

*Township of Pavilion*  
*Kalamazoo County, Michigan*

**FINANCIAL STATEMENTS**

*Year ended March 31, 2013*

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Township of Pavilion, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major , and the aggregate remaining fund information of the Township of Pavilion, Michigan, as of and for the year ended March 31, 2013, which collectively comprise the Township's basic financial statements, as listed in the contents, and the related notes to the financial statements.

### ***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.

### ***Auditors' 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 auditors' 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 of Pavilion, Michigan, as of March 31, 2013, 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 14 to the financial statements, the Township adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinions are not modified with respect to these matters.

*Required supplementary information*

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

*Supplementary information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Pavilion, Michigan's financial statements as a whole. 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 financial statements. The 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.*

May 2, 2013

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Township of Pavilion's (the Township) financial performance provides a narrative overview of the Township's financial activities for the fiscal year ended March 31, 2013. Please read it in conjunction with the Township's financial statements.

### **FINANCIAL HIGHLIGHTS**

- The Township's total net position increased by \$187,133 (7 percent) as a result of this year's activities.
- Of the \$2,967,168 total net position reported, \$1,154,437 (39 percent) is unrestricted, or available to be used at the Board's discretion.
- The General Fund's unassigned fund balance at the end of the fiscal year was \$659,609, which represents 99 percent of the actual General Fund 2013 expenditures.

### **Overview of the financial statements**

The Township's basic financial statements are 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 general government services, like public safety and public works, were financed in the short-term, as well as what remains for future spending.
  - Fiduciary funds statements provide information about the financial relationships in which the Township acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

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

### **Government-wide financial statements**

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

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

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

The government-wide financial statements present governmental activities. These activities include functions most commonly associated with government (e.g., general government, public safety, public works, etc.). Property taxes and intergovernmental revenues 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 two types of funds:

- *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.
- *Fiduciary funds.* These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the Township. The Township is responsible for ensuring that the assets reported in the fiduciary funds are used for their intended purposes. The Township's fiduciary balances are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

**FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE**

**Net position**

Total net position at the end of the fiscal year was \$2,967,168. Of this total, \$1,504,606 is invested in capital assets, \$279,377 is restricted for debt service, and \$28,748 is restricted for public works. The remaining unrestricted net position was \$1,154,437.

*Condensed financial information  
Net position*

	<i>Governmental activities</i>	
	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 1,798,602	\$ 1,680,990
Capital assets	<u>1,504,606</u>	<u>1,479,085</u>
Total assets	<u>3,303,208</u>	<u>3,160,075</u>
Current and other liabilities	70,362	52,179
Long-term debt	<u>265,678</u>	<u>327,861</u>
Total liabilities	<u>336,040</u>	<u>380,040</u>
Net position:		
Net Investment in capital assets	1,504,606	1,479,085
Restricted	308,125	323,417
Unrestricted	<u>1,154,437</u>	<u>977,533</u>
Total net position	<u>\$ 2,967,168</u>	<u>\$ 2,780,035</u>

**Changes in net position**

The Township's total revenues are \$916,153. Approximately 50 percent of the total comes from state grants, 24 percent from charges for services, and 18 percent from taxes.

The total cost of the Township's programs totaled \$729,020. Approximately 53 percent of the Township's costs relates to the provision of general government costs, 25 percent for public safety, and 18 percent for public works.

*Condensed financial information  
Changes in net position*

	<i>Governmental activities</i>	
	<u>2013</u>	<u>2012</u>
Program revenues:		
Charges for services	\$ 220,062	\$ 210,281
Operating grants and contributions	5,275	5,096
Capital grants and contributions	33,265	-
General revenues:		
Property taxes	165,652	162,676
State shared revenue	454,427	467,182
Franchise fees	36,367	35,666
Interest income	1,105	465
	<u>916,153</u>	<u>881,366</u>
Expenses:		
Legislative	10,749	6,628
General government	389,448	383,838
Public safety	180,690	169,441
Public works	130,977	110,656
Community and economic development	3,373	2,670
Interest	13,783	16,741
	<u>729,020</u>	<u>689,974</u>
Changes in net position	<u>\$ 187,133</u>	<u>\$ 191,392</u>
Net position, end of year	<u>\$ 2,967,168</u>	<u>\$ 2,780,035</u>

**Governmental activities**

Governmental activities increased the Township's net position by \$187,133 compared to a \$191,392 increase last year. The difference was due primarily to increases in capital grants and contributions in 2013 compared to 2012, while operating costs increased in both public safety and public works.

The total cost of governmental activities this year was \$729,020. After subtracting the direct charges to those who directly benefited from the programs (\$220,062), and operating and capital grants (\$38,540), the "public benefit" portion covered by taxes, state revenue sharing, and other general revenues was \$470,418, compared to \$474,597 in 2012.

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

**Governmental funds**

At March 31, 2013, the Township's governmental funds reported combined ending fund balances of \$1,410,796.

The General Fund is the primary operating fund of the Township. Fund balance was \$659,609 at the end of the fiscal year, a \$128,283 increase, as revenues (\$795,424) exceeded expenditures (\$667,141).

The Water and Sewer Capital Fund had an increase in fund balance of \$32,192, as collections of special assessments exceeded minimal expenditures in the fund. The ending fund balance totaled \$443,815.

The Indian/Pickeral Debt Service Fund does not carry a fund balance, as all special assessments collected are remitted to the South County Sewer and Water Authority for debt service payments.

The Northwest Water Debt Fund experienced an increase in fund balance of \$27,523 as a result of \$31,443 of assessments and interest income, less \$3,920 in debt service costs. The ending fund balance totaled \$261,761.

The Sewer Debt Fund fund balance decreased by \$717, as \$41,959 of assessment and interest revenues were less than \$42,676 paid for debt service.

**General Fund budgetary highlights**

The Township's final budgeted expenditures increased by \$30,900 due to additional anticipated costs in general government, public safety, and capital outlay from the original budget. Actual revenues were \$97,094 more than budgeted, while expenditures were \$135,031 less than the amounts appropriated. Revenues showed significant variances in permits and state grant revenue. Building inspection revenues were greater than amounts budgeted as construction activity was higher than expected. Certain projects planned for 2013 were not completed, resulting in expenditures that were significantly less than budgeted for general government. In total, these and various other conditions resulted in a \$232,125 positive budget variance and a \$128,283 increase in fund balance compared to a budgeted decrease of \$103,842.

**Capital assets and debt administration**

**Capital assets**

The Township's investment in capital assets for its governmental activities as of March 31, 2013, amounts to \$1,504,606 (net of accumulated depreciation). This investment includes several different types of assets, including land, buildings, equipment, and the Township's share of road costs. The Township's net investment in capital assets increased by \$25,521 for the current year, as \$119,866 in asset acquisitions were offset by \$94,345 in current depreciation.

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

**Debt**

At the end of the fiscal year, the Township had total long-term bonds and contracts payable outstanding in the amount of \$265,678, after debt principal payments in 2013, which were \$62,183. The debt is backed by the full faith and credit of the Township.

More detailed information about the Township's long-term debt is presented in Note 7 of the notes to the basic financial statements.

**Economic factors and next year's budgets and rates**

The Township expects to be affected to some degree by the general economic conditions currently facing the State of Michigan. Property taxes have declined slightly. State revenue sharing is anticipated to remain comparable to current year's level. Interest rates on investments remain very low. The Township has maintained sufficient financial resources to continue all ongoing activities.

**Contacting the Township's financial management**

This financial report is designed to provide 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:

Patrick White, Township Supervisor  
Township of Pavilion  
7510 East Q Avenue  
Scotts, MI 49088

Phone: (269) 327-0462

## **BASIC FINANCIAL STATEMENTS**

**Township of Pavilion**

**STATEMENT OF NET POSITION**

March 31, 2013

	<u><b>Governmental activities</b></u>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 1,286,000
Receivables, net	<u>148,365</u>
Total current assets	<u>1,434,365</u>
Noncurrent assets:	
Receivables, net	364,237
Capital assets not being depreciated	162,322
Capital assets, net of accumulated depreciation	<u>1,342,284</u>
Total noncurrent assets	<u>1,868,843</u>
Total assets	<u>3,303,208</u>
<b>LIABILITIES</b>	
Current liabilities:	
Payables	70,362
Current portion of long-term debt	<u>20,670</u>
Total current liabilities	91,032
Noncurrent liabilities - long-term debt	<u>245,008</u>
Total liabilities	<u>336,040</u>
<b>NET POSITION</b>	
Net investment in capital assets	1,504,606
Restricted for:	
Public works	28,748
Debt service	279,377
Unrestricted	<u>1,154,437</u>
Total net position	<u>\$ 2,967,168</u>

See notes to financial statements

## STATEMENT OF ACTIVITIES

Year ended March 31, 2013

	Program revenues			Net (expenses) revenues and change in net position	
	Expenses	Charges for services	Operating grants and contributions		Capital grants and contributions
<b>Functions/Programs</b>					
Governmental activities:					
Legislative	\$ 10,749	\$ -	\$ -	\$ -	\$ (10,749)
General government	389,448	94,692	-	-	(294,756)
Public safety	180,690	24,017	-	4,080	(152,593)
Public works	130,977	80,156	5,275	29,185	(16,361)
Community and economic development	3,373	4,260	-	-	887
Interest on long-term obligations	13,783	16,937	-	-	3,154
	<u>729,020</u>	<u>220,062</u>	<u>5,275</u>	<u>33,265</u>	<u>(470,418)</u>
Total governmental activities					
General revenues:					
Taxes					165,652
State grants					454,427
Franchise fees					36,367
Investment income					1,105
					<u>657,551</u>
Total general revenues					
Change in net position					187,133
Net position - beginning					<u>2,780,035</u>
Net position - ending					<u>\$ 2,967,168</u>

See notes to financial statements

Township of Pavilion

**BALANCE SHEET - governmental funds**

March 31, 2013

	<u>General</u>	<u>Water and Sewer Capital</u>	<u>Indian/ Pickerel Debt</u>	<u>Northwest Water Debt</u>	<u>Sewer Debt</u>	<u>Nonmajor funds</u>	<u>Total governmental funds</u>
<b>ASSETS</b>							
Cash	\$ 565,638	\$ 346,428	\$ 28,229	\$ 259,365	\$ 432	\$ 85,908	\$ 1,286,000
Receivables	88,598	119,896	83,877	99,996	103,891	16,344	512,602
Due from other funds	<u>45,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,000</u>
Total assets	<u>\$ 699,236</u>	<u>\$ 466,324</u>	<u>\$ 112,106</u>	<u>\$ 359,361</u>	<u>\$ 104,323</u>	<u>\$ 102,252</u>	<u>\$ 1,843,602</u>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Payables	\$ 39,627	\$ -	\$ 28,828	\$ -	\$ -	\$ -	\$ 68,455
Due to other funds	-	-	-	-	-	45,000	45,000
Deferred revenue	<u>-</u>	<u>22,509</u>	<u>83,278</u>	<u>97,600</u>	<u>103,891</u>	<u>12,073</u>	<u>319,351</u>
Total liabilities	<u>39,627</u>	<u>22,509</u>	<u>112,106</u>	<u>97,600</u>	<u>103,891</u>	<u>57,073</u>	<u>432,806</u>
Fund balances:							
Restricted for:							
Road maintenance	-	-	-	-	-	5,629	5,629
Street lighting	-	-	-	-	-	13,298	13,298
Weed control	-	-	-	-	-	9,821	9,821
Debt service	-	-	-	261,761	432	-	262,193
Assigned for:							
Road resurfacing	-	-	-	-	-	22,829	22,829
Water and sewer capital	-	443,815	-	-	-	-	443,815
Unassigned	<u>659,609</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,398)</u>	<u>653,211</u>
Total fund balances	<u>659,609</u>	<u>443,815</u>	<u>-</u>	<u>261,761</u>	<u>432</u>	<u>45,179</u>	<u>1,410,796</u>
Total liabilities and fund balances	<u>\$ 699,236</u>	<u>\$ 466,324</u>	<u>\$ 112,106</u>	<u>\$ 359,361</u>	<u>\$ 104,323</u>	<u>\$ 102,252</u>	<u>\$ 1,843,602</u>

See notes to financial statements

**Township of Pavilion**

**BALANCE SHEET - governmental funds (Continued)**

March 31, 2013

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

Total fund balance - total governmental funds (page 13)	\$ 1,410,796
Amounts reported for <i>governmental activities</i> in the statement of net position (page 11) are different because:	
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the funds.	1,504,606
Special assessment and accrued interest receivables are not available to pay for the current period's expenditures and, therefore, are deferred in the funds.	319,351
Long-term liabilities, including contracts payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(265,678)
Interest related to long-term liabilities is not due and payable in the current period and, therefore, is not reported in the funds.	<u>(1,907)</u>
Net position of <i>governmental activities</i>	<u><u>\$ 2,967,168</u></u>

See notes to financial statements

Township of Pavilion

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

Year ended March 31, 2013

	<u>General</u>	<u>Water and Sewer Capital</u>	<u>Indian/ Pickereel Debt</u>	<u>Northwest Water Debt</u>	<u>Sewer Debt</u>	<u>Nonmajor funds</u>	<u>Total governmental funds</u>
<b>REVENUES</b>							
Taxes	\$ 223,310	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 223,310
Licenses and permits	54,010	-	-	-	-	-	54,010
Federal grants	4,080	-	-	-	-	-	4,080
State grants	459,702	-	-	-	-	-	459,702
Charges for services	40,892	29,185	-	-	-	-	70,077
Interest and rentals	3,215	419	3,387	7,393	7,164	971	22,549
Other	10,215	2,750	26,183	24,050	34,795	81,545	179,538
	<u>795,424</u>	<u>32,354</u>	<u>29,570</u>	<u>31,443</u>	<u>41,959</u>	<u>82,516</u>	<u>1,013,266</u>
Total revenues							
<b>EXPENDITURES</b>							
Legislative	6,741	-	-	-	-	-	6,741
General government	367,655	-	-	-	-	-	367,655
Public safety	124,519	-	-	-	-	-	124,519
Public works	130,130	162	-	-	-	69,475	199,767
Community and economic development	3,373	-	-	-	-	-	3,373
Capital outlay	34,723	-	-	-	-	-	34,723
Debt service:							
Principal	-	-	26,183	-	36,000	-	62,183
Interest	-	-	3,387	3,920	6,676	-	13,983
	<u>667,141</u>	<u>162</u>	<u>29,570</u>	<u>3,920</u>	<u>42,676</u>	<u>69,475</u>	<u>812,944</u>
Total expenditures							
<b>NET CHANGES IN FUND BALANCES</b>	128,283	32,192	-	27,523	(717)	13,041	200,322
<b>FUND BALANCES - BEGINNING</b>	<u>531,326</u>	<u>411,623</u>	<u>-</u>	<u>234,238</u>	<u>1,149</u>	<u>32,138</u>	<u>1,210,474</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 659,609</u>	<u>\$ 443,815</u>	<u>\$ -</u>	<u>\$ 261,761</u>	<u>\$ 432</u>	<u>\$ 45,179</u>	<u>\$ 1,410,796</u>

See notes to financial statements

**Township of Pavilion**

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

Year ended March 31, 2013

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

Net change in fund balance - total governmental funds (page 15)	\$ 200,322
Amounts reported for <i>governmental activities</i> in the statement of activities (page 12) are different because:	
Capital assets:	
Additions	119,866
Depreciation	(94,345)
Long-term debt:	
Retirements	62,183
Changes in other current assets/liabilities:	
Net decrease in deferred revenue	(101,093)
Net decrease in accrued interest expense	<u>200</u>
Change in net position of <i>governmental activities</i>	<u><u>\$ 187,133</u></u>

See notes to financial statements

*Township of Pavilion*

**STATEMENT OF FIDUCIARY NET POSITION - Agency Fund**

*March 31, 2013*

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**ASSETS**

Cash	\$ <u>9,821</u>
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**LIABILITIES**

Due to other governmental units	\$ <u>9,821</u>
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*See notes to financial statements*

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

The accounting policies of the Township of Pavilion, 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. There are no component units or joint ventures with an equity interest 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 nonfiduciary 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.

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the fiduciary fund financial statement. 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 revenues 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 Water and Sewer Capital Fund accounts for financial resources used for the expansion and maintenance of water and sewer lines within the Township. Revenues are primarily derived from connection fees and special assessments.

The Indian/Pickerel Debt Fund accounts for financial resources used for payments of long-term contractual obligations to the South County Sewer and Water Authority. Revenues are primarily derived from special assessments.

The Northwest Water Debt Fund accounts for financial resources used for payments of long-term bond obligations. Revenues are primarily derived from special assessments.

The Sewer Debt Fund accounts for financial resources used for payments of long-term bond obligations. Revenues are primarily derived from special assessments.

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). The Township has elected not to follow subsequent private-sector standards.

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, 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.

*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 the government-wide financial statements.

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

*Capital assets* - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, 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	15 - 40 years
Equipment	3 - 5 years
Vehicles	3 - 20 years
Infrastructure	40 years

*Net position* - Net position represents the difference between assets and deferred outflows of resources, less liabilities and deferred inflows of resources. The Township reports three categories of net position, as follows:

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, and increases by balances of deferred outflows of resources related to those assets.

Restricted net position - 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.

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 restricted fund balance when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws and regulations of other governments. The Township Board retains the authority to assign fund balances as to purpose. Unassigned fund balance is an amount that does not fall into any other category above. This is the residual classification for amounts in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted or assigned to those purposes.

When the Township incurs an expenditure for purposes for which various fund balance classifications can be used, it is the Township's policy to use the restricted fund balance first, followed by assigned fund balance, and, finally, unassigned fund balance.

*Property tax revenue recognition* - Property taxes are levied each December 1 (lien date) on the taxable valuation of property as of the preceding December 31. Property taxes are considered delinquent on March 1 of the following year, at which time interest and penalties are assessed.

It is the Township's policy to recognize revenue from that tax levy in the current year, when the proceeds are budgeted and made available for the financing of operations.

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

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

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

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

*Budgetary information* - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for 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.

*Excess of expenditures over appropriations* - Except as discussed under "Compliance matter," there were no budget variances for the year ended March 31, 2013.

*Compliance matter* - The Township did not adopt a budget for the Pickerel Lake Weed Control Fund, a nonmajor special revenue fund, for the fiscal year ended March 31, 2013, as required by state statute. The fund reported expenditures of \$50,315.

*Fund deficit* - As of March 31, 2013, the Pickerel Lake Weed Control Fund, a nonmajor special revenue fund, has an accumulated deficit fund balance in the amount of \$6,398. The deficit is the result of weed control costs being higher than anticipated in the initial years of the assessment. The deficit will be eliminated as special assessments are collected in subsequent years and application costs decrease.

**NOTE 3 - CASH**

The Township's cash balances at March 31, 2013, were as follows:

	<u>Governmental activities</u>	<u>Fiduciary activities</u>	<u>Total</u>
Cash	<u>\$ 1,286,000</u>	<u>\$ 9,821</u>	<u>\$ 1,295,821</u>

*Deposits* - 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.

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, 2013, \$538,781 of the Township's bank balances of \$1,380,804 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**NOTE 4 - RECEIVABLES**

Receivables as of March 31, 2013, for the Township's individual major funds and nonmajor funds, in the aggregate, were as follows:

<i>Fund</i>	<i>Accounts</i>	<i>Property taxes</i>	<i>Special assessments</i>	<i>Interest</i>	<i>Inter-governmental</i>	<i>Totals</i>
General	\$ 8,725	\$ 9,035	\$ -	\$ -	\$ 70,838	\$ 88,598
Water and Sewer Capital	-	-	101,237	18,659	-	119,896
Indian/Pickereel Debt	-	-	83,277	600	-	83,877
Northwest Water Debt	-	-	98,596	1,400	-	99,996
Sewer Debt	-	-	103,191	700	-	103,891
Nonmajor	-	-	16,244	100	-	16,344
<b>Totals</b>	<b>\$ 8,725</b>	<b>\$ 9,035</b>	<b>\$ 402,545</b>	<b>\$ 21,459</b>	<b>\$ 70,838</b>	<b>\$ 512,602</b>
Noncurrent portion	\$ -	\$ -	\$ 345,578	\$ 18,659	\$ -	\$ 364,237

All receivables are considered fully collectible.

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the year ended March 31, 2013, 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	\$ 162,322	\$ -	\$ -	\$ 162,322
Capital assets being depreciated:				
Buildings and improvements	482,110	-	-	482,110
Equipment	410,290	20,402	(20,756)	409,936
Vehicles	636,869	-	-	636,869
Infrastructure	822,895	99,464	-	922,359
Subtotal	2,352,164	119,866	(20,756)	2,451,274
Less accumulated depreciation for:				
Buildings and improvements	(249,682)	(12,810)	-	(262,492)
Equipment	(298,288)	(25,808)	20,756	(303,340)
Vehicles	(342,569)	(25,025)	-	(367,594)
Infrastructure	(144,862)	(30,702)	-	(175,564)
Subtotal	(1,035,401)	(94,345)	20,756	(1,108,990)
Total capital assets being depreciated, net	1,316,763	25,521	-	1,342,284
Governmental activities capital assets, net	\$ 1,479,085	\$ 25,521	\$ -	\$ 1,504,606

**NOTE 5 - CAPITAL ASSETS (Continued)**

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

Governmental activities:	
General government	\$ 16,896
Public safety	46,747
Public works	<u>30,702</u>
Total governmental activities	<u>\$ 94,345</u>

**NOTE 6 - PAYABLES**

Payables as of March 31, 2013, for the Township were as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Inter- governmental</u>	<u>Payroll</u>	<u>Totals</u>
General	\$ 18,873	\$ -	\$ 20,754	\$ 39,627
Indian/Pickerel Debt	<u>-</u>	<u>28,828</u>	<u>-</u>	<u>28,828</u>
Totals	<u>\$ 18,873</u>	<u>\$ 28,828</u>	<u>\$ 20,754</u>	<u>\$ 68,455</u>

**NOTE 7 - LONG-TERM DEBT**

Long-term debt at March 31, 2013, is comprised of the following individual issues:

Governmental activities	
Contracts payable:	
The Township has agreed to remit to the South County Sewer and Water Authority all principal and interest collections arising from special assessments levied on Township properties served by the Authority.	\$ 82,678
Note payable:	
\$215,800 2005 Special assessment note payable, due in annual installments of \$1,000 to \$37,000, plus interest at 4.8%; final payment is due April 2020	103,000
Bonds payable:	
\$555,000 2002 Special assessment bonds, due in annual installments of \$5,000 to \$40,000 starting June 2003 through June 2017, plus interest at 4.9%	<u>80,000</u>
Total governmental activities	<u>\$ 265,678</u>

All debt is secured by the full faith and credit of the Township.

In the event that the South County Sewer and Water Authority is unable to meet its debt service requirements, related to the above contract payable, an assessment may be made against the Township of Pavilion and a neighboring township. The Township has pledged its full faith and credit for the payment of its share (26.56%) of any such deficiency.

**NOTE 7 - LONG-TERM DEBT (Continued)**

Long-term debt activity for the year ended March 31, 2013, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Governmental activities:					
Contracts payable	\$ 108,861	\$ -	\$ (26,183)	\$ 82,678	\$ 20,670
Note payable	139,000	-	(36,000)	103,000	-
Bonds payable	80,000	-	-	80,000	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Totals	<u>\$ 327,861</u>	<u>\$ -</u>	<u>\$ (62,183)</u>	<u>\$ 265,678</u>	<u>\$ 20,670</u>

At March 31, 2013, debt service requirements on long-term debt are follows:

<u>Year ended March 31,</u>	<u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 20,670	\$ 8,054
2015	57,670	11,964
2016	57,670	9,155
2017	67,668	5,365
2018	47,000	2,036
2019 - 2021	<u>15,000</u>	<u>1,200</u>
	<u>          </u>	<u>          </u>
Totals	<u>\$ 265,678</u>	<u>\$ 37,774</u>

**NOTE 8 - DEFERRED REVENUES**

Governmental funds report deferred revenues in connection with revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenues are as follows:

<u>Fund</u>	<u>Unavailable</u>		<u>Total</u>
	<u>Special assessments</u>	<u>Interest</u>	
Water and Sewer Capital	\$ 3,850	\$ 18,659	\$ 22,509
Indian/Pickerel Debt	82,678	600	83,278
Northwest Water Debt	96,200	1,400	97,600
Sewer Debt	103,191	700	103,891
Nonmajor	<u>11,973</u>	<u>100</u>	<u>12,073</u>
	<u>          </u>	<u>          </u>	<u>          </u>
Totals	<u>\$ 297,892</u>	<u>\$ 21,459</u>	<u>\$ 319,351</u>

**NOTE 9 - PROPERTY TAXES**

The 2012 taxable valuation of the Township approximated \$189,483,000, on which ad valorem taxes levied, consisted of .8516 mills for operating purposes raising approximately \$161,000. This amount is recognized in the respective fund financial statements as property tax revenue.

**NOTE 10 - CONSTRUCTION CODE ACT**

A summary of construction code enforcement transactions for the year ended March 31, 2013, is as follows:

Permit revenue	\$ 17,643
Inspections	<u>(17,643)</u>
Excess of revenues over expenses	<u>\$ -</u>

**NOTE 11 - 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 12 - DEFINED CONTRIBUTION PENSION PLAN**

The Township provides pension benefits for all 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. Michigan state statute assigns the authority to establish and amend benefit provisions to the Township Board of Trustees. Officials are eligible to participate from the date they are elected to office. The Township annually contributes 10% of the participant's base salary or \$200, whichever is greater, and participants are immediately 100% vested. The Township made the required contributions of \$15,371. The Township is not a trustee of the plan, nor is the Township responsible for investment management of plan assets.

**NOTE 13 - JOINTLY GOVERNED ORGANIZATION**

The Township, in conjunction with the Townships of Brady and Schoolcraft, and the Village of Schoolcraft (all within Kalamazoo County) created the South County Sewer and Water Authority (the Authority). The Authority's board is composed of one elected official from each of the four units of government. The Township of Pavilion did not provide support to the Authority in 2013. See Note 7 for other transactions with the Authority. The Township does not retain an ongoing financial interest or responsibility in the Authority.

**NOTE 14 - RECENT ACCOUNTING PRONOUNCEMENTS**

Effective April 1, 2012, the Township adopted the provisions of the following accounting pronouncements:

Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989, that is included in FASB statements and interpretations, APB opinions, and accounting research bulletins of the AICPA Committee on Accounting Procedure. Adoption of this standard did not result in restatement or reclassification of opening net position (formerly net assets) or fund balances.

**NOTE 14 - RECENT ACCOUNTING PRONOUNCEMENTS (Continued)**

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This Statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Adoption of this standard did not result in restatement or reclassification of opening net position or fund balances.

**NOTE 15 - PENDING ACCOUNTING PRONOUNCEMENTS**

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012. 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. The Township is currently evaluating the impact this standard will have on the financial statements when adopted during the fiscal year beginning April 1, 2013.

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 Pavilion

**BUDGETARY COMPARISON SCHEDULE - General Fund**

Year ended March 31, 2013

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
<b>REVENUES</b>				
Taxes	\$ 224,000	\$ 224,000	\$ 223,310	\$ (690)
Licenses and permits	22,000	22,000	54,010	32,010
Federal grants	-	-	4,080	4,080
State grants	405,430	405,430	459,702	54,272
Charges for services	34,500	34,500	40,892	6,392
Interest and rentals	5,400	5,400	3,215	(2,185)
Other	7,000	7,000	10,215	3,215
Total revenues	<u>698,330</u>	<u>698,330</u>	<u>795,424</u>	<u>97,094</u>
<b>EXPENDITURES</b>				
Legislative	<u>11,300</u>	<u>11,300</u>	<u>6,741</u>	<u>4,559</u>
General government:				
Supervisor	47,840	47,840	45,711	2,129
Election	20,300	22,000	10,667	11,333
Assessor	54,356	54,356	50,331	4,025
Clerk	50,528	50,528	49,459	1,069
Board of review	2,860	2,860	1,077	1,783
Treasurer	59,328	60,528	57,172	3,356
Hall and grounds	65,300	75,200	71,052	4,148
Cemetery	17,400	19,300	16,860	2,440
Other	<u>120,500</u>	<u>124,400</u>	<u>65,326</u>	<u>59,074</u>
Total general government	<u>438,412</u>	<u>457,012</u>	<u>367,655</u>	<u>89,357</u>
Public safety:				
Fire protection	108,800	113,700	106,876	6,824
Building inspections	<u>23,300</u>	<u>23,300</u>	<u>17,643</u>	<u>5,657</u>
Total public safety	<u>132,100</u>	<u>137,000</u>	<u>124,519</u>	<u>12,481</u>
Public works:				
Highways and streets	100,000	100,000	99,463	537
Street lights	1,400	1,400	1,237	163
Collection station	21,760	22,560	21,233	1,327
Drains	<u>12,000</u>	<u>12,000</u>	<u>8,197</u>	<u>3,803</u>
Total public works	<u>135,160</u>	<u>135,960</u>	<u>130,130</u>	<u>5,830</u>

Township of Pavilion

**BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**

Year ended March 31, 2013

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
<b>EXPENDITURES (Continued)</b>				
Community and economic development - planning and zoning	\$ 7,300	\$ 7,700	\$ 3,373	\$ 4,327
Capital outlay	47,000	53,200	34,723	18,477
Total expenditures	<u>771,272</u>	<u>802,172</u>	<u>667,141</u>	<u>135,031</u>
<b>NET CHANGES IN FUND BALANCES</b>	(72,942)	(103,842)	128,283	232,125
<b>FUND BALANCES - BEGINNING</b>	<u>531,326</u>	<u>531,326</u>	<u>531,326</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 458,384</u>	<u>\$ 427,484</u>	<u>\$ 659,609</u>	<u>\$ 232,125</u>

**SUPPLEMENTARY INFORMATION**

	<i>Special revenue funds</i>							
	<i>Lakeview/ Coles Landing Road</i>	<i>Coles Landing Road</i>	<i>Street Lighting #1</i>	<i>Street Lighting #2</i>	<i>Street Lighting #3</i>	<i>Weed Control</i>	<i>Pickeral Lake Weed Control</i>	<i>Totals</i>
<b>ASSETS</b>								
Cash	\$ 5,269	\$ 21,393	\$ 8,098	\$ 3,701	\$ 1,153	\$ 9,279	\$ 37,015	\$ 85,908
Receivables	<u>360</u>	<u>13,509</u>	<u>301</u>	<u>45</u>	<u>-</u>	<u>542</u>	<u>1,587</u>	<u>16,344</u>
Total assets	<u>\$ 5,629</u>	<u>\$ 34,902</u>	<u>\$ 8,399</u>	<u>\$ 3,746</u>	<u>\$ 1,153</u>	<u>\$ 9,821</u>	<u>\$ 38,602</u>	<u>\$ 102,252</u>
<b>LIABILITIES AND FUND BALANCES</b>								
Liabilities:								
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,000	\$ 45,000
Deferred revenue	<u>-</u>	<u>12,073</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,073</u>
Total liabilities	<u>-</u>	<u>12,073</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,000</u>	<u>57,073</u>
Fund balances:								
Restricted for:								
Road maintenance	5,629	-	-	-	-	-	-	5,629
Street lighting	-	-	8,399	3,746	1,153	-	-	13,298
Weed control	-	-	-	-	-	9,821	-	9,821
Assigned for:								
Road resurfacing	-	22,829	-	-	-	-	-	22,829
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,398)</u>	<u>(6,398)</u>
Total fund balances (deficit)	<u>5,629</u>	<u>22,829</u>	<u>8,399</u>	<u>3,746</u>	<u>1,153</u>	<u>9,821</u>	<u>(6,398)</u>	<u>45,179</u>
Total liabilities and fund balances	<u>\$ 5,629</u>	<u>\$ 34,902</u>	<u>\$ 8,399</u>	<u>\$ 3,746</u>	<u>\$ 1,153</u>	<u>\$ 9,821</u>	<u>\$ 38,602</u>	<u>\$ 102,252</u>

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

Year ended March 31, 2013

	<i>Special revenue funds</i>							<i>Totals</i>
	<i>Lakeview/ Coles Landing Road</i>	<i>Coles Landing Road</i>	<i>Street Lighting #1</i>	<i>Street Lighting #2</i>	<i>Street Lighting #3</i>	<i>Weed Control</i>	<i>Pickereel Lake Weed Control</i>	
<b>REVENUES</b>								
Interest	\$ -	\$ 971	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 971
Other	4,950	12,638	7,820	2,700	845	8,675	43,917	81,545
Total revenues	4,950	13,609	7,820	2,700	845	8,675	43,917	82,516
<b>EXPENDITURES</b>								
Public works	3,675	-	6,287	2,175	725	6,298	50,315	69,475
<b>NET CHANGES IN FUND BALANCES</b>	1,275	13,609	1,533	525	120	2,377	(6,398)	13,041
<b>FUND BALANCES - BEGINNING</b>	4,354	9,220	6,866	3,221	1,033	7,444	-	32,138
<b>FUND BALANCES (DEFICIT) - ENDING</b>	\$ 5,629	\$ 22,829	\$ 8,399	\$ 3,746	\$ 1,153	\$ 9,821	\$ (6,398)	\$ 45,179

# Siegfried Crandall PC

Certified Public Accountants & Advisors

246 E. Kilgore Road  
Kalamazoo, MI 49002-5599  
www.siegfriedcrandall.com

Telephone 269-381-4970  
800-876-0979  
Fax 269-349-1344

May 2, 2013

To the Board of Trustees  
Township of Pavilion

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Pavilion for the year ended March 31, 2013. 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 18, 2013. Professional standards also require that we communicate to you the following information related to our audit.

#### ***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 Pavilion are described in Note 1 to the financial statements. Except as described in Note 14 to the financial statements, no new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the Township of Pavilion 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 auditors' 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 May 2, 2013.

***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 Pavilion's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

***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.

***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 Pavilion as of and for the year ended March 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Township of Pavilion's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in 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 deficiencies, significant deficiencies, or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified 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 to be a material weakness:

Material audit adjustments and financial statement preparation:

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

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

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

*Auditors' Recommendation:* We recommend that management analyze 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 auditors for these services.

*Management Response:* Management has made an 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.

Board of Trustees  
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May 2, 2013

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

This communication is intended solely for the information and use of the Board of Trustees of the Township of Pavilion 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.*