

**HOLLAND TOWNSHIP, MISSAUKEE COUNTY**

**FALMOUTH, MICHIGAN**

**MARCH 31, 2014**



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

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601 PHONE: (231) 775-9789 FAX: (231) 775-9749  
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HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
FALMOUTH, MICHIGAN

MARCH 31, 2014

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134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601 PHONE: (231) 775-9789 FAX: (231) 775-9749

www.bcbcpa.com

May 5, 2014

## INDEPENDENT AUDITOR'S REPORT

To the Township Board  
Holland Township  
Missaukee County  
Falmouth, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Holland Township, Missaukee County, Falmouth, 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. According, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonable 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, the major fund, and the aggregate remaining fund information of Holland Township, Missaukee County, Falmouth, Michigan as of March 31, 2014, and the respective changes in financial position for the year then ended in conformity 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 and budgetary comparison information on pages iii through ix and 17 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.*

HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
FALMOUTH, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

As management of Holland 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**

**Government-Wide:**

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$170,118. Of this amount, \$103,449 may be used to meet the Township’s ongoing obligations to citizens and creditors.
  
- ◆ The Township’s net position increased by \$13,971 during the fiscal year.

**Fund Level:**

- ◆ As of the close of the current fiscal year, the Township’s general fund reported an ending fund balance of \$104,220, an increase of \$15,525 in comparison with the prior year.

**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.

HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
FALMOUTH, MICHIGAN

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 other functions.

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. Holland 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 maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund.

The Township adopts an annual budget for its major fund. A budgetary comparison has been provided to demonstrate compliance with this budget.

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

HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
FALMOUTH, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

**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.

**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 8-16 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 Holland Township, assets exceeded liabilities by \$170,118, at the close of the most recent fiscal year.

**Holland Township**  
**Net Position as of March 31, 2014**

	<u>Governmental</u> <u>Activities</u>
<b>Assets</b>	
Current Assets	\$ 107,555
Non Current Assets	
Capital Assets	85,583
Less: Accumulated Depreciation	<u>(19,685)</u>
Total Non Current Assets	<u>65,898</u>
<b>Total Assets</b>	<u>173,453</u>
<b>Liabilities</b>	
Current Liabilities	<u>3,335</u>
<b>Net Position</b>	
Net Investment in Capital Assets	65,898
Restricted for Road Improvements	771
Unrestricted	<u>103,449</u>
<b>Total Net Position</b>	<u>\$ 170,118</u>

HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
FALMOUTH, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

A portion of the Township’s net position (38%) 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.

An additional portion of the Township’s net position (less than 1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$106,749 is unrestricted, which may be used to meet the government’s ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net position.

Holland Township’s overall net position increased by \$13,971 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for the governmental activities.

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

	<b>Governmental Activities</b>
<b><u>Revenues</u></b>	
<b>Program Revenues</b>	
Charges for Services	\$ 1,049
Operating Grants and Contributions	3,569
<b>General Revenues</b>	
Taxes	34,804
State Grants	18,558
Unrestricted Investment Earnings	73
<b>Total Revenues</b>	58,053
<b><u>Expenses</u></b>	
General Government	26,060
Public Safety	10,747
Public Works	2,597
Other Functions	4,678
<b>Total Expenses</b>	44,082
Change in Net Position	13,971
<b><u>NET POSITION</u></b> - Beginning of Year	159,447
<b><u>NET POSITION</u></b> - End of Year	\$ 173,418



HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
FALMOUTH, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

**Governmental Activities**

The most significant portion of the revenue for all governmental activities of Holland Township comes from property taxes. The Township levied 1.4869 mills for operating purposes. 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 Governmental expenses. The Township spent \$26,060 in fiscal year 2013-2014 on General Governmental expenses. Public Safety represented the next largest expense at \$10,747.

**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 Holland 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, Holland Township's governmental fund reported a fund balance of \$104,220, an increase of \$15,525 in comparison with the prior year. Approximately 80% of this amount (\$83,235) 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 (\$771), 4) committed for particular purposes (\$1,731), or 5) assigned for particular purposes (\$18,483).

**General Fund.** The General Fund increased its fund balance by \$15,525 which brings the fund balance to \$104,220. Of the General Fund's fund balance, \$86,535 is unassigned, \$771 is restricted for road improvement, \$1,731 is committed for road improvement and \$18,483 is assigned for the anticipated subsequent year budget shortfall. Tax revenue amounted to \$34,804. State shared revenues were collected in the amount of \$20,063, including metro funds. The majority of the increase in fund balance can be attributed to a decrease in the amount of funds spent on road improvements by the Township.

**General Fund Budgetary Highlights**

During the year, the Township did not amend its budget. A detailed summary of the budget can be found on page 17 of this report.

HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
FALMOUTH, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

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	\$ 50,225	\$ 50,225	\$ 58,053
Total Expenditures	\$ 54,839	\$ 54,839	\$ 42,528

The reason for variance between budgeted revenues and actual revenues can be attributed to the Township receiving more taxes and state shared revenues than what it budgeted for. The majority of the variance between budgeted expenditures and actual expenditures is due to the Township budgeting more for many expenditures than it actually incurred during the fiscal year.

**Capital Assets**

**Capital Assets** The Township's investment in capital assets for governmental as of March 31, 2014 amounted to \$65,898 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:

**Holland Township**  
**Capital Assets as of March 31, 2014**

	<b>Governmental Activities</b>
Building Improvements	\$ 1,422
Buildings	10,300
Infrastructure	65,330
Equipment and Furniture	8,531
	85,583
Less: Accumulated Depreciation	(19,685)
<b>Net Capital Assets</b>	<b>\$ 65,898</b>

There were no capital assets purchased during the fiscal year that cost more than the threshold.

HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
FALMOUTH, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

**Economic Condition and Outlook**

It appears that state shared revenues have stabilized.

This factor was considered in preparing the Township's budget 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 Holland Township at 8330 S. Merritt Road, Falmouth, MI 49632.

HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
FALMOUTH, MICHIGAN

STATEMENT OF NET POSITION  
MARCH 31, 2014

<u>ASSETS</u>	<u>GOVERNMENTAL ACTIVITIES</u>
<u>CURRENT ASSETS</u>	
Cash	\$ 102,433
Receivables	
Taxes Receivable	754
Due from Other Governments	4,368
	<hr/>
Total Current Assets	107,555
	<hr/>
<u>CAPITAL ASSETS</u>	
Building Improvements	1,422
Buildings	10,300
Infrastructure	65,330
Equipment & Furniture	8,531
	<hr/>
	85,583
Less Accumulated Depreciation	(19,685)
Net Capital Assets	<hr/>
	65,898
	<hr/>
TOTAL ASSETS	173,453
	<hr/>
<u>LIABILITIES</u>	
Accounts Payable	3,300
Payroll Taxes and Withholdings	35
	<hr/>
TOTAL LIABILITIES	3,335
	<hr/>
<u>NET POSITION</u>	
Net Investment in Capital Assets	65,898
Restricted for Road Improvements	771
Unrestricted	103,449
	<hr/>
TOTAL NET POSITION	\$ 170,118
	<hr/> <hr/>

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

HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
FALMOUTH, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2014

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION TOTAL GOVERNMENTAL ACTIVITIES
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
<u>GOVERNMENTAL ACTIVITIES</u>					
General Government	\$ 26,060	\$ 1,049	\$ 0	\$ 0	\$ (25,011)
Public Safety	10,747	0	0	0	(10,747)
Public Works	2,597	0	3,569	0	972
Other Functions	4,678	0	0	0	(4,678)
Total Governmental Activities	\$ 44,082	\$ 1,049	\$ 3,569	\$ 0	(39,464)
 <u>GENERAL REVENUES</u>					
Taxes					34,804
State Grants					18,558
Unrestricted Investment Earnings					73
Total General Revenues					53,435
Change in Net Position					13,971
<u>NET POSITION</u> - Beginning of Year					156,147
<u>NET POSITION</u> - End of Year					\$ 170,118

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

HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
FALMOUTH, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET  
MARCH 31, 2014

	<u>GENERAL FUND</u>
<u>ASSETS</u>	
Cash	\$ 102,433
Taxes Receivable	754
Due from Other Governments	4,368
	<hr/>
TOTAL ASSETS	\$ 107,555
	<hr/> <hr/>
<u>LIABILITIES AND FUND BALANCE</u>	
<u>LIABILITIES</u>	
Accounts Payable	\$ 3,300
Payroll Taxes and Withholdings	35
	<hr/>
Total Liabilities	3,335
	<hr/>
<u>FUND BALANCE</u>	
Restricted for Road Improvements	771
Committed for Road Improvements	1,731
Assigned for Subsequent Year Budget Shortfall	18,483
Unassigned	83,235
	<hr/>
Total Fund Balance	104,220
	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 107,555
	<hr/> <hr/>

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

HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
FALMOUTH, MICHIGAN

GOVERNMENTAL FUNDS

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

Total Fund Balances for Governmental Funds	\$	104,220
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.		
Building Improvements	\$	1,422
Buildings		10,300
Infrastructure		65,330
Equipment and Furniture		8,531
Accumulated Depreciation		(19,685)
		<hr/> 65,898
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<hr/> <hr/> 170,118

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

HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
FALMOUTH, MICHIGAN

GOVERNMENTAL FUNDS

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

	<u>GENERAL FUND</u>
<u>REVENUES</u>	
Taxes	\$ 34,804
Federal Grants	2,064
State Grants	20,063
Charges for Services	1,049
Interest and Rents	73
	<hr/>
Total Revenues	58,053
	<hr/>
<u>EXPENDITURES</u>	
General Government	25,813
Public Safety	10,747
Public Works	1,290
Other Functions	4,678
	<hr/>
Total Expenditures	42,528
	<hr/>
Net Change in Fund Balance	15,525
	<hr/>
<u>FUND BALANCE</u> - Beginning of Year	88,695
	<hr/>
<u>FUND BALANCE</u> - End of Year	\$ 104,220
	<hr/> <hr/>

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



HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
FALMOUTH, 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	\$ 15,525
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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	<u>(1,554)</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 13,971</u></u>
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The accompanying notes are an integral part of the financial statements.

HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
FALMOUTH, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION  
MARCH 31, 2014

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	\$ 0
<u>LIABILITIES</u>	<u>0</u>
<u>NET POSITION</u>	<u>\$ 0</u>

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

HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
FALMOUTH, 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. Holland Township does not have any *business-type activities* or *component units*.

**B. Reporting Entity**

Holland Township is a general law township located in Missaukee County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, 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, each displayed in a separate column.

Holland Township reports the following major governmental fund:

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.

HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
FALMOUTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

Additionally, Holland Township reports the following fund types:

*Fiduciary funds* are accounted for using the accrual method of accounting. Fiduciary funds account for assets held by the Township in a trustee capacity or as an agent on behalf of others. This fund is custodial in nature and does not involve measurement of results of operations. Accordingly, it presents only a statement of fiduciary net position and does not present a statement of changes in fiduciary net position. Fiduciary funds are not included in the government-wide statements.

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*. 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 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.

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,

HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
FALMOUTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

Licenses, interest and special assessments 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. 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 Michigan Public Act 621 of 1978 “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 April 10, 2013.

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.

**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 and short-term investments with original maturities of three months or less from date of acquisition.

The investment policy adopted by the Township states that the Township is limited to investments authorized by Public Act 20 of 1943 (MCL 129.91 et seq), as amended, or as shall be amended in the future, and may include the following:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
FALMOUTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
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- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution. Authorized depositories shall be designated by the Township Board at the Board's organizational meeting after each regular election of members.
- (c) Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- (d) Investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (ex Sess) PA7, MCL 124.501 to 124.512.
- (e) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.11 to 129.118.

**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 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 (amount not rounded) 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.

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	40-60
Building Improvements	15-30
Public Domain Infrastructure	50
Equipment and Furniture	3-10

HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
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NOTES TO FINANCIAL STATEMENTS  
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**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

HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
FALMOUTH, MICHIGAN

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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/Expenses**

**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***

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and county 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.



HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
FALMOUTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

The 2013 taxable valuation of Holland Township totaled \$10,943,026, on which ad valorem taxes levied consisted of 1.4869 mills for Holland Township operating purposes. The levy raised approximately \$16,271 for operating purposes.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Violations of Legal or Contractual Provisions**

No known violations of legal and contractual provisions occurred for the year ended March 31, 2014.

**III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS**

**A. Deposits with Financial Institutions**

*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, 2014, none of the Township’s bank balance of \$131,938 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.

*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.

**B. Receivables**

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

	<u>General</u>
Receivables	
Taxes	\$ 754
Due from Other Governments	<u>4,368</u>
Total	<u><u>\$ 5,122</u></u>

By ordinance, the Township can place substantially all of its delinquent receivables on the tax rolls as a lien against real property. As a result, its uncollectible accounts are virtually nil.

HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
FALMOUTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
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**C. Capital Assets**

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, being depreciated				
Buildings	\$ 10,300	\$ 0	\$ 0	\$ 10,300
Building Improvements	1,422	0	0	1,422
Infrastructure	65,330	0	0	65,330
Equipment and Furniture	8,531	0	0	8,531
Total capital assets, being depreciated	<u>85,583</u>	<u>0</u>	<u>0</u>	<u>85,583</u>
Less accumulated depreciation for:				
Buildings	6,125	106	0	6,231
Building Improvements	1,422	0	0	1,422
Infrastructure	2,359	1,307	0	3,666
Equipment and Furniture	8,225	141	0	8,366
Total accumulated depreciation	<u>18,131</u>	<u>1,554</u>	<u>0</u>	<u>19,685</u>
Total capital assets, being depreciated, net	<u>67,452</u>	<u>(1,554)</u>	<u>0</u>	<u>65,898</u>
Governmental activities capital assets, net	<u>\$ 67,452</u>	<u>\$ (1,554)</u>	<u>\$ 0</u>	<u>\$ 65,898</u>

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

Governmental activities:	
General Government	\$ 247
Public Works	1,307
Total	<u>\$ 1,554</u>

**D. Interfund Receivables, Payables and Transfers**

There were no individual fund interfund receivable or payable balances at March 31, 2014.

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The Township has no interfund transfers.

**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

HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
FALMOUTH, MICHIGAN

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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. Retirement Plan**

Effective July 1, 1991, the Township established a Simplified Employee Pension Individual Retirement Account (SEP-IRA). The plan is established with FirstMerit Bank, Cadillac, Michigan. The plan covers all employees who meet minimum premium requirements based on annual compensation. To be eligible for plan coverage each employee must be at least 18 years of age and not more than 85 years of age.

Contributions to the plan are based on annual compensation and are payable in June and December of each year. For 2013-2014 the Township contributed \$1,058 which is 7.5% of covered wages paid from January 1, 2013 to December 31, 2013.

The individual retirement account balances become the property of the employee immediately. Therefore, there are no plan assets or liabilities which are includible as part of the Township reporting entity.

For the Township fiscal year, wages for those covered under the plan was \$14,108 and total wages for all employees including non-covered payroll was \$14,208.

**IV. OTHER INFORMATION**

**A. Fire Protection Contracts**

The Township contracts for fire protection with the Merritt Area Fire Department and Clam Union Township and the cost for this protection during the year ended March 31, 2014 was \$10,747.

**B. Property Tax Administration Fee**

The Township passed a resolution on June 14, 1983, to charge a 1% administration fee on all property taxes levied after this date. The resolution is to continue in force and effect until revoked by the township board.

The Township has determined that authorized costs of tax collection will be repeatedly in excess of the revenue generated by the administration fee so that a restricted earnings account is not reflected in these statements.

HOLLAND TOWNSHIP, MISSAUKEE COUNTY  
FALMOUTH, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>GENERAL FUND</u>		
	<u>ORIGINAL</u> <u>BUDGET</u>	<u>FINAL</u> <u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Taxes	\$ 30,000	\$ 30,000	\$ 34,804
Federal Grants	1,500	1,500	2,064
State Grants	17,500	17,500	20,063
Charges for Services	1,100	1,100	1,049
Interest and Rents	100	100	73
Other Revenues	25	25	0
	<hr/>		
Total Revenues	50,225	50,225	58,053
<hr/>			
<u>EXPENDITURES</u>			
General Government			
Township Board	6,785	6,785	2,991
Supervisor	3,739	3,739	3,739
Election	1,500	1,500	179
Assessor	5,000	5,000	4,655
Clerk	7,226	7,226	5,398
Board of Review	600	600	570
Treasurer	6,539	6,539	6,431
Building and Grounds	3,100	3,100	550
Cemetery	1,600	1,600	1,300
Public Safety			
Fire Protection	11,500	11,500	10,747
Public Works			
Highways, Streets and Bridges	2,000	2,000	1,290
Other Functions			
Insurance and Bonds	3,600	3,600	3,469
Employee Benefits	1,650	1,650	1,209
	<hr/>		
Total Expenditures	54,839	54,839	42,528
	<hr/>		
Net Change in Fund Balance	(4,614)	(4,614)	15,525
	<hr/>		
<u>FUND BALANCE</u> - Beginning of Year	87,788	87,788	91,995
	<hr/>		
<u>FUND BALANCE</u> - End of Year	\$ 83,174	\$ 83,174	\$ 107,520
	<hr/> <hr/>		



**Baird, Cotter & Bishop, P.C.**

SERVING YOUR PAST, PRESENT & FUTURE

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601 PHONE: (231) 775-9789 FAX: (231) 775-9749

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May 5, 2014

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

To the Township Board  
Holland Township  
Missaukee County  
Falmouth, MI

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Holland Township for the year ended March 31, 2014, and has issued our report thereon dated May 5, 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 April 12, 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 Holland 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 2013-2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 Holland Township's financial statements was:

Management's estimates of the useful lives of capital assets which 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 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. No material misstatements were noted. We proposed several adjusting journal entries that were accepted and recorded by management.

#### *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 May 5, 2014.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about audit 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*

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

##### Property Tax Administration Fee

The Township has determined that authorized costs of collecting taxes will be repeatedly in excess of revenue generated by the administration fee, but has not formally taken action to write off this loss. We recommend that the Township maintain subsidiary records which reflect property tax administration fee collections and costs, and that the Board passes a motion each year to write off the loss.

## Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis and Budgetary Comparison Schedule, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's 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 others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*



**Baird, Cotter & Bishop, P.C.**

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May 5, 2014

## COMMUNICATION OF MATERIAL WEAKNESSES

To the Township Board  
Holland Township  
Missaukee County  
Falmouth, MI

In planning and performing our audit of the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Holland 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 Holland Township's internal control over financial reporting (internal control) as a basis for designing our auditing 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 Holland Township's internal control. Accordingly, we do not express an opinion on the effectiveness of Holland Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified 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 Holland Township's internal control to be material weaknesses:

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

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

Condition: The government has several accounting functions that are performed by the same individual.



Cause: This condition is primarily the result of staffing constraints typical of smaller governmental units. Some of the control activities detailed above 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 full-time staff, and applies its judgment in determining how best to allocate the government's resources to provide and appropriate balance between sound internal controls and fiscal prudence.

## 2) *Preparation of Financial Statements in Accordance with GAAP*

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 noted prior to approving them and accepting responsibility for their content and presentation.

Holland Township's responses to the findings identified in our audit are described above. We did not audit Holland Township's response and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of 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.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*