

PIONEER TOWNSHIP, MISSAUKEE COUNTY

LAKE CITY, MICHIGAN

MARCH 31, 2014



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

CERTIFIED PUBLIC ACCOUNTANTS
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PIONEER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

MARCH 31, 2014

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June 24, 2014

INDEPENDENT AUDITOR'S REPORT

To the Township Board
Pioneer Township
Missaukee County
Lake City, Michigan

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Pioneer Township, Missaukee County, Lake City, Michigan as of March 31, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iii through ix and budgetary comparison information on page 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

PIONEER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

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

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

Financial Highlights

- ❖ The assets of the Township exceeded its liabilities at the close of this fiscal year by \$178,841 (shown as *Net Position*). \$115,954 of this (*Unrestricted Net Position*) may be used to meet the Township's ongoing obligations to citizens and creditors.
- ❖ The Township's net position increased by \$2,231 during the fiscal year.
- ❖ As of March 31, 2014, the governmental fund of the Township of Pioneer reported a combined ending fund balance of \$131,252, of which, \$91,794 was unassigned.

Overview of the Financial Statements

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

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

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

PIONEER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

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

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

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

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

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

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

The Township maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Fire Fund, which are considered to be major funds.

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

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

PIONEER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

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

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

Notes to Financial Statements The notes provide additional information that is necessary to acquire a full understanding of the data provided in the governmental-wide and fund financial statements. The notes can be found on pages 8-15 of this report.

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

Government-Wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of Pioneer Township, assets exceeded liabilities by \$178,841, at the close of the most recent fiscal year.

Pioneer Township
Net Position as of March 31, 2014

	<u>Governmental Activities</u>
Assets	
Current Assets	\$ 132,434
Non Current Assets	
Capital Assets	85,831
Less: Accumulated Depreciation	<u>(38,242)</u>
Total Non Current Assets	<u>47,589</u>
Total Assets	<u>180,023</u>
Liabilities	
Current Liabilities	<u>1,182</u>
Net Position	
Net Investment in Capital Assets	47,589
Restricted for Fire Protection	15,298
Unrestricted	<u>115,954</u>
Total Net Position	<u><u>\$ 178,841</u></u>

PIONEER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

A portion of the Township's net position (27%) reflects its net investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related outstanding debt that was used to acquire those assets. The Township uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending.

An additional portion of the Township's net position (9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$115,954 is unrestricted, which may be used to meet the government's ongoing obligations to its citizens and creditors.

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

Pioneer Township's overall net position increased by \$2,231 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for the governmental activities.

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

	<u>Governmental</u> <u>Activities</u>
<u>Revenues</u>	
Program Revenues	
Charges for Services	\$ 1,358
Operating Grants and Contributions	1,291
General Revenues	
Property Taxes	43,793
State Grants	33,490
Investment Earnings	101
Other Revenues	79
Total Revenues	<hr/> 80,112 <hr/>
<u>Expenses</u>	
General Government	54,704
Public Safety	12,963
Public Works	2,364
Recreational and Cultural	164
Other Functions	7,686
Total Expenses	<hr/> 77,881 <hr/>
Change in Net Position	2,231
<u>NET POSITION</u> - Beginning of Year	<hr/> 176,610 <hr/>
<u>NET POSITION</u> - End of Year	<hr/> <u>\$ 178,841</u> <hr/>

PIONEER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

Governmental Activities

The most significant part of the revenue for all governmental activities of the Township comes from property tax revenues. The Township levied 1.4032 mills for operating purposes and 1.0000 mill for fire protection.

The Township's governmental activities expenses are dominated by general governmental expenses. The Township spent \$54,704 in fiscal year 2013-14 on General Government expenses. Public Safety represented the next largest expense at \$12,963.

Financial Analysis of the Governmental Funds

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

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

At March 31, 2014, Pioneer Township's governmental funds reported a fund balance of \$131,252, an increase of \$5,634 in comparison with the prior year. Approximately 70% of this amount (\$91,794) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable*, *restricted*, *committed*, or *assigned* to indicate that it is 1) not in spendable form, 2) legally required to be maintained intact, 3) restricted for particular purposes (\$15,298), 4) committed for particular purposes, or 5) assigned for particular purposes (\$24,160).

General Fund – The General Fund is the operating fund of the Township. The General Fund increased its fund balance in this fiscal year by \$4,287, bringing the balance to \$115,954.

Fire Fund – The Fire Fund increased its fund balance by \$1,347, which brings the fund balance to \$15,298, all of which is restricted for fire protection.

General Fund Budgetary Highlights

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

PIONEER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Total Revenues	\$ 63,054	\$ 63,054	\$ 67,002
Total Expenditures	\$ 87,288	\$ 87,582	\$ 62,715

The Township budgets for a worst-case scenario, which is the reason for variances between budgeted revenues and expenditures and actual revenues and expenditures.

Capital Assets

Capital Assets The Township's investment in capital assets for governmental activities as of March 31, 2014, amounted to \$47,589 net of accumulated depreciation.

Capital assets of the Township include any items purchased that cost in excess of \$1,000 and have an expected useful life of over one year. The Township has invested in a broad range of capital assets, as detailed below:

Pioneer Township
Capital Assets as of March 31, 2014

	Governmental Activities
Land Improvements	\$ 8,385
Buildings	54,574
Machinery and Equipment	6,716
Furniture and Fixtures	16,156
	85,831
Less: Accumulated Depreciation	(38,242)
Net Capital Assets	\$ 47,589

There were no major capital asset events during fiscal year 2014.

Economic Condition and Outlook

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

This factor was considered in preparing the Township's budget for the 2014-2015 fiscal year.

PIONEER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

Request for Information

This financial report is designed to provide the wide variety of users of this document with a general overview of the Township's finances and demonstrate the Township's accountability for the financial resources entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to Pioneer Township at 2914 W. Moorestown Road, Lake City, MI 49651.

PIONEER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

STATEMENT OF NET POSITION
MARCH 31, 2014

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 124,752
Due from Other Governments	7,682
	<hr/>
Total Current Assets	132,434
	<hr/>
<u>CAPITAL ASSETS</u>	
Land Improvements	8,385
Buildings	54,574
Machinery and Equipment	6,716
Furniture and Fixtures	16,156
	<hr/>
	85,831
Less Accumulated Depreciation	(38,242)
	<hr/>
Net Capital Assets	47,589
	<hr/>
Total Assets	180,023
	<hr/>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	1,182
	<hr/>
<u>NET POSITION</u>	
Net Investment in Capital Assets	47,589
Restricted for Fire Protection	15,298
Unrestricted	115,954
	<hr/>
TOTAL NET POSITION	\$ 178,841
	<hr/> <hr/>

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

PIONEER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2014

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION</u>
<u>GOVERNMENTAL ACTIVITIES</u>	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>TOTAL GOVERNMENTAL ACTIVITIES</u>
General Government	\$ 54,704	\$ 1,358	\$ 0	\$ 0	\$ (53,346)
Public Safety	12,963	0	0	0	(12,963)
Public Works	2,364	0	1,291	0	(1,073)
Recreation and Cultural	164	0	0	0	(164)
Other Functions	7,686	0	0	0	(7,686)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 77,881	\$ 1,358	\$ 1,291	\$ 0	(75,232)
 <u>GENERAL REVENUES</u>					
Property Taxes					43,793
State Grants					33,490
Investment Earnings					101
Other Revenues					79
Total General Revenues					<u>77,463</u>
Change in Net Position					2,231
<u>NET POSITION</u> - Beginning of Year					<u>176,610</u>
<u>NET POSITION</u> - End of Year					<u>\$ 178,841</u>

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

PIONEER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
MARCH 31, 2014

	<u>GENERAL</u> <u>FUND</u>	<u>FIRE</u> <u>FUND</u>	<u>TOTALS</u>
<u>ASSETS</u>			
Cash	\$ 109,454	\$ 15,298	\$ 124,752
Due from Other Governments	7,682	0	7,682
TOTAL ASSETS	\$ 117,136	\$ 15,298	\$ 132,434
 <u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 1,182	\$ 0	\$ 1,182
 <u>FUND BALANCE</u>			
Restricted for:			
Fire Protection	0	15,298	15,298
Assigned for:			
Budgeted Use of Fund Balance in 14/15	24,160	0	24,160
Unassigned	91,794	0	91,794
Total Fund Balance	115,954	15,298	131,252
TOTAL LIABILITIES AND FUND BALANCE	\$ 117,136	\$ 15,298	\$ 132,434

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

PIONEER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

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

Total Fund Balances for the General Fund	\$	131,252
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Land Improvements	\$	8,385
Buildings		54,574
Machinery and Equipment		6,716
Furniture and Fixtures		16,156
Accumulated Depreciation		(38,242) 47,589
		<hr/>
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>178,841</u>

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

PIONEER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

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

	<u>GENERAL</u> <u>FUND</u>	<u>FIRE</u> <u>FUND</u>	<u>TOTALS</u>
<u>REVENUES</u>			
Taxes	\$ 30,697	\$ 13,096	\$ 43,793
State Grants	34,781	0	34,781
Charges for Services	1,358	0	1,358
Interest and Rents	94	7	101
Other Revenues	72	7	79
	67,002	13,110	80,112
<u>EXPENDITURES</u>			
General Government	51,301	0	51,301
Public Safety	1,200	11,763	12,963
Public Works	2,364	0	2,364
Recreation and Cultural	164	0	164
Other Functions	7,686	0	7,686
	62,715	11,763	74,478
Excess (Deficiency) of Revenues over Expenditures	4,287	1,347	5,634
<u>FUND BALANCE</u> - Beginning of Year	111,667	13,951	125,618
<u>FUND BALANCE</u> - End of Year	\$ 115,954	\$ 15,298	\$ 131,252

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

PIONEER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

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

MARCH 31, 2014

Net Change in Fund Balance - General Fund	\$ 5,634
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Amounts reported for governmental activities are different because:

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

Depreciation Expense	<u>(3,403)</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 2,231</u></u>
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The accompanying notes are an integral part of the financial statements.

PIONEER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION
MARCH 31, 2014

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

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

PIONEER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements

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

B. Reporting Entity

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

C. Basis of Presentation – Government-Wide Financial Statements

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

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

D. Basis of Presentation – Fund Financial Statements

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

Pioneer Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

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

PIONEER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

Additionally, Pioneer Township reports the following fund type:

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

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

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

E. Measurement Focus and Basis of Accounting

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the

PIONEER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

amount is received during the period or within the availability period for this revenue resource (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

F. Budgetary Information

1. Budgetary Basis of Accounting

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan State Law. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year-end. Budget amounts are as originally adopted on April 15, 2013, or as amended by the Township Board from time to time throughout the year.

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

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

2. Excess of Expenditures Over Appropriations

	<u>APPROPRIATIONS</u>		<u>EXPENDITURES</u>
General Fund			
Buildings and Grounds	\$ 10,039	\$	10,588
Fire Fund			
Public Safety	10,300		11,763

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

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

1. Cash and Cash Equivalents

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition. The Township investment policy authorizes the Township treasurer to invest Township funds in deposit accounts, savings accounts, certificates of deposit, bonds, securities and other obligations of the United States; commercial paper; repurchase agreements; obligations of the state or its political subdivisions; mutual funds; and investment pools as allowed by state law.

PIONEER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

2. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as acquired.

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

3. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>ASSETS</u>	<u>YEARS</u>
Land Improvements	20
Buildings	50
Building Improvements	20
Public Domain Infrastructure	20
Vehicles	10
Machinery and Equipment	5-10
Furniture and Fixtures	5-10

4. *Deferred Outflows/Inflows of Resources*

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

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

PIONEER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
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5. *Net Position Flow Assumption*

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

6. *Fund Balance Flow Assumption*

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

7. *Fund Balance Policies*

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority. The governing board is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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

PIONEER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

8. *Use of Estimates*

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

H. Revenues and Expenditures/Expenses

1. *Program Revenues*

Amounts reported as program revenue include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. *Property Taxes*

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

The 2013 taxable valuation of Pioneer Township totaled \$13,129,014 on which ad valorem taxes levied consisted of 1.4032 mills for Pioneer Township operating purposes and 1 mill for Fire Protection. The levy raised approximately \$18,376 for operating purposes and \$13,096 for Fire Protection.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Violations of Legal or Contractual Provisions

Note I.F.2, on the Excess of Expenditures Over Appropriations, describes a budgetary violation that occurred for the year ended March 31, 2014.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits with Financial Institutions

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2014, none of the

PIONEER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
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Township's bank balance of \$125,458 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although it is not specifically addressed in the Township's investment policy, the Township typically limits its exposure to this type of risk by controlling who holds its deposits.

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

B. Receivables

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

	General	Fire
Due from Other Governments	\$ 7,682	\$ 0

Due from other governments is made up of state-shared revenue receivables. By ordinance, the Township can place substantially all of its delinquent receivables on the tax rolls as a lien against real property. As a result, its uncollectible accounts are virtually nil.

C. Capital Assets

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, being depreciated				
Land Improvements	\$ 8,385	\$ 0	\$ 0	\$ 8,385
Buildings	54,574	0	0	54,574
Machinery and Equipment	6,716	0	0	6,716
Furniture and Fixtures	16,156	0	0	16,156
Total capital assets, being depreciated	85,831	0	0	85,831
Less accumulated depreciation for:				
Land Improvements	4,526	419	0	4,945
Buildings	9,967	2,013	0	11,980
Machinery and Equipment	6,119	143	0	6,262
Furniture and Fixtures	14,227	828	0	15,055
Total accumulated depreciation	34,839	3,403	0	38,242
Governmental activities capital assets, net	\$ 50,992	\$ (3,403)	\$ 0	\$ 47,589

D. Interfund Receivables, Payables and Transfers

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

PIONEER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

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

E. Risk Management

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

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

F. Retirement Plan

The Township has a money purchase plan with Municipal Retirement Systems, Inc. which covers Township employees who have satisfied the eligibility requirements. Each employee becomes eligible for coverage on the first policy anniversary date which the employee reaches age 18. Each employee is 100% vested upon entering the plan. An employee's normal retirement age is age 65 or the 5th anniversary of the first day of the plan year in which participation in the plan commenced.

The formula for determining contributions is based on an employee's annual compensation. The Township has elected to contribute 15% of compensation to the plan annually.

Township contributions to the plan for 2013-2014 amounted to \$3,992, with no employee contributions. In addition the Township paid a \$135 administrative fee.

G. Lake Missaukee Area Fire Authority

The Lake Missaukee Fire Authority is a joint venture by and between the townships of Caldwell, Forest, Pioneer, and Reeder. This joint venture was created to provide fire protection for the listed governments. Each municipality pays an annual base amount equal to one-half of one mill of taxable value of the real property located in the areas of the municipality covered by this agreement. In addition, the Township pays \$150 per fire run within the Township.

In addition to the annual contribution, each township is required to contribute monies in order to construct a fire station and purchase fire equipment.

For the year ended March 31, 2014, the Township contributed \$6,263 to the Fire Authority.

PIONEER TOWNSHIP, MISSAUKEE COUNTY
LAKE CITY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>GENERAL FUND</u>			<u>FIRE FUND</u>		
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>						
Taxes	\$ 29,904	\$ 29,904	\$ 30,697	\$ 13,569	\$ 13,569	\$ 13,096
State Grants	31,100	31,100	34,781	0	0	0
Charges for Services	1,400	1,400	1,358	0	0	0
Interest and Rents	150	150	94	15	15	7
Other Revenues	500	500	72	0	0	7
Total Revenues	<u>63,054</u>	<u>63,054</u>	<u>67,002</u>	<u>13,584</u>	<u>13,584</u>	<u>13,110</u>
<u>EXPENDITURES</u>						
General Government						
Township Board	13,000	13,000	7,889	0	0	0
Supervisor	7,000	7,000	6,600	0	0	0
Assessor	9,500	9,500	7,585	0	0	0
Clerk	8,000	8,000	6,648	0	0	0
Board of Review	1,500	1,755	1,006	0	0	0
Treasurer	11,312	11,312	9,855	0	0	0
Elections	2,772	2,772	520	0	0	0
Building and Grounds	10,000	10,039	10,588	0	0	0
Cemetery	5,000	5,000	610	0	0	0
Public Safety	2,200	2,200	1,200	10,300	10,300	11,763
Public Works	2,500	2,500	2,364	0	0	0
Recreation and Cultural	1,000	1,000	164	0	0	0
Other Functions	8,504	8,504	7,686	0	0	0
Contingency	5,000	5,000	0	0	0	0
Total Expenditures	<u>87,288</u>	<u>87,582</u>	<u>62,715</u>	<u>10,300</u>	<u>10,300</u>	<u>11,763</u>
Excess (Deficiency) of Revenues Over Expenditures	(24,234)	(24,528)	4,287	3,284	3,284	1,347
<u>FUND BALANCE</u> - Beginning of Year	<u>111,667</u>	<u>111,667</u>	<u>111,667</u>	<u>13,951</u>	<u>13,951</u>	<u>13,951</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 87,433</u>	<u>\$ 87,139</u>	<u>\$ 115,954</u>	<u>\$ 17,235</u>	<u>\$ 17,235</u>	<u>\$ 15,298</u>



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CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601 PHONE: (231) 775-9789 FAX: (231) 775-9749
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June 24, 2014

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

To the Township Board
Pioneer Township
Missaukee County
Lake City, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pioneer Township for the year ended March 31, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 14, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Pioneer Township are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013-2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. 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 governmental activities, each major fund, and the aggregate remaining fund information of Pioneer Township's financial statements was:

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all misstatements. The material misstatements detected as a result of audit procedures were corrected by management and were related to adjusting financial records from cash basis to the modified accrual basis of accounting.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 24, 2014.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

Approval of Adopted Budget

During the course of our audit, it was noted that it was not recorded in the official board minutes when the budget was adopted. We recommend that the board approved budget and amendments to the budget be recorded in the monthly minutes.

Budgeting

One line item in the General Fund exceeded appropriated amounts and the Fire Fund total expenditures exceeded appropriated amounts. The Township should continue to monitor its budgets on an ongoing basis and make budget amendments prior to incurring expenditures in excess of budgeted amounts.

Bank Statements and Reconciliations

Because of the limited number of people involved in the accounting process we recommend that a board member review the bank statements and reconciliations on a monthly basis and initial them.

Computerization of Records

With the ever increasing complexity and volume of accounting recordkeeping transactions, we recommend the Township consider obtaining and maintaining computerized accounting records. We realize this is something board has to weigh the cost vs. benefit of such software. We are available to assist the Township with selecting and installing a software program if you choose to go that route, and we are also available to provide computer training.

Disbursements

During the audit we found instances where employees were reimbursed for sales tax paid. The Township is exempt from most sales tax and should not pay sales tax in most instances.

Condition of Accounting Records and Accounting Controls

We would like to thank the accounting personnel for their efforts in accumulating the information needed for our audit. We encourage you to review your internal and accounting controls on an annual basis to ensure they are adequate and operating as intended.

Other Matters

We applied certain limited procedures to the Management Discussion and Analysis and the Budgetary Comparison Schedule, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding the methods of preparing the information and comparing information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

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

BAIRD, COTTER AND BISHOP, P.C.

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June 24, 2014

COMMUNICATION OF MATERIAL WEAKNESSES

To the Township Board
Pioneer Township
Missaukee County
Lake City, Michigan

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In addition, we noted other matters involving internal control and its operation that we have reported to management of the Pioneer Township in a separate letter dated June, 24, 2014.

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

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

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.