

Kalkaska Township

Kalkaska County, Michigan

Audit Report

For the Year Ended March 31, 2014

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INTRODUCTORY SECTION

## Comments and Recommendations

We have audited the basic financial statements and the individual fund financial statements of Kalkaska Township, Kalkaska County, for the year ended March 31, 2014 and have issued our report thereon. As part of our examination, we made a study and evaluation of the Township's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the Township's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

Our study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal control of Kalkaska Township taken as a whole. As a result of our examination, we respectfully submit the following comments and recommendations.

### General

Records were maintained in excellent condition by your present Clerk and Treasurer. Recorded revenues were deposited intact, journals and ledgers were properly posted, Board minutes were maintained in good order, and supporting documents and follow-up procedures appeared adequate. The efforts of these officials for 2013-2014 are commendable.

These comments and recommendations are not intended to take the place of a separate management letter.

### Budgets and Procedures

The Township prepared and adopted the required budget for its General Fund. The General Fund expenditure budget was \$191,147 higher than actual expenditures.

### General Fund

The General Fund is presented on Schedule 1 of this report. Revenues totaled \$520,828 and expenditures totaled \$528,353. The fund balance at March 31, 2014 was \$420,539. As noted earlier, expenditures were materially lower than budgeted.

### Improvement Revolving Fund

This fund is permitted by statute and is used to set aside monies for Township improvements. No more than the equivalent of 2 mills of the taxable value may be placed in the fund in one year, and the total may not exceed 5 mills of the current valuation. The statute also permits the Township Board to return portions to the General Fund at any time. The fund is classified as a Special Revenue Fund for which a budget is required.

For the audit year, this fund had earned interest of \$497. There was a balance of \$501,629 in this fund at March 31, 2014. See Schedule 2.

### Cemetery Perpetual Care Fund

This fund is used to account for deposits for the perpetual care of cemetery lots and for interest earned from such deposits. During the audit year, deposits of \$3,150 and earned interest of \$228, remained in the fund which reflected a fund balance of \$144,752 at March 31, 2014. Of the fund balance, \$103,040 was non-expendable.

## Comments and Recommendations

### Property Tax Administration Fees

A 1% property tax administration fee, permitted by statute, was levied on all 2013 property taxes. Fees collected may be used only to offset such property tax administration costs as assessing, collecting and the review and appeal process. As reflected on Schedule 6, costs for the audit year exceeded fees collected by \$19,246, so the Township was in compliance with statutory requirements. As of March 31, 2014, there are accumulated excess expenditures of \$469,550.

### Property Tax Collections

The collection and distribution of the 2012 tax levy was handled well by the Township Treasurer. Deposits were made every few days and were intact. Distributions were made in a timely manner.

### Insurance and Surety Bond Coverage

Our examination disclosed that the Township has such insurance coverage as fire and lightning, liability, errors and omissions, equipment, crime and workmen's compensation. Board minutes indicate that coverage was reviewed during the audit year. The Clerk, Treasurer, their deputies, and the Supervisor are covered by surety bonds. There is also a blanket bond covering all employees.

### Other Data

We are pleased to note the use of interest bearing bank accounts and investments which resulted in earned interest of over \$1,300 for the audit year. This is excellent, and we commend efforts of the Treasurer and Board members in this important area of financial management.

Payroll records reflect that proper procedures are being followed in payroll withholdings, remittances, federal and State reports, etc.

After completion of our audit, we will submit the required copies of this report to the State Department of Treasury.

We again commend the Clerk and Treasurer for the excellent condition of the Township records. We further appreciate the courtesy extended our field auditors in the conduct of this audit.

Your confidence is respected. Please contact us if questions arise or assistance is needed.

FINANCIAL SECTION

# Tobin & Co.

## REPORT OF INDEPENDENT AUDITOR

To the Township Board  
Kalkaska Township  
Kalkaska County  
Kalkaska, Michigan 49646

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

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

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

### **Auditor's Responsibility**

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

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

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

### **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 Kalkaska Township, as of March 31, 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**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 9 through 10 and 23 through 34 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.

### Other Information

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

The combining and individual nonmajor 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 and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Tobin & Co., P.C.*

TOBIN & CO., P.C.  
June 30, 2014

## KALKASKA TOWNSHIP MANAGEMENT'S DISCUSSION AND ANALYSIS

As the Township Board of the Kalkaska Township, Kalkaska County, we offer readers of the township's financial statements this narrative overview and analysis of the financial activities of Kalkaska Township for the fiscal year ended March 31, 2014.

### Financial Highlights

The assets of Kalkaska Township exceeded its liabilities at the close of the most recent fiscal year by \$1,517,916. Of this amount, \$420,539 may be used to meet the Township's General Fund ongoing obligations to citizens and creditors.

As of the close of the current fiscal year, Township's governmental funds reported combined ending fund balances of \$1,074,025, a decrease of \$671 in comparison with the prior year. Of this amount, \$970,985 is available for spending at the Township's discretion.

At the end of the current fiscal year, unassigned fund balance for the general fund was \$420,539, or 80% of total general fund expenditures.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Kalkaska Township's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information, in addition to the basic financial statements themselves.

#### 1. Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The **statement of Net Position** presents information on all of the Township's assets and liabilities, with the difference between the two reported as **Net Position**. Over time, increases or decreases in Net Position may serve as a useful indicator of whether the Township's financial position is improving or deteriorating.

The **statement of activities** presents information showing how the Township's Net Position changed during the most recent fiscal year. All changes in Net Position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, earned but unused credits, and used but not paid expenses).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (**governmental activities**) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (**business-type activities**). The governmental activities of the Township include: General Government, Public Safety, Road Projects, and Township Improvements. Kalkaska Township does not have any business-type activities.

#### 2. Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Kalkaska Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Kalkaska Township are categorized as governmental funds.

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

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

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

The Township adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general fund and other major funds to demonstrate compliance with this budget.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial resources because the resources of those funds are not available to support the Township's own programs.

The basic Fiduciary fund financial statements can be found on page 14 of this report.

### 3. Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

#### General Fund Analysis and Highlights

Township General Fund operations were consistent with prior years in receipt of revenues and provision of services.

#### Condensed Financial Information

##### Net Position

	Governmental and Total Activities	
	<u>3/31/14</u>	<u>3/31/13</u>
Current Assets	\$ 1,077,752	\$ 1,114,408
Capital Assets	<u>443,891</u>	<u>421,421</u>
Total Assets	<u>1,521,643</u>	<u>1,535,829</u>
Current Liabilities	<u>3,727</u>	<u>25,061</u>
Total Liabilities	<u>3,727</u>	<u>25,061</u>
Net Position:		
Investment in Capital and Intangible Assets, net of related debt	443,891	421,421
Restricted	103,040	99,890
Unrestricted	<u>970,985</u>	<u>989,457</u>
Total Net Position	<u>\$ 1,517,916</u>	<u>\$ 1,510,768</u>

**Activities**

	Governmental and Total Activities	
	3/31/14	3/31/13
Program Revenues:		
Charges for Services	\$ 84,172	\$ 61,726
Operating Grants	6,587	6,312
General Revenues:		
Property Taxes	206,091	185,145
State Shared Revenues	200,300	196,254
Other	<u>30,340</u>	<u>25,914</u>
Total Revenues	527,490	475,351
Expenses:		
General Government	277,672	277,453
Public Safety	212,726	148,887
Public Works	28,526	36,435
Health and Welfare	<u>1,418</u>	<u>1,424</u>
Total Expenses	<u>520,342</u>	<u>464,199</u>
Change in Net Position	7,148	11,152
Beginning of Year Net Position	<u>1,510,768</u>	<u>1,499,616</u>
End of Year Net Position	<u>\$ 1,517,916</u>	<u>\$ 1,510,768</u>

**Capital Asset and Debt Administration****Capital Assets**

The Township's investment in capital assets for its governmental activities as of March 31, 2014, amounts to \$443,891. This investment in capital assets includes: land, township hall, parks facilities, cemetery buildings and equipment, fire and rescue trucks and equipment, and office equipment and computers. All of our government funds report capital outlays as expenditures. However, the cost of the assets is allocated over their useful lives.

**Cash Assets**

At the end of the current fiscal year, the Township had \$1,012,426 in cash and other spendable assets. The Township is limited by State law in how it can invest these funds and we have made no changes in our investment strategy in several years.

**Long-term Debt**

At the end of the current fiscal year, the Township had no debt outstanding.

**Pension Plan**

The Township makes contributions equal to approximately 11.5% of each employee's wage to Municipal Retirement Systems, Inc. on behalf of each participating employee. This is an expensed item in the budget and totaled \$12,864 for the fiscal year.

**Requests for Information**

This financial report is designed to provide a general overview of Kalkaska Township's finances for all those with an interest in the Township's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Connie Winter, Clerk, Kalkaska Township, P.O. Box 855, Kalkaska, MI 49646.

Kalkaska Township  
Statement of Net Position  
March 31, 2014

		<u>Primary Government</u> Governmental Activities <u>And Total</u>
Assets		
Cash		\$ 1,007,190
Receivables		70,562
Capital Assets		
Land	8,000	
Other Capital Assets, Net of Depreciation	<u>435,891</u>	
Total Capital Assets		<u>443,891</u>
Total Assets		<u>1,521,643</u>
Liabilities		
Accounts Payable		<u>3,727</u>
Total Liabilities		<u>3,727</u>
Net Position		
Invested in Capital Assets		443,891
Restricted		103,040
Unrestricted		<u>970,985</u>
Total Net Position		<u>\$ 1,517,916</u>

See Independent Auditor's Report and Accompanying Notes to Basic Financial Statements

Kalkaska Township  
Statement of Activities  
For the Year Ended March 31, 2014

Functions/Programs	Program Revenues			
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Total</u>
Governmental Activities:				
Legislative	\$ 44,668	\$ -	\$ -	\$ (44,668)
General Government	233,004	24,968	-	(208,036)
Public Safety	212,726	42,261	-	(170,465)
Public Works	28,526	16,943	6,587	(4,996)
Health and Welfare	1,418	-	-	(1,418)
Total Governmental Activities	<u>\$ 520,342</u>	<u>\$ 84,172</u>	<u>\$ 6,587</u>	<u>(429,583)</u>
General Revenues:				
Taxes				206,091
State Grants				200,300
Unrestricted Investment Earnings				1,300
Miscellaneous				29,040
Total General Revenues				436,731
Change in Net Position				7,148
Net Position – Beginning				1,510,768
Net Position – Ending				<u>\$ 1,517,916</u>

See Independent Auditor's Report and Accompanying Notes to Basic Financial Statements

Kalkaska Township  
Balance Sheet  
Governmental Funds  
March 31, 2014

	General	Township Improvement	Cemetery Perpetual Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>					
Cash	\$ 360,809	\$ 501,629	\$ 144,752	\$ -	\$ 1,007,190
Delinquent Taxes Receivable	15,754	-	-	1,482	17,236
Accounts Receivable	36,735	-	-	-	36,735
Due from Other Funds	3,586	-	-	8,991	12,577
Due from Other Units	16,373	-	-	-	16,373
Total Assets	\$ 433,257	\$ 501,629	\$ 144,752	\$ 10,473	\$ 1,090,111
 <u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts Payable	\$ 3,727	-	-	-	3,727
Due to Other Funds	8,991	-	-	3,368	12,359
Total Liabilities	12,718	-	-	3,368	16,086
Fund Balances:					
Non-spendable	-	-	103,040	-	103,040
Committed	-	501,629	41,712	-	543,341
Committed Reported in Nonmajor Permanent Fund	-	-	-	7,105	7,105
Unassigned	420,539	-	-	-	420,539
Total Fund Balances	420,539	501,629	144,752	7,105	1,074,025
Total Liabilities and Fund Balances	\$ 433,257	\$ 501,629	\$ 144,752	\$ 10,473	
Amounts reported for governmental activities on the statement of Net Position are different because:					
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.					443,891
Net Position of governmental activities.					\$ 1,517,916

See Independent Auditor's Report and Accompanying Notes to Basic Financial Statements

Kalkaska Township  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended March 31, 2014

	General	Township Improvement	Cemetery Perpetual Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenues</u>					
Taxes	\$ 220,247	\$ -	\$ -	\$ -	\$ 220,247
Special Assessments	-	-	-	16,943	16,943
State Grants	206,887	-	-	-	206,887
Charges for Services	64,079	-	3,150	-	67,229
Interest and Rents	4,988	497	228	-	5,713
Other	24,627	-	-	-	24,627
<b>Total</b>	<b>520,828</b>	<b>497</b>	<b>3,378</b>	<b>16,943</b>	<b>541,646</b>
<u>Expenditures</u>					
Legislative	44,668	-	-	-	44,668
General Government	181,974	-	13	-	181,987
Public Safety	114,920	-	-	-	114,920
Public Works	14,575	-	-	13,951	28,526
Health and Welfare	1,418	-	-	-	1,418
Other	50,522	-	-	-	50,522
Capital Outlay	120,276	-	-	-	120,276
<b>Total</b>	<b>528,353</b>	<b>-</b>	<b>13</b>	<b>13,951</b>	<b>542,317</b>
<u>Excess Revenues (Expenditures)</u>	<u>(7,525)</u>	<u>497</u>	<u>3,365</u>	<u>2,992</u>	<u>(671)</u>
<u>Other Financing Sources (Uses)</u>					
Operating Transfers In	700	-	-	-	700
Operating Transfers (Out)	-	-	(700)	-	(700)
<b>Total</b>	<b>700</b>	<b>-</b>	<b>(700)</b>	<b>-</b>	<b>-</b>
<u>Excess Revenues (Expenditures) and Other Financing Sources (Uses)</u>	<u>(6,825)</u>	<u>497</u>	<u>2,665</u>	<u>2,992</u>	<u>(671)</u>
Fund Balance – Beginning of Year	427,364	501,132	142,087	4,113	
Fund Balance – End of Year	<u>\$ 420,539</u>	<u>\$ 501,629</u>	<u>\$ 144,752</u>	<u>\$ 7,105</u>	
Governmental funds defer property tax revenues received more than 60 days after the year end as unavailable financial resources for the fund financial statements. In the statement of activities these are not deferred.					(14,651)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year.					22,470
Change in Net Position of Governmental Activities.					<u>\$ 7,148</u>

See Independent Auditor's Report and Accompanying Notes to Basic Financial Statements

Kalkaska Township  
Statement of Fiduciary Net Position  
March 31, 2014

	<u>Agency Funds</u>
Assets	
Cash	\$ 5,236
Total Assets	<u>5,236</u>
Liabilities	
Undistributed Taxes and Interest	4,657
Due to Other Units of Government	361
Due to Other Funds	<u>218</u>
Total Liabilities	<u>5,236</u>
Net Position	<u>\$ -</u>

See Independent Auditor's Report and Accompanying Notes to Basic Financial Statements

Kalkaska Township  
Notes to Financial Statements  
March 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Kalkaska Township is a general law township located in Kalkaska County. Population as of the 2010 census was 4,722, and the taxable value is \$141,539,464.

The Township's basic financial statements include the accounts of all Township operations. The criteria for including organizations within the Township's reporting entity, as set forth in GASB No. 14, "*The Financial Reporting Entity*" includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included.

Based on the above criteria, there are no other organizations included in these financial statements.

B. Basis of Presentation

The government-wide financial statements (the statement of Net Position and the statement of changes in Net Position) report information on all of the activities of the Township. The effect of interfund activity, within the governmental activities column, has been removed from these statements.

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

Fund Financial Statements:

The Township segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The Township has presented the following governmental funds:

General Fund – This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Township. Revenues are derived primarily from property taxes, state distributions or grants, and other intergovernmental revenues.

Special Revenue Funds – These funds are used to account for specific governmental revenues (other than expendable trusts and major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Permanent Funds – These funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting governments programs.

Fiduciary Funds

These funds are used to account for assets held in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.

Kalkaska Township  
Notes to Financial Statements  
March 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of Net Position and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund and agency fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Township considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenue susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. All other governmental fund revenues are recognized when received.

D. Budgets

The General Fund and Special Revenue Funds are under formal budgetary control. Budgets shown in the required supplementary schedules for these funds were prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consist only of those amounts contained in the formal budget approved and amended by the Township.

In the body of the financial statements and the required supplementary schedules, the Township's actual and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets for these funds were adopted to the activity or cost center level.

For budgetary purposes appropriations lapse at fiscal year end.

E. Capital Assets

Capital assets, which includes property, plant, and equipment, are reported in the applicable governmental column in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest is capitalized during the construction period on property, plant and equipment.

Assets capitalized have an original cost of \$2,500 to \$5,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Land Improvements	20 years
Buildings	40 years
Building Improvements	25 years
Vehicles	10 years
Furniture and Fixtures	10 years
Equipment	5 years

Kalkaska Township  
Notes to Financial Statements  
March 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property Tax Procedures and Collections

Properties are assessed as of December 31 and the related property taxes become a lien the following July 1 and/or December 1. Real property taxes are collected by the Township Treasurer through February 28 of each year. As of March 1, uncollected real property taxes are returned delinquent to, and collected by, the County Treasurer. Personal property taxes remain the responsibility of the Township Treasurer to collect. It is the policy of the Township to record the real property taxes in the year of levy.

During the collection period prior to March 1, the Township Treasurer makes distribution of the property tax collections to the various taxing units (County, School District, etc.) as required by statute.

For the fiscal year the Township levied property taxes as follows:

	<u>SEV</u>	<u>Taxable Value</u>	<u>Millage Rate</u>
General Operating	\$151,411,500	\$141,539,464	.9651

G. Use of Estimates

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

H. Investments

At March 31, 2014, the Township had no investments.

I. Fund Equity

As of March 31, 2011, fund balances of the governmental funds are classified as follows:

*Nonspendable* – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

*Restricted* – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

*Committed* – amounts that can be used only for specific purposes determined by a formal action of the Township Board. The Township Board is the highest level of decision-making authority for the Township. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Township Board.

*Assigned* – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. All such assignments can be made only with unanimous approval of all committed members.

*Unassigned* – all other spendable amounts.

Kalkaska Township  
Notes to Financial Statements  
March 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Fund Equity (Continued)

As of March 31, 2014, fund balances are composed of the following:

	General Fund	Township Improvement Fund	Cemetery Perpetual Care Funds	Nonmajor Governmental Funds	Total Governmental Funds
Non-spendable	\$ -	\$ -	\$ 103,040	\$ -	\$ 103,040
Committed	-	501,629	41,712	7,105	550,446
Unassigned	<u>420,539</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>420,539</u>
Total Fund Balances	<u>\$ 420,539</u>	<u>\$ 501,629</u>	<u>\$ 144,752</u>	<u>\$ 7,105</u>	<u>\$ 1,074,025</u>

When an expenditure is incurred for purposes for which both restricted and unassigned fund balance is available, the Township considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Township considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Township Board has provided otherwise in its commitment or assignment actions.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. We noted no violations of legal provisions and/or contractual provisions of various agreements related to financial matters.
- B. Two funds had negative fund balances at March 31, 2014. A deficit elimination plan has to be filed with the State of Michigan.
- C. Public Act 621 of 1978, Section 18, provides that a local unit shall not incur expenditures in excess of the amount appropriated. For the year ended March 31, 2014, two cost centers exceeded their budget.

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. Legal Provisions for Deposits and Investments

Act 20, Public Acts of 1943, as amended by Act 217, Public Acts of 1982, and Act 196, Public Acts of 1997, states that the Township, by resolution, may authorize the Treasurer to invest surplus funds as follows:

- (1) In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
- (2) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union complies with subsection (2).
- (3) In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after date of purchase.

Kalkaska Township  
Notes to Financial Statements  
March 31, 2014

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS (Continued)

A. Legal Provisions for Deposits and Investments (Continued)

- (4) Repurchase agreements consisting of instruments defined in (1) above.
- (5) In bankers' acceptances of United States Banks.
- (6) Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- (7) In mutual funds registered under the investment company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by local units of government in Michigan.

B. Types of Deposits and Investments

The Township had \$1,138,917 deposited with local financial institutions at March 31, 2014 with a carrying value of \$1,012,426. Interpreting the FDIC insurance coverage of \$250,000 of demand deposits and \$250,000 of time deposits per financial institution, the Township had \$356,020 of uninsured deposits at March 31, 2014.

NOTE 4 - RECEIVABLES

\$17,236 of receivables of governmental activities represents delinquent property taxes, \$29,235 of receivables represents State revenue sharing, and \$7,500 of receivables are due from Rapid River Township for extra emergency runs during the fiscal year ended March 31, 2014. In addition, there is an amount due from the firemen's auxiliary of \$16,373. This amount arises from 2007-2010 before the auxiliary was formed and the funds were donated directly to the Township. The auxiliary agreed to pay the Township back for the expenditures that were not approved by the Township.

NOTE 5 - CAPITAL ASSETS

Governmental Activities:	<u>03/31/13</u>	<u>Additions</u>	<u>Dispositions</u>	<u>03/31/14</u>
Land	\$ 8,000	\$ -	\$ -	\$ 8,000
Buildings and Improvements	391,115	-	-	391,115
Equipment	251,277	-	-	251,277
Vehicles	<u>397,285</u>	<u>96,334</u>	<u>99,045</u>	<u>394,574</u>
	1,047,677	96,334	99,045	1,044,966
Less Accumulated Depreciation	<u>(626,256)</u>	<u>(54,055)</u>	<u>(79,236)</u>	<u>(601,075)</u>
 Governmental Activities Capital Assets, Net	 <u>\$ 421,421</u>	 <u>\$ 42,279</u>	 <u>\$ 19,809</u>	 <u>\$ 443,891</u>

NOTE 6 - LONG-TERM DEBT

The Township has no long-term debt and no such borrowing is anticipated in the near future.

NOTE 7 - LOANS AND TRANSFERS BETWEEN FUNDS

There were no transfers during the year.

NOTE 8 - INVENTORIES

Kalkaska Township does not maintain a substantial inventory of supplies or materials. Purchases are normally made as needed, and the items are recorded as expenses when purchased.

Kalkaska Township  
Notes to Financial Statements  
March 31, 2014

NOTE 9 - PENSION PLAN

The Township participates in a defined contribution pension plan administered by Municipal Retirement Systems, Inc. By Board resolution, the Township pays a contribution of 11.5% of annual compensation.

The plan covers all elected officials and the assessor with 100% immediate vesting upon early retirement, termination of service, death, disability, or normal retirement. Required Township contributions of \$12,729 were paid for the audit year. Covered compensation for the audit year was \$110,689 out of total employee compensation of \$188,394.

The Township provides social security coverage for its officials and employees.

NOTE 10- PROPERTY TAX ADMINISTRATION FEES

As permitted by statute, the Township levied a 1% administration fee on all 2013 property taxes. This fee may be used only to offset such property tax administration expenses as assessing, collecting, and the review and appeal process. Fee expenditures exceeded collections for the year by \$19,246, and at March 31, 2014 accumulated fee expenditures exceeded collections by \$469,550.

NOTE 11- CONTINGENT LIABILITIES

Township officials are aware of no material contingent liabilities as of March 31, 2014.

NOTE 12- COMPENSATED ABSENCES

The Township assessor is entitled by contract to fifteen paid vacation days and five paid sick days per year. All compensated absence time must be used prior to year end with no accumulation.

NOTE 13- RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the audit year the Township addressed these risks through the purchase of commercial insurance through Municipal Underwriters of Michigan. There was no significant reduction of insurance coverage from prior years nor have the amounts of any settlements exceeded insurance coverage in any of the past three fiscal years.

NOTE 14- LEASE

The Township leases the land upon which its offices and fire department are located for \$1 per year under a 99-year lease expiring in 2082.

NOTE 16- SUBSEQUENT EVENTS

Subsequent events were evaluated through June 30, 2014, which is the date the financial statements were available to be issued.

SUPPLEMENTAL DATA SECTION

Kalkaska Township  
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual  
General Fund  
For the Year Ended March 31, 2014

Schedule 1  
Page 1

<u>Revenues</u>	<u>Budgetary Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Taxes:				
Current Taxes	\$ 115,000	\$ 115,000	\$ 134,744	\$ 19,744
Delinquent Taxes	1,000	1,000	18,354	17,354
Swamp Tax	20,000	20,000	24,892	4,892
Other Property Taxes	-	-	-	-
Penalties and Interest on Taxes	-	-	791	791
Commercial Forest	-	-	5	5
Property Tax Administration Fees	40,000	40,000	41,461	1,461
State Grants:				
State Shared Revenues	150,000	150,000	200,300	50,300
Bankhead Jones	-	-	446	446
Metro Act	-	-	6,141	6,141
Charges for Services:				
Summer Tax Collection	-	-	14,243	14,243
Cemetery	5,000	5,000	7,275	2,275
Fire Protection	20,000	20,000	42,261	22,261
Land Splits	-	-	300	300
Interest and Rents:				
Interest	400	400	575	175
Rents and Royalties	4,000	4,000	4,413	413
Other:				
Refunds and Reimbursements	<u>150</u>	<u>150</u>	<u>24,627</u>	<u>24,477</u>
<b>Total Revenues</b>	<u>355,550</u>	<u>355,550</u>	<u>520,828</u>	<u>165,278</u>
 <u>Expenditures</u>				
Legislative:				
Township Board:				
Salaries and Wages	-	-	8,000	-
Pension	-	-	12,864	-
Supplies	-	-	1,871	-
Legal and Contractual	-	-	5,175	-
Printing and Publishing	-	-	561	-
Other	<u>-</u>	<u>-</u>	<u>16,197</u>	<u>-</u>
<b>Total</b>	<u>61,000</u>	<u>51,900</u>	<u>44,668</u>	<u>7,232</u>
<b>Total Legislative</b>	<u>61,000</u>	<u>51,900</u>	<u>44,668</u>	<u>7,232</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

Kalkaska Township  
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual  
General Fund  
For the Year Ended March 31, 2014

Schedule 1  
Page 2

<u>Expenditures (Continued)</u>	<u>Budgetary Amounts</u>		<u>Actual</u>	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
<b>General Government:</b>				
Township Supervisor:				
Salaries and Wages	-	-	9,000	-
Total	<u>9,000</u>	<u>9,000</u>	<u>9,000</u>	<u>-</u>
<b>Elections:</b>				
Salaries and Wages	-	-	2,236	-
Supplies	-	-	269	-
Computer Software	-	-	1,788	-
Printing and Publishing	-	-	14	-
Total	<u>7,700</u>	<u>7,700</u>	<u>4,307</u>	<u>3,393</u>
<b>Assessor:</b>				
Salaries and Wages	-	-	53,440	-
Supplies	-	-	135	-
Tax Collection	-	-	2,034	-
Other	-	-	315	-
Total	<u>63,000</u>	<u>63,000</u>	<u>55,924</u>	<u>7,076</u>
<b>Clerk:</b>				
Salaries and Wages	-	-	20,460	-
Supplies	-	-	1,133	-
Total	<u>25,500</u>	<u>25,500</u>	<u>21,593</u>	<u>3,907</u>
<b>Board of Review:</b>				
Salaries and Wages	-	-	600	-
Printing and Publishing	-	-	131	-
Total	<u>1,200</u>	<u>1,200</u>	<u>731</u>	<u>469</u>
<b>Treasurer:</b>				
Salaries and Wages	-	-	21,439	-
Supplies	-	-	679	-
Tax Collection	-	-	3,524	-
Total	<u>39,100</u>	<u>39,100</u>	<u>25,642</u>	<u>13,458</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

Kalkaska Township  
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual  
General Fund  
For the Year Ended March 31, 2014

Schedule 1  
Page 3

	<u>Budgetary Amounts</u>		<u>Actual</u>	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
<u>Expenditures (Continued)</u>				
General Government (Continued):				
Township Hall and Grounds:				
Salaries and Wages	-	-	2,760	-
Supplies	-	-	460	-
Public Utilities	-	-	8,027	-
Maintenance and Repairs	-	-	<u>2,350</u>	-
Total	<u>13,000</u>	<u>13,600</u>	<u>13,597</u>	<u>3</u>
Cemetery:				
Salaries and Wages	-	-	22,370	-
Public Utilities	-	-	11,740	-
Maintenance and Repairs	-	-	13,474	-
Supplies	-	-	2,884	-
Other	-	-	<u>712</u>	-
Total	<u>68,000</u>	<u>67,200</u>	<u>51,180</u>	<u>16,020</u>
Total General Government	<u>226,500</u>	<u>226,300</u>	<u>181,974</u>	<u>44,326</u>
Public Safety:				
Fire Protection:				
Salaries and Wages	-	-	49,448	-
Supplies and Small Tools	-	-	4,976	-
Gas and Oil	-	-	5,784	-
Outside Services	-	-	939	-
Education and Training	-	-	814	-
Public Utilities	-	-	14,229	-
Repairs and Maintenance – Vehicles	-	-	4,229	-
Repairs and Maintenance – Building	-	-	4,183	-
Repairs and Maintenance – Radio/Other	-	-	7,656	-
Other	-	-	<u>3,384</u>	-
Total	<u>116,500</u>	<u>117,300</u>	<u>95,642</u>	<u>21,658</u>
Police:				
Police Contract	<u>25,000</u>	<u>25,300</u>	<u>19,278</u>	<u>6,022</u>
Total Public Safety	<u>141,500</u>	<u>142,600</u>	<u>114,920</u>	<u>27,680</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

Kalkaska Township  
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual  
General Fund  
For the Year Ended March 31, 2014

Schedule 1  
Page 4

Expenditures (Continued)	Budgetary Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Public Works:				
Township Cleanup	-	-	8,875	-
Street Lighting	-	-	5,700	-
Highways	-	-	-	-
Total Public Works	86,000	86,000	14,575	71,425
Health and Welfare:				
Hospital Subsidy	1,500	1,500	1,418	82
Total Health and Welfare	1,500	1,500	1,418	82
Recreation and Culture	5,000	5,000	-	5,000
Total Recreation and Culture	5,000	5,000	-	5,000
Other:				
Employee Benefits and Insurance	52,000	59,000	47,522	11,478
Numbering System and 911	200	200	-	200
Industrial Growth	5,000	5,000	3,000	2,000
Contingencies	20,000	20,000	-	20,000
Total Other	77,200	84,200	50,522	33,678
Capital Outlay	122,000	122,000	120,276	1,724
Total Expenditures	720,700	719,500	528,353	191,147
Excess Revenues (Expenditures)	(365,150)	(363,950)	(7,525)	356,425
Other Financing Sources (Uses)				
Operating Transfers In	-	-	700	700
Operating Transfers (Out)	-	-	-	-
Total	-	-	700	700
Excess Revenues (Expenditures) and Other Financing Sources (Uses)	(1) \$ (365,150)	\$ (363,950)	(6,825)	\$ 357,125
Fund Balance – Beginning of Year			427,364	
Fund Balance – End of Year			\$ 420,539	
(1) Budgeted from Fund Balance				

The Notes to the Basic Financial Statements are an integral part of this statement.

Kalkaska Township  
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual  
Improvement Revolving Fund  
For the Year Ended March 31, 2014

Schedule 2

	<u>Budgetary Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Earned Interest	\$ -	\$ -	\$ 497	\$ 497
Total Revenues	-	-	497	497
<u>Expenditures</u>				
Excess Revenues (Expenditures)	-	-	497	497
Other Financing Sources (Uses)				
Operating Transfers In	-	-	-	-
Operating Transfers (Out)	-	-	-	-
Total Expenditures	-	-	-	-
Excess Revenues (Expenditures) and Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	497	<u>\$ 497</u>
Fund Balance – Beginning of Year			<u>501,132</u>	
Fund Balance – End of Year			<u>\$ 501,629</u>	

The Notes to the Basic Financial Statements are an integral part of this statement.

Kalkaska Township  
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual  
Cemetery Perpetual Care Fund  
For the Year Ended March 31, 2014

Schedule 3

	<u>Budgetary Amounts</u>		<u>Actual</u>	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Perpetual Care Deposits	\$ -	\$ -	\$ 3,150	\$ -
Earned Interest	-	-	228	-
Total Revenues	-	-	3,378	3,378
<u>Expenditures</u>				
Office Supplies	-	-	13	(13)
Total Expenditures	-	-	13	(13)
Excess Revenues (Expenditures)	-	-	3,365	3,365
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	-	-	-	-
Operating Transfers (Out)	-	-	(700)	(700)
Total	-	-	(700)	(700)
Excess Revenues (Expenditures) and Other Financing Sources (Uses)	\$ -	\$ -	2,665	\$ 2,665
Fund Balance – Beginning of Year			142,087	
Fund Balance – End of Year			<u>\$ 144,752</u>	

The Notes to the Basic Financial Statements are an integral part of this statement.

Kalkaska Township  
Combining Balance Sheet  
Non-Major Governmental Funds  
March 31, 2014

Schedule 4

	Special Revenue					
<u>Assets</u>	<u>Harris</u>	<u>Poplar</u>	<u>Rolling Hills</u>	<u>Arbutus</u>	<u>Birchview</u>	<u>Total</u>
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due from Other Funds	-	612	-	3,569	4,810	8,991
Delinquent Special Assessments Receivable	-	300	560	377	245	1,482
<b>Total Assets</b>	<b><u>\$ -</u></b>	<b><u>\$ 912</u></b>	<b><u>\$ 560</u></b>	<b><u>\$ 3,946</u></b>	<b><u>\$ 5,055</u></b>	<b><u>\$ 10,473</u></b>
 <u>Liabilities and Fund Equity</u>						
<b>Liabilities:</b>						
Due to Other Funds	<u>\$ 723</u>	<u>\$ -</u>	<u>\$ 2,645</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,368</u>
<b>Total</b>	<b><u>723</u></b>	<b><u>-</u></b>	<b><u>2,645</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>3,368</u></b>
<b>Fund Equity:</b>						
Fund Balance – Restricted	<u>(723)</u>	<u>912</u>	<u>(2,085)</u>	<u>3,946</u>	<u>5,055</u>	<u>7,105</u>
<b>Total Fund Equity</b>	<b><u>(723)</u></b>	<b><u>912</u></b>	<b><u>(2,085)</u></b>	<b><u>3,946</u></b>	<b><u>5,055</u></b>	<b><u>7,105</u></b>
<b>Total Liabilities and Fund Balance</b>	<b><u>\$ -</u></b>	<b><u>\$ 912</u></b>	<b><u>\$ 560</u></b>	<b><u>\$ 3,946</u></b>	<b><u>\$ 5,055</u></b>	<b><u>\$ 10,473</u></b>

The Notes to the Basic Financial Statements are an integral part of this statement.

Kalkaska Township  
Combining Statement of Revenues, Expenditures and Changes in Fund Balance  
Non-Major Governmental Funds  
March 31, 2014

Schedule 5

	<u>Special Revenue</u>					<u>Total</u>
	<u>Harris</u>	<u>Poplar</u>	<u>Rolling Hills</u>	<u>Arbutus</u>	<u>Birchview</u>	
<u>Revenues</u>						
Special Assessments	\$ 4,800	\$ 3,700	\$ 5,320	\$ 1,366	\$ 1,757	\$ 16,943
Total	<u>4,800</u>	<u>3,700</u>	<u>5,320</u>	<u>1,366</u>	<u>1,757</u>	<u>16,943</u>
<u>Expenditures</u>						
Road Maintenance	<u>4,758</u>	<u>2,060</u>	<u>7,133</u>	<u>-</u>	<u>-</u>	<u>13,951</u>
Total	<u>4,758</u>	<u>2,060</u>	<u>7,133</u>	<u>-</u>	<u>-</u>	<u>13,951</u>
<u>Excess Revenues (Expenditures)</u>	42	1,640	(1,813)	1,366	1,757	2,992
Fund Balance – Beginning of Year	<u>(765)</u>	<u>(728)</u>	<u>(272)</u>	<u>2,580</u>	<u>3,298</u>	<u>4,113</u>
Fund Balance – End of Year	<u>\$ (723)</u>	<u>\$ 912</u>	<u>\$ (2,085)</u>	<u>\$ 3,946</u>	<u>\$ 5,055</u>	<u>\$ 7,105</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

Kalkaska Township  
Statement of Changes in Assets and Liabilities  
All Agency Funds  
For the Year Ended March 31, 2014

Schedule 6

	Trust and Agency Fund			Balance 3/31/14
	Balance 3/31/13	Additions	Deductions	
<u>Assets</u>				
Cash	\$ 1,284	\$ 80,489	\$ 81,194	\$ 579
Total Assets	<u>\$ 1,284</u>	<u>\$ 80,489</u>	<u>\$ 81,194</u>	<u>\$ 579</u>
<u>Liabilities</u>				
Undistributed Taxes and Interest	\$ -	\$ -	\$ -	\$ -
Due to Other Units of Government	1,066	80,489	81,194	361
Due to Other Funds	<u>218</u>	<u>-</u>	<u>-</u>	<u>218</u>
Total Liabilities	<u>\$ 1,284</u>	<u>\$ 80,409</u>	<u>\$ 81,194</u>	<u>\$ 579</u>
	Current Tax Collection Fund			Balance 3/31/14
	Balance 3/31/13	Additions	Deductions	
<u>Assets</u>				
Cash	\$ 109,362	\$ 4,221,402	\$ 4,326,107	\$ 4,657
Total Assets	<u>\$ 109,362</u>	<u>\$ 4,221,402</u>	<u>\$ 4,326,107</u>	<u>\$ 4,657</u>
<u>Liabilities</u>				
Undistributed Taxes and Interest	\$ 109,362	\$ 4,221,402	\$ 4,326,107	\$ 4,657
Due to Other Units of Government	-	-	-	-
Due to Other Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>\$ 109,362</u>	<u>\$ 4,221,402</u>	<u>\$ 4,326,107</u>	<u>\$ 4,657</u>
	Total			Balance 3/31/14
	Balance 3/31/13	Additions	Deductions	
<u>Assets</u>				
Cash	\$ 110,646	\$ 4,301,891	\$ 4,407,301	\$ 5,236
Total Assets	<u>\$ 110,646</u>	<u>\$ 4,301,891</u>	<u>\$ 4,407,301</u>	<u>\$ 5,236</u>
<u>Liabilities</u>				
Undistributed Taxes and Interest	\$ 109,362	\$ 4,221,402	\$ 4,326,107	\$ 4,657
Due to Other Units of Government	1,066	80,489	81,194	361
Due to Other Funds	<u>218</u>	<u>-</u>	<u>-</u>	<u>218</u>
Total Liabilities	<u>\$ 110,646</u>	<u>\$ 4,301,891</u>	<u>\$ 4,407,301</u>	<u>\$ 5,236</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

Kalkaska Township  
 2013 Property Tax Levy and Collections  
 For the Year Ended March 31, 2014

Schedule 7

	<u>Millage Rate</u>	<u>Adjusted Levy</u>	<u>Collected</u>	<u>Returned Delinquent</u>
County	5.4562	\$ 776,072	\$ 711,855	\$ 64,217
Hospital	1.6000	227,592	206,622	20,970
Public Transit	0.2500	35,549	32,274	3,275
Animal Control/Recycling	0.2500	35,484	32,209	3,275
Commission on Aging	0.5000	71,127	64,575	6,552
Library	0.2500	35,549	32,274	3,275
Sportsplex	0.9815	139,309	126,469	12,840
State Education	6.0000	807,717	737,098	70,619
School District	21.5600	1,801,933	1,628,933	173,000
Intermediate School District	2.9312	416,916	382,418	34,498
Township - General	0.9651	182,716	166,076	16,640
Special Assessments		<u>16,943</u>	<u>15,461</u>	<u>1,482</u>
<b>Total</b>		<b><u>\$ 4,546,907</u></b>	<b><u>\$ 4,136,264</u></b>	<b><u>\$ 410,643</u></b>
Percent of Levy Collected	90.97%			

The Notes to the Basic Financial Statements are an integral part of this statement.

Kalkaska Township  
Statement of Revenues, Expenditures and Balance  
Property Tax Administration Fees  
For the Year Ended March 31, 2014

Schedule 8

Revenues

Property Tax Administration Fees	\$ 41,461
Summer Tax Collection Fees	<u>14,243</u>
<b>Total Revenues</b>	<b><u>55,704</u></b>

Expenditures

Assessor	55,924
Board of Review	731
Treasurer – 60% of Salary	13,271
Tax Roll Expenses	3,524
Use of Building	500
Insurance and Fringe Benefits	<u>1,000</u>

Total 74,950

Excess Revenues (Expenditures) (19,246)

Excess Revenues (Expenditures) – Prior Years (1) (450,304)

Accumulated Excess Revenues (Expenditures) \$ (469,550)

(1)	Prior	\$	66,025
	1999-00		22,120
	2000-01		27,733
	2001-02		23,863
	2002-03		24,821
	2003-04		30,523
	2004-05		29,914
	2005-06		27,615
	2006-07		19,231
	2007-08		15,771
	2008-09		14,491
	2009-10		31,001
	2010-11		51,803
	2011-12		39,215
	2012-13		26,178
	2013-14		<u>19,246</u>
		<b>\$</b>	<b><u>469,550</u></b>

The Notes to the Financial Statements are an integral part of this statement.

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# Tobin & Co.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

June 30, 2014

To Kalkaska Township  
Kalkaska County  
Kalkaska, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kalkaska Township as of and for the year ended March 31, 2014, and the related notes to the financial statements, which collectively comprise Kalkaska Township's basic financial statements and have issued our report thereon dated June 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kalkaska Township, Michigan'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 Kalkaska Township, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of Kalkaska Township, Michigan'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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies that we consider to be material weaknesses or significant deficiencies.

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

June 30, 2014

To Kalkaska Township  
Kalkaska County  
Kalkaska, Michigan

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

1) *Segregation of Incompatible Duties and Documented Independent Review*

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

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

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

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

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

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

Corrective Action Plan: With the status of state funding, the Township is unable to hire additional employees at this time to improve the segregation of duties within the accounting function. We realize that segregation of duties is important in order to increase internal control. Management oversight has been an alternative means of monitoring internal control along with continuing to try and reassign some duties within the accounting department to other staff members. We still are exploring ways to spread some of the day-to-day accounting responsibilities. The Township will continue to monitor the situation and explore cost effective ways to improve this internal control limitation.

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

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

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditor to assist in the preparation of the

government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot be definition be considered a part of the government's internal controls.

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

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

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

Corrective Action Plan: The government will continue to rely on its outside auditors to assist in preparing the GAAP basis financial statements and will evaluate annually for the need to change.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kalkaska Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Kalkaska Township in a separate letter dated June 30, 2014.

### Kalkaska Township, Michigan's Response to Findings

Kalkaska Township's response to the findings identified in our audit is described above. Kalkaska Township, Michigan's response was not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe and scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Tobin & Co., P.C.*  
TOBIN & CO., P.C.

# Tobin & Co.

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

June 30, 2014

To Kalkaska Township  
Kalkaska County  
Kalkaska, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Kalkaska Township for the year ended March 31, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 17, 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 Kalkaska Township are described in Note 1 to the financial statements. Starting in 2012-2014, the Township has implemented GASB 63 and GASB 65, new standards that rename, redefine, and clarify components of net position. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of Kalkaska Township's financial statements was:

Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the estimates 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.

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE  
AT CONCLUSION OF THE AUDIT

June 30, 2014

To Kalkaska Township  
Kalkaska County  
Kalkaska, Michigan

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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.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all misstatements. There were no material misstatements detected as a result of our audit procedures.

### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated June 30, 2014.

### *Management Consultations with Other Independent Accountants*

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

### *Other Audit Findings or Issues*

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

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

### Methods of Strengthening Internal Control

As is common in small and medium sized townships, it is not cost effective to segregate all duties of the township board. As a low cost method of strengthening internal controls, we recommend that the Township consider having a trustee review and initial each bank reconciliation prepared by the treasurer, as well as each page of the statements itself, and each adjusting journal entry prepared by the clerk.

### Condition of Accounting Records and Accounting Controls

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

### *Other Matters*

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.

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

*Tobin & Co., P.C.*  
TOBIN & CO., P.C.