

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY

CADILLAC, MICHIGAN

JUNE 30, 2013



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

CERTIFIED PUBLIC ACCOUNTANTS

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SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

JUNE 30, 2013

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September 11, 2013

INDEPENDENT AUDITOR'S REPORT

To the Township Board
South Branch Township
Wexford County
Cadillac, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Branch Township, Wexford County, Cadillac, Michigan, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of South Branch Township, Wexford County, Cadillac, Michigan as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iii through ix and budgetary comparison information on pages 18-19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2013

The Management's Discussion and Analysis is intended to be the South Branch Township board's discussion and analysis of the financial results for the fiscal year ended June 30, 2013, along with specific comparative information as required.

Financial Highlights

Government-Wide:

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$384,899. Of this amount, \$63,274 may be used to meet the Township's ongoing obligations to citizens and creditors.
- ◆ The Township's net position increased by \$8,703 during the fiscal year.

Fund Level:

- ◆ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$193,634, an increase of \$2,587 in comparison with the prior year. \$50,878 is available for spending at the Township's discretion.
- ◆ The fund balance of the Township's General Fund decreased by \$3,925 during the fiscal year.

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 are comprised of three components. 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 themselves.

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

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

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

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2013

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

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 two categories: governmental funds and fiduciary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses 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 statement, 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 funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Township maintains four 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, Fire Equipment Fund, and Liquor Law Enforcement Fund, which are considered to be major funds.

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

Fiduciary Funds – Fiduciary funds are used to account for services held for the benefit of parties outside the government. These funds are not reflected in the government-wide financial statements because they resources of the funds are not available for supporting the Township's programs.

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.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2013

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

The Statement of Net Position is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township's financial position over time. The Net Position of the Township was \$384,899 at June 30, 2013, meaning the Township's assets were greater than its liabilities by this amount. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. A comparison with the previous fiscal year is presented in order to show the change in Net Position over the previous fiscal year.

South Branch Township
Net Position as of June 30,

	2013	2012
Assets		
Current Assets	\$ 194,284	\$ 191,629
Non Current Assets		
Capital Assets	549,803	511,977
Less: Accumulated Depreciation	(358,538)	(326,828)
Total Non Current Assets	191,265	185,149
Total Assets	\$ 385,549	\$ 376,778
Liabilities		
Current Liabilities	\$ 650	\$ 582
Net Position		
Net Investment in Capital Assets	191,265	185,149
Restricted for Specific Purposes	130,360	133,189
Unrestricted	63,274	57,858
Total Net Position	384,899	376,196
Total Liabilities and Net Position	\$ 385,549	\$ 376,778

The most significant portions of the Township's Net Position are cash and investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others). The Township has \$63,274 in unrestricted Net Position. These assets represent resources that are available for appropriation, but are limited by Township policies regarding their use.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2013

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net position for the government as a whole.

The total net position of the Township increased by \$8,703 in this fiscal year, which is an indicator that the Township experienced positive financial growth during the year. As a result, the Township ended the fiscal year in better condition than when the year began.

The following table illustrates and summarizes the results of the changes in the net position for the Township. The condensed information was derived from the government-wide Statement of Activities.

South Branch Township
Change in Net Position
For The Fiscal Year Ended June 30,

	<u>2013</u>	<u>2012</u>
<u>Revenues</u>		
Program Revenues		
Charges for Services	\$ 2,298	\$ 2,336
Operating Grants and Contributions	10,071	10,371
Capital Grants and Contributions	16,695	10,776
General Revenues		
Taxes	76,207	81,362
State Grants	27,961	27,883
Interest Earnings	289	401
Other	1,667	813
Total Revenues	<u>135,188</u>	<u>133,942</u>
<u>Expenses</u>		
General Government	46,191	44,715
Public Safety	75,082	64,472
Public Works	815	624
Other Functions	4,397	4,339
Total Expenses	<u>126,485</u>	<u>114,150</u>
Change in Net Position	8,703	19,792
<u>NET POSITION</u> - Beginning of Year	<u>376,196</u>	<u>356,404</u>
<u>NET POSITION</u> - End of Year	<u>\$ 384,899</u>	<u>\$ 376,196</u>

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2013

Governmental Activities

During the fiscal year ended June 30, 2013, the Township's net position increased by \$8,703. The Township is required to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

A significant portion of the revenue for all governmental activities of South Branch Township comes from property taxes. The Township levied 0.8344 mills for operating purposes, 1.8816 mills for fire protection, and 0.9438 mill for fire equipment.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax.

The Township's governmental activities expenses are dominated by public safety expenses. The Township spent \$75,082 in the fiscal year 2013 on public safety expenses. General government represented the next largest expense at \$46,191.

Financial Analysis of the Government's Funds

Governmental Funds The focus of South Branch Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, South Branch Township's governmental funds reported combined ending fund balances of \$193,634. Approximately \$50,878 constitutes unrestricted, unassigned fund balance. The remainder of the fund balance is non-spendable, restricted or assigned for specific purposes and is therefore not available for new appropriation. For example, the fund balance that is restricted for fire protection must be used for expenditures that relate to fire protection.

General Fund – The General Fund decreased its fund balance by \$3,925, which brings the fund balance to \$88,310. Of the General Fund's fund balance, \$50,878 is unrestricted and unassigned while \$1,875 is non-spendable because of prepaid expenditures, \$25,036 is restricted for road maintenance, and \$10,521 is assigned for the community building. Taxes amounted to \$23,008. State grants were collected in the amount of \$29,943.

Fire Fund – The Fire Fund increased its fund balance by \$5,908, which brings the fund balance to \$88,238. The balance is restricted and must be used for fire protection. Taxes collected amounted to \$35,466.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2013

Fire Equipment Fund – The Fire Equipment Fund increased its fund balance by \$92, which brings the fund balance to \$14,383. The balance is restricted and must be used for fire equipment. Taxes collected amounted to \$17,733.

Liquor Law Enforcement Fund – The Liquor Law Enforcement Fund increased its fund balance by \$512 which brings the fund balance to \$2,703. This balance is restricted and must be used for liquor law enforcement.

General Fund Budgetary Highlights

During the year, there was an \$18,800 increase in appropriations between the original budget and final amended budget. Following is the significant reasons for the increase:

- \$400 increase in Township Board expenditures.
- \$200 increase in clerk expenditures.
- \$1,100 increase in treasurer expenditures.
- \$17,100 increase in street lighting expenditures.

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>\$ 64,871</u>	<u>\$ 64,871</u>	<u>\$ 68,355</u>
Total Expenditures	<u>\$ 52,350</u>	<u>\$ 71,150</u>	<u>\$ 72,280</u>

Capital Assets and Debt Administration

Capital Assets The Township's investment in capital assets for governmental activities as of June 30, 2013, amounted to \$191,265 net of accumulated depreciation.

Capital assets summarized below include any items purchased with a cost greater than \$300 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2013

South Branch Township
Capital Assets as of June 30,

	<u>2013</u>	<u>2012</u>
Land	\$ 10,976	\$ 10,976
Work in Progress	0	1,580
Buildings and Improvements	71,634	44,179
Equipment and Vehicles	467,193	455,242
	<u>549,803</u>	<u>511,977</u>
Less: Accumulated Depreciation	358,538	326,828
Net Capital Assets	<u><u>\$ 191,265</u></u>	<u><u>\$ 185,149</u></u>

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

- ◆ Donated ambulance was received.
- ◆ The Township has made flooring improvements to their hall.
- ◆ The Township has paved the driveway entrance to the fire barn.
- ◆ The Township has purchased new street lighting.
- ◆ Purchased fire equipment.

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential reductions in state-shared revenues

These factors were considered in preparing the Township's budgets for the 2013-14 fiscal year.

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 South Branch Township at 10510 W. M-55, Wellston, Michigan 49689.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

STATEMENT OF NET POSITION
JUNE 30, 2013

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 180,490
Receivables	
Due from Other Governments	11,036
External Parties (Fiduciary Funds)	883
Prepaid Expenses	1,875
Total Current Assets	<u>194,284</u>
<u>CAPITAL ASSETS</u>	
Land	10,976
Buildings and Improvements	71,634
Equipment and Vehicles	467,193
	<u>549,803</u>
Less Accumulated Depreciation	<u>358,538</u>
Net Capital Assets	<u>191,265</u>
Total Assets	<u>385,549</u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	<u>650</u>
Total Current Liabilities	<u>650</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	191,265
Restricted for Road Maintenance	25,036
Restricted for Fire Protection	88,238
Restricted for Fire Equipment	14,383
Restricted for Liquor Law Enforcement	2,703
Unrestricted	63,274
TOTAL NET POSITION	<u>\$ 384,899</u>

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

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
<u>GOVERNMENTAL ACTIVITIES</u>		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	TOTAL GOVERNMENTAL ACTIVITIES
General Government	\$ 46,191	\$ 2,298	\$ 0	\$ 4,695	\$ (39,198)
Public Safety	75,082	0	1,587	12,000	(61,495)
Public Works	815	0	8,484	0	7,669
Other Functions	4,397	0	0	0	(4,397)
Total	\$ 126,485	\$ 2,298	\$ 10,071	\$ 16,695	(97,421)
<u>GENERAL REVENUES</u>					
Taxes					76,207
State Grants					27,961
Interest Earnings					289
Other					1,667
Total General Revenues					106,124
Change in Net Position					8,703
<u>NET POSITION</u> - Beginning of Year					376,196
<u>NET POSITION</u> - End of Year					\$ 384,899

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

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
JUNE 30, 2013

	GENERAL FUND	FIRE FUND	FIRE EQUIPMENT FUND	LIQUOR LAW ENFORCEMENT FUND	TOTALS
<u>ASSETS</u>					
Cash	\$ 75,286	\$ 88,118	\$ 14,383	\$ 2,703	\$ 180,490
Due from Other Funds	883	770	0	0	1,653
Due from Other Governments	11,036	0	0	0	11,036
Prepaid Expenditures	1,875	0	0	0	1,875
TOTAL ASSETS	\$ 89,080	\$ 88,888	\$ 14,383	\$ 2,703	\$ 195,054
<u>LIABILITIES AND FUND BALANCE</u>					
<u>LIABILITIES</u>					
Accounts Payable	\$ 0	\$ 650	\$ 0	\$ 0	\$ 650
Due to Other Funds	770	0	0	0	770
Total Liabilities	770	650	0	0	1,420
<u>FUND BALANCE</u>					
Nonspendable:					
Prepaid Expenditures	1,875	0	0	0	1,875
Restricted for:					
Road Maintenance	25,036	0	0	0	25,036
Fire Protection	0	88,238	0	0	88,238
Fire Equipment	0	0	14,383	0	14,383
Liquor Law Enforcement	0	0	0	2,703	2,703
Assigned for Community Building	10,521	0	0	0	10,521
Unassigned	50,878	0	0	0	50,878
Total Fund Balance	88,310	88,238	14,383	2,703	193,634
TOTAL LIABILITIES AND FUND BALANCE	\$ 89,080	\$ 88,888	\$ 14,383	\$ 2,703	\$ 195,054

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

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Total Fund Balance for Governmental Funds \$ 193,634

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	\$ 10,976	
Buildings and Improvements	71,634	
Equipment and Vehicles	467,193	
Accumulated Depreciation	(358,538)	191,265

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 384,899

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

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2013

	GENERAL FUND	FIRE FUND	FIRE EQUIPMENT FUND	LIQUOR LAW ENFORCEMENT FUND	TOTALS
<u>REVENUES</u>					
Taxes	\$ 23,008	\$ 35,466	\$ 17,733	\$ 0	\$ 76,207
Federal Grants	6,502	0	0	0	6,502
State Grants	29,943	0	0	1,587	31,530
Charges for Services	2,298	0	0	0	2,298
Interest and Rents	242	41	6	0	289
Other Revenues	6,362	0	0	0	6,362
Total Revenues	68,355	35,507	17,739	1,587	123,188
<u>EXPENDITURES</u>					
General Government	50,057	0	0	0	50,057
Public Safety	0	29,599	17,647	1,075	48,321
Public Works	17,826	0	0	0	17,826
Other Functions	4,397	0	0	0	4,397
Total Expenditures	72,280	29,599	17,647	1,075	120,601
Net Change in Fund Balance	(3,925)	5,908	92	512	2,587
<u>FUND BALANCE</u> - Beginning of Year	92,235	82,330	14,291	2,191	191,047
<u>FUND BALANCE</u> - End of Year	\$ 88,310	\$ 88,238	\$ 14,383	\$ 2,703	\$ 193,634

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

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

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

JUNE 30, 2013

Net Change in Fund Balance - Total Governmental Funds	\$ 2,587
Amounts reported for governmental activities are different because:	
Donations of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	12,000
Governmental funds report capital outlays as expenditures in the Statement of Activities. These costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(41,710)
Capital Outlay	<u>35,826</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 8,703</u>

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

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2013

	<u>AGENCY FUND</u>
<u>ASSETS</u>	
Cash	<u>\$ 1,319</u>
 <u>LIABILITIES</u>	
Refunds Payable to Taxpayers	192
Due to Other Governments	244
Due to Other Funds	<u>883</u>
 TOTAL LIABILITIES	<u>1,319</u>
 <u>NET POSITION</u>	<u><u>\$ 0</u></u>

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

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements

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

B. Reporting Entity

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

C. Basis of Presentation – Government-Wide Financial Statements

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

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

D. Basis of Presentation – Fund Financial Statements

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

South Branch 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.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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

The *Liquor Law Enforcement Fund* accounts for revenue sources that are legally restricted to expenditures for liquor law enforcement.

Additionally South Branch Township reports the following fund types:

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

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

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

E. Measurement Focus and Basis of Accounting

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred,

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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

F. Budgetary Information

1. Budgetary Basis of Accounting

Budgets are adopted on the modified accrual basis in accordance with the requirements of The Uniform Budgeting and Accounting Act. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year-end. Budget amounts are as originally adopted on June 20, 2012, or as amended by the Township Board from time to time throughout the year.

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

2. Excess of Expenditures over Appropriations

	<u>APPROPRIATIONS</u>		<u>EXPENDITURES</u>
General Fund			
General Government			
Election	\$ 2,600	\$	2,658
Building and Grounds	3,000		7,539

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

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

1. Cash and Cash Equivalents

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposits, and short-term investments with original maturities of twelve months or less from date of acquisition.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
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The Township Board has authorized the Township Treasurer to invest funds in the following:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository of a financial institution with a location within the State of Michigan.
- (c) Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in subdivision (a).
- (e) Bankers' acceptances of United States banks.
- (f) Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
- (g) Mutual funds registered under the Investment Company Act of 1940, Title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by the Township Treasurer. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share. (Recommendation--the above limitation is recommended, however, the Treasurer may also include mutual funds whose net asset value may fluctuate on a periodic basis by so stating in this area).
- (h) Investment pools organized under the Local Government Pool Act, 1985 PA 121, MCL 129.141 to 129.150.
- (i) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.111 to 129.118.

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. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

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 government columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$300 (amount not rounded) and an estimated useful life in

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

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

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

Property, plant and equipment of the 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
Public Domain Infrastructure	20
Vehicles	10
Equipment	5-10

4. *Deferred Outflows/Inflows of Resources*

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

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

5. *Net Position Flow Assumption*

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

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

6. *Fund Balance Flow Assumption*

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

7. *Fund Balance Policies*

In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable – Includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.

Restricted – Includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

Committed – Includes amounts that can only be used for specific purposes determined by a formal action by Board Resolution. These amounts cannot be used for any other purpose unless the Township Board removes or changes the specified use by taking the same type of action (Board Resolution) that was employed when the funds were initially committed.

Assigned – Includes amounts a government intends to use for a specific purpose. Intent can be expressed by the Township Board or by an official or body to which the Township Board delegates the authority.

Unassigned – Includes amounts that are available for any purpose. Positive amounts are only reported in the General Fund.

As stated in Note 1C above, restricted resources are used first when an expense is incurred for which both restricted and unrestricted resources are available. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Township considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Township Board has provided otherwise in its commitment or assignment actions.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

8. *Use of Estimates*

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

H. Revenues and Expenditures/Expenses

1. *Program Revenues*

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

2. *Property Taxes*

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes, county taxes, and 50% of Cadillac Area Public Schools' taxes are levied and due July 1, and become delinquent after September 14. The remaining millages are levied and due December 1, and become delinquent after February 14. Collections of school and county taxes and remittances of them are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as unearned revenues.

The 2012 taxable valuation of South Branch Township totaled \$18,847,470, on which ad valorem taxes levied consisted of 0.8344 mills for South Branch Township operating purposes, 0.9438 mill for fire equipment, and 1.8816 mills for fire protection. These levies raised approximately \$15,714 for operating purposes, \$17,733 for fire equipment, and \$35,466 for fire protection.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Violations of Legal or Contractual Provisions

Note I.F.2, on the Excess of Expenditures Over Appropriations, describes a budgetary violation that occurred for the year ended June 30, 2013.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

The Township's deposits are on deposit with Lake Osceola State Bank in Baldwin, Michigan.

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, 2013, none of the government's bank balance of \$183,858 was exposed to custodial credit risk because none of it was uninsured and uncollateralized. Although the Township's investment policy does not directly address custodial credit risk, it typically limits its exposure by controlling who holds the Township's deposits.

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

B. Receivables

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

	General
Receivables	
Due from Other Governments	\$ 11,036

The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.

C. Capital Assets

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 10,976	\$ 0	\$ 0	\$ 10,976
Work in Progress	1,580	0	1,580	0
Total Capital Assets, Not Being Depreciated	12,556	0	1,580	10,976
Capital Assets, Being Depreciated				
Buildings and Improvements	44,179	27,455	0	71,634
Equipment and Vehicles	455,242	21,951	10,000	467,193
Total Capital Assets, Being Depreciated	499,421	49,406	10,000	538,827

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

	Beginning Balance	Increases	Decreases	Ending Balance
Less Accumulated Depreciation For:				
Buildings and Improvements	26,283	1,442	0	27,725
Equipment and Vehicles	300,545	40,268	10,000	330,813
Total Accumulated Depreciation	326,828	41,710	10,000	358,538
Total Capital Assets, Being Depreciated, Net	172,593	7,696	0	180,289
Governmental Activities Capital Assets, Net	\$ 185,149	\$ 7,696	\$ 1,580	\$ 191,265

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General Government	\$ 1,919
Public Safety	39,778
Public Works	13
	<u>\$ 41,710</u>

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at June 30, 2013 were:

<u>Fund</u>	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 883	\$ 770
Special Revenue Funds		
Fire Fund	770	0
Fiduciary Funds		
Current Tax Collection Fund	0	883
	<u>\$ 1,653</u>	<u>\$ 1,653</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

There were no transfers between funds during the year.

E. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

within the State of Michigan for self-insuring property and casualty, crime, general liability, errors and omissions insurance, and workers' compensation. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

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

F. Commitments and 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 grants and 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.

IV. OTHER INFORMATION

A. Jointly Governed Organization

The Township is a member of the Henderson and South Branch Township Joint Cemetery Association. Henderson Township maintains the records for the cemetery. The cemetery association is a joint venture supported by Henderson and South Branch Township.

A copy of these audited financial statements may be obtained upon request from Henderson Township.

B. New GASB Standards

Effective July 1, 2012, the Township adopted GASB Statement 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position" and GASB Statement 65, "Items Previously Recognized as Assets and Liabilities". These statements establish and clarify new components of the statement of position, "Deferred Inflows of Resources" and "Deferred Outflows of Resources". At June 30, 2013, the Township did not have items that fit the criteria for a deferred outflow of resources or a deferred inflow of resources. GASB 63 also changes the term "net assets", which was previously made up of assets less liabilities, to "net position", which is now made up of assets, deferred outflows of resources, liabilities and deferred inflows of resources. Accordingly any reference to "net assets" has been changed to "net position".

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

MAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2013

	<u>GENERAL FUND</u>			<u>FIRE FUND</u>		
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>						
Taxes	\$ 29,939	\$ 29,939	\$ 23,008	\$ 42,630	\$ 42,630	\$ 35,466
Federal Grants	0	0	6,502	0	0	0
State Grants	31,820	31,820	29,943	0	0	0
Charges for Services	2,324	2,324	2,298	0	0	0
Interest and Rents	788	788	242	0	0	41
Other Revenues	0	0	6,362	0	0	0
Total Revenues	64,871	64,871	68,355	42,630	42,630	35,507
<u>EXPENDITURES</u>						
General Government						
Township Board	8,100	8,500	6,856	0	0	0
Supervisor	4,100	4,100	4,013	0	0	0
Election	2,600	2,600	2,658	0	0	0
Assessor	9,900	9,900	9,660	0	0	0
Clerk	5,600	5,800	5,731	0	0	0
Board of Review	750	750	429	0	0	0
Treasurer	9,200	10,300	10,131	0	0	0
Building and Grounds	3,000	3,000	7,539	0	0	0
Cemetery	3,200	3,200	3,040	0	0	0
Public Safety						
Fire Department	0	0	0	32,000	32,000	29,599
Police and Liquor Law Enforcement	0	0	0	0	0	0
Public Works						
Street Lighting	900	18,000	17,826	0	0	0
Other Functions						
Insurance and Employee Benefits	5,000	5,000	4,397	0	0	0
Total Expenditures	52,350	71,150	72,280	32,000	32,000	29,599
Net Change in Fund Balance	12,521	(6,279)	(3,925)	10,630	10,630	5,908
<u>FUND BALANCE</u> - Beginning of Year	103,283	103,283	92,235	31,149	78,846	82,330
<u>FUND BALANCE</u> - End of Year	\$ 115,804	\$ 97,004	\$ 88,310	\$ 41,779	\$ 89,476	\$ 88,238

FIRE EQUIPMENT FUND			LIQUOR LAW ENFORCEMENT FUND		
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
\$ 10,621	\$ 10,621	\$ 17,733	\$ 0	\$ 0	\$ 0
0	0	0	0	0	0
0	0	0	1,500	1,500	1,587
0	0	0	0	0	0
0	0	6	0	0	0
0	0	0	0	0	0
10,621	10,621	17,739	1,500	1,500	1,587
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
20,000	20,000	17,647	0	0	0
0	0	0	1,075	1,075	1,075
0	0	0	0	0	0
0	0	0	0	0	0
20,000	20,000	17,647	1,075	1,075	1,075
(9,379)	(9,379)	92	425	425	512
14,291	14,291	14,291	1,122	1,122	2,191
\$ 4,912	\$ 4,912	\$ 14,383	\$ 1,547	\$ 1,547	\$ 2,703



Baird, Cotter & Bishop, P.C.

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

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September 11, 2013

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

To the Township Board
South Branch Township
Wexford County
Cadillac, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Branch Township for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you. 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 South Branch Township are described in Note I to the financial statements. Starting in 2012-2013, the Township has implemented GASB 63 and GASB 65, new standards that rename, redefine, and clarify components of net position. 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.

Difficulties Encountered in Performing the Audit

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 11, 2013.

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 South Branch Township for the year ended June 30, 2013, we noted the following item which we feel deserves comment:

Budgeting

Expenditures in two activities of General Fund exceeded appropriations. Additionally, the General Fund's total expenditures exceeded appropriations. The Township Board is responsible for amending the budget during the year to allow for expenditures in excess of original appropriations, or to reduce appropriations, if it appears the actual expenditures will be much less than originally appropriated. Also, the Fire Budget should be segregated between Fire Operating and Fire Equipment.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, 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.

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

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.



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September 11, 2013

COMMUNICATION OF MATERIAL WEAKNESSES

To the Township Board
South Branch Township
Wexford County
Cadillac, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund information, and the aggregate remaining fund information of South Branch Township as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered South Branch Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Branch Township's internal control. Accordingly, we do not express an opinion on the effectiveness of South Branch Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.