

Township of Oakfield
Kent County, Michigan

FINANCIAL STATEMENTS

Year ended March 31, 2013

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Township of Oakfield, Michigan

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

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 of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the remaining fund information of the Township of Oakfield, Michigan, as of March 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting changes

As described in Note 10 to the financial statements, the Township adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinions are not modified with respect to these matters.

Required supplementary information

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

Siegfried Crandall P.C.

May 1, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

- The Township's total net position increased by \$183,091 (6 percent) as a result of this year's activities. Net position of the governmental activities increased by \$186,957, while the net position of the business-type activity decreased by \$3,866.
- The General Fund's unassigned fund balance at the end of the fiscal year was \$428,875, which represents 71 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the financial statements

The Township's basic financial statements are comprised of three parts: management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township government, reporting the Township's operations in more detail than the government-wide financial statements.
 - Governmental funds statements explain how general government services, like public safety, were financed in the short-term, as well as what remains for future spending.
 - Proprietary funds statements offer short- and long-term financial information about the activities the government operates like a business, such as the sewer system.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

A comparative analysis of the basic financial statements for 2013 and 2012 is also presented.

Government-wide financial statements

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

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

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

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

- *Governmental activities* - Most of the Township's basic services are included here, such as fire protection and general government. Property taxes and state grants finance most of these activities.
- *Business-type activity* - The Township charges fees to customers to help it cover the costs of certain services it provides. The Township's sewer system is reported here.

Fund financial statements

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

- Some funds are required by state law and by bond agreements.
- The Township Board establishes other funds to control and manage money for particular purposes (like cemetery operations) or to show that it is properly using certain taxes and other revenues.

The Township has two types of funds:

- *Governmental funds.* Most of the Township's basic services are included in its governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flows in and out, and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship between them.
- *Proprietary funds.* Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds statements, like the government-wide statements, provide both long- and short-term financial information. In fact, the Township's enterprise fund (one type of proprietary fund) is the same as its business-type activity but provides more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Net position

Total net position at the end of the fiscal year was \$3,480,641, an increase of \$186,957 compared to the prior year. Of this total, \$2,047,902 is invested in capital assets and \$43,751 is restricted for various purposes. Consequently, unrestricted net position was \$1,388,988, or 40 percent of the total.

*Condensed financial information
Net position*

	<i>Governmental activities</i>		<i>Business-type activity</i>		<i>Totals</i>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 1,390,867	\$ 1,339,221	\$ 60,966	\$ 56,538	\$ 1,451,833	\$ 1,395,759
Capital assets	1,605,438	1,472,454	442,464	451,171	2,047,902	1,923,625
Total assets	2,996,305	2,811,675	503,430	507,709	3,499,735	3,319,384
Current liabilities	18,140	20,467	954	1,367	19,094	21,834
Net position:						
Net investment in capital assets	1,605,438	1,472,454	442,464	451,171	2,047,902	1,923,625
Restricted	43,751	39,563	-	-	43,751	39,563
Unrestricted	1,328,976	1,279,191	60,012	55,171	1,388,988	1,334,362
Total net position	\$ 2,978,165	\$ 2,791,208	\$ 502,476	\$ 506,342	\$ 3,480,641	\$ 3,297,550

Changes in net position

The Township's total revenues for the current fiscal year were \$800,534. More than 53 percent of the Township's revenues comes from state shared revenue, while only 17 percent comes from property taxes. Charges for services represent 24 percent of total revenues.

*Condensed financial information
Changes in net position*

	<i>Governmental activities</i>		<i>Business-type activity</i>		<i>Totals</i>	
	2013	2012	2013	2012	2013	2012
Program revenues:						
Charges for services	\$ 145,602	\$ 140,772	\$ 44,211	\$ 40,595	\$ 189,813	\$ 181,367
Operating grants and contributions	6,968	6,703	-	-	6,968	6,703
Capital grants and contributions	-	-	-	6,200	-	6,200
General revenues:						
State shared revenue	422,291	449,626	-	-	422,291	449,626
Property taxes	137,222	138,961	-	-	137,222	138,961
Interest income	4,820	5,192	29	24	4,849	5,216
Franchise fees	31,107	31,481	-	-	31,107	31,481
Other revenue	8,284	4,746	-	-	8,284	4,746
Total revenues	756,294	777,481	44,240	46,819	800,534	824,300
Expenses:						
Legislative	9,600	9,168	-	-	9,600	9,168
General government	246,386	258,890	-	-	246,386	258,890
Public safety	157,423	129,432	-	-	157,423	129,432
Public works	144,386	123,583	-	-	144,386	123,583
Community and economic development	7,860	8,485	-	-	7,860	8,485
Recreation and culture	3,682	626	-	-	3,682	626
Sewer	-	-	48,106	53,036	48,106	53,036
Total expenses	569,337	530,184	48,106	53,036	617,443	583,220
Changes in net position	\$ 186,957	\$ 247,297	\$ (3,866)	\$ (6,217)	\$ 183,091	\$ 241,080
Net position end of year	\$ 2,978,165	\$ 2,791,208	\$ 502,476	\$ 506,342	\$ 3,480,641	\$ 3,297,550

Governmental activities

Governmental activities increased the Township's net position by \$186,957 in the current year compared to a \$247,297 increase in the prior year. The increase in net position is lower in the current year due primarily to the following:

- a \$27,335 decrease in state shared revenue as state distributions were lower in the current year
- a \$27,911 increase in public safety expenses related to higher maintenance costs
- a \$20,803 increase in public works expenses due to an increase in the depreciation provision for shared road costs

The total cost of the Township's programs for the current fiscal year, covering a wide range of services, totaled \$617,443. More than 40 percent of the Township's costs relates to general government services. Public safety costs represented nearly 25 percent of all costs during the current year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The following table shows the costs of the Township's governmental activities programs, as well as the net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the burden that was placed on the Township's taxpayers by each of these functions.

	<i>Total cost of services</i>	<i>Net cost of services</i>
General government	\$ 246,386	\$ 174,828
Public safety	157,423	126,478
Public works	144,386	97,209
Other	<u>21,142</u>	<u>18,252</u>
Totals	<u>\$ 569,337</u>	<u>\$ 416,767</u>

The total cost of governmental activities was \$569,337. However, the amount that our taxpayers paid for these activities through general revenues was \$416,767. Some of the cost was paid by:

- those who directly benefited from the programs (\$145,602)
- the state subsidized certain public works costs with a grant (\$6,968)

The Township paid for the \$416,767 "public benefit" portion with \$603,724 in general revenues, including property taxes and state shared revenue.

Business-type activity

The business-type activity decreased the Township's net position by \$3,866 in the current year because the utility user charges are not set to cover the full cost of providing services, including depreciation of the utility infrastructure. The depreciation provision for the current fiscal year is \$16,980.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

Governmental fund

As of March 31, 2013, the Township's sole governmental fund reported an ending fund balance of \$1,366,077, an increase of \$152,890 over last year's balance, as revenues were sufficient to cover expenditures.

Proprietary fund

The Sewer Fund, the Township's sole proprietary fund, experienced a decrease in net position of \$3,866. The fund's operating revenues are not sufficient to cover all operating costs, including depreciation of \$16,980, which caused the fund to experience a decrease in net position of \$3,866 in the current year. The fund's unrestricted net position amounts to \$60,012 at year end.

General Fund budgetary highlights

The Township Board amended the General Fund budgeted expenditures during the year to reflect increased costs experienced during the year. Total budgeted expenditures were increased by \$28,587. The majority of the increase was in the public safety function, where budgeted expenditures were increased by \$24,881, primarily due to higher than anticipated truck repairs.

Revenues were \$80,774 more than budgeted, primarily because state shared revenue was \$62,291 more than originally budgeted. Expenditures, in total, were \$107,131 less than the amounts appropriated. Total expenditures were lower than amounts appropriated as general government expenditures were \$46,925 less than budgeted, as professional fees were lower than expected, and capital outlay expenditures were \$27,326 less than planned.

These conditions resulted in a \$187,905 positive budget variance with a \$152,890 increase in fund balance compared to a budgeted decrease of \$35,015.

Capital assets and debt administration

Capital assets

The Township's investment in capital assets for its governmental and business-type activities as of March 31, 2013, amounts to \$2,047,902, net of accumulated depreciation. This investment includes a broad range of assets, including land, buildings, equipment, shared road costs, and sewer facilities.

This year's major capital asset additions included:

- Shared road improvement costs of \$112,761
- Purchase of a fire truck for \$140,470
- Improvements to the sewer system at a cost of \$8,273

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

Debt

The Township had no debt at the beginning or end of the year.

Economic factors and next year's budgets and rates

The Township's General Fund has an unassigned fund balance of \$428,875 at year end, which represents 71 percent of the \$603,404 actual expenditures for fiscal year 2013. The Township expects to be able to use current revenues to provide essential services that will allow the current fund balance to be maintained. The ongoing costs of providing essential services for the citizens of the Township will need to be closely monitored in order to maintain the financial condition and operational capabilities of the Township.

Contacting the Township's financial management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Greg Dean, Supervisor
Township of Oakfield
10300 14 Mile Road
Rockford, MI 49341

Phone: (616) 754-5679

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

March 31, 2013

	<u>Governmental activities</u>	<u>Business-type activity</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 344,584	\$ 58,391	\$ 402,975
Investments	961,608	-	961,608
Receivables	78,025	2,575	80,600
Prepaid expenses	<u>6,650</u>	<u>-</u>	<u>6,650</u>
Total current assets	<u>1,390,867</u>	<u>60,966</u>	<u>1,451,833</u>
Noncurrent assets:			
Capital assets not being depreciated	19,406	-	19,406
Capital assets being depreciated, net of accumulated depreciation	<u>1,586,032</u>	<u>442,464</u>	<u>2,028,496</u>
Total noncurrent assets	<u>1,605,438</u>	<u>442,464</u>	<u>2,047,902</u>
Total assets	<u>2,996,305</u>	<u>503,430</u>	<u>3,499,735</u>
LIABILITIES			
Current liabilities:			
Payables	<u>18,140</u>	<u>954</u>	<u>19,094</u>
NET POSITION			
Net investment in capital assets	1,605,438	442,464	2,047,902
Restricted for public works	43,751	-	43,751
Unrestricted	<u>1,328,976</u>	<u>60,012</u>	<u>1,388,988</u>
Total net position	<u>\$ 2,978,165</u>	<u>\$ 502,476</u>	<u>\$ 3,480,641</u>

See notes to financial statements

Township of Oakfield

STATEMENT OF ACTIVITIES

Year ended March 31, 2013

	<u>Program revenues</u>			<u>Net (expenses) revenues and changes in net position</u>			
	<u>Expenses</u>	<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>	<u>Governmental activities</u>	<u>Business-type activity</u>	<u>Totals</u>
Functions/Programs							
Governmental activities:							
Legislative	\$ 9,600	\$ -	\$ -	\$ -	\$ (9,600)		\$ (9,600)
General government	246,386	71,558	-	-	(174,828)		(174,828)
Public safety	157,423	30,945	-	-	(126,478)		(126,478)
Public works	144,386	40,209	6,968	-	(97,209)		(97,209)
Community and economic development	7,860	2,890	-	-	(4,970)		(4,970)
Recreation and culture	3,682	-	-	-	(3,682)		(3,682)
Total governmental activities	569,337	145,602	6,968	-	(416,767)		(416,767)
Business-type activity:							
Sewer	48,106	44,211	-	-	-	\$ (3,895)	(3,895)
Totals	<u>\$ 617,443</u>	<u>\$ 189,813</u>	<u>\$ 6,968</u>	<u>\$ -</u>	<u>(416,767)</u>	<u>(3,895)</u>	<u>(420,662)</u>
General revenues:							
					422,291	-	422,291
State shared revenue					137,222	-	137,222
Property taxes					31,107	-	31,107
Franchise fees					4,820	29	4,849
Interest income					8,284	-	8,284
Other							
Total general revenues					<u>603,724</u>	<u>29</u>	<u>603,753</u>
Changes in net position					186,957	(3,866)	183,091
Net position - beginning of year					<u>2,791,208</u>	<u>506,342</u>	<u>3,297,550</u>
Net position - end of year					<u>\$ 2,978,165</u>	<u>\$ 502,476</u>	<u>\$ 3,480,641</u>

See notes to financial statements

Township of Oakfield

BALANCE SHEET - General Fund

March 31, 2013

ASSETS

Cash	\$ 344,584
Investments	961,608
Receivables	<u>78,025</u>
Total assets	<u>\$ 1,384,217</u>

LIABILITIES AND FUND BALANCE

Liabilities:

Payables	<u>\$ 18,140</u>
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Fund balance:

Restricted for public works - weed control	43,751
Assigned for:	
Public works - road projects	792,304
Capital acquisitions	80,039
General government - cemetery improvements	21,108
Unassigned	<u>428,875</u>

Total fund balance	<u>1,366,077</u>
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Total liabilities and fund balance	<u>\$ 1,384,217</u>
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Reconciliation of the balance sheet to the statement of net position:

Total fund balance	\$ 1,366,077
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Amounts reported for *governmental activities* in the statement of net position (page 11) are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds. 1,605,438

Prepaid expenses are not reported in the funds. 6,650

Net position of *governmental activities* \$ 2,978,165

See notes to financial statements

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE - General Fund

Year ended March 31, 2013

REVENUES

Property taxes	\$ 138,927
Licenses and permits	30,945
State grants	429,259
Charges for services	66,117
Interest and rentals	38,927
Other	<u>52,119</u>
Total revenues	<u>756,294</u>

EXPENDITURES

Legislative	9,600
General government	235,940
Public safety	117,526
Public works	170,296
Community and economic development	9,946
Recreation and culture	3,682
Capital outlay	<u>56,414</u>
Total expenditures	<u>603,404</u>

NET CHANGE IN FUND BALANCE 152,890

FUND BALANCE - BEGINNING 1,213,187

FUND BALANCE - ENDING \$ 1,366,077

Reconciliation of the statement of revenues, expenditures, and change in fund balance to the statement of activities:

Net change in fund balance \$ 152,890

Amounts reported for *governmental activities* in the statement of activities (page 12) are different because:

Capital assets:

Assets acquired	277,149
Provision for depreciation	(144,165)

Change in deposits for capital purchases (100,400)

Change in prepaid expenses 1,483

Change in net position of *governmental activities* \$ 186,957

See notes to financial statements

Township of Oakfield

STATEMENT OF NET POSITION - *proprietary fund*

March 31, 2013

	<u>Sewer Fund</u>
ASSETS	
Current assets:	
Cash	\$ 58,391
Receivables	<u>2,575</u>
Total current assets	60,966
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>442,464</u>
Total assets	<u>503,430</u>
LIABILITIES	
Current liabilities:	
Payables	<u>954</u>
NET POSITION	
Net investment in capital assets	442,464
Unrestricted	<u>60,012</u>
Total net position	<u>\$ 502,476</u>

See notes to financial statements

Township of Oakfield

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION - *proprietary fund*

Year ended March 31, 2013

	<u>Sewer Fund</u>
OPERATING REVENUES	
Charges for services:	
Quarterly fees	\$ 43,560
Late fees	<u>651</u>
Total operating revenues	<u>44,211</u>
OPERATING EXPENSES	
Operation and maintenance	31,126
Depreciation	<u>16,980</u>
Total operating expenses	<u>48,106</u>
OPERATING LOSS	(3,895)
NONOPERATING REVENUES	
Interest revenue	<u>29</u>
CHANGE IN NET POSITION	(3,866)
NET POSITION - BEGINNING	<u>506,342</u>
NET POSITION - ENDING	<u><u>\$ 502,476</u></u>

See notes to financial statements

Township of Oakfield

STATEMENT OF CASH FLOWS - proprietary fund

Year ended March 31, 2013

	<u><i>Sewer Fund</i></u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 44,861
Payments to suppliers	<u>(31,539)</u>
Net cash provided by operating activities	13,322
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(8,273)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>29</u>
NET INCREASE IN CASH	5,078
CASH - BEGINNING	<u>53,313</u>
CASH - ENDING	<u><u>\$ 58,391</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (3,895)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	16,980
Decrease in receivables	650
Decrease in payables	<u>(413)</u>
Net cash provided by operating activities	<u><u>\$ 13,322</u></u>

See notes to financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Oakfield, Michigan (the Township), conform to accounting principles generally accepted in the United States of America (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the more significant accounting policies.

Reporting entity:

The accompanying financial statements present only the Township. There are no component units, entities for which the Township is considered to be financially accountable.

Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Township. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for the governmental fund and the proprietary fund.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the Township considers property tax revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal year are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The Township reports the following major governmental fund:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from state shared revenue and property taxes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement focus, basis of accounting, and financial statement presentation (continued):

The Township reports the following major proprietary fund:

The Sewer Fund accounts for the activities of the Township's sewage collection system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to these same limitations. The Township has elected not to follow subsequent private-sector standards.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

The proprietary fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary fund relate to charges to customers for services. Operating expenses for the proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, liabilities, and net position or equity:

Cash and investments - Cash consists of cash on hand, demand deposits, time deposits, and highly liquid short-term investments, with original maturities of three months or less from the date of acquisition. Investments are reported at fair value.

Receivables - Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activity are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

Capital assets - Capital assets, which include property, equipment, and infrastructure assets (e.g., sewer systems, shared road costs, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$1,000 (\$10,000 for infrastructure) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets of governmental activities either retroactively to June 15, 1980, or prospectively. The Township has elected to account for its infrastructure assets prospectively, beginning April 1, 2004.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	25 - 50 years
Equipment	5 - 20 years
Vehicles	20 years
Shared road costs	20 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Fund equity - Governmental funds report restricted fund balance when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws and regulations of other governments. The Township Board of Trustees has delegated the authority to assign fund balance to the Supervisor. Unassigned fund balance is the residual classification for the General Fund. When the Township incurs an expenditure for purposes for which various fund balance classifications can be used, it is the Township's policy to use the restricted fund balance first, followed by assigned fund balance, and, finally, unassigned fund balance.

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

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

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

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. The budget document presents information by fund, function, department, and line-item. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year. There were no negative budget variances during the fiscal year.

NOTE 3 - CASH AND INVESTMENTS

Cash and investments, as presented in the accompanying financial statements, consist of the following:

	<u>Governmental activities</u>	<u>Business-type activity</u>	<u>Totals</u>
Deposits	\$ 343,984	\$ 58,391	\$ 402,375
Cash on hand	<u>600</u>	<u>-</u>	<u>600</u>
Total cash	344,584	58,391	402,975
Investments	<u>961,608</u>	<u>-</u>	<u>961,608</u>
Total cash and investments	<u>\$ 1,306,192</u>	<u>\$ 58,391</u>	<u>\$ 1,364,583</u>

Deposits - Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Township's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Township will not be able to recover its deposits. The Township's investment policy does not specifically address custodial credit risk for deposits. At March 31, 2013, \$90,099 of the Township's bank balances of \$405,229 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments - State statutes and the Township's investment policy authorize the Township to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper, with three (3) highest rate classifications by at least two (2) rating services, maturing not later than 270 days; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; e) mutual funds that invest in investments allowed by state statute, and f) investment pools organized under the local government investment pool act.

The Township's investments consist solely of holdings in the Kent County Investment Pool, which are nonrisk categorized, qualifying investments that are carried at cost, which approximates fair market value. This pool is not subject to regulatory oversight, is not registered with the SEC, and does not issue a separate report.

NOTE 4 - RECEIVABLES

Receivables as of March 31, 2013, for the Township's funds were as follows:

	<u>Property taxes</u>	<u>Accounts</u>	<u>Inter- govern- mental</u>	<u>Special assessments</u>	<u>Totals</u>
Governmental fund:					
General	<u>\$ 10,052</u>	<u>\$ 812</u>	<u>\$ 65,829</u>	<u>\$ 1,332</u>	<u>\$ 78,025</u>
Proprietary fund:					
Sewer	<u>\$ -</u>	<u>\$ 2,575</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,575</u>

All receivables are current and considered to be fully collectible.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2013, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 15,906	\$ -	\$ -	\$ 15,906
Construction in progress	-	3,500	-	3,500
Subtotal	<u>15,906</u>	<u>3,500</u>	<u>-</u>	<u>19,406</u>
Capital assets being depreciated:				
Land improvements	40,741	2,751	-	43,492
Buildings	330,834	-	-	330,834
Equipment	424,111	17,667	-	441,778
Vehicles	518,500	140,470	(34,000)	624,970
Shared road improvements	<u>1,266,919</u>	<u>112,761</u>	<u>-</u>	<u>1,379,680</u>
Subtotal	<u>2,581,105</u>	<u>273,649</u>	<u>(34,000)</u>	<u>2,820,754</u>
Less accumulated depreciation for:				
Land improvements	(17,808)	(2,312)	-	(20,120)
Buildings	(135,529)	(6,636)	-	(142,165)
Equipment	(248,666)	(24,267)	-	(272,933)
Vehicles	(387,094)	(24,099)	34,000	(377,193)
Shared road improvements	<u>(335,460)</u>	<u>(86,851)</u>	<u>-</u>	<u>(422,311)</u>
Subtotal	<u>(1,124,557)</u>	<u>(144,165)</u>	<u>34,000</u>	<u>(1,234,722)</u>
Total capital assets being depreciated, net	<u>1,456,548</u>	<u>129,484</u>	<u>-</u>	<u>1,586,032</u>
Governmental activities capital assets, net	<u>\$ 1,472,454</u>	<u>\$ 132,984</u>	<u>\$ -</u>	<u>\$ 1,605,438</u>

NOTE 5 - CAPITAL ASSETS (Continued)

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activity:				
Capital assets being depreciated:				
Sewer system	\$ 577,231	\$ -	\$ -	\$ 577,231
Equipment	<u>100,537</u>	<u>8,273</u>	<u>-</u>	<u>108,810</u>
Subtotal	<u>677,768</u>	<u>8,273</u>	<u>-</u>	<u>686,041</u>
Less accumulated depreciation for:				
Sewer system	(204,167)	(11,550)	-	(215,717)
Equipment	<u>(22,430)</u>	<u>(5,430)</u>	<u>-</u>	<u>(27,860)</u>
Subtotal	<u>(226,597)</u>	<u>(16,980)</u>	<u>-</u>	<u>(243,577)</u>
Business-type activity capital assets, net	<u>\$ 451,171</u>	<u>\$ (8,707)</u>	<u>\$ -</u>	<u>\$ 442,464</u>

Depreciation expense was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 22,427
Public safety	34,222
Public works	86,851
Recreation and culture	<u>665</u>
Total governmental activities	<u>\$ 144,165</u>

NOTE 6 - PAYABLES

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

	<u>Accounts</u>	<u>Payroll</u>	<u>Totals</u>
Governmental fund:			
General	<u>\$ 13,282</u>	<u>\$ 4,858</u>	<u>\$ 18,140</u>
Proprietary fund:			
Sewer	<u>\$ 954</u>	<u>\$ -</u>	<u>\$ 954</u>

NOTE 7 - PROPERTY TAXES

The 2012 taxable valuation of the Township approximated \$176,397,000, on which ad valorem taxes levied consisted of 0.7750 mills for operating purposes, raising approximately \$137,000 for operating purposes. These amounts are recognized in the fund financial statements as property tax revenue.

NOTE 8 - RISK MANAGEMENT

The Township is exposed to various risks of loss to general liability, property and casualty, and workers' compensation. The risks of loss arising from general liability up to \$2,000,000, property losses, and workers' compensation are managed through purchased commercial insurance. For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

NOTE 9 - CONSTRUCTION CODE ACT

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

Revenues	\$ 30,945
Expenses	<u>(40,386)</u>
Deficiency of revenues over expenses	<u>\$ (9,441)</u>

NOTE 10 - ADOPTION OF NEW ACCOUNTING POLICIES

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

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

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

NOTE 11 - PENDING ACCOUNTING PRONOUNCEMENTS

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Township is currently evaluating the impact this standard will have on the financial statements when adopted during the fiscal year beginning April 1, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

Township of Oakfield

BUDGETARY COMPARISON SCHEDULE - General Fund

Year ended March 31, 2013

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES				
Property taxes	\$ 135,900	\$ 135,900	\$ 138,927	\$ 3,027
Licenses and permits	28,000	28,000	30,945	2,945
State grants:				
State shared revenue	360,000	360,000	422,291	62,291
Other	6,700	6,700	6,968	268
Charges for services	65,600	65,600	66,117	517
Interest and rentals	26,500	26,500	38,927	12,427
Other:				
Special assessment	40,320	40,320	40,009	(311)
Miscellaneous	12,500	12,500	12,110	(390)
Total revenues	<u>675,520</u>	<u>675,520</u>	<u>756,294</u>	<u>80,774</u>
EXPENDITURES				
Legislative	<u>9,600</u>	<u>9,600</u>	<u>9,600</u>	<u>-</u>
General government:				
Supervisor	22,000	22,000	21,229	771
Elections	15,525	15,745	10,634	5,111
Assessor	43,850	43,850	41,191	2,659
Clerk	24,348	24,348	23,573	775
Treasurer	25,748	25,748	25,020	728
Hall and grounds	33,050	33,092	28,042	5,050
Cemetery	11,982	12,682	12,155	527
Other	105,400	105,400	74,096	31,304
Total general government	<u>281,903</u>	<u>282,865</u>	<u>235,940</u>	<u>46,925</u>
Public safety:				
Fire protection	85,705	106,440	89,675	16,765
Inspections	25,200	29,346	27,851	1,495
Total public safety	<u>110,905</u>	<u>135,786</u>	<u>117,526</u>	<u>18,260</u>

Township of Oakfield

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended March 31, 2013

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
EXPENDITURES (Continued)				
Public works:				
Road construction and maintenance	\$ 137,000	\$ 139,730	\$ 134,461	\$ 5,269
Weed control	<u>38,800</u>	<u>38,800</u>	<u>35,835</u>	<u>2,965</u>
Total public works	<u>175,800</u>	<u>178,530</u>	<u>170,296</u>	<u>8,234</u>
Community and economic development - planning and zoning	<u>16,300</u>	<u>16,314</u>	<u>9,946</u>	<u>6,368</u>
Recreation and culture - historical commission	<u>3,700</u>	<u>3,700</u>	<u>3,682</u>	<u>18</u>
Capital outlay	<u>83,740</u>	<u>83,740</u>	<u>56,414</u>	<u>27,326</u>
Total expenditures	<u>681,948</u>	<u>710,535</u>	<u>603,404</u>	<u>107,131</u>
NET CHANGES IN FUND BALANCES	(6,428)	(35,015)	152,890	187,905
FUND BALANCES - BEGINNING	<u>1,213,187</u>	<u>1,213,187</u>	<u>1,213,187</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$1,206,759</u>	<u>\$1,178,172</u>	<u>\$ 1,366,077</u>	<u>\$ 187,905</u>

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May 1, 2013

To the Board of Trustees
Township of Oakfield

We have audited the financial statements of the governmental activities, the business-type activity, each major fund, and the remaining fund information of the Township of Oakfield for the year ended March 31, 2013. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 28, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Township of Oakfield are described in Note 1 to the financial statements. Except as described in Note 10 to the financial statements, no new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2013. We noted no transactions entered into by the Township of Oakfield during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

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

Difficulties Encountered in Performing the Audit

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

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the 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 1, 2013.

Other Issues

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

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the governmental activities, the business-type activity, each major fund, and the remaining fund information of the Township of Oakfield as of and for the year ended March 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Township of Oakfield's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

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

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

Material audit adjustments and financial statement preparation:

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

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

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

Auditor's Recommendation: We recommend that management analyze the relative costs and benefits of securing the internal or other external resources necessary to develop material adjustments and prepare a draft of the Township's annual financial statements versus contracting with its auditor for these services.

Management Response: Management has made an evaluation of the respective costs and benefits of obtaining internal or external resources, specifically for the preparation of financial statements, and has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so.

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

This communication is intended solely for the information and use of the Board of Trustees of the Township of Oakfield and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Siegfried Crandall P.C.