

**Seville Township
Gratiot County, Michigan**

FINANCIAL STATEMENTS

March 31, 2014

Seville Township
Gratiot County, Michigan
March 31, 2014

BOARD OF TRUSTEES

| | |
|------------------|------------|
| Rodger Grant | Supervisor |
| John Schuiling | Clerk |
| Ron Gorney | Treasurer |
| Colleen Brantley | Trustee |
| John Gott | Trustee |

Seville Township
TABLE OF CONTENTS
March 31, 2014

| | <u>Page</u> |
|--|-------------|
| INDEPENDENT AUDITOR'S REPORT | i-ii |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | iii-vi |
| BASIC FINANCIAL STATEMENTS | |
| Government-wide Financial Statements | |
| Statement of Net Position | 1 |
| Statement of Activities | 2 |
| Fund Financial Statements | |
| Governmental Funds | |
| Balance Sheet | 3 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position | 4 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances | 5 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Statement of Activities | 6 |
| Notes to Financial Statements | 7-14 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| GENERAL FUND | |
| Budgetary Comparison Schedule | 15 |
| FIRE FUND | |
| Budgetary Comparison Schedule | 16 |
| OTHER SUPPLEMENTARY INFORMATION | |
| COMPONENT UNIT FUND | |
| LIBRARY FUND | |
| Balance Sheet | 17 |
| Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position | 18 |
| Statement of Revenues, Expenditures, and Change in Fund Balance | 19 |
| Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balance of the Governmental Fund to the Statement of Activities | 20 |

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INDEPENDENT AUDITOR'S REPORT

Members of the Township Board
Seville Township
Gratiot County, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the discretely presented component unit of Seville Township (the Township) 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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the discretely presented component unit of Seville Township, 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 and budgetary comparison information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 component unit fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The component unit fund financial statements 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 component unit fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 8, 2014

Seville Township

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2014

We, the Board of Seville Township, offer citizens of the Township our financial statements with the narrative overview and analysis of the financial activities of Seville Township for the fiscal year ended March 31, 2014.

This annual report consists of a series of financial statements. The statement of Net Assets and the Statement of Activities provide information about the activities of Seville Township as a whole, and present a longer-term view of the Township's finances.

Fund financial statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide statements.

Financial Highlights

The unrestricted net position of Seville Township at the close of the current fiscal year were \$376,882 which may be used to meet the Township's ongoing obligations to citizens and creditors.

Additionally, the Township's governmental funds reported ending fund balances of \$396,083, an increase of \$75,654 from the prior year fund balances.

Township Highlights

- Seville Township continued to reimburse the local First Responders for their emergency services provided to the township.
- The voters approved a millage for fire services.

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 comprise three sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information, in addition to the basic financial statements.

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 assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets serve as a useful indicator of whether the financial position of the Township is improving or deterioration.

The *statement of activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

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 a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Township include general government, public safety, public works, and community and economic development.

Seville Township

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2014

The Township as a Whole

The following table shows, in a condensed format, the net assets as of March 31, 2014 and March 31, 2012 (derived from the prior audited financial statements).

| | March 31, | |
|----------------------------------|-------------------|-------------------|
| | <u>2014</u> | <u>2012</u> |
| Assets | | |
| Current and Other Assets | \$ 419,489 | \$ 301,428 |
| Capital Assets | 62,300 | 61,908 |
| | <u>481,789</u> | <u>363,336</u> |
| Liabilities | | |
| Current Liabilities | 23,406 | 21,251 |
| Net Position | | |
| Net investment in capital assets | 62,300 | 61,908 |
| Restricted | 19,201 | 2,527 |
| Unrestricted | 376,882 | 277,650 |
| | <u>458,383</u> | <u>342,085</u> |
| Total net position | <u>\$ 458,383</u> | <u>\$ 342,085</u> |

The Township's total net position was \$458,383 at March 31, 2014. Unrestricted net position (the part of net position that can be used to finance day-to-day operations) was \$376,882 at the end of the fiscal year and \$19,201 was restricted for fire services. The net investment in capital assets was \$62,300.

The following table shows the changes in net assets for the year ended March 31, 2014 and March 31, 2012 (derived from the prior audited financial statements).

| | March 31, | |
|------------------------------------|------------------|------------------|
| | <u>2014</u> | <u>2012</u> |
| Revenues | | |
| Program revenue: | | |
| Charges for services | \$ 13,813 | \$ 17,164 |
| Operating grants and contributions | 3,685 | 3,576 |
| Capital grants and contributions | 4,417 | - |
| General revenues: | | |
| Property taxes | 116,559 | 105,003 |
| State Revenue Sharing | 160,683 | 151,367 |
| Investment earnings | 431 | 1,034 |
| Other | 3,146 | 13,039 |
| | <u>302,734</u> | <u>291,183</u> |
| Total revenues | 302,734 | 291,183 |
| Program Expenses | | |
| General government | 76,068 | 89,393 |
| Public safety | 58,571 | 64,283 |
| Public works | 82,913 | 76,526 |
| Community and economic development | 6,217 | 4,954 |
| | <u>223,769</u> | <u>235,156</u> |
| Total program expenses | 223,769 | 235,156 |
| Change in net position | <u>\$ 78,965</u> | <u>\$ 56,027</u> |

Seville Township

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2014

Governmental Activities

The Township's governmental revenues totaled \$302,734 with the greatest revenue source being state shared revenues, making up approximately 54 percent of total revenues. Property taxes make up approximately 39 percent of total governmental revenue. State shared revenue has increased compared to the prior audit period.

The Township incurred expenses of \$223,769 during the year. The majority of expenses are associated with the general government and public works functions, which includes various general governmental activities, maintenance of highways, streets and bridges as well as drains.

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. The 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 three categories: governmental funds, proprietary 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 evaluating 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 will 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*.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* as required by GASB Statement No. 34 regarding the Township's budgetary comparison of the General Fund. This supplementary information is presented following the notes to the financial statements.

This report also presents *other supplementary information* related to the fund financial statements for the Township's discretely presented component unit (the Library).

The Township's Funds

The analysis of the Township's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Seville Township as a whole. The Seville Township Board of Trustees creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as property tax millages. The Township's major funds for the fiscal year ended March 31, 2014 include the General Fund and the Fire Fund.

The General Fund pays for nearly all of the Township's governmental services. The most significant services provided during the fiscal year were general government activities of \$74,962, and public works activities which include drains at large and maintenance of roads, which incurred expenditures of \$82,913 for the fiscal year. These activities are funded primarily through state shared revenues and property taxes.

Seville Township

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2014

The Fire Fund pays for expenses related to emergency services. The services provided during the fiscal year had a total cost of \$58,571. These activities were funded by property taxes.

General Fund Budgetary Highlights - The Township adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

There were no significant differences between the original and final General Fund budget adopted by the Township Board for 2014 for both revenue line items and expenditure line items. The total expenditure budget had a favorable variance of \$50,850 mainly due to less spending incurred in 2014 in the general government activities.

Fire Fund Budgetary Highlights - There were no significant differences between the original and final Fire Fund budget adopted by the Township Board for 2014 for both revenue line items and expenditure line items. The total expenditure budget had a favorable variance of \$7,946 mainly due to less spending incurred in 2014 in the public works activities.

Capital Assets

At the end of the fiscal year, the Township had approximately \$218,013 invested in capital assets, including land, buildings, office equipment and software, and voting machines. There was \$155,713 in accumulated depreciation on these assets with a resulting investment in capital assets (net book value) of \$74,100. See Note C in the financial statements for more details. Depreciation expense for the year amounted to \$2,689, and was allocated to the various functions based on use.

Current Economic Factors

Revenue sharing is the most significant budgetary concern at this time. The State of Michigan is experiencing significant budget problems, and as they look for solutions, revenue sharing continues to be under attack. With the increases in other revenues, it has been equal to our loss of revenue in the past, but we cannot withstand a reduction in revenue sharing.

Requests for Information

This financial report is designed to provide our citizens and taxpayers with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact a Seville Township board member at 989-463-6180, or write to us at:

**Seville Township
8143 W. Madison Road
Elwell, MI 48832**

BASIC FINANCIAL STATEMENTS

Seville Township
STATEMENT OF NET POSITION
March 31, 2014

| | Primary Governmental Activities | Component Unit (Library) |
|---|---------------------------------------|-----------------------------|
| ASSETS | | |
| Current | | |
| Cash | \$ 254,628 | \$ 15,535 |
| Investments | 112,852 | - |
| Taxes receivable | 15,019 | - |
| Accounts receivable | 489 | - |
| Due from other governmental units | 36,501 | 24,519 |
| Total current assets | 419,489 | 40,054 |
| Noncurrent assets | | |
| Capital assets not being depreciated | 32,414 | - |
| Capital assets, net of accumulated depreciation | 29,886 | 8,320 |
| Total noncurrent assets | 62,300 | 8,320 |
| TOTAL ASSETS | 481,789 | 48,374 |
| LIABILITIES | | |
| Current | | |
| Accounts payable | 20,416 | - |
| Accrued liabilities | 2,990 | - |
| Due to other governmental units | - | 36,093 |
| TOTAL LIABILITIES | 23,406 | 36,093 |
| NET POSITION | | |
| Investment in capital assets | 62,300 | 8,320 |
| Restricted for fire services | 19,201 | - |
| Unrestricted | 376,882 | 3,961 |
| TOTAL NET POSITION | \$ 458,383 | \$ 12,281 |

See accompanying notes to financial statements.

Seville Township
STATEMENT OF ACTIVITIES
Year Ended March 31, 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 | Primary Government | |
| | | | | | Governmental Activities | Component Unit (Library) |
| Primary government: | | | | | | |
| Governmental activities | | | | | | |
| General government | \$ 76,068 | \$ 13,573 | \$ - | \$ - | \$ (62,495) | \$ - |
| Public safety | 58,571 | 240 | - | 4,417 | (53,914) | - |
| Public works | 82,913 | - | 3,685 | - | (79,228) | - |
| Community and economic development | 6,217 | - | - | - | (6,217) | - |
| Total primary government | <u>\$ 223,769</u> | <u>\$ 13,813</u> | <u>\$ 3,685</u> | <u>\$ 4,417</u> | (201,854) | -0- |
| Component unit: | | | | | | |
| Library | <u>\$ 54,883</u> | <u>\$ -0-</u> | <u>\$ 1,373</u> | <u>\$ -0-</u> | - | (53,510) |
| | | General revenues | | | | |
| | | Property taxes | | | 116,559 | 11,712 |
| | | State shared revenues | | | 160,683 | - |
| | | Penal fines | | | - | 25,513 |
| | | Investment earnings | | | 431 | - |
| | | Miscellaneous | | | 3,146 | 6,926 |
| | | Total general revenues | | | <u>280,819</u> | <u>44,151</u> |
| | | Change in net position | | | 78,965 | (9,359) |
| | | Net position, beginning of the year | | | <u>379,418</u> | <u>21,640</u> |
| | | Net position, end of the year | | | <u>\$ 458,383</u> | <u>\$ 12,281</u> |

See accompanying notes to financial statements.

Seville Township

BALANCE SHEET - GOVERNMENTAL FUNDS

March 31, 2014

| | General | Fire | Total Governmental Funds |
|--|-------------------|------------------|--------------------------------|
| ASSETS | | | |
| Cash | \$ 254,628 | \$ - | \$ 254,628 |
| Investments | 112,852 | - | 112,852 |
| Taxes receivable | 6,412 | 8,607 | 15,019 |
| Accounts receivable | 489 | - | 489 |
| Due from other funds | - | 23,265 | 23,265 |
| Due from other governmental units | 36,501 | - | 36,501 |
| | <u>36,501</u> | <u>-</u> | <u>36,501</u> |
| TOTAL ASSETS | <u>\$ 410,882</u> | <u>\$ 31,872</u> | <u>\$ 442,754</u> |
| LIABILITIES | | | |
| Accounts payable | \$ 7,745 | \$ 12,671 | \$ 20,416 |
| Accrued liabilities | 2,990 | - | 2,990 |
| Due to other funds | 23,265 | - | 23,265 |
| | <u>23,265</u> | <u>-</u> | <u>23,265</u> |
| TOTAL LIABILITIES | 34,000 | 12,671 | 46,671 |
| FUND BALANCES | | | |
| Restricted for fire services | - | 19,201 | 19,201 |
| Unassigned | 376,882 | - | 376,882 |
| | <u>376,882</u> | <u>-</u> | <u>376,882</u> |
| TOTAL FUND BALANCES | <u>376,882</u> | <u>19,201</u> | <u>396,083</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 410,882</u> | <u>\$ 31,872</u> | <u>\$ 442,754</u> |

See accompanying notes to financial statements.

Seville Township

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

March 31, 2014

Fund balances - governmental funds \$ 396,083

Amounts reported for the 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 as assets in the governmental funds.

| | | |
|--|------------------|--------------------------|
| The cost of capital assets is | \$ 218,013 | |
| Accumulated depreciation is | <u>(155,713)</u> | |
| Capital assets, net | | <u>62,300</u> |
| Net position of governmental activities | | <u><u>\$ 458,383</u></u> |

Seville Township

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended March 31, 2014

| | <u>General</u> | <u>Fire</u> | <u>Total Governmental Funds</u> |
|------------------------------------|-------------------|------------------|---|
| REVENUES | | | |
| Taxes | \$ 45,405 | \$ 71,154 | \$ 116,559 |
| Licenses and permits | 240 | - | 240 |
| Intergovernmental | 164,368 | - | 164,368 |
| Charges for services | 13,573 | - | 13,573 |
| Interest and rents | 430 | - | 430 |
| Other | 3,147 | - | 3,147 |
| | <u>227,163</u> | <u>71,154</u> | <u>298,317</u> |
| TOTAL REVENUES | 227,163 | 71,154 | 298,317 |
| EXPENDITURES | | | |
| Current | | | |
| General government | 74,962 | - | 74,962 |
| Public safety | - | 58,571 | 58,571 |
| Public works | 82,913 | - | 82,913 |
| Community and economic development | 6,217 | - | 6,217 |
| | <u>164,092</u> | <u>58,571</u> | <u>222,663</u> |
| TOTAL EXPENDITURES | 164,092 | 58,571 | 222,663 |
| NET CHANGE IN FUND BALANCES | 63,071 | 12,583 | 75,654 |
| Fund balances, beginning of year | <u>313,811</u> | <u>6,618</u> | <u>320,429</u> |
| Fund balances, end of year | <u>\$ 376,882</u> | <u>\$ 19,201</u> | <u>\$ 396,083</u> |

See accompanying notes to financial statements.

Seville Township

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

Year Ended March 31, 2014

Net change in fund balances - governmental funds \$ 75,654

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

| | | |
|--|----------------|-------------------------|
| Capital outlay | \$ 6,000 | |
| Depreciation expense | <u>(2,689)</u> | |
| Excess of capital outlay over depreciation expense | | <u>3,311</u> |
| Change in net position of governmental activities | | <u><u>\$ 78,965</u></u> |

Seville Township

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Seville Township is located in Gratiot County, Michigan and has a population of approximately 2,375. The Township operates under an elected Township Board, which consists of a Supervisor, Clerk, Treasurer, and two Trustees and provides services to its residents in many areas including general government, fire protection, and property tax collections.

The financial statements of the Township have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Township governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Township's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the financial activities of Seville Township and its component unit, an entity for which the government is considered to be financially accountable.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Seville Township contain all the funds controlled by the Township Board.

2. Discretely Presented Component Unit

The component unit column in the financial statements includes the financial data of the Township's component unit (Library). The Library is reported in a separate column to emphasize that, while legally separate, Seville Township remains financially accountable for this entity or the nature and significance of the relationship between this entity and Seville Township is such that the exclusion of the Library would render the financial statements misleading or incomplete. The governing body of the Library is elected and the Library's budget is subject to the approval of the Township Board. The Library is included in the Township's audit and is not audited separately.

3. Joint Venture

Rural Urban Fire Control Board - The Township is a member of the Rural Urban Fire Control Board, which is a joint venture between the City of Alma and the Townships of Arcada, Pine River, Seville, and Sumner. The Board provides fire protection services to the Rural Urban Fire District. The membership of the Board is composed of seven members, of which the Township is represented by the Supervisor. The Board is responsible for preparing an annual budget (which is approved by the City and the Townships) and to carry out all activities of the Board.

The Board has established a funding formula based on assessed valuation, population, and runs. The firefighting equipment is owned jointly by the member municipalities. The City of Alma provides day-to-day management oversight of this joint venture.

The financial activity of the Board is reported in the City of Alma's financial statements as a Special Revenue Fund.

For the year ended March 31, 2014, the Township's contribution to the Board was \$50,682.

Seville Township

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the government-wide statements) present information for the Township as a whole.

The statement of activities presents the direct functional expenses of the Township and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Township's individual major funds.

The major funds of the Township are:

- a. The General Fund is the Township's primary operating fund. It accounts for all financial resources of the primary government except those that are required to be accounted for in another fund.
- b. The Fire Fund is used to account for the levy of property taxes related to providing fire protection to the Township's citizens.

5. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

6. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Revenues for grants and contributions are recognized when all eligibility requirements imposed by the provider have been met. Unearned revenue is recorded in the government-wide financial statements when resources are received by the Township before it has legal claim to them, such as when program fees are received.

Seville Township

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Basis of Accounting - continued

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include state and federal grants and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

If/when both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

7. Budgets and Budgetary Accounting

The General and major Special Revenue Fund budgets shown in the required supplementary information were prepared on a basis consistent with the modified accrual basis used to reflect actual results.

The Township employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to April 1, the budget is adopted on a departmental (activity) level through passage of a Board resolution. After the budget is adopted, all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of the fund or activity must be approved by the Township Board.
- b. Formal budgetary integration is employed as a management control device during the year.
- c. The Township does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at March 31 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted or amended by the Township Board during the year. The budget was not amended during the current year.

8. Cash and Investments

Cash consists of various checking accounts.

Investments consist of certificates of deposit with an initial maturity of greater than 90 days. Investments are recorded at market value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

9. Due From Other Governmental Units

Due from other governmental units consists of amounts due from the State of Michigan for various payments and receivables for charges for services provided to local governmental units that are still owed to the Township at year-end.

Seville Township

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Capital Assets

Capital assets are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and component unit columns. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

| | |
|-------------------------|--------------|
| Equipment and machinery | 2 - 10 years |
| Vehicle | 10 years |
| Buildings | 5 - 25 years |

11. Property Tax

Seville Township bills and collects both its own property taxes and the tax levy for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are as follows:

Property taxes are levied by the Township on August 1, and December 1, and are payable without penalty through February 28. All real property taxes not paid to the Township by February 28 are turned over to the Gratiot County Treasurer for collection. The Gratiot County Treasurer remits payments to all taxing districts on any delinquent real property taxes. Delinquent personal property taxes are retained by the Township for subsequent collection. Township property tax revenues are recognized as revenues in the fiscal year levied.

The Township is permitted to levy up to 1.08 mills per \$1,000 of assessed valuation for general governmental service and additional amounts for other purposes as allowed by a vote of the electorate. For the year ended March 31, 2014, the Township levied 0.8593 mills per \$1,000 of assessed valuation for general governmental services, 1.5109 mills for fire service, and 0.2487 for library activities. The total taxable value for the 2013 levy for property within the Township was \$47,093,561.

12. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position or balance sheet 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 or fund balance, respectively, that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The Township does not currently have any deferred outflows or deferred inflows of resources to report.

13. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

Seville Township

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

NOTE B: CASH AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Township is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Deposits

There is a custodial credit risk as it relates to 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, the carrying amounts of the Township's deposits were \$382,965, and the bank balance was \$388,294. As of March 31, 2014, the Townships accounts were insured by the FDIC for \$381,434, and the amount of \$6,860 was uninsured and uncollateralized. The Township had \$50 of imprest cash on hand as of March 31, 2014.

Due to significantly higher cash flow at certain periods during the year, the amount the Township held as cash increased significantly. As a result, the amounts of uninsured and uncollateralized cash were substantially higher at these peak periods than at year-end.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of March 31, 2014, the Township did not have any investments that would be subject to rating.

Interest rate risk

The Township has not adopted a policy that addresses 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.

Concentration of credit risk

The Township has not adopted a policy that addresses concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer.

Seville Township

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

NOTE B: CASH AND INVESTMENTS - CONTINUED

Custodial credit risk

The Township has not adopted a policy that addresses custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer.

The cash and investments referred to above have been reported in the basic financial statements based on the criteria in Note A. The following summarizes the categorization of these amounts as of March 31, 2014:

| | <u>Primary Government</u> | <u>Component Unit</u> | <u>Reporting Entity</u> |
|-----------------------|-------------------------------|---------------------------|-----------------------------|
| Cash | \$ 254,628 | \$ 15,535 | \$ 270,163 |
| Investments - current | 112,852 | - | 112,852 |
| | <u>\$ 367,480</u> | <u>\$ 15,535</u> | <u>\$ 383,015</u> |

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2014 was as follows:

PRIMARY GOVERNMENT

| | <u>Balance April 1, 2013</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance March 31, 2014</u> |
|--|----------------------------------|------------------|------------------|-----------------------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 32,414 | \$ - | \$ - | \$ 32,414 |
| Capital assets being depreciated | | | | |
| Building | 97,583 | 6,000 | - | 103,583 |
| Equipment and machinery | 47,883 | - | - | 47,883 |
| Vehicle | 34,133 | - | - | 34,133 |
| Total capital assets being depreciated | 179,599 | 6,000 | -0- | 185,599 |
| Less accumulated depreciation for: | | | | |
| Building | (71,630) | (2,350) | - | (73,980) |
| Equipment and machinery | (47,261) | (339) | - | (47,600) |
| Vehicle | (34,133) | - | - | (34,133) |
| Total accumulated depreciation | (153,024) | (2,689) | -0- | (155,713) |
| Net capital assets being depreciated | 26,575 | 3,311 | -0- | 29,886 |
| Capital assets, net | <u>\$ 58,989</u> | <u>\$ 3,311</u> | <u>\$ -0-</u> | <u>\$ 62,300</u> |

Depreciation expense was charged to activities of the following governmental activities:

| | |
|--------------------|-----------------|
| General government | <u>\$ 2,689</u> |
|--------------------|-----------------|

Seville Township

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

NOTE C: CAPITAL ASSETS - CONTINUED

COMPONENT UNIT

| | Balance <u>April 1, 2013</u> | Additions | Deletions | Balance <u>March 31, 2014</u> |
|------------------------------------|---------------------------------|-------------------|---------------|----------------------------------|
| Capital assets being depreciated | | | | |
| Equipment and machinery | \$ 58,812 | \$ - | \$ - | \$ 58,812 |
| Less accumulated depreciation for: | | | | |
| Equipment and machinery | <u>(45,099)</u> | <u>(5,393)</u> | - | <u>(50,492)</u> |
| Capital assets, net | <u>\$ 13,713</u> | <u>\$ (5,393)</u> | <u>\$ -0-</u> | <u>\$ 8,320</u> |

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details interfund receivables and payables at March 31, 2014:

| | |
|------------------------|------------------|
| Due to Fire Fund from: | |
| General Fund | <u>\$ 23,265</u> |

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not yet cleared as of the balance sheet date.

NOTE E: RISK MANAGEMENT

The Township participates in a pool, the Michigan Township Participating Plan, with other municipalities for various risks of loss including liability, wrongful acts, auto, crime, inland marine, and property losses. The pool is organized under Public Act 138 of 1982, as amended. In the event the pool's 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 assessment to make up the deficiency. The Township has not been informed of any special assessments being required.

The Township is exposed to various risks of loss for workers' compensation claims for which the Township carries commercial insurance. There has been no indication of amounts of settlements that have exceeded insurance coverages for each of the past three years.

NOTE F: PENSION PLAN

Seville Township is the sponsor of a defined contribution retirement plan for the sole benefit of its employees. The John Hancock Defined Contribution Pension Plan for Government Employees is a money purchase defined contribution pension benefit plan. Contributions are based on a pre-established wage-based contribution schedule.

All members of the Township Board and all employees of the Township are eligible.

Normal retirement age is 65 or, if later, completion of 10 years of participation in the plan. Benefits attributable to employer contributions shall be 100% vested upon a participant's death, disability, or normal retirement, or upon termination of the plan. Upon termination of a participant's service, for other than the above, such benefits shall vest 100% immediately. Early retirement age is 55 and any benefits will vest 100% upon early retirement.

Seville Township

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

NOTE F: PENSION PLAN - CONTINUED

The Township contributes 15% of eligible compensation. In addition, employees may make voluntary contributions on an after-tax basis in amounts ranging from 1% to 10% of compensation. For the plan year ended March 31, 2014 the Township's total covered payroll was \$65,295. The current year employer contribution based on that amount was \$8,164.

NOTE G: DETAILS OF FUND BALANCE CLASSIFICATIONS

GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five (5) fund balance classifications under this standard.

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after nonspendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, Seville Township's highest level of decision-making authority is the Board of Trustees. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution.

For assigned fund balance, the Board of Trustees has not approved a policy indicating who is authorized to assign amounts to a specific purpose. As a result, the authority for assigning fund balance remains with the Board of Trustees.

Seville Township has not adopted a policy that defines the order of usage for fund balance amounts classified as restricted, committed, assigned, or unassigned. Therefore, restricted resources will be used first, then unrestricted resources as they are needed.

REQUIRED SUPPLEMENTARY INFORMATION

Seville Township

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2014

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|------------------------------------|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | \$ 39,160 | \$ 39,160 | \$ 45,405 | \$ 6,245 |
| Licenses and permits | 500 | 500 | 240 | (260) |
| Intergovernmental | 143,900 | 143,900 | 164,368 | 20,468 |
| Charges for services | 21,300 | 21,300 | 13,573 | (7,727) |
| Interest and rents | 1,000 | 1,000 | 430 | (570) |
| Other | 2,100 | 2,100 | 3,147 | 1,047 |
| TOTAL REVENUES | 207,960 | 207,960 | 227,163 | 19,203 |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | 110,790 | 110,790 | 74,962 | 35,828 |
| Public works | 96,500 | 96,500 | 82,913 | 13,587 |
| Community and economic development | 7,652 | 7,652 | 6,217 | 1,435 |
| TOTAL EXPENDITURES | 214,942 | 214,942 | 164,092 | 50,850 |
| NET CHANGE IN FUND BALANCE | (6,982) | (6,982) | 63,071 | 70,053 |
| Fund balance, beginning of year | 313,811 | 313,811 | 313,811 | -0- |
| Fund balance, end of year | <u>\$ 306,829</u> | <u>\$ 306,829</u> | <u>\$ 376,882</u> | <u>\$ 70,053</u> |

Seville Township

Fire Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2014

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---------------------------------|-------------------------|-----------------|------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Taxes | \$ 66,817 | \$ 66,817 | \$ 71,154 | \$ 4,337 |
| EXPENDITURES | | | | |
| Current | | | | |
| Public safety | <u>66,517</u> | <u>66,517</u> | <u>58,571</u> | <u>7,946</u> |
| NET CHANGE IN FUND BALANCE | 300 | 300 | 12,583 | 12,283 |
| Fund balance, beginning of year | <u>6,618</u> | <u>6,618</u> | <u>6,618</u> | <u>-0-</u> |
| Fund balance, end of year | <u>\$ 6,918</u> | <u>\$ 6,918</u> | <u>\$ 19,201</u> | <u>\$ 12,283</u> |

OTHER SUPPLEMENTARY INFORMATION

Seville Township
Component Unit Fund
BALANCE SHEET - LIBRARY FUND
March 31, 2014

| | <u>Library</u> |
|------------------------------------|------------------|
| ASSETS | |
| Cash | \$ 15,535 |
| Due from other governmental units | <u>24,519</u> |
| TOTAL ASSETS | <u>\$ 40,054</u> |
| LIABILITIES | |
| Due to other governmental units | \$ 36,093 |
| FUND BALANCE | |
| Unassigned | <u>3,961</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 40,054</u> |

Seville Township

Component Unit Fund

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION - LIBRARY FUND

March 31, 2014

Fund balance - governmental fund \$ 3,961

Amounts reported for the 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 as assets in the governmental fund.

| | |
|-------------------------------|-----------------|
| The cost of capital assets is | \$ 58,812 |
| Accumulated depreciation is | <u>(50,492)</u> |

| | |
|---------------------|--------------|
| Capital assets, net | <u>8,320</u> |
|---------------------|--------------|

| | |
|--|-------------------------|
| Net position of governmental activities | <u><u>\$ 12,281</u></u> |
|--|-------------------------|

Seville Township

Component Unit Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE -
LIBRARY FUND

Year Ended March 31, 2014

| | <u>Library</u> |
|---------------------------------|------------------------|
| REVENUES | |
| Taxes | \$ 11,712 |
| Intergovernmental | 26,886 |
| Other | <u>6,926</u> |
| TOTAL REVENUES | 45,524 |
| EXPENDITURES | |
| Current | |
| Recreation and culture | <u>49,490</u> |
| NET CHANGE IN FUND BALANCE | (3,966) |
| Fund balance, beginning of year | <u>7,927</u> |
| Fund balance, end of year | <u><u>\$ 3,961</u></u> |

Seville Township

Component Unit Fund

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE
STATEMENT OF ACTIVITIES - LIBRARY FUND

Year Ended March 31, 2014

Net change in fund balance \$ (3,966)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in the governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense (5,393)

Change in net position of governmental activities \$ (9,359)

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS

Members of the Township Board
Seville Township
Gratiot County, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the discretely presented component unit of Seville Township (the 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 the 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 the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

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

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 described below to be material weaknesses:

BANK RECONCILIATIONS

During the course of our audit we noted that formal bank reconciliations were not being completed on a timely basis and compared with the cash balance reflected in the Township's computerized accounting records. The completion of bank reconciliations are considered control and monitoring activities and are essential to sound internal control. This issue was noted and reported in our prior audit comments.

We recommend all bank accounts be reconciled to the computerized accounting records on a monthly basis and reviewed and approved by an individual that is independent of the reconciliation process. The review should be documented with the reviewer's initials and date of review and be retained for audit purposes.

MATERIAL JOURNAL ENTRIES

Material journal entries for the proper recognition of various financial statement amounts were proposed by the auditors. These misstatements were not detected by the Township's internal control over financial reporting. These entries were necessary to adjust cash, property taxes receivable, due from other governmental units, accounts payable, accrued liabilities, and beginning fund balance. These entries were brought to the attention of management and were subsequently recorded in the Township's general ledger.

Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, including the proper recording of journal entries to assure the trial balances from which the financial statements are prepared are in conformity with U.S. generally accepted accounting principles.

We recommend the Township take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

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. We consider the following deficiencies in the Township's internal control to be significant deficiencies:

PREPARATION OF FINANCIAL STATEMENTS

Statement on Auditing Standards No. 115 titled *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with accounting principles generally accepted in the United States of America. Throughout the year the Township prepares monthly financial reporting at the fund level and the annual audited financial statements for the year ended March 31, 2014, for the Township required mainly only accrual audit adjustments. The staff at the Township does understand substantially all of the information included in the financial statements, and as such are able to take responsibility for the content. However, the presentation of financial statements in accordance with generally accepted accounting principles also includes the preparation of the government-wide financial statements and note disclosures. Currently the government-wide financial statements and note disclosures are prepared during the audit process. This issue was noted and reported in our prior audit comments.

We recommend the Township consider providing applicable employees with training that would allow them to attain the qualifications required to fully understand the Generally Accepted Accounting Principles (GAAP) financial statement preparation process.

This recommendation is not intended to imply that the Township's contractual arrangement with the independent auditors, which includes preparation of the financial statements, is improper or should be changed.

FRAUD RISK MANAGEMENT PROGRAM

During the course of our audit, we noted that the Township has not developed or implemented a fraud risk management program. This issue was noted and reported in our prior audit comments. Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Due to the Township not developing a fraud risk assessment and monitoring program it is unable to assess the Township's vulnerabilities to fraudulent activity and whether any of those exposures could result in material misstatement of the financial statements.

We recommend that the Township develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also include informing management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

DOUBLE ENTRY ACCOUNTING SYSTEM

During the course of our audit we noted that the Township does not utilize a double entry general ledger accounting system to record its financial transactions. In order to accurately track accounting information, and to aid in the generation of financial reports, this type of system is necessary. This issue was noted and reported in our prior audit comments.

We recommend the Township establish and implement a double entry general ledger to account for all financial transactions and to facilitate financial reporting. We further recommend that significant balance sheet accounts, such as investments, accounts receivable, and accounts payable be periodically analyzed and recorded in the general ledger system.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws and regulations, 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 the following instances of noncompliance and other matters.

POLICIES AND PROCEDURES

During the course of our audit, we noted that the Township has not formally adopted written procedures and policies. This issue was noted and reported in our prior audit comments. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible. Specifically, we recommend that the Township develop, formally adopt, and implement written procedures and policies in the following areas:

- a. Disaster recovery plan - We recommend the Township adopt a disaster recovery plan. The plan should identify areas of operation that are critical to the Township and detail how the Township would continue to operate in the absence of those critical areas of operation.
- b. Accounting policies and procedures manual - We recommend the Township document any accounting procedures that are currently in place and supplement this with any policies that may be required to support those procedures. These policies and procedures should include cash receipts and disbursement procedures, payroll procedures, criteria for establishing a fund, specific activities to be accounted for in each fund, any closing procedures necessary for the preparation of monthly/annual financial statements, purchasing, and obtaining competitive bids.
- c. Code of conduct - We recommend the Township adopt a code of conduct. The code should include a policy on conflicts of interest and the Township should require employees and Board members to periodically make a declaration of compliance.
- d. Capital asset policy - We recommend the Township adopt a capital asset policy which establishes a threshold for defining capital assets, authorizing the methods for acquiring and disposing of capital assets, and establishing useful lives and depreciation methods for each asset.

INVESTMENT POLICY

During the course of our audit and through discussions with management, it was noted that the Township has not adopted an investment policy to address the issues required by Michigan Compiled Law (MCL) and the various areas of risk as described by GASB Statement No. 40. This issue was noted and reported in our prior audit comments. Deposit and investment resources often represent significant assets of the Township's funds. These resources are necessary for the delivery of the Township's services. Effective for the year ended March 31, 2006, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Township's ability to provide services and meet its obligations as they become due.

We recommend the Township adopt an investment policy as required by MCL and that the policy address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, as required by GASB Statement No. 40.

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 8, 2014