

SELMA TOWNSHIP, WEXFORD COUNTY

CADILLAC, MICHIGAN

JUNE 30, 2014



Baird, Cotter & Bishop, P.C.
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CERTIFIED PUBLIC ACCOUNTANTS
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SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

JUNE 30, 2014

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October 8, 2014

INDEPENDENT AUDITOR'S REPORT

To the Township Board
Selma Township
Wexford County
Cadillac, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Selma Township, Wexford County, Cadillac, Michigan as of and for the year ended June 30, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 activities, each major fund, and the aggregate remaining fund information of Selma Township, Wexford County, Cadillac, Michigan as of June 30, 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 on pages iv through xii and 23-24 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township's basic financial statements. The financial statements of combined funds are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The financial statements of combined funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combined fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2014, on our consideration of Selma Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Selma Township's internal control over financial reporting and compliance.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

Management's Discussion and Analysis

The management of Selma Township, Cadillac, Michigan ("the Township") offers this narrative overview and analysis of the financial activities of the Township for the fiscal year ended June 30, 2014, for the benefit of the readers of these financial statements. The management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the Township's financial activity. 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.

Financial Highlights

Government-Wide

- The assets of the Township exceeded its liabilities at the close of the fiscal year by \$1,911,743 (shown as *Net Position*). Of this amount, \$422,408 (*Unrestricted Net Position*) may be used to meet the Township's ongoing obligations to citizens and creditors.
- The Township's net position decreased by \$164,990 during the fiscal year. Governmental Funds had a \$140,458 decrease, while Business-Type activities had a \$24,532 decrease.

Fund Level Financial Highlights

- As of June 30, 2014, the governmental funds of Selma Township reported combined ending fund balances of \$938,322 of which \$305,591 was unassigned.
- The fund balance of Selma Township's General Fund increased this year to \$394,823.

Overview of Financial Statements

This discussion and analysis provided here is intended to serve as an introduction to Selma Township's basic financial statements. Selma Township's financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to 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 information on all of the Township's assets and liabilities, 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.

The *Statement of Activities* presents the 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

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

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

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. Selma Township, like other state and local governments, uses fund accounting to ensure compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories, governmental funds, proprietary funds and fiduciary funds.

Governmental Funds Governmental funds are used to account for essentially the same functions 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 eight 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, Fire Fund, Road Improvement Fund, Lake Improvement Fund, Sewer Capital Improvement Fund, and Fire/EMS Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the report.

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

Proprietary Funds – The Township maintains one proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses enterprise funds to account for its sewer operations.

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds are not reflected in the government-wide financial statements because the resources of the funds are not available for supporting the Township’s programs. These funds are accounted for using the full accrual method of accounting, much like the Proprietary funds.

Notes to Financial Statements

The notes provide additional information that is essential to a complete understanding of the information provided in the government-wide and fund financial statements. The notes can be found beginning on Page 11 of this report.

Other Information

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

Government-Wide 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 Selma Township, assets exceeded liabilities by \$1,911,743, at the close of the most recent fiscal year.

Selma Township
Net Position as of June 30

	Governmental		Business-Type		Total Primary	
	Activities		Activities		Government	
	2014	2013	2014	2013	2014	2013
Assets						
Current Assets	\$ 958,072	\$ 1,085,984	\$ 37,205	\$ 37,304	\$ 995,277	\$ 1,123,288
Non Current Assets						
Capital Assets	1,407,445	1,368,926	1,221,644	1,221,644	2,629,089	2,590,570
Less: Accumulated Depreciation	880,286	830,838	830,720	806,287	1,711,006	1,637,125
Total Non Current Assets	527,159	538,088	390,924	415,357	918,083	953,445
Total Assets	1,485,231	1,624,072	428,129	452,661	1,913,360	2,076,733

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

Selma Township
Net Position as of June 30

	Governmental		Business-Type		Total Primary	
	Activities		Activities		Government	
	2014	2013	2014	2013	2014	2013
Liabilities and Net Position						
Liabilities						
Current Liabilities	1,617	0	0	0	1,617	0
Net Position						
Net Investment in Capital Assets	527,159	538,088	390,924	415,357	918,083	953,445
Restricted	571,252	704,492	0	0	571,252	704,492
Unrestricted	385,203	381,492	37,205	37,304	422,408	418,796
Total Net Position	\$1,483,614	\$1,624,072	\$ 428,129	\$ 452,661	\$ 1,911,743	\$ 2,076,733

A significant portion of the Township's net position reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt that is outstanding that the Township used to acquire or construct those assets. The Township uses these capital assets to provide services to citizens. Accordingly, these assets are not available for future spending. Although the Township's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the Township's net position represents resources, \$571,252, that is subject to external restrictions on how they may be used. The remaining portion of net position is unrestricted net position, \$422,408, and may be used to meet the Township's ongoing obligations to 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.

Selma Township's overall net position decreased \$164,990 from the prior fiscal year. The reasons for this overall decrease are discussed in the following sections.

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

Selma Township
Change in Net Position
for the Fiscal Year Ended June 30

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total Primary</u>	
	<u>Activities</u>		<u>Activities</u>		<u>Government</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$ 104,330	\$ 66,746	\$ 0	\$ 0	\$ 104,330	\$ 66,746
Operating Grants and Contributions	127,327	86,460	0	0	127,327	86,460
General Revenues						
Taxes	124,637	123,908	0	0	124,637	123,908
State Grants	157,008	153,977	0	0	157,008	153,977
Interest Earnings	1,900	4,161	0	0	1,900	4,161
Other	3,516	5,646	0	0	3,516	5,646
Total Revenues	518,718	440,898	0	0	518,718	440,898
<u>Expenses</u>						
General Government	155,404	154,347	0	0	155,404	154,347
Public Safety	243,734	172,919	0	0	243,734	172,919
Public Works	126,723	19,241	0	0	126,723	19,241
Culture and Recreation	95,856	85,264	0	0	95,856	85,264
Other Functions	37,459	31,288	0	0	37,459	31,288
Sewer	0	0	24,532	24,433	24,532	24,433
Total Expenses	659,176	463,059	24,532	24,433	683,708	487,492
Changes in Net Position	(140,458)	(22,161)	(24,532)	(24,433)	(164,990)	(46,594)
<u>NET POSITION</u> - Beginning of Year	1,624,072	1,646,233	452,661	477,094	2,076,733	2,123,327
<u>NET POSITION</u> - End of Year	\$ 1,483,614	\$ 1,624,072	\$ 428,129	\$ 452,661	\$ 1,911,743	\$ 2,076,733

Governmental Activities

The governmental activities accounted for a decrease of \$140,458 in the Township's net position. The most significant part of the revenue for all governmental activities of the Township comes from state grants and operating grants.

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

The Township's governmental activities expenses are dominated by the Public Safety and General Government expenses. The Township spent \$243,734 during the fiscal year on Public Safety expenses. General Government represented the next largest expense at \$155,404.

Business-Type Activities

The business-type activities accounted for a decrease of \$24,532 in the Township's net position.

Business-type activities of the Township include the Sewer Fund to account for its sewer operations. Beginning January 1, 2008, the Township entered into an agreement with the Wexford County Department of Public Works for operation and maintenance of the sewer system.

Financial Analysis of the Government's Funds

Governmental Funds The focus of Selma Township's governmental funds is provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Selma 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 been limited to use for a particular purpose by either an external party, Selma Township itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by Selma Township's board.

At June 30, 2014, Selma Township's governmental funds reported combined fund balances of \$938,322, a decrease of \$132,370 in comparison with the prior year. Approximately \$305,591 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is non-spendable, restricted, or assigned to indicate that is 1) in non-spendable form (\$29,266), 2) restricted for particular purposes (\$571,252) or 3) assigned for particular purposes (\$32,213).

General Fund – The General Fund increased its fund balance by \$38,763 which brings the fund balance to \$394,823. Of the General Fund's fund balance, \$329,787 is unassigned while \$25,923 is nonspendable for prepaid expenditures, \$29,412 is restricted for roads, and \$9,701 is assigned for cemetery.

Fire Fund – The Fire Fund increased its fund balance by \$3,110, which brings the fund balance to \$90,060. This balance is restricted and must be used for fire protection.

Road Improvement Fund – The Road Improvement Fund decreased its fund balance by \$107,160, which brings the fund balance to \$190,543. This balance is restricted and must be used for road improvements.

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

Fire/EMS Fund – The Fire/EMS Fund decreased by \$55,333 which brings the fund balance to a deficit of \$20,853. The balance is typically restricted and must be used for fire and emergency medical services. However, since the balance is a deficit, it is considered unrestricted.

Lake Improvement Fund – The Lake Improvement Fund had no change in its fund balance. The fund balance is zero. The Township received \$85,647 in special assessment revenue for the current fiscal year.

Sewer Capital Improvement Fund – The Sewer Capital Improvement Fund increased its fund balance by \$333 which brings the fund balance to \$261,201. This balance is restricted and must be used for Sewer Capital Improvements.

Proprietary Fund The Township's proprietary fund provides the same information as the government-wide statements.

Sewer Fund – The Sewer Fund ended the fiscal year with a decrease in net position of \$24,532. This is due to the deduction of depreciation expense on the fund's capital assets. Net position invested in capital assets decreased by the amount of the depreciation deduction, or \$24,433, as well as legal fees. Despite the decrease in net position, the fund is still in stable condition. Beginning January 1, 2008, the Township entered into a new agreement with the Wexford County Department of Public Works for operation and maintenance of the sewer system.

General Fund Budgetary Highlights

During the year, the Township amended its general fund budget to reflect revised expenditure plans, although no actual change to total appropriations occurred.

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

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
Total Revenues	<u>\$ 189,808</u>	<u>\$ 189,808</u>	<u>\$ 237,766</u>
Total Expenditures	<u>\$ 215,906</u>	<u>\$ 215,906</u>	<u>\$ 195,903</u>

The reason for the variance between budgeted revenues and actual revenues was the Township collected more in state shared revenues than they anticipated. The reason for the variance between the budgeted expenditures and actual expenditures was due to fire expenditures incurred being much less than budgeted for.

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

Capital Assets and Debt Administration

Capital Assets. The Township’s investment in capital assets for governmental and business-type activities as of June 30, 2014, amounted to \$918,083 net of accumulated depreciation. Capital assets summarized below include any items purchased with a cost greater than \$2,500 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

Selma Township
Capital Assets as of June 30

	Governmental		Business-Type		Total Primary	
	Activities		Activities		Government	
	2014	2013	2014	2013	2014	2013
Land and Land Improvements	\$ 88,154	\$ 88,154	\$ 0	\$ 0	\$ 88,154	\$ 88,154
Buildings and Improvements	320,080	304,971	0	0	320,080	304,971
Improvements Other than Buildings	0	0	1,221,644	1,221,644	1,221,644	1,221,644
Machinery and Equipment	775,835	752,425	0	0	775,835	752,425
Infrastructure	223,376	223,376	0	0	223,376	223,376
	1,407,445	1,368,926	1,221,644	1,221,644	2,629,089	2,590,570
Less Accumulated depreciation	880,286	830,838	830,720	806,287	1,711,006	1,637,125
Net Capital Assets	\$ 527,159	\$ 538,088	\$ 390,924	\$ 415,357	\$ 918,083	\$ 953,445

Major capital asset events during the current fiscal year included the following:

- Purchased an ambulance that amounted to \$7,000.
- Purchased fire equipment that amounted to \$36,410.
- Replaced the roof for the township hall at a cost of \$15,109.

Additional information regarding the Township’s capital assets can be found in the Notes to Financial Statements section.

Economic Condition and Outlook

- As the economic conditions in the State of Michigan continue to improve, there is more certainty and stability surrounding the significant revenue sources of the Township (property taxes and state shared revenues).
- The Township continues to look for ways to improve the services it provides to its residents in a manner that is financially responsible.

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Selma Township at 4101 S. 35 Road, Cadillac, Michigan 49601.

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

STATEMENT OF NET POSITION
JUNE 30, 2014

	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTALS
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash	\$ 212,323	\$ 37,205	\$ 249,528
Investments	605,413	0	605,413
Receivables			
Accounts	56,754	0	56,754
External Party (Fiduciary Fund)	1,431	0	1,431
Due from Other Governments	52,885	0	52,885
Prepaid Expenses	29,266	0	29,266
	<hr/>	<hr/>	<hr/>
Total Current Assets	958,072	37,205	995,277
<u>CAPITAL ASSETS</u>			
Land and Land Improvements	88,154	0	88,154
Buildings and Improvements	320,080	0	320,080
Improvements Other Than Buildings	0	1,221,644	1,221,644
Machinery and Equipment	775,835	0	775,835
Infrastructure	223,376	0	223,376
	<hr/>	<hr/>	<hr/>
	1,407,445	1,221,644	2,629,089
Less Accumulated Depreciation	880,286	830,720	1,711,006
Net Capital Assets	<hr/>	<hr/>	<hr/>
	527,159	390,924	918,083
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	1,485,231	428,129	1,913,360
<u>LIABILITIES</u>			
Accounts Payable	1,000	0	1,000
Payroll Liabilities	617	0	617
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	1,617	0	1,617
<u>NET POSITION</u>			
Net Investment in Capital Assets	527,159	390,924	918,083
Restricted for Fire Protection	90,060	0	90,060
Restricted for Liquor Law Enforcement	36	0	36
Restricted for Roads	219,955	0	219,955
Restricted for Sewer Capital Improvements	261,201	0	261,201
Unrestricted	385,203	37,205	422,408
	<hr/>	<hr/>	<hr/>
TOTAL NET POSITION	\$ 1,483,614	\$ 428,129	\$ 1,911,743
	<hr/>	<hr/>	<hr/>

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

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS
<u>GOVERNMENTAL ACTIVITIES</u>							
General Government	\$ 155,404	\$ 17,927	\$ 0	\$ 0	\$ (137,477)	\$ 0	\$ (137,477)
Public Safety	243,734	86,403	35,386	0	(121,945)	0	(121,945)
Public Works	126,723	0	6,294	0	(120,429)	0	(120,429)
Culture and Recreation	95,856	0	85,647	0	(10,209)	0	(10,209)
Other Functions	37,459	0	0	0	(37,459)	0	(37,459)
Total Governmental Activities	659,176	104,330	127,327	0	(427,519)	0	(427,519)
<u>BUSINESS-TYPE ACTIVITIES</u>							
Sewer	24,532	0	0	0	0	(24,532)	(24,532)
TOTAL	\$ 683,708	\$ 104,330	\$ 127,327	\$ 0	(427,519)	(24,532)	(452,051)
<u>GENERAL REVENUES</u>							
Taxes					124,637	0	124,637
State Grants					157,008	0	157,008
Interest Earnings					1,900	0	1,900
Other Revenue					3,516	0	3,516
Total General Revenues					287,061	0	287,061
Change in Net Position					(140,458)	(24,532)	(164,990)
<u>NET POSITION</u> - Beginning of Year					1,624,072	452,661	2,076,733
<u>NET POSITION</u> - End of Year					\$ 1,483,614	\$ 428,129	\$ 1,911,743

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

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
JUNE 30, 2014

	GENERAL FUND	FIRE FUND	ROAD IMPROVEMENT FUND	FIRE/EMS FUND	LAKE IMPROVEMENT FUND	SEWER CAPITAL IMPROVEMENT FUND	NONMAJOR FUNDS	TOTALS
<u>ASSETS</u>								
Cash	\$ 99,681	\$ 70,060	\$ (11,261)	\$ (28,101)	\$ 0	\$ 59,396	\$ 22,548	\$ 212,323
Investments	201,804	0	201,804	0	0	201,805	0	605,413
Accounts Receivable	3,716	0	0	53,038	0	0	0	56,754
Due from Other Funds	11,431	20,000	0	0	0	0	0	31,431
Due from Other Governments	52,885	0	0	0	0	0	0	52,885
Prepaid Expenditures	25,923	0	0	3,343	0	0	0	29,266
TOTAL ASSETS	\$ 395,440	\$ 90,060	\$ 190,543	\$ 28,280	\$ 0	\$ 261,201	\$ 22,548	\$ 988,072
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</u>								
<u>LIABILITIES</u>								
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 1,000	\$ 0	\$ 0	\$ 0	\$ 1,000
Payroll Liabilities	617	0	0	0	0	0	0	617
Due to Other Funds	0	0	0	30,000	0	0	0	30,000
TOTAL LIABILITIES	617	0	0	31,000	0	0	0	31,617
<u>DEFERRED INFLOWS OF RESOURCES</u>								
Unavailable Revenue - Fire and EMS Charges	0	0	0	18,133	0	0	0	18,133
<u>FUND BALANCE</u>								
Nonspendable for:								
Prepaid Expenditures	25,923	0	0	3,343	0	0	0	29,266
Restricted for:								
Fire Protection	0	90,060	0	0	0	0	0	90,060
Liquor Law Enforcement	0	0	0	0	0	0	36	36
Roads	29,412	0	190,543	0	0	0	0	219,955
Sewer Capital Improvements	0	0	0	0	0	261,201	0	261,201
Assigned for:								
Cemetery	9,701	0	0	0	0	0	0	9,701
Public Improvements	0	0	0	0	0	0	22,512	22,512
Unassigned (Deficit)	329,787	0	0	(24,196)	0	0	0	305,591
Total Fund Balance	394,823	90,060	190,543	(20,853)	0	261,201	22,548	938,322
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 395,440	\$ 90,060	\$ 190,543	\$ 28,280	\$ 0	\$ 261,201	\$ 22,548	\$ 988,072

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

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

Total Fund Balances for Governmental Funds \$ 938,322

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	\$ 40,370	
Land Improvements	47,784	
Buildings and Improvements	320,080	
Machinery and Equipment	775,835	
Infrastructure	223,376	
Accumulated Depreciation	<u>(880,286)</u>	527,159

Balance of Fire and EMS Charges expected to be collected after September 1, 2014		<u>18,133</u>
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NET POSITION OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 1,483,614</u></u>
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The accompanying notes are an integral part of the financial statements.

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2014

	GENERAL FUND	FIRE FUND	ROAD IMPROVEMENT FUND	FIRE/EMS FUND	LAKE IMPROVEMENT FUND	SEWER CAPITAL IMPROVEMENT FUND	NONMAJOR FUNDS	TOTALS
<u>REVENUES</u>								
Taxes	\$ 53,717	\$ 0	\$ 0	\$ 70,920	\$ 0	\$ 0	\$ 0	\$ 124,637
Licenses and Permits	8,276	0	0	0	0	0	0	8,276
Federal Grants	3,729	25,660	0	9,286	0	0	0	38,675
State Grants	159,573	0	0	0	0	0	440	160,013
Charges for Services	9,451	4,150	0	79,412	0	0	0	93,013
Interest and Rents	944	86	714	0	0	333	23	2,100
Other Revenues	2,076	1,440	0	0	85,647	0	0	89,163
Total Revenues	237,766	31,336	714	159,618	85,647	333	463	515,877
<u>EXPENDITURES</u>								
General Government	146,823	0	0	0	0	0	15,109	161,932
Public Safety	0	28,226	0	208,683	0	0	537	237,446
Public Works	7,680	0	107,874	0	0	0	0	115,554
Culture and Recreation	10,209	0	0	0	85,647	0	0	95,856
Other Functions	31,191	0	0	6,268	0	0	0	37,459
Total Expenditures	195,903	28,226	107,874	214,951	85,647	0	15,646	648,247
Excess (Deficiency) of Revenues Over Expenditures	41,863	3,110	(107,160)	(55,333)	0	333	(15,183)	(132,370)
<u>OTHER FINANCING SOURCES (USES)</u>								
Transfers In	0	0	0	0	0	0	3,100	3,100
Transfers Out	(3,100)	0	0	0	0	0	0	(3,100)
Total Other Financing Sources (Uses)	(3,100)	0	0	0	0	0	3,100	0
Net Change in Fund Balance	38,763	3,110	(107,160)	(55,333)	0	333	(12,083)	(132,370)
<u>FUND BALANCE - Beginning of Year</u>	356,060	86,950	297,703	34,480	0	260,868	34,631	1,070,692
<u>FUND BALANCE - End of Year (Deficit)</u>	\$ 394,823	\$ 90,060	\$ 190,543	\$ (20,853)	\$ 0	\$ 261,201	\$ 22,548	\$ 938,322

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

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

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

JUNE 30, 2014

Net Change in Fund Balance - Total Governmental Funds \$ (132,370)

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. Additionally, the gain or loss on sale or disposal of capital assets is recorded in the Statement of Activities.

Depreciation Expense	(58,115)
Capital Outlay	58,519
Net Cost of Capital Assets Sold	(11,333)

Revenue is recorded on the accrual method in the Statement of Activities; in the governmental funds it is recorded on the modified accrual method and not considered considered available:

Unavailable Revenue - Fire and EMS Charges (Beginning of Year)	(15,292)
Unavailable Revenue - Fire and EMS Charges (End of Year)	<u>18,133</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (140,458)

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

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

PROPRIETARY FUND

STATEMENT OF NET POSITION
JUNE 30, 2014

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUND - MAJOR FUND

	<u>SEWER FUND</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 37,205
<u>CAPITAL ASSETS</u>	
Improvements in Sewer System	1,221,644
Less Accumulated Depreciation	830,720
Net Capital Assets	390,924
<u>TOTAL ASSETS</u>	<u>428,129</u>
<u>LIABILITIES</u>	<u>0</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	390,924
Unrestricted	37,205
<u>TOTAL NET POSITION</u>	<u>\$ 428,129</u>

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

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
JUNE 30, 2014

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUND - MAJOR FUND

	<u>SEWER FUND</u>
<u>OPERATING REVENUES</u>	<u>\$ 0</u>
<u>OPERATING EXPENSES</u>	
Attorney Fees	99
Depreciation	<u>24,433</u>
Total Operating Expenses	<u>24,532</u>
Change in Net Position	(24,532)
<u>NET POSITION - Beginning of Year</u>	<u>452,661</u>
<u>NET POSITION - End of Year</u>	<u><u>\$ 428,129</u></u>

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

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

PROPRIETARY FUND

STATEMENT OF CASH FLOWS
JUNE 30, 2014

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUND - MAJOR FUND

	<u>SEWER FUND</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	
Cash Flows from Operating Activities	\$ (99)
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	<u>37,304</u>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	<u>\$ 37,205</u>
<u>RECONCILIATION OF OPERATING INCOME</u> <u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	
Operating Income (Loss)	\$ (24,532)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	<u>24,433</u>
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 <u>\$ (99)</u>

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

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2014

	<u>AGENCY FUND - TAX COLLECTION FUND</u>
<u>ASSETS</u>	
Cash	\$ 1,431
<u>LIABILITIES</u>	
Due to Other Funds	<u>1,431</u>
<u>NET POSITION</u>	<u><u>\$ 0</u></u>

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

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 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 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. Selma Township does not have any component units.

B. Reporting Entity

Selma Township is a general law township located in Wexford County that operates under the direction of an elected township board.

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 while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary 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. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between government's sewer functions and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

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

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Selma Township reports the following major governmental funds:

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

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

The *Road Improvement Fund* accounts for revenue sources that are legally restricted to expenditures for road improvements.

The *Fire/EMS Fund* accounts for revenue sources that are legally restricted to expenditures for Fire and Emergency Medical Services.

The *Lake Improvement Fund* accounts for revenue sources that are legally restricted to expenditures for lake improvements.

The *Sewer Capital Improvement Fund* accounts for revenue sources that are reserved for expenditures for repair, replacement, capital improvement, extension, and continuation of the sewer system. The source of revenue for this fund originates from a one-time contribution from the Wexford County Department of Public Works of excess Selma Township sewer user fees.

Selma Township reports the following major proprietary fund:

The *Sewer Fund* records financial activity of the Township's portion of the Cadillac-Mitchell Sewer Loop Project. The Township participates in the Cadillac-Mitchell Sewer Loop Project with Clam Lake Township and Cherry Grove Township. Currently the Township has leased the system to the Wexford County Department of Public Works (DPW) for \$1. The lease expires May 13, 2017. The terms of the lease allow the DPW to operate the system as if it was its own, but ownership of the system and the ability to set rates remains with the Township.

Additionally Selma Township reports the following fund types:

The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).

The *Capital Projects Fund* accounts for capital projects not being financed by proprietary or nonexpendable trust funds.

The *Agency Fund* accounts for property tax revenues that are collected by the Township on behalf of various governmental entities, including the Township itself.

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

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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.

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.

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, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue resource (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

The proprietary funds are reported using the *economic resources focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

F. Budgetary Information

1. Budgetary Basis of Accounting

- Prior to July 1, the Township Supervisor submits to the Township Board a proposed operating budget for all governmental funds for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- The Township Board holds a public hearing and adopts a resolution approving the budgets.
- All transfers of budget amounts between functions within the General Fund and any revisions that alter the total expenditures of any fund must be approved by the Township Board.
- Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
- Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). All appropriations lapse at year end. Budgeted amounts are as originally adopted, or as amended by the Township Board from time to time throughout the year.
- Encumbrance accounting is not employed in governmental funds.

2. Excess of Expenditures Over Appropriations

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
Cemetery	\$ 10,700	\$ 11,180
Parks Department	10,200	10,209
Employee Benefits	8,000	9,354
Fire/EMS Fund		
Fire Expenditures	41,805	70,155
Emergency Medical Services	69,605	138,528
Employee Benefits	0	6,268

These overages were funded by greater than anticipated revenues and interfund transfers.

3. Special Revenue Fund Without Budget

The Township did not adopt a budget for the Lake Improvement Fund as required.

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

1. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and other short-term investments, including certificates of deposit.

Investments - The Township's investment policy is in compliance with state law and authorizes the Township to invest in passbook savings accounts, negotiable and nonnegotiable certificates of deposit, repurchase agreements backed by the United States government or federal agency obligations, United States Treasury bills and bonds, bankers acceptances, federal agency instruments, money market funds and commercial paper.

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 in both government-wide and fund financial statements.

3. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost, after June 30, 2013, of more than \$2,500 (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. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building Improvements	20
Land Improvements	20
Public Domain Infrastructure	20
System Infrastructure	30
Vehicles	5
Equipment and Furniture	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 has one item that fits this criteria, uncollected fire and ambulance charges.

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 and proprietary 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 – 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 depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 addition action is essential to either remove or revise a commitment.

8. *Use of Estimates*

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

H. Revenues and Expenditures/Expenses

1. *Program Revenues*

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

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

2. Property Taxes

The 2013 taxable valuation of the Selma Township totaled \$71,554,354, on which ad valorem taxes levied consisted of .7278 mills for operating purposes and 1.0000 mill for Fire and EMS services.

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 June 30, 2014.

Note I.F.3, on the Special Revenue Without Budget, describes a budgetary violation that occurred for the year ended June 30, 2014.

B. Deficit Fund Equity

The Fire/EMS Fund had a deficit fund balance of \$20,853 as of June 30, 2014. State law does not allow a deficit.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits and Investments with Financial Institutions

Investment rate risk. The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

Concentration of credit risk. The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2014, none of the government's bank balance of \$269,962 was exposed to custodial credit risk. Although the Township's investment policy does not specifically address custodial credit risk, the Township tries to limit its exposure to this risk when practical by controlling who holds the Township's deposits.

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township’s investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township’s agent in the Township’s name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty’s trust department or its agent in the Township’s name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township’s name.

As of June 30, 2014, the Township had the following investments:

	CARRYING AMOUNT	FAIR VALUE
Investments - Primary Government		
U.S. Government		
Securities (Risk Category 1)	\$ 605,413	\$ 605,413

B. Receivables/Unavailable Revenue

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

	General	Fire/EMS	Total
Receivables			
Accounts	\$ 3,716	\$ 53,038	\$ 56,754
Due from Other Governments	52,885	0	52,885
	\$ 56,601	\$ 53,038	\$ 109,639

Amounts due from other governments include amounts due from state sources for various projects and programs. The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the unavailable revenue amount \$18,133 was related to Fire and EMS charges that were not collected within 60 days of the fiscal year-end.

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

C. Capital Assets

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 40,370	\$ 0	\$ 0	\$ 40,370
Capital assets, being depreciated				
Buildings and Improvements	304,971	15,109	0	320,080
Land Improvements	47,784	0	0	47,784
Machinery and Equipment	752,425	43,410	20,000	775,835
Infrastructure	223,376	0	0	223,376
Total capital assets, being depreciated	1,328,556	58,519	20,000	1,367,075
Less accumulated depreciation for:				
Buildings and Improvements	153,100	6,544	0	159,644
Land Improvements	33,721	1,877	0	35,598
Machinery and Equipment	565,834	38,525	8,667	595,692
Infrastructure	78,183	11,169	0	89,352
Total accumulated depreciation	830,838	58,115	8,667	880,286
Total capital assets, being depreciated, net	497,718	404	11,333	486,789
Governmental activities capital assets, net	\$ 538,088	\$ 404	\$ 11,333	\$ 527,159
<u>Business-Type Activities</u>				
Capital assets, being depreciated				
Improvements other than buildings	\$ 1,221,644	\$ 0	\$ 0	\$ 1,221,644
Less accumulated depreciation for:				
Improvements other than buildings	806,287	24,433	0	830,720
Business-type activities capital assets, net	\$ 415,357	\$ (24,433)	\$ 0	\$ 390,924
Depreciation expense was charged to functions/programs of the primary government as follows:				
Governmental activities:				
General Government				\$ 8,581
Public Safety				38,365
Public Works				11,169
Total depreciation expense - governmental activities				<u>\$ 58,115</u>
Business-type activities:				
Sewer				<u>\$ 24,433</u>

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at June 30, 2014, were:

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 11,431	\$ 0
Fire Fund	20,000	0
Fire/EMS Fund	0	30,000
Fiduciary Fund	0	1,431
	<u>\$ 31,431</u>	<u>\$ 31,431</u>

For the year ended June 30, 2014, the following interfund transfers were made:

<u>FUND</u>	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
General Fund	\$ 0	\$ 3,100
Nonmajor Funds		
Liquor Law Enforcement Fund	100	0
Public Improvement Fund	3,000	0
	<u>\$ 3,100</u>	<u>\$ 3,100</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

IV. OTHER INFORMATION

A. 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; injuries to employees, and natural disasters.

The Township participates in two distinct pools of municipalities within the State of Michigan for self-insuring property and casualty and worker's disability compensation. The pools are considered public entity risk pools. The Township pays annual premiums to each pool for the respective insurance coverage. In the event a 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

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

year may be subject to special assessment to make up the deficiency. Each of the pools maintain reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The Township has not been informed to any special assessments being required for the current year or the three prior years.

The Township continued to carry commercial insurance for other risks of loss, fidelity bonds and workers compensation.

B. Sewer Fund

The Township is participating with Clam Lake and Cherry Grove Townships in the Lakes Cadillac-Mitchell Sewer Loop Project. This project was being financed through state and federal grants and the sale of special assessment bonds. The total cost of the project was \$2,605,674. Selma Township's original share of this project is 46.884% (\$1,221,644). This amount has been capitalized as an asset in the Sewer Fund. The Township has contracted with the Wexford County Department of Public Works to operate and maintain the system.

C. Lake Improvement Fund

The Township has joined with Cherry Grove Township and the City of Cadillac to establish a Lake Improvement Board for the purpose of improving Lake Mitchell. A special assessment district was established with each municipality collecting the assessment from its property owners within the district. Selma Township and the City of Cadillac send the collected assessments to Cherry Grove Township, who has been designated by the Lake Improvement Board to maintain the records for the lake improvements.

D. Contingencies

Under the terms of various federal and state grants and regulatory requirements, periodic audits are required and certain cost may be questioned as not being appropriate expenditures under the terms of the grant requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the Township.

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

MAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2014

	GENERAL FUND			FIRE FUND			ROAD IMPROVEMENT FUND			FIRE/EMS FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES												
Taxes	\$ 51,500	\$ 51,500	\$ 53,717	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 125,000	\$ 70,000	\$ 70,920
Licenses and Permits	6,000	6,000	8,276	0	0	0	0	0	0	0	0	0
Federal Grants	0	0	3,729	0	0	25,660	0	0	0	0	0	9,286
State Grants	127,008	127,008	159,573	0	0	0	0	0	0	0	0	0
Charges for Services	5,200	5,200	9,451	0	0	4,150	0	0	0	0	0	79,412
Interest and Rents	0	0	944	100	100	86	50	50	714	0	0	0
Other Revenues	100	100	2,076	0	0	1,440	0	0	0	0	0	0
Total Revenues	189,808	189,808	237,766	100	100	31,336	50	50	714	125,000	70,000	159,618
EXPENDITURES												
General Government												
Township Board	13,550	14,750	14,690	0	0	0	0	0	0	0	0	0
Supervisor	9,600	9,600	9,300	0	0	0	0	0	0	0	0	0
Election	3,800	3,800	2,153	0	0	0	0	0	0	0	0	0
Assessor	34,106	34,106	33,878	0	0	0	0	0	0	0	0	0
Legal Fees	1,500	1,500	1,404	0	0	0	0	0	0	0	0	0
Clerk	21,850	22,950	22,877	0	0	0	0	0	0	0	0	0
Board of Review	1,600	1,600	1,540	0	0	0	0	0	0	0	0	0
Treasurer	31,575	31,575	29,942	0	0	0	0	0	0	0	0	0
Building & Grounds	20,175	20,175	19,859	0	0	0	0	0	0	0	0	0
Cemetery	6,550	10,700	11,180	0	0	0	0	0	0	0	0	0
Public Safety												
Fire Department	10,000	10,000	0	30,000	30,000	28,226	0	0	0	41,805	41,805	70,155
Emergency Medical Services	0	0	0	0	0	0	0	0	0	69,605	69,605	138,528
Public Works												
Street Lighting	1,450	1,450	1,195	0	0	0	0	0	0	0	0	0
Highways, Streets, Bridges	0	0	0	0	0	0	135,000	135,000	107,874	0	0	0
Refuse Collection	7,250	7,250	6,485	0	0	0	0	0	0	0	0	0
Culture and Recreation												
Parks Department	9,800	10,200	10,209	0	0	0	0	0	0	0	0	0

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	GENERAL FUND			FIRE FUND			ROAD IMPROVEMENT FUND			FIRE/EMS FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Other Functions												
Insurance & Bonds	25,600	25,600	21,837	0	0	0	0	0	0	0	0	0
Employee Benefits	7,500	8,000	9,354	0	0	0	0	0	0	0	0	6,268
Debt Services	0	0	0	0	0	0	0	0	0	0	0	0
Contingency	10,000	2,650	0	0	0	0	0	0	0	0	0	0
Total Expenditures	215,906	215,906	195,903	30,000	30,000	28,226	135,000	135,000	107,874	111,410	111,410	214,951
Excess (Deficiency) of Revenues Over Expenditures	(26,098)	(26,098)	41,863	(29,900)	(29,900)	3,110	(134,950)	(134,950)	(107,160)	13,590	(41,410)	(55,333)
<u>OTHER FINANCING SOURCES (USES)</u>												
Transfers In (Out)	16,440	16,440	(3,100)	0	(18,500)	0	0	0	0	0	0	0
Net Change in Fund Balance	(9,658)	(9,658)	38,763	(29,900)	(48,400)	3,110	(134,950)	(134,950)	(107,160)	13,590	(41,410)	(55,333)
<u>FUND BALANCE - Beginning of Year</u>	356,060	356,060	356,060	86,950	86,950	86,950	318,436	318,346	297,703	34,480	34,480	34,480
<u>FUND BALANCE - End of Year (Deficit)</u>	\$ 346,402	\$ 346,402	\$ 394,823	\$ 57,050	\$ 38,550	\$ 90,060	\$ 183,486	\$ 183,396	\$ 190,543	\$ 48,070	\$ (6,930)	\$ (20,853)

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NONMAJOR SPECIAL REVENUE FUNDS

COMBINED BALANCE SHEET
JUNE 30, 2014

	LIQUOR LAW ENFORCEMENT FUND	PUBLIC IMPROVEMENT FUND	TOTAL
<u>ASSETS</u>			
Cash	\$ 36	\$ 22,512	\$ 22,548
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
	\$ 0	\$ 0	\$ 0
<u>FUND BALANCES</u>			
Restricted for Liquor Law Enforcement	36	0	36
Assigned for Public Improvements	0	22,512	22,512
Total Fund Balances	36	22,512	22,548
TOTAL LIABILITIES AND FUND BALANCES	\$ 36	\$ 22,512	\$ 22,548

SELMA TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NONMAJOR SPECIAL REVENUE FUNDS

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	<u>LIQUOR LAW ENFORCEMENT FUND</u>	<u>PUBLIC IMPROVEMENT FUND</u>	<u>TOTAL</u>
<u>REVENUES</u>			
State Grants	\$ 440	\$ 0	\$ 440
Interest and Rents	0	23	23
Total Revenues	440	23	463
<u>EXPENDITURES</u>			
General Government	0	15,109	15,109
Public Safety	537	0	537
Total Expenditures	537	15,109	15,646
Excess (Deficiency) of Revenues Over Expenditures	(97)	(15,086)	(15,183)
<u>OTHER FINANCING SOURCES</u>			
Transfers In	100	3,000	3,100
Net Change in Fund Balance	3	(12,086)	(12,083)
<u>FUND BALANCES</u> - Beginning of Year	33	34,598	34,631
<u>FUND BALANCES</u> - End of Year	\$ 36	\$ 22,512	\$ 22,548



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October 8, 2014

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

To the Township Board
Selma Township
Wexford County
Cadillac, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Selma Township for the year ended June 30, 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 August 19, 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 Selma 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 2013-14. 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, the business-type activities, and each major fund's financial statements was:

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

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

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

For purposes of this letter, 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 October 8, 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 Selma Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

During the course of our audit of the basic financial statements of Selma Township for the year ended June 30, 2014, we noted the following items which we feel deserve comment:

Budgeting

The Township's actual expenditures exceeded appropriations in the General Fund and Fire/EMS Fund. State law requires that the Board amend its budget prior to incurring expenditures that would otherwise exceed appropriations.

We also recommend that the Township adopt a budget for the Lake Improvement Fund for the fiscal year 2013-2014. The budget can be as simple as \$80,000 in revenue and \$80,000 in expenditures with a zero beginning and ending fund balance.

Deposits

In the course of our examination it became apparent that deposits were not being made timely. We realize that the Township's internet which controls the electronic check scanner was out of service for several days, however, deposits should still be made. We recommend that in the future, the Township take the deposit to the bank if the check scanner is out of service.

Transfer of Federal Forest Money to the Road Fund

We recommend the Township transfer the Federal Forest Money received from the State of Michigan to the Road Fund and that future monies be deposited directly into the Road Fund because the restrictions on the use of Federal Forest monies are consistent with the Road Fund. The amount of Federal Forest reserve that can be transferred to the Road Fund is \$11,840.

Fire/EMS Wage Testing

During the course of our audit, numerous unsuccessful attempts to collect all data necessary to test Fire/EMS wages were made. It was apparent that the Fire/EMS wages were not all in one location and easy for the Township to locate. We recommend that the Township implement a system to file all Fire/EMS wage detail in one central location so it is readily available.

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 inquiries 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.

We were engaged to report on the Combined Nonmajor Special Fund Financial Statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

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

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October 8, 2014

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Township Board
Selma Township
Wexford County
Cadillac, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Selma Township as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Selma Township's basic financial statements and have issued our report thereon dated October 8, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Selma Township'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 Selma Township's internal control. Accordingly, we do not express an opinion on the effectiveness of Selma 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 described below, we identified certain deficiencies 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 a 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 deficiencies described below to be material weaknesses:

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

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the government. A key element of internal control is the segregation of 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 and corrected by management on a timely basis.

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

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

Corrective Action Plan: With the status of state funding, the Township is unable to hire additional employees at this time to improve the segregation of duties within the accounting function. We realize that segregation of duties is important in order to increase internal control. Management oversight has been an alternative means of monitoring internal control along with continuing to try and reassign some duties within the accounting department to other staff members. Management will continue to monitor the situation and explore cost effective ways to improve this internal control limitation.

2. *Preparation of Financial Statements in Accordance with GAAP*

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

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

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

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

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

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

Corrective Action Plan: The government will continue to rely on its outside auditors to assist in preparing the GAAP basis financial statements and will evaluate annually for the need to change.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Selma Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Findings

Selma Township's response to the findings identified in our audit is described above. Selma Township's response was not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.