

Township of Oakfield
Kent County, Michigan

FINANCIAL STATEMENTS

Year ended March 31, 2014

	<i>Page</i>
INDEPENDENT AUDITOR'S REPORT	3 - 4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5 - 10
BASIC FINANCIAL STATEMENTS	
Government-wide financial statements:	
Statement of net position	11
Statement of activities	12
Fund financial statements:	
Balance sheet - General Fund	13
Statement of revenues, expenditures, and change in fund balance - General Fund	14
Statement of net position - proprietary fund	15
Statement of revenues, expenses, and change in net position - proprietary fund	16
Statement of cash flows - proprietary fund	17
Notes to financial statements	18 - 24
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary comparison schedule - General Fund	25 - 26

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Township of Oakfield, Michigan

We have audited the accompanying financial statements of the governmental activities, the business- type activity, and each major fund of the Township of Oakfield, 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 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 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, and each major fund of the Township of Oakfield, Michigan, as of March 31, 2014, 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

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 12, 2014

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, 2014. Please read it in conjunction with the Township's financial statements.

FINANCIAL HIGHLIGHTS

- The Township's total net position increased by \$178,396 (5 percent) as a result of this year's activities. Net position of the governmental activities increased by \$189,520, while the net position of the business-type activity decreased by \$11,124.
- The General Fund's unassigned fund balance at the end of the fiscal year was \$403,074, which represents 51 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the financial statements

The Township's annual report is 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-term 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 2014 and 2013 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-term 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 \$3,659,037, an increase of \$178,396 compared to the prior year. Of this total, \$2,242,167 is invested in capital assets and \$48,647 is restricted for public works. Consequently, unrestricted net position was \$1,368,223, or 37 percent of the total.

*Condensed financial information
Net position*

	<i>Governmental activities</i>		<i>Business-type activity</i>		<i>Totals</i>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 1,393,855	\$ 1,390,867	\$ 49,885	\$ 60,966	\$ 1,443,740	\$ 1,451,833
Capital assets	1,800,152	1,605,438	442,015	442,464	2,242,167	2,047,902
Total assets	3,194,007	2,996,305	491,900	503,430	3,685,907	3,499,735
Current liabilities	26,322	18,140	548	954	26,870	19,094
Net position:						
Net investment in capital assets	1,800,152	1,605,438	442,015	442,464	2,242,167	2,047,902
Restricted	48,647	43,751	-	-	48,647	43,751
Unrestricted	1,318,886	1,328,976	49,337	60,012	1,368,223	1,388,988
Total net position	\$ 3,167,685	\$ 2,978,165	\$ 491,352	\$ 502,476	\$ 3,659,037	\$ 3,480,641

Changes in net position

The Township's total revenues for the current fiscal year were \$821,911. 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.

The total cost of the Township's programs in the current year, covering a wide range of services, totaled \$643,515. General government accounts for 36 percent of all expenses; public safety represents 28 percent and public works represent 26 percent of total expenses.

*Condensed financial information
Changes in net position*

	<i>Governmental activities</i>		<i>Business-type activity</i>		<i>Totals</i>	
	2014	2013	2014	2013	2014	2013
Program revenues:						
Charges for services	\$ 153,723	\$ 145,602	\$ 44,143	\$ 44,211	\$ 197,866	\$ 189,813
Operating grants and contributions	7,007	6,968	-	-	7,007	6,968
General revenues:						
State shared revenue	432,727	422,291	-	-	432,727	422,291
Property taxes	139,951	137,222	-	-	139,951	137,222
Interest income	3,446	4,820	26	29	3,472	4,849
Franchise fees	40,888	31,107	-	-	40,888	31,107
Other revenue	-	8,284	-	-	-	8,284
Total revenues	777,742	756,294	44,169	44,240	821,911	800,534
Expenses:						
General government	233,413	255,986	-	-	233,413	255,986
Public safety	178,409	157,423	-	-	178,409	157,423
Public works	166,888	144,386	-	-	166,888	144,386
Community and economic development	7,455	7,860	-	-	7,455	7,860
Recreation and culture	2,057	3,682	-	-	2,057	3,682
Sewer	-	-	55,293	48,106	55,293	48,106
Total expenses	588,222	569,337	55,293	48,106	643,515	617,443
Changes in net position	\$ 189,520	\$ 186,957	\$ (11,124)	\$ (3,866)	\$ 178,396	\$ 183,091
Net position end of year	\$ 3,167,685	\$ 2,978,165	\$ 491,352	\$ 502,476	\$ 3,659,037	\$ 3,480,641

Governmental activities

Governmental activities increased the Township's net position by \$189,520 in the current year compared to a \$186,957 increase in the prior year. Net position increased in both years as revenues are more than sufficient to cover all expenses.

Total revenues increased by \$21,448 in the current year as charges for services and state shared revenue both increased, by \$8,121 and \$10,436 respectively. The increase in charges for services was principally related to an increase in inspection permits due to an increase in building activity, while state shared revenue was higher due to an increase in distributions from the State.

Total expenses increased by \$18,885 as general government costs decreased by \$22,573, while the public safety and public works functions increased by \$20,986 and \$22,502 respectively. The changes in these functions are explained, as follows:

- General government expenses decreased due to lower election costs in the current year.
- Public safety expenses increased primarily due to higher costs associated with the increase in inspections activity.
- Public works expenses increased due to an increase in the depreciation provision related to shared road costs.

The total cost of the Township's governmental programs for the current fiscal year, covering a wide range of services, totaled \$588,222. More than 40 percent of the Township's costs relates to general government services. Public safety costs represented nearly 30 percent of all costs during the current year.

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	\$ 233,413	\$ 162,830
Public safety	178,409	136,976
Public works	166,888	120,479
Other	<u>9,512</u>	<u>7,207</u>
Totals	<u>\$ 588,222</u>	<u>\$ 427,492</u>

The total cost of governmental activities was \$588,222. However, the amount that our taxpayers paid for these activities through general revenues was \$427,492. Some of the cost was paid by:

- those who directly benefited from the programs (\$153,723)
- the state subsidized certain public works costs with a grant (\$7,007)

The Township paid for the \$427,492 "public benefit" portion with \$617,012 in general revenues, including property taxes and state shared revenue.

Business-type activity

The business-type activity decreased the Township's net position by \$11,124 in the current year because 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 \$17,390.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

Governmental fund

As of March 31, 2014, the Township's sole governmental fund reported an ending fund balance of \$1,359,903, a decrease of \$6,174 over last year's balance. The fund balance declined due to a building improvement project with a cost of \$124,285.

Proprietary fund

The Sewer Fund, the Township's sole proprietary fund, experienced a decrease in net position of \$11,124. The fund's operating revenues are not sufficient to cover all operating costs, including depreciation of \$17,390, which caused the fund to experience a decrease in net position of \$11,124 in the current year. The fund's unrestricted net position amounts to \$491,352 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 \$19,792. Public works expenditures were increased by \$40,685, primarily due to higher than anticipated road project costs, and capital outlay expenditures were reduced by \$33,245 as fire station addition costs were lower than anticipated.

Revenues were \$84,695 more than budgeted, primarily because state shared revenue was \$52,727 more than originally budgeted. Expenditures, in total, were \$182,611 less than the amounts appropriated. Total expenditures were lower than amounts appropriated as general government expenditures were \$49,799 less than budgeted because professional fees were lower than expected and capital outlay expenditures were \$110,401 less than planned.

These conditions resulted in a \$267,306 positive budget variance with a \$6,174 decrease in fund balance compared to a budgeted decrease of \$273,480.

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, 2014, amounts to \$2,242,167, 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 \$227,685
- Fire station additions of \$124,285
- Improvements to the sewer system at a cost of \$16,941

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 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

Township of Oakfield

STATEMENT OF NET POSITION

March 31, 2014

	<u><i>Governmental activities</i></u>	<u><i>Business-type activity</i></u>	<u><i>Totals</i></u>
ASSETS			
Current assets:			
Cash	\$ 383,290	\$ 46,757	\$ 430,047
Investments	912,580	-	912,580
Receivables	90,355	3,128	93,483
Prepaid expenses	7,630	-	7,630
Total current assets	<u>1,393,855</u>	<u>49,885</u>	<u>1,443,740</u>
Noncurrent assets:			
Capital assets not being depreciated	15,906	-	15,906
Capital assets being depreciated, net of accumulated depreciation	<u>1,784,246</u>	<u>442,015</u>	<u>2,226,261</u>
Total noncurrent assets	<u>1,800,152</u>	<u>442,015</u>	<u>2,242,167</u>
Total assets	<u>3,194,007</u>	<u>491,900</u>	<u>3,685,907</u>
LIABILITIES			
Current liabilities:			
Payables	<u>26,322</u>	<u>548</u>	<u>26,870</u>
NET POSITION			
Net investment in capital assets	1,800,152	442,015	2,242,167
Restricted for public works	48,647	-	48,647
Unrestricted	<u>1,318,886</u>	<u>49,337</u>	<u>1,368,223</u>
Total net position	<u>\$ 3,167,685</u>	<u>\$ 491,352</u>	<u>\$ 3,659,037</u>

See notes to financial statements

Township of Oakfield

STATEMENT OF ACTIVITIES

Year ended March 31, 2014

	<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>Governmental activities</u>	<u>Business-type activity</u>	<u>Totals</u>
Functions/Programs						
Governmental activities:						
General government	\$ 233,413	\$ 70,583	\$ -	\$ (162,830)		\$ (162,830)
Public safety	178,409	41,433	-	(136,976)		(136,976)
Public works	166,888	39,402	7,007	(120,479)		(120,479)
Community and economic development	7,455	2,305	-	(5,150)		(5,150)
Recreation and culture	2,057	-	-	(2,057)		(2,057)
Total governmental activities	588,222	153,723	7,007	(427,492)		(427,492)
Business-type activity:						
Sewer	55,293	44,143	-	-	\$ (11,150)	(11,150)
Totals	<u>\$ 643,515</u>	<u>\$ 197,866</u>	<u>\$ 7,007</u>	<u>(427,492)</u>	<u>(11,150)</u>	<u>(438,642)</u>
General revenues:						
State shared revenue				432,727	-	432,727
Property taxes				139,951	-	139,951
Franchise fees				40,888	-	40,888
Interest income				3,446	26	3,472
Total general revenues				<u>617,012</u>	<u>26</u>	<u>617,038</u>
Changes in net position				189,520	(11,124)	178,396
Net position - beginning of year				<u>2,978,165</u>	<u>502,476</u>	<u>3,480,641</u>
Net position - end of year				<u>\$ 3,167,685</u>	<u>\$ 491,352</u>	<u>\$ 3,659,037</u>

See notes to financial statements

Township of Oakfield

BALANCE SHEET - General Fund

March 31, 2014

ASSETS

Cash	\$ 383,290
Investments	912,580
Receivables	<u>90,355</u>
Total assets	<u>\$ 1,386,225</u>

LIABILITIES AND FUND BALANCE

Liabilities:	
Payables	<u>\$ 26,322</u>
Fund balance:	
Restricted for public works - weed control	48,647
Assigned for:	
Public works - road projects	738,163
Capital acquisitions	147,710
General government - cemetery improvements	22,309
Unassigned	<u>403,074</u>
Total fund balance	<u>1,359,903</u>
Total liabilities and fund balance	<u>\$ 1,386,225</u>

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

Total fund balance	\$ 1,359,903
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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. 1,800,152

Prepaid expenses are not reported in the funds. 7,630

Net position of *governmental activities* \$ 3,167,685

See notes to financial statements

Township of Oakfield

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

Year ended March 31, 2014

REVENUES

Property taxes	\$ 141,432
Licenses and permits	39,640
State grants	439,734
Charges for services	70,549
Interest and rentals	46,434
Other	<u>39,953</u>
Total revenues	<u>777,742</u>

EXPENDITURES

General government	227,439
Public safety	117,026
Public works	277,400
Community and economic development	7,455
Recreation and culture	1,392
Capital outlay	<u>153,204</u>
Total expenditures	<u>783,916</u>

NET CHANGE IN FUND BALANCE (6,174)

FUND BALANCE - BEGINNING 1,366,077

FUND BALANCE - ENDING \$ 1,359,903

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

Net change in fund balance \$ (6,174)

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

Capital assets:

Assets acquired	373,114
Provision for depreciation	(178,400)

Change in prepaid expenses 980

Change in net position of *governmental activities* \$ 189,520

See notes to financial statements

Township of Oakfield

STATEMENT OF NET POSITION - *proprietary fund*

March 31, 2014

	<u>Sewer</u>
ASSETS	
Current assets:	
Cash	\$ 46,757
Receivables	<u>3,128</u>
Total current assets	49,885
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>442,015</u>
Total assets	<u>491,900</u>
LIABILITIES	
Current liabilities:	
Payables	<u>548</u>
NET POSITION	
Net investment in capital assets	442,015
Unrestricted	<u>49,337</u>
Total net position	<u>\$ 491,352</u>

See notes to financial statements

Township of Oakfield

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

Year ended March 31, 2014

	<u>Sewer</u>
OPERATING REVENUES	
Charges for services:	
Quarterly fees	\$ 43,560
Late fees	<u>583</u>
Total operating revenues	<u>44,143</u>
OPERATING EXPENSES	
Operation and maintenance	37,903
Depreciation	<u>17,390</u>
Total operating expenses	<u>55,293</u>
OPERATING LOSS	(11,150)
NONOPERATING REVENUE	
Interest revenue	<u>26</u>
CHANGE IN NET POSITION	(11,124)
NET POSITION - BEGINNING	<u>502,476</u>
NET POSITION - ENDING	<u><u>\$ 491,352</u></u>

See notes to financial statements

Township of Oakfield

STATEMENT OF CASH FLOWS - proprietary fund

Year ended March 31, 2014

	<u>Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 43,590
Payments to suppliers	<u>(38,309)</u>
Net cash provided by operating activities	5,281
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(16,941)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>26</u>
NET DECREASE IN CASH	(11,634)
CASH - BEGINNING	<u>58,391</u>
CASH - ENDING	<u><u>\$ 46,757</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (11,150)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	17,390
Increase in receivables	(553)
Decrease in payables	<u>(406)</u>
Net cash provided by operating activities	<u><u>\$ 5,281</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, located in Kent County. 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 period 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.

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 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 liabilities. 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 attributable to the acquisition, construction, or improvement of 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 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 reportable budgetary violations in the current 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	\$ 382,690	\$ 46,757	\$ 429,447
Cash on hand	<u>600</u>	<u>-</u>	<u>600</u>
Total cash	383,290	46,757	430,047
Investments	<u>912,580</u>	<u>-</u>	<u>912,580</u>
Total cash and investments	<u>\$ 1,295,870</u>	<u>\$ 46,757</u>	<u>\$ 1,342,627</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, 2014, \$110,443 of the Township's bank balances of \$430,565 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 approximate fair market value. The fair value of the Township's position in the pool is the same as the value of its pool shares. 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, 2014, 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>\$ 9,708</u>	<u>\$ 10,572</u>	<u>\$ 68,724</u>	<u>\$ 1,351</u>	<u>\$ 90,355</u>
Proprietary fund:					
Sewer	<u>\$ -</u>	<u>\$ 3,128</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,128</u>

All receivables are current and considered to be fully collectible.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2014, 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	<u>3,500</u>	<u>-</u>	<u>(3,500)</u>	<u>-</u>
Subtotal	<u>19,406</u>	<u>-</u>	<u>(3,500)</u>	<u>15,906</u>
Capital assets being depreciated:				
Land improvements	43,492	-	-	43,492
Buildings	330,834	145,977	-	476,811
Equipment	441,778	2,952	-	444,730
Vehicles	624,970	-	-	624,970
Shared road improvements	<u>1,379,680</u>	<u>227,685</u>	<u>-</u>	<u>1,607,365</u>
Subtotal	<u>2,820,754</u>	<u>376,614</u>	<u>-</u>	<u>3,197,368</u>
Less accumulated depreciation for:				
Land improvements	(20,120)	(2,312)	-	(22,432)
Buildings	(142,165)	(10,172)	-	(152,337)
Equipment	(272,933)	(24,645)	-	(297,578)
Vehicles	(377,193)	(24,098)	-	(401,291)
Shared road improvements	<u>(422,311)</u>	<u>(117,173)</u>	<u>-</u>	<u>(539,484)</u>
Subtotal	<u>(1,234,722)</u>	<u>(178,400)</u>	<u>-</u>	<u>(1,413,122)</u>
Total capital assets being depreciated, net	<u>1,586,032</u>	<u>198,214</u>	<u>-</u>	<u>1,784,246</u>
Governmental activities capital assets, net	<u>\$ 1,605,438</u>	<u>\$ 198,214</u>	<u>\$ (3,500)</u>	<u>\$ 1,800,152</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>108,810</u>	<u>16,941</u>	<u>-</u>	<u>125,751</u>
Subtotal	<u>686,041</u>	<u>16,941</u>	<u>-</u>	<u>702,982</u>
Less accumulated depreciation for:				
Sewer system	(215,717)	(11,550)	-	(227,267)
Equipment	<u>(27,860)</u>	<u>(5,840)</u>	<u>-</u>	<u>(33,700)</u>
Subtotal	<u>(243,577)</u>	<u>(17,390)</u>	<u>-</u>	<u>(260,967)</u>
Business-type activity capital assets, net	<u>\$ 442,464</u>	<u>\$ (449)</u>	<u>\$ -</u>	<u>\$ 442,015</u>

Depreciation expense was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 22,806
Public safety	37,756
Public works	117,173
Recreation and culture	<u>665</u>
Total governmental activities	<u>\$ 178,400</u>

NOTE 6 - PAYABLES

Payables as of March 31, 2014, for the Township's funds were as follows:

	<u>Accounts</u>	<u>Payroll</u>	<u>Totals</u>
Governmental fund:			
General	<u>\$ 21,246</u>	<u>\$ 5,076</u>	<u>\$ 26,322</u>
Proprietary fund:			
Sewer	<u>\$ 548</u>	<u>\$ -</u>	<u>\$ 548</u>

NOTE 7 - PROPERTY TAXES

The 2013 taxable valuation of the Township approximated \$180,625,000, on which ad valorem taxes levied consisted of 0.7750 mills for operating purposes, raising approximately \$140,000 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 related 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, 2014, is as follows:

Revenues	\$ 39,640
Expenses	<u>(47,791)</u>
Deficiency of revenues over expenses	<u>\$ (8,151)</u>

REQUIRED SUPPLEMENTARY INFORMATION

Township of Oakfield

BUDGETARY COMPARISON SCHEDULE - General Fund

Year ended March 31, 2014

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES				
Property taxes	\$ 137,052	\$ 137,052	\$ 141,432	\$ 4,380
Licenses and permits	30,000	30,000	39,640	9,640
State grants:				
State shared revenue	380,000	380,000	432,727	52,727
Other	6,800	6,800	7,007	207
Charges for services	64,425	64,425	70,549	6,124
Interest and rentals	26,500	26,500	46,434	19,934
Other:				
Special assessment	39,995	39,995	37,135	(2,860)
Miscellaneous	8,275	8,275	2,818	(5,457)
Total revenues	<u>693,047</u>	<u>693,047</u>	<u>777,742</u>	<u>84,695</u>
EXPENDITURES				
General government:				
Legislative	9,600	9,600	9,600	-
Supervisor	22,000	22,000	21,111	889
Elections	9,500	9,500	750	8,750
Assessor	36,175	34,675	33,330	1,345
Clerk	24,600	24,600	23,665	935
Treasurer	26,100	26,181	25,794	387
Hall and grounds	30,825	31,057	24,817	6,240
Cemetery	11,650	12,825	12,425	400
Other	105,300	106,800	75,947	30,853
Total general government	<u>275,750</u>	<u>277,238</u>	<u>227,439</u>	<u>49,799</u>
Public safety:				
Fire protection	84,635	87,735	81,350	6,385
Inspections	27,000	34,272	35,676	(1,404)
Total public safety	<u>111,635</u>	<u>122,007</u>	<u>117,026</u>	<u>4,981</u>

Township of Oakfield

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended March 31, 2014

	<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	\$ 207,000	\$ 247,685	\$ 245,147	\$ 2,538
Weed control	<u>38,800</u>	<u>38,800</u>	<u>32,253</u>	<u>6,547</u>
Total public works	<u>245,800</u>	<u>286,485</u>	<u>277,400</u>	<u>9,085</u>
Community and economic development - planning and zoning	<u>15,700</u>	<u>15,800</u>	<u>7,455</u>	<u>8,345</u>
Recreation and culture - historical commission	<u>1,000</u>	<u>1,392</u>	<u>1,392</u>	<u>-</u>
Capital outlay	<u>296,850</u>	<u>263,605</u>	<u>153,204</u>	<u>110,401</u>
Total expenditures	<u>946,735</u>	<u>966,527</u>	<u>783,916</u>	<u>182,611</u>
NET CHANGES IN FUND BALANCES	(253,688)	(273,480)	(6,174)	267,306
FUND BALANCES - BEGINNING	<u>1,366,077</u>	<u>1,366,077</u>	<u>1,366,077</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$1,112,389</u>	<u>\$1,092,597</u>	<u>\$ 1,359,903</u>	<u>\$ 267,306</u>

May 12, 2014

To the Board of Trustees
Township of Oakfield

We have audited the financial statements of the governmental activities, the business-type activity, and each major fund, of the Township of Oakfield for the year ended March 31, 2014. 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 8, 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 the Township of Oakfield are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2014. 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 12, 2014.

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, and each major fund of the Township of Oakfield 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 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not 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 have 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:

Criteria: All governmental units in Michigan are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the Township Board. 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 accounting records), and (2) reporting government-wide and fund financial statements, including the related notes to the financial statements (i.e. external financial reporting).

Condition: We identified and proposed several material audit adjustments that management reviewed and approved. Adjustments were recorded to:

- Adjust tax revenue and receivables in the General Fund
- Record and correct receivables in the funds
- Record and correct payables in the funds
- Capitalize fixed asset acquisitions in the Sewer Fund
- Provide for depreciation on Sewer Fund capital assets
- Convert the fund-based data necessary to prepare the government-wide financial statements.

As is the case with many small and medium-sized governmental units, the Township has historically relied on its independent external auditor to assist with the preparation of the financial statements, the related notes, and the management's discussion and analysis as part of its external financial reporting process. Accordingly, the Township's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot, by definition, be considered part of the Township's internal controls. 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 GAAP, 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.

Cause: This condition was caused by the Township's decision to outsource the preparation of its annual financial statements to the external auditor rather than incur the costs of obtaining the necessary training and expertise required for the Township to perform this task internally because outsourcing the task is considered more cost effective.

Effect: The Township's accounting records were initially misstated by amounts material to the financial statements. In addition, the Township lacks complete internal controls over the preparation of its financial statements in accordance with GAAP and, instead, relies, at least in part, on assistance from its external auditor for assistance with this task.

Auditor's Recommendation: We recommend that the Township Board evaluate the cost versus benefit of improving its internal controls over the preparation of its financial statements in accordance with GAAP and determine if it is in the best interest of the Township to outsource this task to its external auditor.

Board of Trustees
Page 4
May 12, 2014

Management Response: The Township Board has made an evaluation of the respective costs and benefits of improving its internal controls over the preparation of its financial statements in accordance with GAAP and determined that it is in the best interest of the Township to outsource this task to the external auditor. The Board will review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

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.

Sigfried Crandall P.C.