

*Township of Johnstown*  
*Barry County, Michigan*

**FINANCIAL STATEMENTS**

*Year ended March 31, 2014*

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Township of Johnstown, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Johnstown, Michigan, as of and for the year ended March 31, 2014, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements, as listed in the contents.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, each major fund, and the aggregate remaining fund information of the Township Johnstown, Michigan, as of March 31, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Accounting changes*

As described in Note 12 to the financial statements, the Township adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to this matter.

*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.

*Supplementary information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Johnstown, Michigan's financial statements as a whole. The supplementary information, as listed in the contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole

*Siegfried Crandall P.C.*

July 22, 2014

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

### **FINANCIAL HIGHLIGHTS**

- The Township's total net position increased by \$104,728 as a result of this year's activities.
- Of the \$2,714,986 total net position reported, \$1,415,151 is unrestricted.
- The General Fund's unassigned fund balance at the end of the fiscal year was \$1,359,934, which represents 564 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.

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 and deferred inflows of resources. 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 and deferred inflows of resources) is one way to measure the Township's financial health, or position.

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

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

### Fund financial statements

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

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

The Township has one type of fund:

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

### FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

#### Net position

Total net position at the end of the fiscal year was \$2,714,986. Of this total, \$1,215,109 is invested in capital assets, \$81,362 is restricted for public works, and \$3,364 is restricted for cemetery perpetual care. Consequently, unrestricted net position was \$1,415,151.

#### Condensed financial information Net position

	<i>Governmental activities</i>	
	<i>2014</i>	<i>2013</i>
Current and other assets	\$ 1,539,943	\$ 1,350,344
Capital assets	<u>1,215,109</u>	<u>1,319,929</u>
Total assets	<u>2,755,052</u>	<u>2,670,273</u>
Current liabilities	<u>40,066</u>	<u>60,015</u>
Net position:		
Net investment in capital assets	1,215,109	1,319,929
Restricted	84,726	66,177
Unrestricted	<u>1,415,151</u>	<u>1,224,152</u>
Total net position	<u>\$ 2,714,986</u>	<u>\$ 2,610,258</u>

**Changes in net position**

The Township's total revenues were \$634,127. Approximately 41 percent of the Township's revenues comes from property taxes, 35 percent from state grants, and 23 percent from charges for services.

The total cost of the Township's programs totaled \$529,399. Approximately 31 percent of the Township's costs related to the provision of public safety. General government costs accounted for 34 percent and public works costs were 30 percent of the Township's total expenses.

*Condensed financial information  
Changes in net position*

	<i>Governmental activities</i>	
	<b>2014</b>	<b>2013</b>
Program revenues:		
Charges for services	\$ 143,483	\$ 87,741
Operating grants and contributions	4,665	3,871
Capital grants and contributions	-	1,000
General revenues:		
Property taxes	262,784	259,082
State shared revenue	222,428	219,176
Interest income	767	1,782
Total revenues	<b>634,127</b>	<b>572,652</b>
Expenses:		
General government	179,863	185,013
Public safety	164,176	155,208
Public works	156,757	110,771
Recreation and culture	28,603	28,179
Total expenses	<b>529,399</b>	<b>479,171</b>
Changes in net position	<b>\$ 104,728</b>	<b>\$ 93,481</b>
Net position, end of year	<b>\$ 2,714,986</b>	<b>\$ 2,610,258</b>

**Governmental activities**

Governmental activities increased the Township's net position by \$104,728 compared to \$93,481 in 2013. The Township's revenues increased \$61,475 from 2013, while the operating costs increased \$50,228 from 2013. The difference for both increased revenues and expenses was due primarily to special assessment revenues and costs associated with the Willow Cove Paving Special Assessment District. The remaining categories of revenues and expenses remained relatively consistent for both periods.

The total cost of governmental activities this year was \$529,399. After subtracting the charges to those who directly benefited from the programs (\$143,483) and operating grants (\$4,665), the "public benefit" portion covered by taxes, state revenue sharing, and other general revenues was \$381,251, compared to \$386,559 in 2013.



**FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS**

**Governmental funds**

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$1,458,145, an increase of \$167,816 from the prior year.

The General Fund is the primary operating fund of the Township. At the end of the current fiscal year, its fund balance was \$1,373,769, an increase of \$149,617 during the year as revenues and transfers in of \$390,935 exceeded expenditures of \$241,318.

The Fire Fund is used to account for property tax revenues restricted for fire protection costs (both operating and capital). Its fund balance remained unchanged, at \$-0-, as all current year revenues were used for current operation and the remaining public safety costs were covered by the General Fund.

The Mill Lake Aquatic Fund accounts for special assessments restricted for weed control costs of participating properties. Its fund balance at the end of the current fiscal year was \$9,187, an increase of \$6,987, as current year revenues of \$10,480 exceeded expenditures of \$3,493.

The Bristol Lake Channel Aquatic Fund accounts for special assessments restricted for weed control costs of participating properties. Its fund balance at the end of the current fiscal year was \$6,510 as current year revenues of \$9,475 exceeded expenditures of \$2,965.

**General Fund budgetary highlights**

The Township amended the General Fund expenditure budget by \$76,300 to reflect increased general government, public safety, and public works expenditures. Revenues were \$26,105 more than budgeted as other revenues, including special assessment principal, was \$13,144 higher than expected. Expenditures were \$25,732 less than the amounts appropriated as all functions of the General Fund were less than amounts appropriated. The General Fund also received a transfer of \$22,518 from Fine Lake Aquatic Fund that was not budgeted for.

These variances resulted in a \$74,355 positive budget variance, with a \$149,617 increase in fund balance compared to a budget that anticipated a \$75,262 increase in fund balance.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital assets**

The Township's investment in capital assets for its governmental activities as of March 31, 2014, amounts to \$1,215,109 (net of accumulated depreciation). This investment includes land, buildings, equipment, vehicles, and the Township's share of road costs. The Township's net investment in capital assets decreased by \$104,820 for the current year as \$46,047 in asset acquisitions were offset by \$150,867 in current depreciation.

Major capital asset events during the current fiscal year included the following:

- SCBA breathing apparatus and fire protective clothing totaling \$15,973
- Parking lot expansion and lighting totaling \$10,489
- The Township's share of road improvement costs were \$18,000

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 reported no long-term debt at the beginning or end of the year.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Township plans to primarily use current revenues to provide essential services in fiscal year 2015 in order to maintain current fund balances. Expenditures are expected to increase by nominal amounts compared to fiscal year 2014. The ongoing costs of providing essential services for the citizens of the Township will again need to be monitored in order to maintain the financial condition and operational capabilities of the Township. The Township will again consider the need for various capital expenditures and additional road improvement projects.

### **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:

Barbara Earl, Township Supervisor  
Township of Johnstown  
13641 South M-37 Highway  
Dowling, MI 49050

Phone: (269) 721-9905

## **BASIC FINANCIAL STATEMENTS**

**STATEMENT OF NET POSITION**

March 31, 2014

	<b><i>Governmental activities</i></b>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 1,394,106
Receivables, net	95,983
Prepaid expenses	<u>13,835</u>
Total current assets	<u>1,503,924</u>
Noncurrent assets:	
Receivables, net	36,019
Capital assets not being depreciated	5,012
Capital assets, net of accumulated depreciation	<u>1,210,097</u>
Total noncurrent assets	<u>1,251,128</u>
Total assets	<u>2,755,052</u>
<b>LIABILITIES</b>	
Current liabilities:	
Payables	20,626
Unearned special assessments	<u>19,440</u>
Total current liabilities	<u>40,066</u>
<b>NET POSITION</b>	
Net investment in capital assets	1,215,109
Restricted for:	
Nonspendable - Perpetual care	3,364
Spendable - Public works	81,362
Unrestricted	<u>1,415,151</u>
Total net position	<u>\$ 2,714,986</u>

See notes to financial statements

**STATEMENT OF ACTIVITIES**

Year ended March 31, 2014

Functions/Programs	Expenses	Program revenues		Net (expenses)
		Charges for services	Operating grants and contributions	revenues and change in net position
Governmental activities:				
General government	\$ 179,863	\$ 36,350	\$ -	\$ (143,513)
Public safety	164,176	7,850	800	(155,526)
Public works	156,757	99,283	3,865	(53,609)
Recreation and culture	28,603	-	-	(28,603)
Total governmental activities	<u>\$ 529,399</u>	<u>\$ 143,483</u>	<u>\$ 4,665</u>	<u>(381,251)</u>
General revenues:				
				262,784
				222,428
				767
Total general revenues				<u>485,979</u>
Change in net position				
				104,728
Net position - beginning				
				<u>2,610,258</u>
Net position - ending				
				<u>\$ 2,714,986</u>

See notes to financial statements

**BALANCE SHEET - governmental funds**

March 31, 2014

	<i>General</i>	<i>Fire</i>	<i>Mill Lake Aquatic</i>	<i>Bristol Lake Channel Aquatic</i>	<i>Nonmajor funds</i>	<i>Total governmental funds</i>
<b>ASSETS</b>						
Cash	\$ 1,317,015	\$ -	\$ 8,544	\$ 4,615	\$ 63,932	\$ 1,394,106
Receivables	85,437	15,095	10,608	11,370	9,492	132,002
Due from other funds	8,067	-	-	-	-	8,067
Prepaid items	13,835	-	-	-	-	13,835
Total assets	<u>\$ 1,424,354</u>	<u>\$ 15,095</u>	<u>\$ 19,152</u>	<u>\$ 15,985</u>	<u>\$ 73,424</u>	<u>\$ 1,548,010</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>						
Liabilities:						
Payables	\$ 9,203	\$ 7,028	\$ -	\$ -	\$ 4,395	\$ 20,626
Due to other funds	-	8,067	-	-	-	8,067
Unearned special assessments	-	-	9,965	9,475	-	19,440
Total liabilities	<u>9,203</u>	<u>15,095</u>	<u>9,965</u>	<u>9,475</u>	<u>4,395</u>	<u>48,133</u>
Deferred inflows of resources:						
Unavailable special assessments	<u>41,382</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>350</u>	<u>41,732</u>
Fund balances:						
Nonspendable for:						
Prepaid items	13,835	-	-	-	-	13,835
Perpetual care	-	-	-	-	3,364	3,364
Restricted for:						
Roads	-	-	-	-	25,158	25,158
Weed control	-	-	9,187	6,510	40,157	55,854
Unassigned	<u>1,359,934</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,359,934</u>
Total fund balances	<u>1,373,769</u>	<u>-</u>	<u>9,187</u>	<u>6,510</u>	<u>68,679</u>	<u>1,458,145</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,424,354</u>	<u>\$ 15,095</u>	<u>\$ 19,152</u>	<u>\$ 15,985</u>	<u>\$ 73,424</u>	<u>\$ 1,548,010</u>

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

Total fund balance - total governmental funds \$ 1,458,145

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

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds. 1,215,109

Special assessments receivable are not available to pay for the current period's expenditures and, therefore, are deferred in the funds. 41,732

Net position of *governmental activities* \$ 2,714,986

**Township of Johnstown**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**

**BALANCES - governmental funds**

Year ended March 31, 2014

	<u>General</u>	<u>Fire</u>	<u>Mill Lake Aquatic</u>	<u>Bristol Lake Channel Aquatic</u>	<u>Nonmajor funds</u>	<u>Total governmental funds</u>
<b>REVENUES</b>						
Taxes	\$ 118,651	\$ 95,355	\$ -	\$ -	\$ 76,278	\$ 290,284
State grants	226,293	-	-	-	-	226,293
Charges for services	6,262	7,850	-	-	-	14,112
Interest	1,767	-	-	-	1,147	2,914
Other	15,444	800	10,480	9,475	22,593	58,792
Total revenues	<u>368,417</u>	<u>104,005</u>	<u>10,480</u>	<u>9,475</u>	<u>100,018</u>	<u>592,395</u>
<b>EXPENDITURES</b>						
General government	161,008	-	-	-	-	161,008
Public safety	11,542	94,336	-	-	-	105,878
Public works	55,754	-	3,493	2,965	44,195	106,407
Recreation and culture	-	-	-	-	28,603	28,603
Capital outlay	13,014	9,669	-	-	-	22,683
Total expenditures	<u>241,318</u>	<u>104,005</u>	<u>3,493</u>	<u>2,965</u>	<u>72,798</u>	<u>424,579</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>127,099</u>	<u>-</u>	<u>6,987</u>	<u>6,510</u>	<u>27,220</u>	<u>167,816</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	22,518	-	-	-	-	22,518
Transfers out	-	-	-	-	(22,518)	(22,518)
Net other financing sources (uses)	<u>22,518</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(22,518)</u>	<u>-</u>
<b>NET CHANGES IN FUND BALANCES</b>	149,617	-	6,987	6,510	4,702	167,816
<b>FUND BALANCES - BEGINNING</b>	<u>1,224,152</u>	<u>-</u>	<u>2,200</u>	<u>-</u>	<u>63,977</u>	<u>1,290,329</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 1,373,769</u>	<u>\$ -</u>	<u>\$ 9,187</u>	<u>\$ 6,510</u>	<u>\$ 68,679</u>	<u>\$ 1,458,145</u>

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

Net change in fund balance - total governmental funds \$ 167,816

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

Capital assets:

Assets acquired 46,047  
Provision for depreciation (150,867)

Net increase in deferred inflows of resources 41,732

Change in net position of *governmental activities* \$ 104,728

See notes to financial statements

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Township of Johnstown, 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:*

The accompanying financial statements present only the Township, located in Barry County. There are no component units, entities for which the Township is considered to be financially accountable.

*Government-wide and fund financial statements:*

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Township. The effect of interfund activity has been removed from these statements.

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

The major individual governmental funds are reported as a separate column in the fund financial statements.

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

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

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

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



**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Measurement focus, basis of accounting, and financial statement presentation (continued):*

The Township reports the following major governmental funds:

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

The Fire Fund accounts for financial resources used for the operational costs of the Township's public safety functions. Revenues are primarily derived from property taxes.

The Mill Lake Aquatic Fund accounts for weed control financed through special assessments.

The Bristol Lake Channel Aquatic Fund accounts for weed control financed through special assessments.

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.

*Assets, liabilities, deferred inflows of resources, and net position or equity:*

*Bank deposits* - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Pooled interest income is proportionately allocated to all funds, except as follows: all interest earned by the Building Fund is included in investment income of the General Fund.

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

*Prepaid items* - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

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

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

Buildings and improvements	20 - 40 years
Equipment	3 - 5 years
Vehicles	10 - 15 years

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Assets, liabilities, deferred inflows of resources, and net position or equity (continued):*

*Unearned revenue* - Unearned revenue represents resources related to operating assessments, which have not yet been earned.

*Deferred inflows of resources* - The statement of net position and the governmental funds balance sheet include a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position that applies to a future period. The related revenues will not be recognized until a future event occurs. The Township has only one item, special assessments, which is included in this category. Special assessment revenues, which are not recognized until available (collected not later than 60 days after the end of the Township's fiscal year), are deferred and recognized as an inflow of resources in the period that the assessments become available.

*Net position* - Net position represents the difference between assets, and liabilities and deferred inflows of resources. 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 and deferred inflows of resources 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 and deferred inflows of resources 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* - Governmental funds report nonspendable fund balance 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 balances are amounts that do 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 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.

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

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

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

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)**

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

<i>Fund</i>	<i>Function</i>	<i>Final budget</i>	<i>Actual</i>	<i>Variance</i>
Road	Public works	\$ 21,809	\$ 22,517	\$ (708)
Fine Lake Aquatic	Other financing uses	-	22,518	(22,518)

**NOTE 3 - CASH**

State statutes and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Township's deposits are in accordance with statutory authority. At March 31, 2014, the Township had deposits with a carrying amount of \$1,394,106.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Township will not be able to recover its deposits. The Township's investment policy does not specifically address custodial credit risk for deposits. At March 31, 2014, \$658,719 of the Township's bank balances of \$1,395,913 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**NOTE 4 - RECEIVABLES**

Receivables as of March 31, 2014, for the Township's individual major funds and nonmajor funds, in the aggregate, were as follows:

<i>Fund</i>	<i>Property taxes</i>	<i>Special assessments</i>	<i>Inter- governmental</i>	<i>Totals</i>
General	\$ 10,863	\$ 42,028	\$ 32,546	\$ 85,437
Fire	9,145	-	5,950	15,095
Mill Lake Aquatic	-	10,608	-	10,608
Bristol Lake Channel Aquatic	-	11,370	-	11,370
Nonmajor funds	7,315	2,177	-	9,492
Totals	<u>\$ 27,323</u>	<u>\$ 66,183</u>	<u>\$ 38,496</u>	<u>\$ 132,002</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ 36,019</u>	<u>\$ -</u>	<u>\$ 36,019</u>

## NOTE 5 - CAPITAL ASSETS

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

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated - land	\$ 5,012	\$ -	\$ -	\$ 5,012
Capital assets being depreciated:				
Buildings and improvements	904,937	5,200	-	910,137
Equipment	318,746	22,847	-	341,593
Vehicles	755,333	-	-	755,333
Infrastructure	355,248	18,000	-	373,248
Subtotal	2,334,264	46,047	-	2,380,311
Less accumulated depreciation for:				
Buildings and improvements	(28,057)	(23,500)	-	(51,557)
Equipment	(195,894)	(37,081)	-	(232,975)
Vehicles	(680,643)	(21,937)	-	(702,580)
Infrastructure	(114,753)	(68,349)	-	(183,102)
Subtotal	(1,019,347)	(150,867)	-	(1,170,214)
Total capital assets being depreciated, net	1,314,917	(104,820)	-	1,210,097
Governmental activities capital assets, net	\$ 1,319,929	\$ (104,820)	\$ -	\$ 1,215,109

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

Governmental activities:	
General government	\$ 14,065
Public safety	68,452
Public works	68,350
Total	\$ 150,867

**NOTE 6 - PAYABLES**

Payables as of March 31, 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>
General	\$ 1,958	\$ 7,245	\$ -	\$ 9,203
Fire	3,400	3,628	-	7,028
Nonmajor	1,652	-	2,743	4,395
Totals	<u>\$ 7,010</u>	<u>\$ 10,873</u>	<u>\$ 2,743</u>	<u>\$ 20,626</u>

**NOTE 7 - INTERFUND BALANCES AND TRANSFERS**

The balance the Fire Fund owes the General Fund represents operating costs covered by the General Fund during the fiscal year 2014. The balances will be paid through the receipt of delinquent tax revenues.

The transfer to the General Fund from the Fine Lake Aquatic Fund represents accumulated interest revenues charged to parcel owners for administration of the special assessment district.

**NOTE 8 - PROPERTY TAX REVENUES**

The 2013 taxable valuation of the Township approximated \$92,285,000, on which ad valorem taxes levied consisted of 0.9488 mills for operating purposes, 0.5000 mills for roads, 1.000 mills for fire protection, and 0.3000 mills for library services, raising approximately \$90,000 for operating purposes, \$48,000 for roads, \$95,000 for fire protection, and \$29,000 for library services. These amounts are recognized in the respective fund financial statements as property tax revenue.

**NOTE 9 - DEFINED CONTRIBUTION PENSION PLAN**

The Township provides pension benefits for its elected officials through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate from the date of employment. The Township's contributions are vested after six months of continuous service. The Township made the required contributions of \$20,540 for the year ended March 31, 2014. The Township is not a trustee of the plan, nor is the Township responsible for investment management of plan assets.

**NOTE 10 - RISK MANAGEMENT**

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

**NOTE 11 - JOINTLY GOVERNED ORGANIZATION**

The Township, together with the Townships of Barry, Hope, and Prairieville, established the Southwest Barry County Sewer and Water Authority (the Authority), under the provisions of Act 233 of 1955, to operate, maintain, administer, and manage a sewage collection and disposal system. The governing body of the Authority is made up of one elected official from each member township. Operating costs are financed through user fees, and debt service costs are paid from special assessments upon benefited properties. The Township does not retain an ongoing financial interest or responsibility in the Authority.

**NOTE 12 - RECENT ACCOUNTING PRONOUNCEMENT**

Effective April 1, 2013, the Township adopted the provisions of the following accounting pronouncements that did not result in restatement or reclassification of opening net position or fund balances:

Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

**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 April 1, 2015.

## REQUIRED SUPPLEMENTARY INFORMATION

**Township of Johnstown**

**BUDGETARY COMPARISON SCHEDULE - General Fund**

Year ended March 31, 2014

	<i>Original budget</i>	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
<b>REVENUES</b>				
Taxes	\$ 115,012	\$ 115,012	\$ 118,651	\$ 3,639
State grants	219,000	219,000	226,293	7,293
Charges for services	3,500	3,500	6,262	2,762
Interest	2,500	2,500	1,767	(733)
Other	2,300	2,300	15,444	13,144
Total revenues	342,312	342,312	368,417	26,105
<b>EXPENDITURES</b>				
General government:				
Legislative	6,550	6,550	6,634	(84)
Supervisor	18,950	18,950	18,388	562
Election	3,600	3,600	1,422	2,178
Assessor	25,500	25,500	27,168	(1,668)
Clerk	25,150	25,150	25,271	(121)
Board of review	1,550	1,550	667	883
Treasurer	23,750	26,750	26,332	418
Hall and grounds	11,300	14,600	12,117	2,483
Cemetery	14,500	14,500	12,038	2,462
Other	31,800	31,800	30,971	829
Total general government	162,650	168,950	161,008	7,942
Public safety - fire protection	-	15,000	11,542	3,458
Public works:				
Highways and streets	-	55,000	51,124	3,876
Street lights	1,500	1,500	1,097	403
Transfer station	3,600	3,600	3,533	67
Total public works	5,100	60,100	55,754	4,346
Capital outlay	23,000	23,000	13,014	9,986
Total expenditures	190,750	267,050	241,318	25,732
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	151,562	75,262	127,099	51,837
<b>OTHER FINANCING RESOURCES</b>				
Transfers in	-	-	22,518	22,518
<b>NET CHANGES IN FUND BALANCES</b>	151,562	75,262	149,617	74,355
<b>FUND BALANCES - BEGINNING</b>	1,224,152	1,224,152	1,224,152	-
<b>FUND BALANCES - ENDING</b>	\$ 1,375,714	\$ 1,299,414	\$ 1,373,769	\$ 74,355



**Township of Johnstown**

**BUDGETARY COMPARISON SCHEDULE - Fire Fund**

Year ended March 31, 2014

	<i>Original budget</i>	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
<b>REVENUES</b>				
Taxes	\$ 93,984	\$ 93,984	\$ 95,355	\$ 1,371
Charges for services	1,000	1,000	7,850	6,850
Other	-	-	800	800
Total revenues	94,984	94,984	104,005	9,021
<b>EXPENDITURES</b>				
Public safety	94,600	94,600	94,336	264
Capital outlay	9,700	9,700	9,669	31
Total expenditures	104,300	104,300	104,005	295
<b>NET CHANGES IN FUND BALANCES</b>	(9,316)	(9,316)	-	9,316
<b>FUND BALANCES - BEGINNING</b>	-	-	-	-
<b>FUND BALANCES - ENDING</b>	<u>\$ (9,316)</u>	<u>\$ (9,316)</u>	<u>\$ -</u>	<u>\$ 9,316</u>

**Township of Johnstown****BUDGETARY COMPARISON SCHEDULE - Mill Lake Aquatic Fund**

Year ended March 31, 2014

	<i><u>Original budget</u></i>	<i><u>Final budget</u></i>	<i><u>Actual</u></i>	<i><u>Variance with final budget positive (negative)</u></i>
<b>REVENUES</b>				
Other - special assessments	\$ 10,300	\$ 10,300	\$ 10,480	\$ 180
<b>EXPENDITURES</b>				
Public works	<u>10,300</u>	<u>10,300</u>	<u>3,493</u>	<u>6,807</u>
<b>NET CHANGES IN FUND BALANCES</b>	-	-	6,987	6,987
<b>FUND BALANCES - BEGINNING</b>	<u>2,200</u>	<u>2,200</u>	<u>2,200</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u><u>\$ 2,200</u></u>	<u><u>\$ 2,200</u></u>	<u><u>\$ 9,187</u></u>	<u><u>\$ 6,987</u></u>

**Township of Johnstown**

**BUDGETARY COMPARISON SCHEDULE - Bristol Lake Channel Aquatic Fund**

Year ended March 31, 2014

	<i>Original budget</i>	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
<b>REVENUES</b>				
Other - special assessments	\$ -	\$ 6,500	\$ 9,475	\$ 2,975
<b>EXPENDITURES</b>				
Public works	-	6,500	2,965	3,535
<b>NET CHANGES IN FUND BALANCES</b>	-	-	6,510	6,510
<b>FUND BALANCES - BEGINNING</b>	-	-	-	-
<b>FUND BALANCES - ENDING</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,510</u>	<u>\$ 6,510</u>

## SUPPLEMENTARY INFORMATION

**COMBINING BALANCE SHEET - nonmajor governmental funds**

March 31, 2014

	<u>Special revenue</u>			<u>Permanent</u>	
	<u>Road</u>	<u>Dowling Library</u>	<u>Fine Lake Aquatic</u>	<u>Cemetery Perpetual Care</u>	<u>Totals</u>
<b>ASSETS</b>					
Cash	\$ 20,586	\$ -	\$ 39,982	\$ 3,364	\$ 63,932
Receivables	4,572	2,743	2,177	-	9,492
Total assets	<u>\$ 25,158</u>	<u>\$ 2,743</u>	<u>\$ 42,159</u>	<u>\$ 3,364</u>	<u>\$ 73,424</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>					
Liabilities:					
Payables	\$ -	\$ 2,743	\$ 1,652	\$ -	\$ 4,395
Deferred inflows of resources:					
Unavailable special assessments	-	-	350	-	350
Fund balances:					
Nonspendable for perpetual care	-	-	-	3,364	3,364
Restricted for:					
Roads	25,158	-	-	-	25,158
Weed control	-	-	40,157	-	40,157
Total fund balances	<u>25,158</u>	<u>-</u>	<u>40,157</u>	<u>3,364</u>	<u>68,679</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 25,158</u>	<u>\$ 2,743</u>	<u>\$ 42,159</u>	<u>\$ 3,364</u>	<u>\$ 73,424</u>

*Township of Johnstown*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**

**IN FUND BALANCES - *nonmajor governmental funds***

*Year ended March 31, 2014*

	<i>Special revenue</i>			<i>Permanent</i>	
	<i>Road</i>	<i>Dowling Library</i>	<i>Fine Lake Aquatic</i>	<i>Cemetery Perpetual Care</i>	<i>Totals</i>
<b>REVENUES</b>					
Taxes	\$ 47,675	\$ 28,603	\$ -	\$ -	\$ 76,278
Interest	-	-	1,147	-	1,147
Other	-	-	22,593	-	22,593
Total revenues	47,675	28,603	23,740	-	100,018
<b>EXPENDITURES</b>					
Public works	22,517	-	21,678	-	44,195
Recreation and culture	-	28,603	-	-	28,603
Total expenditures	22,517	28,603	21,678	-	72,798
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	25,158	-	2,062	-	27,220
<b>OTHER FINANCING USES</b>					
Transfers out	-	-	(22,518)	-	(22,518)
<b>NET CHANGES IN FUND BALANCES</b>	25,158	-	(20,456)	-	4,702
<b>FUND BALANCES - BEGINNING</b>	-	-	60,613	3,364	63,977
<b>FUND BALANCES - ENDING</b>	<u>\$ 25,158</u>	<u>\$ -</u>	<u>\$ 40,157</u>	<u>\$ 3,364</u>	<u>\$ 68,679</u>

July 22, 2014

To the Board of Trustees  
Township of Johnstown

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Johnstown for the year ended March 31, 2014. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 13, 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 Johnstown are described in Note 1 to the financial statements. Except as described in Note 12 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 Johnstown 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 July 22, 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 Johnstown'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.

We were engaged to report on the combining balance sheet and combining statement of revenues, expenditures, and changes in fund balances for the nonmajor funds, which accompany the financial statements but are not RSI. With respect to the supplementary information accompanying the financial statements, 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, each major fund, and the aggregate remaining fund information of the Township of Johnstown as of and for the year ended March 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Township of Johnstown'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 Johnstown's internal control to be a material weakness:

Material audit adjustments and financial statement preparation:

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

*Condition:* We identified and proposed several material audit adjustments that the Township Board reviewed and approved. Adjustments were recorded to:

- Correct beginning equity
- Adjust receivable accruals
- Adjust prepaid balances
- Adjust payable accruals
- Adjust interfund balances
- Adjust property tax and assessment revenues, receivables, and deferred inflow balances
- Convert the fund-based data necessary to prepare the government-wide financial statements.

As is the case with many small and medium-sized governmental units, the Township has historically relied on its independent external auditor to assist with the preparation of the financial statements, the related notes, and the management's discussion and analysis as part of its external financial reporting process. Accordingly, the Township's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditor, who cannot, by definition, be considered part of the Township's internal controls. Having the auditor draft the annual financial statements is allowable under current auditing standards and ethical guidelines and may be the most efficient and effective method for preparation of the Township's financial statements. However, when an entity (on its own) lacks the ability to produce financial statements that conform to GAAP, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses. This is a repeat finding.

*Cause:* This condition was caused by the Township's decision to outsource the preparation of its annual financial statements to the external auditor rather than incur the costs of obtaining the necessary training and expertise required for the Township to perform this task internally because outsourcing the task is considered more cost effective.

*Effect:* The Township's accounting records were initially misstated by amounts material to the financial statements. In addition, the Township lacks complete internal controls over the preparation of its financial statements in accordance with GAAP, and, instead, relies, at least in part, on assistance from its external auditor for assistance with this task.

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

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

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

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

*Sigfried Crandall P.C.*