u>	<u>\$ 345,399</u>	<u>\$ 2,225,468</u>
LIABILITIES AND FUND BALANCES					
Liabilities - payables	<u>\$ 87,459</u>	<u>\$ -</u>	<u>\$ 28,850</u>	<u>\$ 11,401</u>	<u>\$ 127,710</u>
Fund balances:					
Nonspendable - permanent fund principal	-	-	-	10,000	10,000
Restricted for:					
Law enforcement	-	-	-	13,677	13,677
Fire protection	-	655,680	-	-	655,680
Building inspections	14,468	-	-	-	14,468
Weed control	-	-	-	145,090	145,090
Assigned to - streets and highways	-	-	-	165,231	165,231
Unassigned	<u>1,093,612</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,093,612</u>
Total fund balances	<u>1,108,080</u>	<u>655,680</u>	<u>-</u>	<u>333,998</u>	<u>2,097,758</u>
Total liabilities and fund balances	<u>\$ 1,195,539</u>	<u>\$ 655,680</u>	<u>\$ 28,850</u>	<u>\$ 345,399</u>	<u>\$ 2,225,468</u>

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

Total fund balance - total governmental funds \$ 2,097,758

Amounts reported for *governmental activities* in the statement of net position (page 12)
are different because:

Capital assets used in *governmental activities* are not financial resources and,
therefore, are not reported in the funds. 2,068,902

Prepaid expenses are not a current financial resource and, therefore, are not reported
in the fund financial statements. 87,531

Net position of *governmental activities* \$ 4,254,191

See notes to financial statements

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

Year ended June 30, 2014

	<i>General</i>	<i>Fire</i>	<i>Eagle Lake Weed Control</i>	<i>Nonmajor funds</i>	<i>Total governmental funds</i>
REVENUES					
Property taxes	\$ 335,896	\$ 226,775	\$ -	\$ 58,706	\$ 621,377
Licenses and permits	72,126	-	-	-	72,126
State grants	273,602	-	-	1,651	275,253
Charges for services	22,809	-	-	-	22,809
Interest and rentals	3,331	4,861	-	405	8,597
Other	515	-	20,086	54,323	74,924
Total revenues	<u>708,279</u>	<u>231,636</u>	<u>20,086</u>	<u>115,085</u>	<u>1,075,086</u>
EXPENDITURES					
General government	324,145	-	-	-	324,145
Public safety	24,353	151,296	-	942	176,591
Public works	178,328	-	28,850	48,105	255,283
Health and welfare	5,000	-	-	58,706	63,706
Community and economic development	7,160	-	-	-	7,160
Capital outlay	179	-	-	-	179
Total expenditures	<u>539,165</u>	<u>151,296</u>	<u>28,850</u>	<u>107,753</u>	<u>827,064</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>169,114</u>	<u>80,340</u>	<u>(8,764)</u>	<u>7,332</u>	<u>248,022</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	8,764	-	8,764
Transfers out	(8,764)	-	-	-	(8,764)
Net other financing sources (uses)	<u>(8,764)</u>	<u>-</u>	<u>8,764</u>	<u>-</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	160,350	80,340	-	7,332	248,022
FUND BALANCES - BEGINNING	<u>947,730</u>	<u>575,340</u>	<u>-</u>	<u>326,666</u>	<u>1,849,736</u>
FUND BALANCES - ENDING	<u>\$ 1,108,080</u>	<u>\$ 655,680</u>	<u>\$ -</u>	<u>\$ 333,998</u>	<u>\$ 2,097,758</u>

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds (Continued)**

Year ended June 30, 2014

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

Net change in fund balance - total governmental funds (page 15)	\$ 248,022
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Amounts reported for *governmental activities* in the statement of
activities (page 13) are different because:

Capital assets:

Add - acquisitions	148,673
Deduct - provision for depreciation	(151,621)

Change in other assets - net increase in prepaid assets	<u>400</u>
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Change in net position of <i>governmental activities</i>	<u><u>\$ 245,474</u></u>
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Township of Paw Paw

STATEMENT OF NET POSITION - *proprietary fund*

June 30, 2014

ASSETS

Current assets:

Cash	\$ 474,881
Receivables	<u>22,242</u>

Total current assets 497,123

Noncurrent assets - capital assets, net of depreciation 1,268,117

Total assets 1,765,240

LIABILITIES

Payables 12,760

NET POSITION

Net investment in capital assets 1,268,117

Unrestricted 484,363

Total net position \$ 1,752,480

See notes to financial statements

Township of Paw Paw

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION -
*proprietary fund***

Year ended June 30, 2014

OPERATING REVENUES

Charges for services \$ 205,045

OPERATING EXPENSES

Wages and benefits 15,135

Sewage flow 139,593

Professional services 8,533

Utilities 7,838

Operation and maintenance 67,094

Other 10,376

Depreciation 56,895

Total operating expenses 305,464

OPERATING LOSS (100,419)

NONOPERATING REVENUES

Connection fees 6,000

Interest revenue 2,313

Total nonoperating revenues 8,313

CHANGE IN NET POSITION (92,106)

NET POSITION - BEGINNING 1,844,586

NET POSITION - ENDING \$ 1,752,480

See notes to financial statements

Township of Paw Paw

STATEMENT OF CASH FLOWS - *proprietary fund*

Year ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 203,731
Payments to suppliers	(228,122)
Payments to employees	<u>(15,135)</u>

Net cash used in operating activities (39,526)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Connection fees 6,000

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received 2,313

NET DECREASE IN CASH (31,213)

CASH - BEGINNING 506,094

CASH - ENDING \$ 474,881

Reconciliation of operating loss to net cash used in operating activities:

Operating loss	\$ (100,419)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation expense	56,895
Changes in assets and liabilities:	
Receivables	(1,314)
Payables	<u>5,312</u>

Net cash used in operating activities \$ (39,526)

See notes to financial statements

Township of Paw Paw

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - *Agency Fund*

June 30, 2014

ASSETS

Cash	\$ 118,875
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LIABILITIES

Due to other governmental units	\$ 118,875
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See notes to financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting entity:

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Township, located in Van Buren County. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and existence of a financial benefit or burden, and whether the financial statements would be misleading if data were not included. The Township has determined that no outside agency meets the above criteria and, therefore, no outside agency has been included as a blended or discretely presented component unit in the Township's financial statements.

Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Township. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from the business-type activity, which relies to a significant extent on fees and charges for support.

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

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

Measurement focus, basis of accounting, and financial statement presentation:

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivables due within the current fiscal period is considered susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The Township reports the following major governmental funds:

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

The Fire Fund, a special revenue fund, accounts for financial resources used for the operational costs of the Township's public safety function. Revenues are primarily derived from property taxes.

The Eagle Lake Weed Control Fund, a special revenue fund, accounts for financial resources used for public works expenditures. Revenues are primarily derived from special assessments.

The Township reports a single major enterprise fund, its Sewer Fund, which accounts for the activities of the Township's wastewater collection systems.

The Township reports a single fiduciary fund, its Agency Fund, which accounts for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary fund relate to charges to customers for sales and services. Operating expenses for the proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, liabilities, and net position or equity:

Bank deposits - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables - Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to/from other funds." No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*Assets, liabilities, and net position or equity (continued):*

Capital assets - Capital assets, which include property, equipment, and infrastructure assets (e.g., roads and drains), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$2,500 (\$10,000 for infrastructure assets) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Township has elected to use the prospective method of accounting for infrastructure assets, whereby it will capitalize its infrastructure assets beginning July 1, 2003, as permitted by GASB Statement No. 34.

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

Land improvements	10 - 20 years
Buildings and improvements	20 - 50 years
Equipment	5 - 20 years
Shared cost of roads	20 years

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

Fund equity - In the fund financial statements, governmental funds report nonspendable fund balances for amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws and regulations of other governments. The Township Board retains the authority to assign fund balances as to purpose. Unassigned fund balance is the amount that does not fall into any other category above. This is the residual classification for amounts in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted or assigned to those purposes. When the Township incurs an expenditure for purposes for which various fund balance classifications can be used, it is the Township's policy to use the restricted fund balance first, followed by committed fund balance, then assigned fund balance and, finally, unassigned fund balance.

Property tax revenue recognition - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, at which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and, accordingly, the total levy is recognized as revenue in the current year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the Township's General Fund and special revenue funds. The budget document presents information by fund, function, activity, and line-item. The legal level of budgetary control adopted by the governing body is the activity level. All annual appropriations lapse at the end of the fiscal year.

Excess of expenditures over appropriations - The following schedule sets forth the reportable budget variances:

<i>Fund</i>	<i>Function</i>	<i>Activity</i>	<i>Final budget</i>	<i>Actual</i>	<i>Variance</i>
General	General government	Assessor	\$ 41,136	\$ 43,286	\$ 2,150
		Transfer out	-	8,764	8,764
Three Mile Lake Weed Control	Public works	Weed control	7,055	12,412	5,357
Ackley Lake Weed Control	Public works	Weed control	11,710	15,743	4,033

The Township did not adopt a budget for the Eagle Lake Weed Control Fund, a special revenue fund; state statute requires a local unit to adopt a budget for its General Fund and all special revenue funds.

NOTE 3 - CASH

At June 30, 2014, cash consists entirely of deposits with financial institutions and is classified in the accompanying financial statements as follows:

<i>Governmental activities</i>	<i>Business-type activity</i>	<i>Fiduciary activity</i>	<i>Total</i>
<u>\$ 2,105,263</u>	<u>\$ 474,881</u>	<u>\$ 118,875</u>	<u>\$ 2,699,019</u>

Deposits - Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) and the Township's investment policy authorizes the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Township's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Township will not be able to recover its deposits. The Township's investment policy does not specifically address custodial credit risk for deposits. At June 30, 2014, \$113,817 of the Township's bank balances of \$2,804,906 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE 4 - RECEIVABLES

Receivables as of June 30, 2014, for the Township's individual major funds and nonmajor funds, in the aggregate, were as follows:

<i>Fund</i>	<i>Accounts</i>	<i>Special assessments</i>	<i>Inter- governmental</i>	<i>Totals</i>
Governmental:				
General	\$ 14,355	\$ 754	\$ 101,791	\$ 116,900
Nonmajor funds	-	3,305	-	3,305
Total governmental funds	<u>\$ 14,355</u>	<u>\$ 4,059</u>	<u>\$ 101,791</u>	<u>\$ 120,205</u>
Proprietary - Sewer	<u>\$ 22,242</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,242</u>

All receivables are due within one year and are considered fully collectible.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated - land	<u>\$ 85,126</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 85,126</u>
Capital assets being depreciated:				
Buildings and improvements	938,426	-	-	938,426
Equipment and furniture	37,625	2,550	-	40,175
Infrastructure	<u>1,532,587</u>	<u>146,123</u>	<u>-</u>	<u>1,678,710</u>
Subtotal	<u>2,508,638</u>	<u>148,673</u>	<u>-</u>	<u>2,657,311</u>
Less accumulated depreciation for:				
Buildings and improvements	(237,311)	(22,037)	-	(259,348)
Equipment and furniture	(23,276)	(3,225)	-	(26,501)
Infrastructure	<u>(261,327)</u>	<u>(126,359)</u>	<u>-</u>	<u>(387,686)</u>
Subtotal	<u>(521,914)</u>	<u>(151,621)</u>	<u>-</u>	<u>(673,535)</u>
Total capital assets being depreciated, net	<u>1,986,724</u>	<u>(2,948)</u>	<u>-</u>	<u>1,983,776</u>
Governmental activities capital assets, net	<u>\$ 2,071,850</u>	<u>\$ (2,948)</u>	<u>\$ -</u>	<u>\$ 2,068,902</u>

NOTES TO FINANCIAL STATEMENTS (Continued)**NOTE 5 - CAPITAL ASSETS (Continued)**

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Business-type activity:				
Capital assets being depreciated - sewer facilities	\$ 3,203,002	\$ -	\$ -	\$ 3,203,002
Less accumulated depreciation	<u>(1,877,990)</u>	<u>(56,895)</u>	<u>-</u>	<u>(1,934,885)</u>
Business-type activity capital assets, net	<u>\$ 1,325,012</u>	<u>\$ (56,895)</u>	<u>\$ -</u>	<u>\$ 1,268,117</u>

Depreciation expense was charged to the Township's governmental activities functions as follows:

Governmental activities:	
General government	\$ 25,262
Public works	<u>126,359</u>
Total governmental activities	<u>\$ 151,621</u>

NOTE 6 - PAYABLES

Payables as of June 30, 2014, for the Township's individual major funds and nonmajor funds, in the aggregate, were as follows:

<i>Fund</i>	<i>Accounts</i>	<i>Payroll</i>	<i>Inter- governmental</i>	<i>Totals</i>
Governmental:				
General	\$ 13,770	\$ 9,302	\$ 64,387	\$ 87,459
Eagle Lake Weed Control	28,850	-	-	28,850
Nonmajor funds	<u>10,298</u>	<u>-</u>	<u>1,103</u>	<u>11,401</u>
Total governmental funds	<u>\$ 52,918</u>	<u>\$ 9,302</u>	<u>\$ 65,490</u>	<u>\$ 127,710</u>
Proprietary - Sewer	<u>\$ 11,555</u>	<u>\$ 1,205</u>	<u>\$ -</u>	<u>\$ 12,760</u>

NOTE 7 - PROPERTY TAX REVENUES

The 2013 taxable valuation of the Township approximated \$249,000,000, on which ad valorem taxes levied consisted of 0.8360 mills for operating purposes, 1.0000 mills for fire protection, and 0.2500 mills for senior services, raising approximately \$207,000 for operating purposes, \$227,000 for fire protection, and \$59,000 for senior services. These amounts are recognized in the respective fund financial statements as property tax revenue.

NOTE 8 - INTERFUND TRANSFERS

The General Fund transferred \$8,764 to the Eagle Lake Weed Control Fund during the fiscal year in support of costs in excess of recognized revenues.

NOTE 9 - DEFINED CONTRIBUTION PENSION PLAN

The Township's defined contribution pension plan for its employees is funded by a group annuity contract through an insurance company. The plan provides that current costs are paid entirely by the Township. The Township's policy is to fund the pension cost accrued. Michigan state statute assigns the authority to establish and amend benefit provisions to the Township Board of Trustees. The Township is not a trustee of the plan, nor is the Township responsible for investment management of plan assets. The Township made the required contributions of \$14,475 for the year ended June 30, 2014.

NOTE 10 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, and employee medical claims. The risks of loss arising from general liability, property losses, workers' compensation, and employee medical costs are managed through purchased commercial insurance. For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

NOTE 11 - JOINT VENTURE

The Township, together with the Townships of Antwerp and Almena, and the Village of Paw Paw, has established a joint fire department under the provisions of Public Act 33 of 1951 and Public Act 7 of 1967, known as the Paw Paw Fire Department (the Department). The administrative board consists of members appointed by each participating unit. The Department was formed to jointly provide fire protection services for the participating units. The Township is unaware of any indication that the joint venture is accumulating significant financial resources or is experiencing fiscal stress that may cause an additional financial benefit or burden on the Township in the near future. During the year ended June 30, 2014, the Township contributed \$151,296 as its share of operating costs. Complete financial statements for the Department can be obtained from the Treasurer of the Department.

NOTE 12 - CONSTRUCTION CODE ACT

A summary of construction code enforcement transactions for the year ended June 30, 2014, is as follows:

Revenues	\$ 24,992
Expenses	<u>23,801</u>
Excess of revenues over expenses	<u>\$ 1,191</u>

The cumulative excess of revenues over expenses of \$14,468 is shown as restricted fund balance of the General Fund.

NOTE 13 - PENDING ACCOUNTING PRONOUNCEMENT

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

REQUIRED SUPPLEMENTARY INFORMATION

Township of Paw Paw

BUDGETARY COMPARISON SCHEDULE - General Fund

Year ended June 30, 2014

	<i>Original budget</i>	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
REVENUES				
Taxes	\$ 331,550	\$ 331,550	\$ 335,896	\$ 4,346
Licenses and permits	43,700	43,700	72,126	28,426
State grants	274,000	274,000	273,602	(398)
Charges for services	11,074	11,974	22,809	10,835
Interest	1,010	1,010	3,331	2,321
Other	1,865	1,865	515	(1,350)
	<u>663,199</u>	<u>664,099</u>	<u>708,279</u>	<u>44,180</u>
Total revenues				
EXPENDITURES				
General government:				
Legislative	5,200	5,200	4,521	679
Supervisor	26,040	26,040	25,942	98
Election	18,000	18,000	1,248	16,752
Assessor	41,136	41,136	43,286	(2,150)
Clerk	58,300	58,300	55,474	2,826
Board of review	1,640	1,820	1,408	412
Treasurer	35,810	37,700	36,762	938
Hall and grounds	12,000	14,800	14,513	287
Cemetery	74,950	74,950	66,468	8,482
Other	88,400	88,400	74,523	13,877
	<u>361,476</u>	<u>366,346</u>	<u>324,145</u>	<u>42,201</u>
Total general government				
Public safety:				
Fire protection	650	650	552	98
Building inspections	20,200	23,200	23,801	(601)
	<u>20,850</u>	<u>23,850</u>	<u>24,353</u>	<u>(503)</u>
Total public safety				
Public works:				
Highways and streets	230,600	230,600	167,345	63,255
Drains	4,000	11,000	10,983	17
	<u>234,600</u>	<u>241,600</u>	<u>178,328</u>	<u>63,272</u>
Total public works				

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended June 30, 2014

	<i>Original budget</i>	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
EXPENDITURES (Continued)				
Health and welfare - ambulance	\$ 5,000	\$ 5,000	\$ 5,000	\$ -
Community and economic development - planning and zoning	14,025	14,025	7,160	6,865
Capital outlay	-	200	179	21
Total expenditures	635,951	651,021	539,165	111,856
EXCESS OF REVENUES OVER EXPENDITURES	27,248	13,078	169,114	156,036
OTHER FINANCING USES				
Transfers out	-	-	(8,764)	(8,764)
NET CHANGES IN FUND BALANCES	27,248	13,078	160,350	147,272
FUND BALANCES - BEGINNING	947,730	947,730	947,730	-
FUND BALANCES - ENDING	\$ 974,978	\$ 960,808	\$ 1,108,080	\$ 147,272

BUDGETARY COMPARISON SCHEDULE - Fire Fund

Year ended June 30, 2014

	<i>Original budget</i>	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
REVENUES				
Taxes	\$ 224,500	\$ 224,500	\$ 226,775	\$ 2,275
Interest	<u>500</u>	<u>500</u>	<u>4,861</u>	<u>4,361</u>
Total revenues	225,000	225,000	231,636	6,636
EXPENDITURES				
Public safety	<u>140,136</u>	<u>151,336</u>	<u>151,296</u>	<u>40</u>
NET CHANGES IN FUND BALANCES	84,864	73,664	80,340	6,676
FUND BALANCES - BEGINNING	<u>575,340</u>	<u>575,340</u>	<u>575,340</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 660,204</u>	<u>\$ 649,004</u>	<u>\$ 655,680</u>	<u>\$ 6,676</u>

SUPPLEMENTARY INFORMATION

Township of Paw Paw**COMBINING BALANCE SHEET - nonmajor governmental funds**

June 30, 2014

	<i>Special revenue funds</i>		
	<i>Three Mile Lake Weed Control</i>	<i>Ackley Lake Weed Control</i>	<i>Brownwood Lake Weed Control</i>
ASSETS			
Cash	\$ 37,051	\$ 25,350	\$ 17,658
Receivables	-	2,390	915
Total assets	<u>\$ 37,051</u>	<u>\$ 27,740</u>	<u>\$ 18,573</u>
LIABILITIES AND FUND BALANCES			
Liabilities - payables	<u>\$ 4,132</u>	<u>\$ 6,166</u>	<u>\$ -</u>
Fund balances:			
Nonspendable - permanent fund principal	-	-	-
Restricted for:			
Law enforcement	-	-	-
Weed control	32,919	21,574	18,573
Assigned to - streets and highways	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>32,919</u>	<u>21,574</u>	<u>18,573</u>
Total liabilities and fund balances	<u>\$ 37,051</u>	<u>\$ 27,740</u>	<u>\$ 18,573</u>

<i>Special revenue funds</i>			<i>Capital projects fund</i>	<i>Permanent fund</i>	
<i>Maple Lake Weed Control</i>	<i>Senior Services</i>	<i>Liquor Law Enforcement</i>	<i>Road Improvement</i>	<i>Cemetery Trust</i>	<i>Totals</i>
\$ 72,024	\$ 1,103	\$ 13,677	\$ 165,231	\$ 10,000	\$ 342,094
-	-	-	-	-	3,305
<u>\$ 72,024</u>	<u>\$ 1,103</u>	<u>\$ 13,677</u>	<u>\$ 165,231</u>	<u>\$ 10,000</u>	<u>\$ 345,399</u>
\$ -	\$ 1,103	\$ -	\$ -	\$ -	\$ 11,401
-	-	-	-	10,000	10,000
-	-	13,677	-	-	13,677
72,024	-	-	-	-	145,090
<u>-</u>	<u>-</u>	<u>-</u>	<u>165,231</u>	<u>-</u>	<u>165,231</u>
<u>72,024</u>	<u>-</u>	<u>13,677</u>	<u>165,231</u>	<u>10,000</u>	<u>333,998</u>
<u>\$ 72,024</u>	<u>\$ 1,103</u>	<u>\$ 13,677</u>	<u>\$ 165,231</u>	<u>\$ 10,000</u>	<u>\$ 345,399</u>

Township of Paw Paw**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - nonmajor governmental funds***Year ended June 30, 2014*

<i>Special revenue funds</i>			
	<i>Three Mile Lake Weed Control</i>	<i>Ackley Lake Weed Control</i>	<i>Brownwood Lake Weed Control</i>
REVENUES			
Taxes	\$ -	\$ -	\$ -
State grant	-	-	-
Interest	46	28	20
Other	7,055	14,098	5,638
	<u>7,101</u>	<u>14,126</u>	<u>5,658</u>
Total revenues	<u>7,101</u>	<u>14,126</u>	<u>5,658</u>
EXPENDITURES			
Public safety	-	-	-
Public works	12,412	15,743	650
Health and welfare	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>12,412</u>	<u>15,743</u>	<u>650</u>
NET CHANGES IN FUND BALANCES	(5,311)	(1,617)	5,008
FUND BALANCES - BEGINNING	<u>38,230</u>	<u>23,191</u>	<u>13,565</u>
FUND BALANCES - ENDING	<u>\$ 32,919</u>	<u>\$ 21,574</u>	<u>\$ 18,573</u>

<i>Special revenue funds</i>			<i>Capital projects fund</i>	<i>Permanent fund</i>	
<i>Maple Lake Weed Control</i>	<i>Senior Services</i>	<i>Liquor Law Enforcement</i>	<i>Road Improvement</i>	<i>Cemetery Trust</i>	<i>Totals</i>
\$ -	\$ 58,706	\$ -	\$ -	\$ -	\$ 58,706
-	-	1,651	-	-	1,651
78	-	18	215	-	405
<u>27,532</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,323</u>
 27,610	 58,706	 1,669	 215	 -	 115,085
-	-	942	-	-	942
19,300	-	-	-	-	48,105
<u>-</u>	<u>58,706</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,706</u>
 19,300	 58,706	 942	 -	 -	 107,753
8,310	-	727	215	-	7,332
<u>63,714</u>	<u>-</u>	<u>12,950</u>	<u>165,016</u>	<u>10,000</u>	<u>326,666</u>
<u>\$ 72,024</u>	<u>\$ -</u>	<u>\$ 13,677</u>	<u>\$ 165,231</u>	<u>\$ 10,000</u>	<u>\$ 333,998</u>

October 28, 2014

To the Board of Trustees
Township of Paw Paw

We have audited the financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Township of Paw Paw for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 2, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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

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

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

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

Difficulties Encountered in Performing the Audit

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

Audit Adjustments

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 28, 2014.

Other Issues

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

Other Matters

We applied certain limited procedures to management's discussion and analysis and the budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's response 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.

Management has omitted the budgetary comparison schedule of the Eagle Lake Weed Control Fund, a major special revenue fund, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinions on the basic financial statements are not affected by this missing information.

We were engaged to report on the combining balance sheet and combining statement of revenues, expenditures, and changes in fund balances for the nonmajor governmental funds, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Township of Paw Paw as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Township of Paw Paw's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we have identified a deficiency in internal control that we consider to be a material weakness.

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

Material audit adjustments and financial statement preparation:

Condition and criteria: Policies and procedures to prepare financial statements in accordance with accounting principles generally accepted in the United States of America, including procedures to record revenue accruals and deferrals, expense accruals, changes in capital assets and related long-term debt, and to develop appropriate footnote disclosures were not in place. Having the auditor draft the annual financial statements is allowable under current auditing standards and ethical guidelines and may be the most efficient and effective method for preparation of the Township's financial statements. However, when an entity (on its own) lacks the ability to produce financial statements that conform to generally accepted accounting principles, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses. This is a repeat finding.

Effect: The Township's financial reporting system does not produce financial statements in accordance with accounting principles generally accepted in the United States of America.

Cause: As in prior years, the Township has relied upon the auditor to identify and develop material adjustments necessary to prepare the financial statements and appropriate disclosures.

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

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

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

Restriction on Use

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

Siegfried Crandall P.C.