
Township of Ontwa
Cass County, Michigan

FINANCIAL REPORT

March 31, 2018

TOWNSHIP OF ONTWA
Cass County, Michigan
March 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Ontwa Township
Cass County, Michigan

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ontwa Township, Michigan, as of and for the year ended March 31, 2018, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ontwa Township, Michigan, as of March 31, 2018, 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.

INDEPENDENT AUDITOR'S REPORT, CONCLUDED

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township's basic financial statements. The accompanying other supplementary information, as described in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplemental information is 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 other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2018, on our consideration of Ontwa Township, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ontwa Township, Michigan's internal control over financial reporting and compliance.

Respectfully submitted,



Certified Public Accountants

St. Joseph, Michigan
August 15, 2018

Using this Annual Report

This report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

Financial Highlights

The Township's combined net position decreased slightly from a year ago—decreasing from \$11,588,865 to \$11,519,325. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced an increase in net position of \$70,916 during the year, while the business-type activities experienced a decrease in net position of \$140,456.

Overview of the Financial Statements

This report consists of three parts---*management's discussion and analysis* (this section), the *basic financial statements* and *required supplementary information*. 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 statements.
 - The *governmental funds statements* tell how general government services like public safety were financed in the short-term as well as what remains for future spending.
 - *Proprietary fund statements* offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as the sewer system.
 - *Fiduciary fund 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 statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. The remainder of the overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-wide Statements

The government-wide 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 government's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

Government-wide Statements, Concluded

The two government-wide statements report the Township's net position and how it has changed. Net position is the difference between the Township's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, which 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 non-financial factors such as changes in the Township's property tax base and condition of the Township's infrastructure.

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

- **Governmental activities**—Most of the Township's basic services are included here, such as general government, public safety, public works, and recreation and culture.
- **Business-type activities**—The Township charges fees to customers to help it cover the costs of certain services it provides. The Township's sewer system is included here.

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.
- The Township Board establishes other funds to control and manage money for a particular purpose (i.e. public safety monies) or to show that it is properly using certain taxes and grants (i.e. special assessment districts).

The Township has the following three kinds of funds:

- **Governmental Funds**—Most of the Township's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statement provides a detailed short-term view that helps you 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 at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- **Proprietary Funds**—Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. In fact, the Township's enterprise funds (a type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- **Fiduciary Funds**—The Township is the trustee, or fiduciary, for its property tax collections. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Township's fiduciary activities 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

The Township's combined net position was \$11,519,325. In a condensed format the following table below shows a breakdown of net position as of March 31, 2018 and 2017:

At March 31, 2018, unrestricted net position—the part of net position that can be used to finance day to day operations, was \$1,273,589 for the governmental activities. The current level of unrestricted net position for business – type activities stands at \$1,426,926.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Current Assets	\$ 629,226	\$ 846,957	\$ 973,391	\$ 1,190,049	\$ 1,602,617	\$ 2,037,006
Noncurrent Assets	1,277,840	1,237,928	9,609,507	10,902,949	10,887,347	12,140,877
Total Assets	<u>\$ 1,907,066</u>	<u>\$ 2,084,885</u>	<u>\$ 10,582,898</u>	<u>\$ 12,092,998</u>	<u>\$ 12,489,964</u>	<u>\$ 14,177,883</u>
Current Liabilities	\$ 67,648	\$ 316,383	\$ 28,831	\$ 709,761	\$ 96,479	\$ 1,026,144
Noncurrent Liabilities	-	-	874,160	1,562,874	874,160	1,562,874
Total Liabilities	<u>\$ 67,648</u>	<u>\$ 316,383</u>	<u>\$ 902,991</u>	<u>\$ 2,272,635</u>	<u>\$ 970,639</u>	<u>\$ 2,589,018</u>
Net Position:						
Net Investment in						
Capital Assets	\$ 565,829	\$ 582,173	\$ 7,229,316	\$ 6,129,652	\$ 7,795,145	\$ 6,711,825
Restricted	-	3,998	1,023,665	1,697,124	1,023,665	1,701,122
Unrestricted	1,273,589	1,182,331	1,426,926	1,993,587	2,700,515	3,175,918
Total Net Position	<u>\$ 1,839,418</u>	<u>\$ 1,768,502</u>	<u>\$ 9,679,907</u>	<u>\$ 9,820,363</u>	<u>\$ 11,519,325</u>	<u>\$ 11,588,865</u>

Financial Analysis of the Township as a Whole, Concluded

The following table shows the change in net position for the years ended March 31, 2018 and 2017:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Program Revenues						
Charges for Services	\$ 116,611	\$ 84,250	\$ 1,134,999	\$ 1,189,300	\$ 1,251,610	\$ 1,273,550
Operating Grants	-	-	12,681	294,674	12,681	294,674
General Revenues						
Property Taxes	1,316,313	1,290,122	-	-	1,316,313	1,290,122
Special Assessments	52,543	133,764	-	-	52,543	133,764
State Shared Revenues	437,576	407,799	-	-	437,576	407,799
Investment Earnings	10,565	6,485	20,937	65,949	31,502	72,434
Franchise Fees	79,362	76,467	-	-	79,362	76,467
Other Revenue	63,782	21,010	-	-	63,782	21,010
Total Revenues	<u>\$ 2,076,752</u>	<u>\$ 2,019,897</u>	<u>\$ 1,168,617</u>	<u>\$ 1,549,923</u>	<u>\$ 3,245,369</u>	<u>\$ 3,569,820</u>
Program Expenses						
General Government	\$ 352,244	\$ 360,820	\$ -	\$ -	\$ 352,244	\$ 360,820
Public Safety	1,399,256	1,363,981	-	-	1,399,256	1,363,981
Public Works	198,876	156,797	-	-	198,876	156,797
Recreation and Culture	4,691	3,977	-	-	4,691	3,977
Community and Economic Development	9,400	6,045	-	-	9,400	6,045
Depreciation (unallocated)	41,369	39,701	-	-	41,369	39,701
Sewer	-	-	1,309,073	1,343,245	1,309,073	1,343,245
Total Expenses	<u>\$ 2,005,836</u>	<u>\$ 1,931,321</u>	<u>\$ 1,309,073</u>	<u>\$ 1,343,245</u>	<u>\$ 3,314,909</u>	<u>\$ 3,274,566</u>
Change in Net Position	<u>\$ 70,916</u>	<u>\$ 88,576</u>	<u>\$ (140,456)</u>	<u>\$ 206,678</u>	<u>\$ (69,540)</u>	<u>\$ 295,254</u>

Governmental Activities

The Township's total governmental revenues increased \$20,355 from prior year, or 1.0%. The Township saw increases in a variety of revenue sources such as property taxes and state shared revenues among others. The Township's total governmental expenses increased \$38,015 from prior year, or 2.0%. The governmental expenses were generally consistent with the prior year.

Business-Type Activities

The Township's business-type activities consist of the Sewer Fund. In 2018, total revenues decreased from the prior year by \$381,306, or 24.6%. The decrease is primarily from the SAW grant as the project comes to a conclusion. Business-type expenses were relatively consistent with the prior year as expenses decreased by \$34,172, or 2.5%.

Business-Type Activities, Concluded

The Township is continuing to monitor the sewer activities and reviewing the entire system to ensure it is being run efficiently and most effective for the Township residents.

The Township's Funds

Our analysis of the Township's major funds begins following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millage. The Township's major funds for 2018 included the General Fund, Police Fund, Fire/Ambulance Fund, and Sewer Fund.

The General Fund pays for most of the Township's governmental services, including legislative, public safety, public works and other. The most significant is general government, which incurred expenditures of \$368,367 in 2018. The service is supported by general revenue sources of the General Fund.

General Fund Budgetary Highlights

Over the course of the year, the Township Board may amend the budget to take into account events during the year. There were two budget amendments made during 2018.

Capital Asset and Debt Administration

At the end of March 31, 2018, the Township had investment in capital assets for its governmental and business-type activities of \$8,669,305 (net of depreciation). This investment includes a broad range of capital assets, including land, buildings and improvements, furniture and equipment, and sewer lines. In addition, the Township has invested significantly in roads within the Township. The Township has chosen not to retroactively report any other infrastructure assets and will only report any additions prospectively, in accordance with GASB Statement No. 34.

During fiscal year 2018, the Township had one capital addition totaling \$25,025. The addition was comprised of township hall improvements for a new conference room.

Long-Term Debt

The Township continued to make scheduled payments on its outstanding long-term debt obligations.

Economic Factors and Next Year's Budgets and Rates

The Township anticipates expenditures over revenues in the general fund and the business-type activity funds will attempt to have positive cash flows.

Contacting the Township's Management

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

GOVERNMENT-WIDE STATEMENT OF NET POSITION
March 31, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 505,877	\$ 501,814	\$ 1,007,691
Accounts Receivable, Net	82,935	161,527	244,462
Special Assessment Receivables	1,265	230,798	232,063
Promissory Note Receivable	39,149	-	39,149
Prepaid Items	-	79,252	79,252
Total Current Assets	<u>\$ 629,226</u>	<u>\$ 973,391</u>	<u>\$ 1,602,617</u>
Noncurrent Assets			
Restricted Certificate of Deposit	\$ -	\$ 465,926	\$ 465,926
Special Assessment Receivables, Noncurrent	62,745	326,941	389,686
Certificates of Deposit (Maturity > 90 days)	649,266	713,164	1,362,430
Capital Assets - Non-depreciable	30,350	-	30,350
Capital Assets - Depreciable, Net	535,479	8,103,476	8,638,955
Total Noncurrent Assets	<u>\$ 1,277,840</u>	<u>\$ 9,609,507</u>	<u>\$ 10,887,347</u>
Total Assets	<u>\$ 1,907,066</u>	<u>\$ 10,582,898</u>	<u>\$ 12,489,964</u>
Liabilities			
Current Liabilities			
Accounts Payable	\$ 67,648	\$ 28,831	\$ 96,479
Total Current Liabilities	<u>\$ 67,648</u>	<u>\$ 28,831</u>	<u>\$ 96,479</u>
Noncurrent Liabilities			
Bonds Payable, Noncurrent	-	874,160	874,160
Total Liabilities	<u>\$ 67,648</u>	<u>\$ 902,991</u>	<u>\$ 970,639</u>
Net Position			
Net Investment in Capital Assets	\$ 565,829	\$ 7,229,316	\$ 7,795,145
Restricted	-	1,023,665	1,023,665
Unrestricted	1,273,589	1,426,926	2,700,515
Total Net Position	<u>\$ 1,839,418</u>	<u>\$ 9,679,907</u>	<u>\$ 11,519,325</u>

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

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year Ended March 31, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants	Capital Grants	Governmental Activities	Primary Government	
						Business-Type Activities	Total
Primary Government							
General Government	\$ 352,244	\$ 116,611	\$ -	\$ -	\$ (235,633)	\$ -	\$ (235,633)
Public Safety	1,399,256	-	-	-	(1,399,256)	-	(1,399,256)
Public Works	198,876	-	-	-	(198,876)	-	(198,876)
Recreation and Culture	4,691	-	-	-	(4,691)	-	(4,691)
Community and Economic Development	9,400	-	-	-	(9,400)	-	(9,400)
Depreciation (Unallocated)	41,369	-	-	-	(41,369)	-	(41,369)
Total Governmental Activities	\$ 2,005,836	\$ 116,611	\$ -	\$ -	\$ (1,889,225)	\$ -	\$ (1,889,225)
Business-Type Activities							
Sewer Fund	\$ 1,309,073	\$ 1,134,999	\$ 12,681	\$ -	\$ -	\$ (161,393)	\$ (161,393)
Total Business-Type Activities	\$ 1,309,073	\$ 1,134,999	\$ 12,681	\$ -	\$ -	\$ (161,393)	\$ (161,393)
Total Primary Government	\$ 3,314,909	\$ 1,251,610	\$ 12,681	\$ -	\$ (1,889,225)	\$ (161,393)	\$ (2,050,618)
General Revenues							
Property Taxes					\$ 1,316,313	\$ -	\$ 1,316,313
Special Assessments					52,543	-	52,543
State Shared Revenues					437,576	-	437,576
Franchise Fees					79,362	-	79,362
Investment Earnings					10,565	20,937	31,502
Other Revenue					63,782	-	63,782
Total General Revenues					\$ 1,960,141	\$ 20,937	\$ 1,981,078
Change in Net Position					\$ 70,916	\$ (140,456)	\$ (69,540)
Net Position-Beginning					1,768,502	9,820,363	11,588,865
Net Position-Ending					\$ 1,839,418	\$ 9,679,907	\$ 11,519,325

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

March 31, 2018

	Major Funds			Non-Major Governmental Funds	Total Governmental Funds
	General	Police Fund	Fire / Ambulance Fund		
Assets					
Cash and Cash Equivalents	\$ 413,409	\$ 9	\$ 10,108	\$ 82,351	\$ 505,877
Taxes Receivable	19,991	24,793	24,793	13,358	82,935
Special Assessment Receivable	-	-	-	64,010	64,010
Certificates of Deposit (Maturity > 90 days)	649,266	-	-	-	649,266
Promissory Note Receivable	39,149	-	-	-	39,149
Due from Other					
Governmental Funds	18,836	-	-	1,784	20,620
Total Assets	\$ 1,140,651	\$ 24,802	\$ 34,901	\$ 161,503	\$ 1,361,857
Liabilities					
Accounts Payable	\$ 8,543	\$ 24,802	\$ 24,805	\$ 9,498	\$ 67,648
Due to Other					
Governmental Funds	-	-	-	20,620	20,620
Total Liabilities	\$ 8,543	\$ 24,802	\$ 24,805	\$ 30,118	\$ 88,268
Deferred Inflows of Resources					
Unavailable Revenue:					
Special Assessments	\$ -	\$ -	\$ -	\$ 62,745	\$ 62,745
Fund Balance					
Restricted:					
Special Assessment Districts	\$ -	\$ -	\$ -	\$ 68,640	\$ 68,640
Public Safety	-	-	10,096	-	10,096
Assigned for Budgeted Deficit	62,293	-	-	-	62,293
Unassigned	1,069,815	-	-	-	1,069,815
Total Fund Balance	\$ 1,132,108	\$ -	\$ 10,096	\$ 68,640	\$ 1,210,844
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 1,140,651	\$ 24,802	\$ 34,901	\$ 161,503	\$ 1,361,857

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

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO GOVERNMENT-WIDE STATEMENT OF NET POSITION
March 31, 2018

Total Fund Balances - Governmental Funds \$ 1,210,844

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds. 565,829

Long-term special assessment receivables used in governmental activities are not current financial resources in the funds. 62,745

Net Position of Governmental Activities \$ 1,839,418

**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
Year Ended March 31, 2018**

	Major Funds			Non-Major Governmental Funds	Total
	General Fund	Police Fund	Fire/Ambulance Fund		
Revenues					
Tax Revenues	\$ 184,478	\$ 466,455	\$ 489,469	\$ 175,911	\$ 1,316,313
Special Assessments	-	-	-	66,113	66,113
Intergovernmental Revenue from State	437,576	-	-	-	437,576
Fines and Forfeits	29,075	-	-	-	29,075
Licenses and Permits	87,536	-	-	-	87,536
Franchise Fees	79,362	-	-	-	79,362
Interest and Rents	10,438	42	42	43	10,565
Other Revenue	142,082	-	-	-	142,082
Total Revenues	<u>\$ 970,547</u>	<u>\$ 466,497</u>	<u>\$ 489,511</u>	<u>\$ 242,067</u>	<u>\$ 2,168,622</u>
Expenditures					
General Government:					
Legislative	\$ 79,243	\$ -	\$ -	\$ -	\$ 79,243
Chief Executive	94,908	-	-	-	94,908
Treasurer	51,398	-	-	-	51,398
Assessing Equalization	43,782	-	-	-	43,782
Clerk	35,742	-	-	-	35,742
Elections	2,125	-	-	-	2,125
Building and Grounds	64,707	-	-	-	64,707
All Other	5,364	-	-	-	5,364
Public Safety:					
Police	188,296	466,497	-	-	654,793
Ambulance/Fire	1,935	-	479,415	175,911	657,261
Building Inspections	87,202	-	-	-	87,202
Public Works:					
Electric Utilities	8,566	-	-	2,471	11,037
Roads	129,150	-	-	-	129,150
All Other	7,642	-	-	51,047	58,689
Recreation and Culture:					
Parks and Recreation	4,691	-	-	-	4,691
Community and Economic Development:					
Community Planning and Zoning	9,400	-	-	-	9,400
Total Expenditures	<u>\$ 814,151</u>	<u>\$ 466,497</u>	<u>\$ 479,415</u>	<u>\$ 229,429</u>	<u>\$ 1,989,492</u>
Other Financing Sources (Uses)					
Transfers from other Governments	\$ -	\$ -	\$ -	\$ -	-
Net Change in Fund Balance	\$ 156,396	\$ -	\$ 10,096	\$ 12,638	\$ 179,130
Fund Balance - Beginning of Year	975,712	-	-	56,002	\$ 1,031,714
Fund Balance - End of Year	<u>\$ 1,132,108</u>	<u>\$ -</u>	<u>\$ 10,096</u>	<u>\$ 68,640</u>	<u>\$ 1,210,844</u>

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

**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year Ended March 31, 2018**

Net Change in Fund Balances - Total Governmental Funds \$ 179,130

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	(41,369)
Capital outlay	25,025

Receipt of funds for payment on long-term loans are recorded as other revenue in the governmental funds and are not revenues in the statement of activities.	(78,300)
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Receipt of long-term special assessment receivables are recorded as revenue in the governmental funds and are not revenues in the statement of activities	(13,570)
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Change in Net Position of Governmental Activities \$ 70,916

PROPRIETARY FUND
STATEMENT OF NET POSITION
March 31, 2018

	Sewer Fund
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 501,814
Trade Receivables, Net	161,527
Special Assessments Receivable, Current	230,798
Prepaid Bond and Interest	79,252
Total Current Assets	\$ 973,391
Noncurrent Assets	
Certificates of Deposit > 90 days	\$ 713,164
Restricted Certificate of Deposit	465,926
Special Assessments Receivable, Noncurrent	326,941
Capital Assets - Depreciable, Net	8,103,476
Total Noncurrent Assets	\$ 9,609,507
Total Assets	\$ 10,582,898
Liabilities	
Current Liabilities	
Accounts Payable	\$ 28,831
Total Current Liabilities	\$ 28,831
Noncurrent Liabilities	
Contracts Payable, Noncurrent	874,160
Total Liabilities	\$ 902,991
Net Position	
Net Investment in Capital Assets	\$ 7,229,316
Restricted	1,023,665
Unrestricted	1,426,926
Total Net Position	\$ 9,679,907

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

PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended March 31, 2018

	Sewer Fund
Operating Revenues	
Charges for Services:	
Flat/Metered Fees	\$ 884,910
Debt Service	135,818
Granger, Indiana	59,012
Other	45,361
Reimbursement of Debt Service Fee to Local Governments:	
Village of Edwardsburg	(40,805)
Mason Township	(8,732)
Hook-up Charges and Other	59,435
SAW Grant Income	12,681
Total Operating Revenues	\$ 1,147,680
Operating Expenses	
Personal Services	\$ 44,002
Professional Fees	1,400
Wastewater Treatment Plant Costs:	
Sewage Processing	407,135
Administration and Labor	2,121
Wastewater System Management	129,214
Chemical Treatments	91,614
Lab and Testing Fees	28,204
Office Expenses	14,630
Repairs and Maintenance	214,074
Utilities	34,717
Depreciation	244,882
SAW Grant Expenses	10,636
Other	10,080
Total Operating Expenses	\$ 1,232,709
Operating Income (Loss)	\$ (85,029)
Other Revenue (Expenses)	
Interest Income:	
Special Assessments	\$ 10,358
Other	10,579
Interest Expense	(76,364)
Total Other Revenue (Expenses)	\$ (55,427)
Change in Net Position	\$ (140,456)
Net Position - Beginning of Year	9,820,363
Net Position - End of Year	\$ 9,679,907

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

PROPRIETARY FUND
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2018

	Sewer Fund
Cash Flows From Operating Activities	
Receipts from Customers	\$ 1,123,875
Receipts from SAW Grant	12,681
Payments to Vendors and Suppliers	(927,885)
Payments to Employees	(44,002)
Net Cash Provided by Operating Activities	\$ 164,669
Cash Flows From Capital and Related Financing Activities	
Special Assessment Principal Received	\$ 242,220
Special Assessment Interest Received	10,358
Prepaid Bond	(79,252)
Principal Reduction of Long-term Debt	(1,344,546)
Interest Paid	(117,402)
Net Cash Used in Capital and Related Financing Activities	\$ (1,288,622)
Cash Flows From Investing Activities	
Interest Received	\$ 10,579
Net Change in Certificates of Deposit	398,299
Net Change in Restricted Certificate of Deposit	348,751
Net Cash Provided by Investing Activities	\$ 757,629
Net Change in Cash and Cash Equivalents	\$ (366,324)
Cash and Cash Equivalents - Beginning	868,138
Cash and Cash Equivalents - Ending	\$ 501,814
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (85,029)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	244,882
<i>Change in Assets and Liabilities:</i>	
Trade Receivables, Net	(11,124)
Accounts Payable	15,940
Net Cash Provided by Operating Activities	\$ 164,669

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

TRUST AND AGENCY FUNDS
STATEMENT OF NET POSITION
MARCH 31, 2018

	Agency Fund (Property Tax Collections)	Trust Fund (Escrow Funds)	Total Trust and Agency Funds
Assets			
Cash	\$ 10,624	\$ 2,999	\$ 13,623
Total Assets	<u>\$ 10,624</u>	<u>\$ 2,999</u>	<u>\$ 13,623</u>
Liabilities			
Due to Governmental Units	\$ 10,624	\$ -	\$ 10,624
Due to Others	-	2,999	2,999
Total Liabilities	<u>\$ 10,624</u>	<u>\$ 2,999</u>	<u>\$ 13,623</u>

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Township of Ontwa (the "Township") conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

A. Reporting Entity

The Township is governed by an elected seven-member council ("Board"). The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. See the following criteria and descriptions for the component units reported:

Blended Component Units—A blended component unit is a legally separate entity from the Township, but is so intertwined with the unit that it is, in substance, the same as the Township. It is reported as part of the Township and blended into the appropriate fund types. There were no such units at March 31, 2018.

Discretely Presented Component Units—A discretely presented component unit is an entity that is legally separate from the Township, but for which the unit is financially accountable, or its relationship with the unit is such that exclusion would cause the unit's financial statements to be misleading or incomplete. There were no such units at March 31, 2018.

Jointly Governed Organization—The Township is a sponsoring member of the Township of Ontwa-Edwardsburg Police Department, The Edwardsburg Joint Fire Board, and the Edwardsburg Ambulance Service. The Township appoints two members to each jointly governed organization's governing board, and the Township provides annual financial support to each entity. The Township does not retain an equity interest in any of the entities and, accordingly, these entities are not considered includable in these financial statements. Financial information of the jointly governed organizations is available from their respective offices in Edwardsburg, Michigan.

B. 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 primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenue, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**B. Government-Wide and Fund Financial Statements, Continued**

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

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

The Township reports the following major governmental funds:

General Fund - This fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Police Fund – This fund accounts for the 2.000 mills of special voted taxes used to support the operating and capital costs for police services.

Fire/Ambulance Fund - This fund accounts for the 2.000 mills of special voted taxes used to support the operating and capital costs for fire and ambulance services.

The Township reports the following major proprietary funds:

Sewer Fund - This fund is the Township's enterprise fund that accounts for the operations for the services of processing and treating the Township's sewage.

The Township reports the following non-major governmental funds:

Ambulance Fund – This fund accounts for the additional 0.75 of a mill special voted tax to support the operating and capital costs for ambulance services.

The Township has also approved the following Special Assessment Districts pursuant to Act 188, Public Acts of Michigan of 1954, as amended.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**B. Government-Wide and Fund Financial Statements, Concluded**

Special Assessment for Pleasant Lake and Back Lots District – This fund accounts for special assessments for aquatic weed control/eradication improvement for Pleasant Lake and its Back Lots. The District was renewed for ten (10) years beginning in fiscal year 2017, not to exceed \$300/year per assessed parcel. Annual redetermination to potentially reduce the following year's special assessment will take place at the Township's September regular board meeting.

Special Assessment for Eagle Lake and Channels District – This fund accounts for special assessments for aquatic weed control/eradication improvement for Eagle Lake and its Channels, and properties with deeded access. The District was renewed for ten (10) years beginning in fiscal year 2015, not to exceed \$150/year per assessed parcel. Annual redetermination, to potentially reduce the following year's special assessment will take place at the Township's September regular board meeting.

Special Assessment for Regal Place Lights I, II, III – This fund accounts for special assessments for the monthly street lights in the Regal Place sub-division. The District was established in 2008 and charges \$10 per assessed parcel. Annual redetermination, to potentially reduce the following year's special assessment will take place at the Township's September regular board meeting.

Special Assessment for Garver Lake Aquatic Plant Control and Lake Improvements District 16-1 – This fund accounts for special assessments for assessing the cost of a proposed aquatic plant control project for an estimated cost of \$90,000. The District was established in fiscal year 2017 for five (5) years.

Special Assessment for Eagle Lake Road/Morton Drive Channel – This fund accounts for special assessments for improvements of waterways between Eagle Lake Road and Morton Drive and properties with deeded access. The District was approved beginning in fiscal year 2018, not to exceed \$120/year per assessed parcel. The project shall not exceed \$35,000 over an initial 5-year period.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is 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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation, Concluded**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is 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.

Revenue is recognized in the accounting period in which it becomes susceptible to accrual—that is, when it becomes both measurable and available to finance expenditures of the fiscal period. Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are various other functions of the government. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Amounts reported as program revenue 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 revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Property Taxes - The Township's property taxes attach as an enforceable lien on December 1st, on the taxable valuation of property (as defined by State statutes) located in the Township and payable on February 15th of the succeeding year. The Township's 2017 ad valorem tax is levied and collectible on December 1st, 2017 and it is recognized as revenue in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2017 taxable valuation of the Township totaled approximately \$236.8 million, on which ad valorem taxes are levied which consisted of .7424 mills for the Township's operating purposes, 2.0000 for police, 2.0000 for fire/ambulance services, and .7500 mills for ambulance services. These amounts are recognized in their governmental fund financial statements as taxes receivable—current or as tax revenue.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at acquisition value and consist of only certificates of deposit greater than 90 days.

Receivables and Payables—all trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Capital Assets—Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Township has chosen not to retroactively report any other infrastructure assets and will only report any additions prospectively in accordance with Governmental Accounting Standards Board (“GASB”) Statement Number 34, *Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments*.

Interest incurred during the construction of capital assets is included as part of the capitalized value of the assets constructed. During the current year, there were no assets under construction and no interest expense to capitalize.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Office Equipment	5 to 15 years
Computer Equipment	3 to 7 years
Roads	20 years
Sewer System	50 years

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity, Continued

Deferred Outflows of Resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Compensated Absences (Vacation and Sick Leave)—The Township does not compensate employees for any absences (i.e., there are no vacation days or sick days). As a result, there is no liability with regards to vacation or sick days.

Long-Term Obligations—In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

Deferred Inflows of Resources—In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of sources (revenue) until that time. The governmental funds report unavailable revenues, which arise only under a modified accrual basis of accounting, for long-term receivables. These amounts are deferred and recognized as an inflow of resources in the period that amounts become available. The Township has a deferred inflow related to the special assessment that is reported on the Governmental Funds Balance Sheet.

Estimates—the preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fund Equity—the Township has adopted the provisions of GASB Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The following are definitions for the five fund balance classifications:

Non spendable fund balance - includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity, Continued

Restricted fund balance - includes amounts that can be spent only for specific purposes stipulated by what the external resource provides (for example grant providers, constitutionally, or through enabling legislation). Effectively, restrictions may be changed or lifted only with the consent of resource providers.

Committed fund balance- includes amounts that can be used only for specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed constraint originally.

Assigned fund balance – includes amounts that are constrained by the government's intent to be used for a specific purpose, but are neither restricted nor committed.

Unassigned fund balance – is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds that has not been restricted, committed, or assigned to specific purposes within the General Fund.

As the Township has not established a policy for its use of unrestricted fund balance amounts, it considers that committed amounts would be reduced first, followed by assigned amounts, then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONCLUDED**D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity, Concluded**

Fund Equity Flow Assumption—Sometimes the Township will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Township's policy to consider restricted fund balance to have been depleted before using any components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Net Position Flow Assumption—Sometimes the Township will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts of net position to report as restricted and unrestricted in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the Township's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental major funds. All annual appropriations lapse at the fiscal year end. The Township Supervisor submits the proposed operating budget for the fiscal year commencing April 1st and public hearings are conducted to obtain taxpayer comments. After submission, the Township Board formally adopts the budget and any future transfers or amendments must be approved by the Township Board.

The budget document presents information by function. The legal level of budgetary control adopted by the governing board (i.e., the level at which expenditures that may not legally exceed appropriations) is the function level. State law requires the Township to have its budget in place by April 1st. Expenditures in excess of the amounts budgeted is violation of P.A. 621 of 1978, Section 18(1) as amended. State law permits Township to amend its budgets during the year. There were two amendments to the General Fund budget during the year.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY, CONCLUDED

Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Major Budgeted Funds - During the year, the Township had the following budget variances:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Public Safety - Police	\$ 158,100	\$ 188,296	\$ (30,196)
Public Safety - Ambulance/Fire	1,600	1,935	(335)
Public Works - Electric Utilities	8,000	8,566	(566)
Public Works - All Other	7,000	7,642	(642)
Police Fund - Public Safety	469,154	469,162	(8)

Funds sufficient to provide for the excess expenditures were made available from other functions within the fund, and had no impact on the financial results of the Township.

Fund Deficits – The Township has no accumulated fund balance/retained earning deficits in their reported funds.

Construction Code Fees – The Township oversees building construction, in accordance with the State’s Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Deficit beginning of year	<u>\$ (34,715)</u>
Current year permit revenue	\$ 87,536
Related expenses:	
Direct costs	<u>(87,202)</u>
Current year income	<u>\$ 334</u>
Cumulative deficit end of year	<u><u>\$ (34,381)</u></u>

NOTE 3. DEPOSITS AND INVESTMENTS

At March 31, 2018, the Township's deposits and investments were reported in the financial statements in the following categories:

	Governmental Activities	Business-Type Activities	Total Primary Government	Fiduciary Funds
Cash and Cash Equivalents	\$ 505,877	\$ 501,814	\$ 1,007,691	\$ 13,623
Certificates of Deposit	649,266	713,164	1,362,430	-
Restricted Certificate of Deposit	-	465,926	465,926	-
SAW Grant Cash	-	-	-	-
Total	<u>\$ 1,155,143</u>	<u>\$ 1,680,904</u>	<u>\$ 2,836,047</u>	<u>\$ 13,623</u>

The breakdown between deposits and investments is as follows:

	Primary Government	Fiduciary Funds
Bank Deposits (checking and savings accounts)	\$ 1,007,691	\$ 13,623
Certificate of Deposits > 1 year	1,828,356	-
	<u>\$ 2,836,047</u>	<u>\$ 13,623</u>

Custodial Credit Risk-Deposits:

In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2018, \$2,625,035 of the Township's bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the Township's name.

Investments:

Michigan law permits investments in: 1) Bonds and other obligations of the United States Government; 2) Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC or FSLIC, respectively; 3) Certain commercial paper; 4) United States Government repurchase agreements; 5) Banker's acceptance of the United States Bank; and 6) Certain mutual funds. The Township has put further restrictions on those investments through its current policy, and the following investments are permitted by law and policy.

	Fair Value	Current Value	Investment Maturities		
			1-5 years	6-10 years	More than 10
Certificates of Deposit	<u>\$ 1,828,356</u>	<u>\$ 1,828,356</u>	<u>\$ 1,828,356</u>	<u>\$ -</u>	<u>\$ -</u>

Credit Risk:

State law limits investments in commercial paper and corporate bonds to prime or better ratings issued by nationally recognized statistical rating organizations (NRSROs). As of March 31, 2018, the Township had no such investments.

NOTE 3. DEPOSITS AND INVESTMENTS, CONCLUDED**Interest Rate Risk:**

In accordance with its investment policy, the Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. This is accomplished by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity in accordance with the Township's cash requirements.

Concentration of Credit Risk:

The Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security issuer will be minimized. As of March 31, 2018, the Township had no such investments.

Custodial Credit Risk-Investments:

For an investment, this is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities allowed by law, and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Township will do business. As of March 31, 2018, the Township had no such investments.

Foreign Currency Risk:

The Township is not authorized to invest in investments which have this type of risk.

Acquisition value Measurement:

The Township categorizes its acquisition value measurements within the hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the acquisition value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Township has the following recurring acquisition value measurements as of March 31, 2018:

- Certificates of deposits with a balance of \$1,828,356 valued using quoted prices in active markets for identical assets (Level 2).

NOTE 4. PROMISSORY NOTE RECEIVABLE

The Township has a promissory note receivable due from the Edwardsburg Ambulance Service dated October 31, 2014 in the amount of \$156,602, and bearing interest at the rate of 1.2%. The note is to be repaid to the Township in four annual installments of \$39,151 plus interest beginning on April 1, 2015 through April 1, 2018. The purpose of the loan was to enable the Edwardsburg Ambulance Service to purchase a 2012 Chevy Ambulance. The outstanding balance at March 31, 2018 was \$39,149.

NOTE 5. RECEIVABLES

Receivables as of year-end for the Township's individual major fund including the applicable allowances for uncollectible accounts are as follows:

	General Fund	Police Fund	Fire/ Ambulance Fund	Special Assessments Fund	Sewer Fund	Total
Receivables:						
Taxes	\$ 19,991	\$ 24,793	\$ 24,793	\$ 13,358	\$ -	\$ 82,935
Special Assessments	-	-	-	64,010	557,739	621,749
Trade	-	-	-	-	161,527	161,527
Total Receivables	<u>\$ 19,991</u>	<u>\$ 24,793</u>	<u>\$ 24,793</u>	<u>\$ 77,368</u>	<u>\$ 719,266</u>	<u>\$ 866,211</u>

By ordinance, the Township can place substantially all of its delinquent receivables on the tax rolls as a lien against real property.

NOTE 6. CAPITAL ASSETS

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 30,350	\$ -	\$ -	\$ 30,350
Capital assets being depreciated:				
Building	\$ 384,181	\$ 25,025	\$ -	\$ 409,206
Equipment	127,257	-	-	127,257
Streets	561,247	-	-	561,247
Total	\$ 1,072,685	\$ 25,025	\$ -	\$ 1,097,710
Accumulated depreciation:				
Building	\$ (163,198)	\$ (11,273)	\$ -	\$ (174,471)
Equipment	(105,013)	(2,034)	-	(107,047)
Streets	(252,651)	(28,062)	-	(280,713)
Total	\$ (520,862)	\$ (41,369)	\$ -	\$ (562,231)
Net capital assets being depreciated	\$ 551,823			\$ 535,479
Net capital assets	\$ 582,173			\$ 565,829
	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities - Sewer				
Capital assets being depreciated				
Sewer system	\$ 11,848,718	\$ -	\$ -	\$ 11,848,718
Equipment	104,390	-	-	104,390
Total	\$ 11,953,108	\$ -	\$ -	\$ 11,953,108
Accumulated depreciation:				
Sewer system	\$ (3,581,233)	\$ (236,974)	\$ -	\$ (3,818,207)
Equipment	(23,517)	(7,908)	-	(31,425)
Total	\$ (3,604,750)	\$ (244,882)	\$ -	\$ (3,849,632)
Net capital assets - Sewer	\$ 8,348,358			\$ 8,103,476
Depreciation was charged to programs of the primary government as follows:				
Governmental Activities				
Unallocated Depreciation	\$ 41,369			
Business-type Activities				
Sewer	\$ 244,882			

NOTE 7. LONG TERM DEBT

Long term obligations consist of the following contract payables to Cass County, issued in connection with sewer system improvements and expansion. All debt is secured by the full faith and credit of the Township.

Long-term obligation activity can be summarized as follows:

Fund	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities					
2005 Contract Payable	\$ 1,865,000	\$ -	\$ (1,245,000)	\$ 620,000	\$ -
2012 Contract Payable	353,706	-	(99,546)	254,160	-
Total Business-type Activities	\$ 2,218,706	\$ -	\$ (1,344,546)	\$ 874,160	\$ -

The Township paid the amount coming due on May 1, 2018, prior to the fiscal year end.

	Face Amount
\$1,360,000 Cass County Sewage Disposal Bonds (Painter, Juno, and Christiana Lakes) (Refunding, Series 2012 general obligation limited tax); bearing interest at 2.00% to 3.15%, due in annual installments of \$75,000 to \$140,000, beginning in May 2013, plus interest, through May 2024. **	\$ 254,160
\$6,540,000 Cass County Sewage Disposal Bonds (Refunding general obligation limited tax); bearing interest at 3.50% to 4.75%, due in annual installments of \$485,000 to \$640,000, beginning in May 2008, plus interest, through May 2019.	620,000
	\$ 874,160

** -- This bond obligation is shown with Ontwa Township responsible for 42.36% and Mason Township responsible for 57.65%.

Annual debt service requirements to maturity for the above contract obligations are as follows:

	Business-type Activities		
	Principal	Interest	Total
2020	\$ 666,596	\$ 21,699	\$ 688,295
2021	46,596	5,576	52,172
2022	44,478	4,210	48,688
2023	42,360	2,907	45,267
2024	42,360	1,636	43,996
2025	31,770	499	32,269
	\$ 874,160	\$ 36,527	\$ 910,687

Interest expense of \$76,364 was charged to the sewer operations of the Township for the year ended March 31, 2018, and an additional \$79,252 was recognized as prepaid interest and bond obligation for Mason Township.

NOTE 8. WASTEWATER TREATMENT SERVICES WITH CITY OF ELKHART

The Township and the Cass County Board of Public Works (“BPW”) are parties with the City of Elkhart (“Elkhart”) for sewage and wastewater treatment services. The original agreement was dated March 14, 2000, with amendments on August 15, 2000 and May 16, 2011. The BPW has made fixed capital buy-in payments that entitle the Township and BPW to an average daily flow rate that shall not exceed 515,000 gallons per day or 900 gallons per minute. They also have the option to purchase additional capacity to add an additional 155,000 gallons per day of average flow. The agreement is in place for twenty (20) years from the date of the 2nd amendment. The cost of these services for March 31, 2018 was \$407,135.

NOTE 9. OPERATING LEASES

The Township did not have any operating or capital leases during the year.

NOTE 10. SANITARY SEWAGE DISPOSAL FOR GRANGER SERVICE AREA

The Township has an agreement with the St. Joseph County Regional Water & Sewer District (“District”) for the transmittal of District sewage through the Township’s sewer system to be processed by the Elkhart system. (See Note 8). The District purchased a capacity of 75,000 gallons per day at a cost of \$3.14/gal for a total cost of \$235,500, with the option of purchasing an additional 60,000 gallons per day at the same multiplier. The total amount of revenue received from the District was \$59,012 for fiscal 2018.

The monthly charge for treatment of the sewage will be \$2.94/1,000 gallons, with \$2.40 for the treatment by Elkhart and \$0.54 for transportation in the Township’s system.

NOTE 11. SAW GRANT

The Township entered into a grant agreement as of October 29, 2014 with the Michigan Department of Environmental, Office of Drinking Water and Municipal Assistance (the “DEQ”) to provide funding for the Township project named Wastewater Asset Management Plan and Wastewater Planning and Design, project #1419-01. The grant is awarded pursuant to Natural Resources and Environmental Protection Act, 1994 PA 451, as amended. The project is for the development of Wastewater Asset Management Plan and completion of a Rural Development Preliminary Engineering Report and Plans and Specifications. The total project cost is \$678,683 with the grant amount awarded for 90% or \$610,815 and the Township responsible for a 10% match or \$67,868. The grant period is from January 1, 2013 to October 1, 2017, with only costs incurred between the start and end dates eligible for payment. The total amount received from the grant in for the year ended March 31, 2018 was \$12,681. The total costs incurred during the fiscal year were \$10,636; with total costs incurred during the grant period is \$678,134.

NOTE 12. RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; error and omissions; worker's compensation; and natural disaster. The Township participates in the Michigan Municipal Liability and Property Pool for claims relating to general liability, excess liability, auto liability, error and omissions, physical damage (equipment, building and contents) and work's compensations. Settlement amounts have not exceeded insurance coverage for the past four years.

NOTE 13. GASB STATEMENT No. 77 – TAX ABATEMENTS

The Township has evaluated the tax abatements related to the Township and determined none are material for disclosure as of March 31, 2018.

NOTE 14. SUBSEQUENT EVENTS

The Township has evaluated subsequent events through August 15, 2018, the date the financial statements were available to be issued. No events or transactions occurred during this period which requires recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED March 31, 2018

	Original Budget	Final Budget	Actual	Variance
Revenues				
Tax Revenues	\$ 235,300	\$ 235,300	\$ 184,478	\$ (50,822)
Intergovernmental Revenue from State	410,000	410,000	437,576	27,576
Fines and Forfeits	-	-	29,075	29,075
Licenses and Permits	75,500	100,500	87,536	(12,964)
Franchise Fees	82,000	82,000	79,362	(2,638)
Interest and Rents	4,000	4,000	10,438	6,438
Other Revenue	94,100	94,100	142,082	47,982
Total Revenues	<u>\$ 900,900</u>	<u>\$ 925,900</u>	<u>\$ 970,547</u>	<u>\$ 44,647</u>
Expenditures				
General Government:				
Legislative	\$ 100,840	\$ 100,840	\$ 79,243	\$ 21,597
Chief Executive	109,861	109,861	94,908	14,953
Treasurer	60,204	60,204	51,398	8,806
Assessing Equalization	47,500	47,500	43,782	3,718
Clerk	40,204	40,204	35,742	4,462
Elections	26,000	20,500	2,125	18,375
Building and Grounds	78,800	78,800	64,707	14,093
All Other	6,300	6,300	5,364	936
Public Safety:				
Police	158,100	158,100	188,296	(30,196)
Ambulance/Fire	1,100	1,600	1,935	(335)
Building Inspections	83,950	103,950	87,202	16,748
Public Works:				
Electric Utilities	6,000	8,000	8,566	(566)
Roads	135,000	135,000	129,150	5,850
All Other	4,000	7,000	7,642	(642)
Recreation and Culture:				
Parks and Recreation	35,000	35,000	4,691	30,309
Community and Economic Development:				
Community Planning and Zoning	19,000	19,000	9,400	9,600
Total Expenditures	<u>\$ 911,859</u>	<u>\$ 931,859</u>	<u>\$ 814,151</u>	<u>\$ 117,708</u>
Net Change in Fund Balance	\$ (10,959)	\$ (5,959)	\$ 156,396	\$ 162,355
Fund Balance - Beginning of Year	<u>975,712</u>	<u>975,712</u>	<u>975,712</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 964,753</u>	<u>\$ 969,753</u>	<u>\$ 1,132,108</u>	<u>\$ 162,355</u>

**BUDGETARY COMPARISON SCHEDULE
POLICE FUND
YEAR ENDED March 31, 2018**

	Original and Final Budget	Actual	Variance
Revenues			
Taxes and Penalties	\$ 469,154	\$ 469,154	\$ -
Interest	-	8	8
Total Revenues	<u>\$ 469,154</u>	<u>\$ 469,162</u>	<u>\$ 8</u>
Expenditures			
Public Safety	<u>\$ 469,154</u>	<u>\$ 469,162</u>	<u>\$ (8)</u>
Total Expenditures	<u>\$ 469,154</u>	<u>\$ 469,162</u>	<u>\$ (8)</u>
Excess Revenues Over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balance - Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - End of Year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**BUDGETARY COMPARISON SCHEDULE-
FIRE/AMBULANCE FUND
YEAR ENDED March 31, 2018**

	Original and Final Budget	Actual	Variance
Revenues			
Taxes and Penalties	\$ 489,469	\$ 489,469	\$ -
Interest	-	42	42
Total Revenues	<u>\$ 489,469</u>	<u>\$ 489,511</u>	<u>\$ 42</u>
Expenditures			
Public Safety	\$ 489,469	\$ 479,415	\$ 10,054
Total Expenditures	<u>\$ 489,469</u>	<u>\$ 479,415</u>	<u>\$ 10,054</u>
Excess Revenues Over Expenditures	<u>\$ -</u>	<u>\$ 10,096</u>	<u>\$ 10,096</u>
Fund Balance - Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ -</u>	<u>\$ 10,096</u>	<u>\$ 10,096</u>

OTHER SUPPLEMENTARY INFORMATION

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
March 31, 2018**

	Special Revenue Funds							Total
	Ambulance Fund	Pleasant Lake and Back Lots	Eagle Lake and Channels	Regal Place Street Lights	Garver Lake District 16-1	Morton Lake		
Assets								
Cash and Cash Equivalents	\$ -	\$ 15,632	\$ 43,456	\$ (201)	\$ 16,984	\$ 6,480	\$ 82,351	
Taxes Receivables	9,498	2,078	1,162	20	-	600	13,358	
Special Assessment Receivables	-	-	-	-	64,010	-	64,010	
Due from General Fund	-	-	-	1,784	-	-	1,784	
Total Assets	\$ 9,498	\$ 17,710	\$ 44,618	\$ 1,603	\$ 80,994	\$ 7,080	\$ 161,503	

Liabilities							
Accounts Payable	\$ 9,498	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,498
Due to General Fund	-	2,179	13,163	-	5,278	-	20,620
Total Liabilities	\$ 9,498	\$ 2,179	\$ 13,163	\$ -	\$ 5,278	\$ -	\$ 30,118

Deferred Inflows of Resources							
Unavailable Revenue: Special Assessments	\$ -	\$ -	\$ -	\$ -	\$ 62,745	\$ -	\$ 62,745

Fund Balances							
Restricted:							
Street Lighting	\$ -	\$ -	\$ -	\$ 1,603	\$ -	\$ -	\$ 1,603
Weed Control Districts	-	15,531	31,455	-	12,971	7,080	67,037
Total Fund Balances	\$ -	\$ 15,531	\$ 31,455	\$ 1,603	\$ 12,971	\$ 7,080	\$ 68,640

Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 9,498	\$ 17,710	\$ 44,618	\$ 1,603	\$ 80,994	\$ 7,080	\$ 161,503
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**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED March 31, 2018**

	Special Revenue Funds							Total
	Ambulance Fund	Pleasant Lake and Back Lots	Eagle Lake and Channels	Regal Place Street Lights	Garver Lake District 16-1	Morton Lake		
Revenues								
Tax Revenues	\$ 175,911	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 175,911
Special Assessments	-	17,718	26,975	770	13,570	7,080		66,113
Interest	-	15	19	1	8	-		43
Total Revenues	\$ 175,911	\$ 17,733	\$ 26,994	\$ 771	\$ 13,578	\$ 7,080		\$ 242,067
Expenditures								
Public Safety	\$ 175,911	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 175,911
Public Works	-	17,960	25,681	2,471	7,406	-		53,518
Total Expenditures	\$ 175,911	\$ 17,960	\$ 25,681	\$ 2,471	\$ 7,406	\$ -		\$ 229,429
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ -	\$ (227)	\$ 1,313	\$ (1,700)	\$ 6,172	\$ 7,080		\$ 12,638
Net Change in Fund Balances	\$ -	\$ (227)	\$ 1,313	\$ (1,700)	\$ 6,172	\$ 7,080		\$ 12,638
Fund Balance - Beginning of Year	-	15,758	30,142	3,303	6,799	-		56,002
Fund Balance - End of Year	\$ -	\$ 15,531	\$ 31,455	\$ 1,603	\$ 12,971	\$ 7,080		\$ 68,640

**MANAGEMENT COMPLIANCE
LETTER**



**INDEPENDENT AUDITOR’S 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***

To the Board of Trustees
Ontwa Township
Cass County, 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, the business-type activities, each major fund, and the remaining fund information of Ontwa Township, Michigan, as of and for the year ended March 31, 2018, and the related notes to the financial statements, which collectively comprise Ontwa Township, Michigan’s basic financial statements and have issued our report thereon dated August 15, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Ontwa 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 Ontwa Township, Michigan’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Ontwa 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 responses, we identified a certain deficiency in internal control that we consider to be a material weakness and other deficiencies as 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 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 deficiency described in the accompanying schedule of findings and responses as item 2018-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2018-002 and 2018-003 to be significant deficiencies.

Compliance and Other Matters

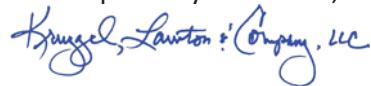
As part of obtaining reasonable assurance about whether Ontwa Township, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement 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 an instance of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2018-004.

Ontwa Township, Michigan's Response to Findings

Ontwa Township, Michigan's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Ontwa Township, Michigan's response was not subjected to the 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 the 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. This 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.

Respectfully submitted,

Certified Public Accountants

St. Joseph, Michigan
August 15, 2018

SECTION I – FINANCIAL STATEMENT FINDINGS

Finding 2018 – 001Audit Adjustments – Material Weakness

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting and for the safeguarding of the Township's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept given the government's unique circumstances.

Condition: Material adjustments related to receivables, payables, debt principal payments, and depreciation were identified during the audit and recorded as adjusting journal entries.

Cause: This condition was caused by the Township's decision that it is more cost effective to outsource the recording of principal payments, accruals, depreciation, etc. to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for Township personnel to prepare them internally.

Effect: A reliance on the independent auditor to be part of the Township's internal controls over financial reporting. The Township should review and implement the necessary education and procedural activities to monitor and report annual financial activity.

Directive: We recommend that the Township Board evaluate the cost versus benefit of establishing internal controls over the recording of principal payments in accordance with GAAP, and determine if it is in the best interests of the Township to outsource this duty to the external auditors. If the Township continues to rely on its external auditors to prepare the financial statements, we recommend that the board designate a responsible Township official to carefully review the journal entries prior to approving them and accepting responsibility for them.

Management Response: The Township has determined that it will begin recording the entries as needed at year-end.

Finding 2018 – 002Preparation of Financial Statements in accordance with GAAP – Significant Deficiency

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

Condition: As in the case with many smaller and medium-sized entities, the Township has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Township's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the Township's internal controls.

Cause: Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the finance department, management has made the decision that it their best interest to outsource the preparation of its annual financial statements and other schedules to the auditors rather than to incur the time and expense of obtaining the necessary expertise required for the Township to perform this task internally.

Effect: A reliance on the independent auditor to be part of the Township's internal controls over financial reporting. The Township should review and implement the necessary education and procedural activities to monitor and report annual financial activity.

Recommendation: We recommend that the Township Board evaluate the cost versus benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determine if it is in the best interests of the Township to outsource this duty to the external auditors. If the Township continues to rely on its external auditors to prepare the financial statements, we recommend that the Township board designate a responsible Township official to carefully review the draft financial statements, including the notes, prior to approving them and accepting responsibility for their content and presentation.

Management Response: The Township has determined that due to budgetary constraints the cost of contracting with a qualified third-party to prepare the financial statements would be cost prohibitive.

Finding 2018 – 003Segregation of Duties – Significant Deficiency

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting and for the safeguarding of the Township's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept given the government's unique circumstances.

Condition: As is the case with many organizations of similar size, the Township lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it. Events of recent years have given rise to heightened awareness of the risks of fraud and abuse, especially in a governmental environment, where public accountability is the highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against lost from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitation on the effectiveness of the Township's internal controls carries with it a greater risk of fraud and abuse.

Cause: This condition is a result of the Township's limited resources and the small size of its Township's staff.

Effect: The Township is exposed to an increased risk that misstatements or misappropriations may occur and not be detected by management on a timely basis.

Recommendation: While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

Management Response: We are aware of this deficiency; however, given the size of our entity and our available resources, it is difficult to provide for appropriate segregation of incompatible duties for all accounting functions. However, we will evaluate available options to administer limited segregation of duties for key accounting functions given our current resources.

Finding 2018 – 004Noncompliance – Fire Millage Payment Calculation

Criteria: The Interlocal Agreement dated October 7, 2014, between the Townships of Ontwa, Milton, and Jefferson of Cass County, Michigan, creates and re-establishes the Edwardsburg Joint Fire Board (Fire Board) The agreement requires contributions from Ontwa Township in proportion to the Township's respective Taxable Value unaffected by any tax abatement granted particular business, farms, or industries.

Condition: The Township's contributions are more than the amount required by the Interlocal Agreement.

Cause: This condition is a result of the Township using the total real and personal property Taxable Value to calculate the contributions to the Fire Board.

Effect: The Township paid \$10,096 more than the required amount from fiscal year ending March 31, 2014 through March 31, 2017. This amount was refunded by the Fire Board in fiscal year ending March 31, 2018. An additional \$11,861 overpayment was issued in fiscal year ending March 31, 2018.

Recommendation: The calculation of the Fire Board contribution should use only the real property Taxable Value. The remaining millage may be used for either Fire or Ambulance Emergency Services. If the Township chooses to contribute this additional amount to the Fire Board, communication should be included with the contribution.

Management Response: We are aware of this deficiency and will begin using real property to determine the required contributions to the Fire Board. Any additional amounts to be paid to the Fire Board will be identified as such.