

COLFAX TOWNSHIP, WEXFORD COUNTY

MANTON, MICHIGAN

MARCH 31, 2014



Baird, Cotter & Bishop, P.C.
SERVING YOUR PAST, PRESENT & FUTURE

CERTIFIED PUBLIC ACCOUNTANTS
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COLFAX TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

MARCH 31, 2014

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June 26, 2014

INDEPENDENT AUDITOR'S REPORT

To the Township Board
Colfax Township
Wexford County
Manton, Michigan

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements 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 Colfax Township, Wexford County, Manton, Michigan as of March 31, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iii through viii and budgetary comparison information on page 18 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.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

COLFAX TOWNSHIP, WEXFORD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2014

As management of Colfax Township ("the Township"), we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2014. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management Discussion and Analysis (MD&A) – for State and Local Governments issued in June of 2000. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because the audit of the Township is only required every other year, certain necessary comparative information of the previous year was not prepared. Considering the financial resources necessary to prepare this information for the prior year, the Township has elected to exclude the comparative information. We expect this situation to continue due to the every other year audit requirement.

Financial Highlights

- ❖ The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$786,405 (*net position*). Of this amount, \$600,673 represents unrestricted net position, which may be used to meet the Township's ongoing obligations to citizens and creditors.
- ❖ At the close of the current fiscal year, the Township's general fund reported a fund balance of \$618,336, an increase of \$20,202 in comparison with the prior year. Approximately 97% of this amount (\$600,673) is available for spending at the Township's discretion (*unassigned fund balance*).
- ❖ At the end of the current fiscal year, unrestricted fund balance (the total of *committed, assigned, and unassigned* components of fund balance) for the general fund was \$600,673. The restricted fund balance for the general fund was \$17,663.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements consist of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional details to support the basic financial statements themselves.

Government-Wide Financial Statements The *Government-Wide Financial Statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents financial information on all of the Township's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

COLFAX TOWNSHIP, WEXFORD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2014

The *Statement of Activities* presents information showing how the Township's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future periods.

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Township include general government, public safety, public works, and recreation and culture.

The government-wide financial statements can be found on pages 1-2 of this report.

Fund Financial Statements A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

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

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

The Township adopts an annual budget for the General Fund and Fire Fund. A budgetary comparison has been provided for the General Fund and Fire Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 3-6 of this report.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. The Township maintains one type of fiduciary fund. The Agency Fund reports resources held by the Township in a custodial capacity for other governments.

The fiduciary fund financial statement can be found on page 7 of this report.

COLFAX TOWNSHIP, WEXFORD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2014

Notes to Financial Statements The notes provide additional information that is necessary to acquire a full understanding of the data provided in the governmental-wide and fund financial statements. The notes can be found on pages 8-17 of this report.

Other Information In addition to the basic financial statements and accompanying notes, this report also presents *Required Supplementary Information* (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of Colfax Township, assets exceeded liabilities by \$786,405, at the close of the most recent fiscal year.

Colfax Township
Net Position as of March 31, 2014

	Governmental Activities
Assets	
Current Assets	\$ 629,255
Non Current Assets	
Capital Assets	266,955
Less: Accumulated Depreciation	(98,886)
Total Non Current Assets	168,069
Total Assets	797,324
Liabilities	
Current Liabilities	10,919
Net Position	
Net Investment in Capital Assets	168,069
Restricted	17,663
Unrestricted	600,673
Total Net Position	\$ 786,405

A portion of the Township's net position (21%) reflects its net investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related outstanding debt that was used to acquire those assets. The Township uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending.

Of the remaining balance \$600,673 is unrestricted, which may be used to meet the government's ongoing obligations to its citizens and creditors and \$17,663 is restricted for particular purposes.

COLFAX TOWNSHIP, WEXFORD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2014

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net position. The same situation held true for the prior fiscal year.

The Township's overall net position increased by \$16,419 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for the governmental activities.

**Change in Net Position
for the Fiscal Year Ended March 31, 2014**

	Governmental Activities
<u>Revenues</u>	
Program Revenues	
Charges for Services	\$ 14,258
Operating Grants and Contributions	4,084
General Revenues	
Taxes	45,878
State Shared Revenue	62,376
Investment Earnings	11,701
Other	112
Total Revenues	138,409
<u>Expenses</u>	
General Government	67,512
Public Safety	27,250
Public Works	972
Recreation and Culture	22,245
Other Functions	4,011
Total Expenses	121,990
Change in Net Position	16,419
<u>NET POSITION</u> - Beginning of Year	769,986
<u>NET POSITION</u> - End of Year	\$ 786,405

Governmental Activities A significant part of the revenue for all governmental activities of the Township comes from property taxes levied. The Township levied .7652 mills for operating purposes and .9832 for fire protection. State-shared revenues are also a significant portion of the revenues for the Township. State-shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax.

The Township's governmental activities expenses are dominated by general government expenses that total \$67,512. Public Safety represented the next largest expense at \$27,250.

COLFAX TOWNSHIP, WEXFORD COUNTY
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2014

Financial Analysis of the Governmental Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds The focus of the Township’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township’s financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Township itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Township Board.

At March 31, 2014, the Township’s governmental fund reported a fund balance of \$618,336, an increase of \$20,202 in comparison with the prior year. Approximately 97% of this amount (\$600,673) constitutes *unassigned fund balance*, which is available for spending at the government’s discretion. The remainder of the fund balance is either *nonspendable, restricted, committed, or assigned* to indicate that it is 1) not in spendable form, 2) legally required to be maintained intact, 3) restricted for particular purposes (17,663), 4) committed for particular purposes, or 5) assigned for particular purposes.

General Fund – The General Fund increased its fund balance by \$20,202 which brings the fund balance to \$618,336. Of this amount, \$600,673 is unassigned.

Fire Fund – The Fire Fund had no change in fund balance as ending fund balance remains at \$0.

General Fund Budgetary Highlights

During the year, there were several budget amendments resulting in a change in appropriations between line items but not in the overall budgeted expenditure amount.

The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Total Revenues	\$ 0	\$ 0	\$ 113,377
Total Expenditures	\$ 115,687	\$ 115,687	\$ 93,175

The major variance between budgeted revenues and actual revenues was due to the fact that the official budget document did not budget for revenue. The variance between budgeted expenditures and actual expenditures was due to the fact that the Township budgeted conservatively in almost every activity.

The Township did not budget for revenues during the fiscal year 2013-2014.

COLFAX TOWNSHIP, WEXFORD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2014

Capital Assets

Capital Assets The Township's investment in capital assets for governmental activities as of March 31, 2014, amounted to \$168,069 net of accumulated depreciation.

Capital assets summarized below include any items purchased with a cost greater than \$1,000 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

Colfax Township
Capital Assets as of March 31, 2014

	Governmental Activities
Land	\$ 89,885
Buildings and Improvements	109,601
Equipment	67,469
	<hr/> 266,955
Less: Accumulated Depreciation	(98,886)
Net Capital Assets	<hr/> \$ 168,069 <hr/>

Major capital asset events during fiscal year ending March 31, 2014 included the following:

- ❖ Playground equipment at a cost of \$2,065.

Economic Condition and Outlook

It appears that state-shared revenues have stabilized. The Township continues to look for ways to improve the services it provides to its residents in a manner that is financially responsible.

A fire millage was once again levied for the 2014 tax roll.

These factors were considered in preparing the Township's budgets for the 2014-2015 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Colfax Township at 4964 North 31 Road, Manton, Michigan 49663.

COLFAX TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

STATEMENT OF NET POSITION
MARCH 31, 2014

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 382,458
Investments	221,567
Receivables	
Taxes	5,212
External Party (Fiduciary Fund)	3,659
Due from Other Governments	<u>16,359</u>
 Total Current Assets	 <u>629,255</u>
 <u>CAPITAL ASSETS</u>	
Land	89,885
Buildings and Improvements	109,601
Equipment	<u>67,469</u>
	266,955
Less Accumulated Depreciation	<u>98,886</u>
Net Capital Assets	<u>168,069</u>
 TOTAL ASSETS	 <u>797,324</u>
 <u>LIABILITIES</u>	
Payroll Liabilities	3,517
Accounts Payable	1,515
Due to Other Governments	<u>5,887</u>
 TOTAL LIABILITIES	 <u>10,919</u>
 <u>NET POSITION</u>	
Net Investment in Capital Assets	168,069
Restricted for Road Maintenance & Right-of-Way	17,663
Unrestricted	<u>600,673</u>
 TOTAL NET POSITION	 <u>\$ 786,405</u>

The accompanying notes are an integral part of the financial statements.

COLFAX TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2014

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSES) REVENUES AND CHANGE IN NET POSITION TOTAL GOVERNMENTAL ACTIVITIES
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
<u>GOVERNMENTAL ACTIVITIES</u>					
General Government	\$ 67,512	\$ 8,290	\$ 0	\$ 0	\$ (59,222)
Public Safety	27,250	0	0	0	(27,250)
Public Works	972	0	4,084	0	3,112
Recreation and Culture	22,245	5,968	0	0	(16,277)
Other Functions	4,011	0	0	0	(4,011)
Total Governmental Activities	\$ 121,990	\$ 14,258	\$ 4,084	\$ 0	(103,648)
<u>GENERAL REVENUES</u>					
					45,878
Taxes					62,376
State Shared Revenue					11,701
Investment Earnings					112
Other					
Total General Revenues					120,067
Change in Net Position					16,419
<u>NET POSITION</u> - Beginning of Year					769,986
<u>NET POSITION</u> - End of Year					\$ 786,405

The accompanying notes are an integral part of the financial statements.

COLFAX TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
MARCH 31, 2014

	<u>GENERAL FUND</u>	<u>FIRE FUND</u>	<u>TOTALS</u>
<u>ASSETS</u>			
Cash	\$ 382,458	\$ 0	\$ 382,458
Investments	221,567	0	221,567
Taxes Receivable	2,281	2,931	5,212
Due from Other Funds	3,659	2,956	6,615
Due from Other Governments	16,359	0	16,359
	\$ 626,324	\$ 5,887	\$ 632,211
TOTAL ASSETS	\$ 626,324	\$ 5,887	\$ 632,211
<u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Payroll Liabilities	\$ 3,517	\$ 0	\$ 3,517
Accounts Payable	1,515	0	1,515
Due to Other Funds	2,956	0	2,956
Due to Other Governments	0	5,887	5,887
	7,988	5,887	13,875
Total Liabilities	7,988	5,887	13,875
<u>FUND BALANCE</u>			
Restricted for:			
Road Maintenance & Right-of-way	17,663	0	17,663
Unassigned	600,673	0	600,673
	618,336	0	618,336
Total Fund Balance	618,336	0	618,336
TOTAL LIABILITIES AND FUND BALANCE	\$ 626,324	\$ 5,887	\$ 632,211

The accompanying notes are an integral part of the financial statements.

COLFAX TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
MARCH 31, 2014

Total Fund Balances for Governmental Funds \$ 618,336

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 therefore are not reported in the funds.

Land	\$ 89,885	
Buildings and Improvements	109,601	
Equipment	67,469	
Accumulated Depreciation	(98,886)	168,069

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 786,405

The accompanying notes are an integral part of the financial statements.

COLFAX TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED MARCH 31, 2014

	<u>GENERAL</u> <u>FUND</u>	<u>FIRE</u> <u>FUND</u>	<u>TOTALS</u>
<u>REVENUES</u>			
Taxes	\$ 20,846	\$ 25,032	\$ 45,878
Federal Grants	2,112	0	2,112
State Grants	64,348	0	64,348
Charges for Services	14,258	0	14,258
Interest and Rents	11,701	0	11,701
Other Revenue	112	0	112
Total Revenues	113,377	25,032	138,409
<u>EXPENDITURES</u>			
General Government	63,729	0	63,729
Public Safety	2,218	25,032	27,250
Public Works	972	0	972
Recreation and Culture	22,245	0	22,245
Other Functions	4,011	0	4,011
Total Expenditures	93,175	25,032	118,207
Excess (Deficiency) of Revenues Over Expenditures	20,202	0	20,202
<u>FUND BALANCE</u> - Beginning of Year	598,134	0	598,134
<u>FUND BALANCE</u> - End of Year	\$ 618,336	\$ 0	\$ 618,336

The accompanying notes are an integral part of the financial statements.

COLFAX TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

MARCH 31, 2014

Net Change in Fund Balance - Total Governmental Funds	\$ 20,202
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures in the Statement of Activities. These costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(5,848)
Capitalized Capital Outlay	<u>2,065</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 16,419</u></u>
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The accompanying notes are an integral part of the financial statements.

COLFAX TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION
MARCH 31, 2014

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ 3,648
Due from Other Governments	<u>1,381</u>
 TOTAL ASSETS	 <u>5,029</u>
 <u>LIABILITIES</u>	
Due to Other Funds	3,659
Due to Other Governments	<u>1,370</u>
 TOTAL LIABILITIES	 <u>5,029</u>
 <u>NET POSITION</u>	 <u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

COLFAX TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the *Statement of Net Position* and the *Statement of Activities*) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary governmental is financially accountable. Colfax Township does not have any *business-type activities* or *component units*.

B. Reporting Entity

Colfax Township is a general law township located in Wexford County, which operates under the direction of an elected township board. Under the criteria established by generally accepted accounting principles, the Township has determined that there are no component units which should be included in its reporting entity.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements

Colfax Township reports the following major governmental funds:

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

The *Fire Fund* accounts for revenue sources that are legally restricted to expenditures for fire protection.

COLFAX TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

Additionally, Colfax Township reports the following fund types:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues when levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund 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 when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are 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, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

COLFAX TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

Property taxes, licenses, 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. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue resource (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

F. Budgetary Information

1. Budgetary Basis of Accounting

The annual budget is adopted on the modified accrual basis in accordance with the requirements of “The Uniform Budgeting and Accounting Act.” A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budget amounts are as originally adopted on March 26, 2013 and amended from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

2. Expenditures in Excess of Appropriations were as Follows:

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
<u>General Fund</u>		
General Government		
Cemetery	\$ 13,760	\$ 13,772
Treasurer	12,510	12,514
Public Safety		
Fire Department	0	2,218
 <u>Fire Fund</u>		
Public Safety		
Fire Department	24,425	25,032

These overages were covered by available fund balance and greater than anticipated revenues.

COLFAX TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposits, and short-term investments with original maturities of three months or less from date of acquisition.

Investments – The Township's investment policy is in compliance with state law and authorizes the Township to invest in passbook savings accounts, certificates of deposit, and money market funds. The Township does not have any investments other than interest bearing bank accounts.

2. Inventories and Prepaid Items

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

3. 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 or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 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 date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment of the primary government, as well as the component units are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings and Improvements	20-40
Equipment	5-10

COLFAX TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

4. *Deferred Outflows/Inflows 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. The Township does not have any deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Township does not have any deferred inflows of resources.

5. *Net Position Flow Assumption*

Sometimes the government 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 to report as restricted – net position and unrestricted – net position 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 government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

6. *Fund Balance Flow Assumption*

Sometimes the government 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 government’s policy to consider restricted fund balance to have been depleted before using any of the 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.

7. *Fund Balance Policies*

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority. The governing board is the highest level of decision-making authority for

COLFAX TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an addition action is essential to either remove or revise a commitment.

8. *Use of Estimates*

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

H. Revenues and Expenditures

1. *Program Revenues*

Amounts reported as program revenue include 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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. *Property Taxes*

Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes, county taxes, and school taxes are levied and due July 1, and become delinquent after September 14. The remaining millages are levied and due December 1, and become delinquent after February 14. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

COLFAX TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

The 2013 taxable valuation of Colfax Township totaled \$25,496,421 on which ad valorem taxes levied consisted of 0.7652 mills for Colfax Township operating purposes and 0.9832 mills for fire protection. The levy raised approximately \$19,510 for operating purposes and \$25,032 for fire protection.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Violations of Legal or Contractual Provisions

Note I.F.2, on the Excess of Expenditures over Appropriations, describes a budgetary violation that occurred for the year ended March 31, 2014. Additionally, adopting a budget that results in a deficit is a violation of state law.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Township's deposits are all on deposit with Fifth Third Bank and Forest Area Federal Credit Union.

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2014, \$24,872 of the government's bank balance of \$410,217 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although it is not specifically addressed in the Township's investment policy, the Township typically limits its exposure to this type of risk by controlling who holds its deposits.

Custodial Credit Risk – Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government 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's investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name.

Foreign Currency Risk. The Township is not authorized to invest in investments which have this type of risk; therefore, it is not addressed in the investment policy.

On December 1, 1988, and April 9, 1990, the Township Board authorized investments in a U.S. Single Premium Deferred Annuity and a U.S. Double Premium Deferred Annuity from Jackson National Life Insurance Company.

COLFAX TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
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It has not been determined if this investment is legal or illegal. This matter has been referred to the Michigan Department of Treasury. This investment is not insured by federal depository insurance and is uncategorized as to risk for investment risk classification purposes.

The Township Board has authorized all investment income to be reinvested in the annuities. As of March 31, 2014, the Township had the following investments:

	CARRYING AMOUNT	FAIR VALUE
Investments - Primary Government		
Jackson National Life Insurance Annuities		
(Uncategorized as to Risk)	\$ 221,567	\$ 221,567

B. Receivables

Receivables as of year end for the government's individual major funds are as follows:

	General	Fire	Total
Receivables			
Taxes	\$ 2,281	\$ 2,931	\$ 5,212
Due from Other Governments	16,359	0	16,359
	\$ 18,640	\$ 2,931	\$ 21,571

The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.

Amounts due from other governments consist of \$14,307 in state-shared revenues and \$2,052 in national forest revenues.

COLFAX TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

C. Capital Assets

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 89,885	\$ 0	\$ 0	\$ 89,885
Capital assets, being depreciated				
Buildings and Improvements	109,601	0	0	109,601
Equipment	65,404	2,065	0	67,469
Total capital assets, being depreciated	175,005	2,065	0	177,070
Less accumulated depreciation for:				
Buildings and Improvements	37,107	3,568	0	40,675
Equipment	55,931	2,280	0	58,211
Total accumulated depreciation	93,038	5,848	0	98,886
Total capital assets, being depreciated, net	81,967	(3,783)	0	78,184
Governmental activities capital assets, net	\$ 171,852	\$(3,783)	\$ 0	\$ 168,069

Depreciation expense was charged to functions/programs of the government as follows:

Governmental Activities:

General Government	<u>\$ 5,848</u>
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D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at March 31, 2014, were:

	<u>DUE FROM OTHER FUNDS</u>	<u>DUE TO OTHER FUNDS</u>
General Fund	\$ 3,659	\$ 2,956
Fire Fund	2,956	0
Fiduciary Funds		
Current Tax Collection	0	3,659
	<u>\$ 6,615</u>	<u>\$ 6,615</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

COLFAX TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

E. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, workers compensation insurance and errors and omissions insurance. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

F. Related Parties

During the fiscal year, there were several related parties involved in both appointed positions and contracted services. The Township Board approved contracts and/or payments to such individuals and companies.

IV. OTHER INFORMATION

A. Joint Fire District

The Township is a member of the Colfax-Greenwood Fire Department. The Fire Department is a joint venture of Colfax and Greenwood Townships created to provide fire protection for the member townships. Colfax Township levies millage to support the Fire Department. A copy of these audited financial statements may be obtained upon request from the Fire District treasurer.

COLFAX TOWNSHIP, WEXFORD COUNTY
MANTON, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS
YEAR ENDED MARCH 31, 2014

	GENERAL FUND			FIRE FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>						
Taxes	\$ 0	\$ 0	\$ 20,846	\$ 0	\$ 0	\$ 25,032
Federal Grants	0	0	2,112	0	0	0
State Grants	0	0	64,348	0	0	0
Charges for Services	0	0	14,258	0	0	0
Interest and Rents	0	0	11,701	0	0	0
Other Revenue	0	0	112	0	0	0
Total Revenues	0	0	113,377	0	0	25,032
<u>EXPENDITURES</u>						
General Government						
Township Board	11,595	11,595	6,314	0	0	0
Supervisor	6,631	6,631	6,324	0	0	0
Elections	2,950	2,950	1,392	0	0	0
Assessor	11,025	11,705	11,702	0	0	0
Clerk	9,386	9,386	9,290	0	0	0
Board of Review	660	740	700	0	0	0
Treasurer	11,930	12,510	12,514	0	0	0
Building and Grounds	8,750	6,190	1,721	0	0	0
Cemetery	11,200	13,760	13,772	0	0	0
Public Safety						
Fire Department	0	0	2,218	24,200	24,425	25,032
Public Works						
Refuse Collection/Disposal	2,400	1,060	972	0	0	0
Recreation and Culture						
Parks and Recreation	34,660	34,660	22,145	0	0	0
Museum	100	100	100	0	0	0
Other Functions	4,400	4,400	4,011	0	0	0
Total Expenditures	115,687	115,687	93,175	24,200	24,425	25,032
Excess (Deficiency) of Revenues	(115,687)	(115,687)	20,202	(24,200)	(24,425)	0
<u>FUND BALANCE</u> - Beginning of Year	0	0	598,134	0	0	0
<u>FUND BALANCE</u> - End of Year (Deficit)	\$ (115,687)	\$ (115,687)	\$ 618,336	\$ (24,200)	\$ (24,425)	\$ 0



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June 26, 2014

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

To the Township Board
Colfax Township
Wexford County
Manton, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Colfax Township for the year ended March 31, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, 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 May 14, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Colfax Township are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended March 31, 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 26, 2014.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

Budgeting

The Township's actual expenditures exceeded appropriations in certain areas of the General Fund and the Fire Fund in total. The budget should always be amended prior to incurring the expenditures in excess of budgeted amounts. All amendments should be approved by the

Township Board and be recorded in the minutes. The budget document should include all items required by the Uniform Budgeting Act, including budgeted revenues and estimated beginning and ending fund balances for each fund. Further, a separate budget should be adopted for the Fire Fund activity.

Bank Reconciliations

It was noted that bank reconciliations were not completed on a monthly basis. We recommend the bank balances be reconciled to the balance per the general ledger. The Michigan Department of Treasury Accounting Procedures Manual requires that this be done on a monthly basis.

Also, because of the limited number of personnel we recommend that a board member review and initial the bank statement and reconciliation each month. This will help strengthen internal control within the organization.

General Ledger Accounting

It is our recommendation that the Township consider the use of computerized general ledger accounting system. There are several options available for minimal cost that would ensure that each fund balances. These software options also allow for easy cash reconciliations, printing of checks, computing payroll deductions, and preparing quarterly payroll tax returns. We are available to help implement such an option and can provide training if needed.

Policy Book

During the audit, it was noted that the Township did not have many policies on hand, and further, it was unclear as to whether various required policies have been adopted (capitalization policy, investment policy, etc.). We recommend that the Township maintain a book with all of the policies the board has adopted and adopt any further policies as required.

Reconciliation between Clerk and Treasurer Records

The State of Michigan requires that the Clerk and Treasurer reconcile their records with each other on a monthly basis. It was not evident that this is not being done. It is the Clerk's duty to maintain an accurate general ledger with complete posting and classifications, and we recommend that this be done in the future.

Investment

It was noted that the legality of the Township's investment with Jackson National Life Insurance is questionable under Public Act 20 of 1943. We recommend that this matter is referred to the Township attorney to determine legality of the investment.

Other Matters

We applied certain limited procedures to the Management Discussion and Analysis and the Budgetary Comparison Schedule, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding the methods of preparing the information and comparing 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Township Board and management of Colfax Township and is not intended to be, and should not be, used by anyone other than these specific parties.

BAIRD, COTTER AND BISHOP, P.C.

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June 26, 2014

COMMUNICATION OF MATERIAL WEAKNESSES

To the Township Board
Colfax Township
Wexford County
Manton, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Colfax Township as of and for the year ended March 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered Colfax Township's internal control over financial reporting (internal control) as a basis for designing audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Colfax Township's internal control. Accordingly, we do not express an opinion on the effectiveness of Colfax Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 following deficiencies in Colfax Township's internal control to be material weaknesses:

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

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

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

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

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

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

Recommendation: Due to the size and minimal activity, we recommend that the government continue to outsource financial statement preparation.

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

2) *Segregation of Incompatible Duties and Documented Independent Review of Cash Receipts*

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

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

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

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

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

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

Colfax Township's responses to the material weaknesses identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Township Board and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

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