

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY

CADILLAC, MICHIGAN

JUNE 30, 2014



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, 2014

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October 1, 2014

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 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 of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of South Branch Township, Wexford County, Cadillac, Michigan as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages iii through ix and 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, 2014

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, 2014, 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 \$382,611. Of this amount, \$71,220 may be used to meet the Township's ongoing obligations to citizens and creditors.
- ◆ The Township's net position decreased by \$2,288 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 \$232,382, an increase of \$38,748 in comparison with the prior year. \$58,569 is available for spending at the Township's discretion.
- ◆ The fund balance of the Township's General Fund increased by \$14,985 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, 2014

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 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, 2014

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 \$382,611 at June 30, 2014, 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,

	<u>2014</u>	<u>2013</u>
Assets		
Current Assets	\$ 232,382	\$ 194,284
Non Current Assets		
Capital Assets	549,803	549,803
Less: Accumulated Depreciation	<u>(399,574)</u>	<u>(358,538)</u>
Total Non Current Assets	<u>150,229</u>	<u>191,265</u>
Total Assets	<u>\$ 382,611</u>	<u>\$ 385,549</u>
Liabilities		
Current Liabilities	<u>\$ 0</u>	<u>\$ 650</u>
Net Position		
Net Investment in Capital Assets	150,229	191,265
Restricted for Specific Purposes	161,162	130,360
Unrestricted	<u>71,220</u>	<u>63,274</u>
Total Net Position	<u>382,611</u>	<u>384,899</u>
Total Liabilities and Net Position	<u>\$ 382,611</u>	<u>\$ 385,549</u>

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 \$71,220 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, 2014

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 decreased by \$2,288 in this fiscal year, which is due to the current depreciation expense not a poor financial condition. On the fund level, all funds showed an increase in fund balance.

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,

	2014	2013
<u>Revenues</u>		
Program Revenues		
Charges for Services	\$ 2,295	\$ 2,298
Operating Grants and Contributions	9,723	10,071
Capital Grants and Contributions	0	16,695
General Revenues		
Taxes	78,387	76,207
State Grants	28,944	27,961
Interest Earnings	262	289
Other	313	1,667
Total Revenues	119,924	135,188
<u>Expenses</u>		
General Government	45,898	46,191
Public Safety	70,674	75,082
Public Works	1,118	815
Other Functions	4,522	4,397
Total Expenses	122,212	126,485
Change in Net Position	(2,288)	8,703
<u>NET POSITION</u> - Beginning of Year	384,899	376,196
<u>NET POSITION</u> - End of Year	\$ 382,611	\$ 384,899

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

Governmental Activities

During the fiscal year ended June 30, 2014, the Township's net position decreased by \$2,288. 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 position.

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 \$70,674 in the fiscal year 2014 on public safety expenses. General government represented the next largest expense at \$45,898.

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 \$232,382. Approximately \$58,569 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 increased its fund balance by \$14,985, which brings the fund balance to \$103,295. Of the General Fund's fund balance, \$58,569 is unrestricted and unassigned while \$2,025 is non-spendable because of prepaid expenditures, \$32,075 is restricted for road maintenance, and \$10,626 is assigned for the community building. Taxes amounted to \$23,625. State grants were collected in the amount of \$30,831.

Fire Fund – The Fire Fund increased its fund balance by \$8,158, which brings the fund balance to \$96,423. The balance is restricted and must be used for fire protection. Taxes collected amounted to \$34,517.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

Fire Equipment Fund – The Fire Equipment Fund increased its fund balance by \$15,154, which brings the fund balance to \$29,537. The balance is restricted and must be used for fire equipment. Taxes collected amounted to \$20,245.

Liquor Law Enforcement Fund – The Liquor Law Enforcement Fund increased its fund balance by \$424 which brings the fund balance to \$3,127. This balance is restricted and must be used for liquor law enforcement.

General Fund Budgetary Highlights

During the year, there was an \$5,000 increase in appropriations between the original budget and final amended budget. Following is the significant reasons for the increase:

- \$5,000 increase in Township Board expenditures to cover additional general expenses that were not included in the original budget.

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	\$ 73,247	\$ 73,247	\$ 63,608
Total Expenditures	\$ 61,300	\$ 66,300	\$ 48,623

The budgeted expenditures exceed the actual expenditures due to the Township's conservative budgeting. Actual revenues are less than budgeted revenues due to over estimating tax revenues.

Capital Assets and Debt Administration

Capital Assets The Township's investment in capital assets for governmental activities as of June 30, 2014, amounted to \$150,229 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, 2014

South Branch Township
Capital Assets as of June 30,

	<u>2014</u>	<u>2013</u>
Land	\$ 10,976	\$ 10,976
Buildings and Improvements	71,634	71,634
Equipment and Vehicles	467,193	467,193
	<u>549,803</u>	<u>549,803</u>
Less: Accumulated Depreciation	399,574	358,538
Net Capital Assets	<u>\$ 150,229</u>	<u>\$ 191,265</u>

There were no additions to capital assets and no capital assets were disposed during the year.

Economic Condition and Outlook

It appears that state shared revenues have stabilized and may increase during 2014-15.

This factor was considered in preparing the Township's budgets for the 2014-15 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 7257 W. 48 Rd., Cadillac, Michigan 49601.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

STATEMENT OF NET POSITION
JUNE 30, 2014

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 217,814
Receivables	
Due from Other Governments	11,564
External Parties (Fiduciary Funds)	979
Prepaid Expenses	2,025
Total Current Assets	<u>232,382</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	399,574
Net Capital Assets	<u>150,229</u>
Total Assets	<u>382,611</u>
<u>LIABILITIES</u>	<u>0</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	150,229
Restricted for Road Maintenance	32,075
Restricted for Fire Protection	96,423
Restricted for Fire Equipment	29,537
Restricted for Liquor Law Enforcement	3,127
Unrestricted	71,220
TOTAL NET POSITION	<u>\$ 382,611</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, 2014

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	\$ 45,898	\$ 2,295	\$ 0	\$ 0	\$ (43,603)
Public Safety	70,674	0	1,502	0	(69,172)
Public Works	1,118	0	8,221	0	7,103
Other Functions	4,522	0	0	0	(4,522)
TOTAL	\$ 122,212	\$ 2,295	\$ 9,723	\$ 0	(110,194)
<u>GENERAL REVENUES</u>					
Taxes					78,387
State Grants					28,944
Interest Earnings					262
Other					313
Total General Revenues					107,906
Change in Net Position					(2,288)
<u>NET POSITION</u> - Beginning of Year					384,899
<u>NET POSITION</u> - End of Year					\$ 382,611

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

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
JUNE 30, 2014

	GENERAL FUND	FIRE FUND	FIRE EQUIPMENT FUND	LIQUOR LAW ENFORCEMENT FUND	TOTALS
<u>ASSETS</u>					
Cash	\$ 90,022	\$ 96,363	\$ 28,302	\$ 3,127	\$ 217,814
Due from Other Funds	1,951	2,267	2,207	0	6,425
Due from Other Governments	11,564	0	0	0	11,564
Prepaid Expenditures	2,025	0	0	0	2,025
TOTAL ASSETS	\$ 105,562	\$ 98,630	\$ 30,509	\$ 3,127	\$ 237,828
<u>LIABILITIES AND FUND BALANCE</u>					
<u>LIABILITIES</u>					
Due to Other Funds	\$ 2,267	\$ 2,207	\$ 972	\$ 0	\$ 5,446
<u>FUND BALANCE</u>					
Nonspendable:					
Prepaid Expenditures	2,025	0	0	0	2,025
Restricted for:					
Road Maintenance	32,075	0	0	0	32,075
Fire Protection	0	96,423	0	0	96,423
Fire Equipment	0	0	29,537	0	29,537
Liquor Law Enforcement	0	0	0	3,127	3,127
Assigned for Community Building	10,626	0	0	0	10,626
Unassigned	58,569	0	0	0	58,569
Total Fund Balance	103,295	96,423	29,537	3,127	232,382
TOTAL LIABILITIES AND FUND BALANCE	\$ 105,562	\$ 98,630	\$ 30,509	\$ 3,127	\$ 237,828

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, 2014

Total Fund Balance for Governmental Funds \$ 232,382

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	(399,574)	150,229

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 382,611

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, 2014

	GENERAL FUND	FIRE FUND	FIRE EQUIPMENT FUND	LIQUOR LAW ENFORCEMENT FUND	TOTALS
<u>REVENUES</u>					
Taxes	\$ 23,625	\$ 34,517	\$ 20,245	\$ 0	\$ 78,387
Federal Grants	6,334	0	0	0	6,334
State Grants	30,831	0	0	1,502	32,333
Charges for Services	2,295	0	0	0	2,295
Interest and Rents	210	43	9	0	262
Other Revenues	313	0	0	0	313
Total Revenues	63,608	34,560	20,254	1,502	119,924
<u>EXPENDITURES</u>					
General Government	43,009	0	0	0	43,009
Public Safety	0	26,375	5,100	1,078	32,553
Public Works	1,092	0	0	0	1,092
Other Functions	4,522	0	0	0	4,522
Total Expenditures	48,623	26,375	5,100	1,078	81,176
Net Change in Fund Balance	14,985	8,185	15,154	424	38,748
<u>FUND BALANCE</u> - Beginning of Year	88,310	88,238	14,383	2,703	193,634
<u>FUND BALANCE</u> - End of Year	\$ 103,295	\$ 96,423	\$ 29,537	\$ 3,127	\$ 232,382

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, 2014

Net Change in Fund Balance - Total Governmental Funds	\$ 38,748
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Amounts reported for governmental activities are different because:

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

Depreciation Expense	<u>(41,036)</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (2,288)</u></u>
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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, 2014

	<u>AGENCY FUND</u>
<u>ASSETS</u>	
Cash	<u>\$ 1,223</u>
 <u>LIABILITIES</u>	
Due to Other Governments	244
Due to Other Funds	<u>979</u>
 TOTAL LIABILITIES	<u>1,223</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, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the *Statement of Net Position* and the *Statement of Activities*) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. 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, 2014

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 type:

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

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

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

E. Measurement Focus and Basis of Accounting

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

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

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

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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 19, 2013, or as amended by the Township Board from time to time throughout the year.

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

2. Excess of Expenditures over Appropriations

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
General Government		
Board of Review	\$ 500	\$ 830
Liquor Law Enforcement Fund		
Public Safety		
Police and Liquor Law Enforcement	980	1,078

These overages were funded by available fund balance.

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

1. Cash and Investments

The Township's cash is 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
JUNE 30, 2014

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, 2014

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 Net 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 Net 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, 2014

6. *Fund Balance Flow Assumption*

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

7. *Fund Balance Policies*

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

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

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

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.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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 2013 taxable valuation of South Branch Township totaled \$19,213,991, 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 \$15,978 for operating purposes, \$20,245 for fire equipment, and \$33,867 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, 2014.

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, 2014, none of the government's bank balance of \$219,696 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.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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:

Receivables	<u>General</u>
Due from Other Governments	<u>\$ 11,564</u>

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

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
	<u>Balance</u>			<u>Balance</u>
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 10,976	\$ 0	\$ 0	\$ 10,976
Capital Assets, Being Depreciated				
Buildings and Improvements	71,634	0	0	71,634
Equipment and Vehicles	467,193	0	0	467,193
Total Capital Assets, Being Depreciated	<u>538,827</u>	<u>0</u>	<u>0</u>	<u>538,827</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	27,725	2,051	0	29,776
Equipment and Vehicles	330,813	38,985	0	369,798
Total Accumulated Depreciation	<u>358,538</u>	<u>41,036</u>	<u>0</u>	<u>399,574</u>
Total Capital Assets, Being Depreciated, Net	<u>180,289</u>	<u>(41,036)</u>	<u>0</u>	<u>139,253</u>
Governmental Activities Capital Assets, Net	<u>\$ 191,265</u>	<u>\$ (41,036)</u>	<u>\$ 0</u>	<u>\$ 150,229</u>

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

Governmental activities:

General Government	\$ 2,889
Public Safety	38,121
Public Works	26
	\$ 41,036

D. Interfund Receivables, Payables and Transfers

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

<u>Fund</u>	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 1,951	\$ 2,267
Special Revenue Funds		
Fire Fund	2,267	2,207
Fire Equipment Fund	2,207	972
Fiduciary Funds		
Current Tax Collection Fund	0	979
	\$ 6,425	\$ 6,425

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.

IV. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, 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.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

B. 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.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

MAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2014

	<u>GENERAL FUND</u>			<u>FIRE FUND</u>		
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>						
Taxes	\$ 32,868	\$ 32,868	\$ 23,625	\$ 42,630	\$ 42,630	\$ 34,517
Federal Grants	75	75	6,334	0	0	0
State Grants	26,361	26,361	30,831	0	0	0
Charges for Services	2,298	2,298	2,295	0	0	0
Interest and Rents	175	175	210	0	0	43
Other Revenues	11,470	11,470	313	0	0	0
Total Revenues	<u>73,247</u>	<u>73,247</u>	<u>63,608</u>	<u>42,630</u>	<u>42,630</u>	<u>34,560</u>
<u>EXPENDITURES</u>						
General Government						
Township Board	8,300	13,300	7,913	0	0	0
Supervisor	4,100	4,100	4,013	0	0	0
Election	2,300	2,300	774	0	0	0
Assessor	10,000	10,000	9,216	0	0	0
Clerk	5,800	5,800	5,429	0	0	0
Board of Review	500	500	830	0	0	0
Treasurer	10,300	10,300	10,008	0	0	0
Building and Grounds	3,000	3,000	1,720	0	0	0
Cemetery	3,200	3,200	3,106	0	0	0
Public Safety						
Fire Department	0	0	0	32,000	32,000	26,375
Police and Liquor Law Enforcement	0	0	0	0	0	0
Public Works						
Street Lighting	6,300	6,300	1,092	0	0	0
Refuse Collection	2,500	2,500	0	0	0	0
Other Functions						
Insurance and Employee Benefits	5,000	5,000	4,522	0	0	0
Total Expenditures	<u>61,300</u>	<u>66,300</u>	<u>48,623</u>	<u>32,000</u>	<u>32,000</u>	<u>26,375</u>
Net Change in Fund Balance	11,947	6,947	14,985	10,630	10,630	8,185
<u>FUND BALANCE</u> - Beginning of Year	<u>94,120</u>	<u>94,120</u>	<u>88,310</u>	<u>0</u>	<u>0</u>	<u>88,238</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 106,067</u>	<u>\$ 101,067</u>	<u>\$ 103,295</u>	<u>\$ 10,630</u>	<u>\$ 10,630</u>	<u>\$ 96,423</u>

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

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

FIRE EQUIPMENT FUND			LIQUOR LAW ENFORCEMENT FUND		
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
\$ 10,621	\$ 10,621	\$ 20,245	\$ 0	\$ 0	\$ 0
0	0	0	0	0	0
0	0	0	1,500	1,500	1,502
0	0	0	0	0	0
0	0	9	0	0	0
0	0	0	0	0	0
10,621	10,621	20,254	1,500	1,500	1,502
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
0	0	0	0	0	0
20,000	20,000	5,100	0	0	0
0	0	0	980	980	1,078
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
20,000	20,000	5,100	980	980	1,078
(9,379)	(9,379)	15,154	520	520	424
0	0	14,383	2,198	2,198	2,703
\$ (9,379)	\$ (9,379)	\$ 29,537	\$ 2,718	\$ 2,718	\$ 3,127



Baird, Cotter & Bishop, P.C.

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CERTIFIED PUBLIC ACCOUNTANTS
134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601 PHONE: (231) 775-9789 FAX: (231) 775-9749
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October 1, 2014

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, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 27, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by South Branch Township are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013-14. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Township's financial statements was:

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

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

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 1, 2014.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

Budgeting

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

Capitalization Policy

We recommend that the Township consider increasing its capitalization threshold from \$300 to a higher amount, typically between \$2,500 and \$3,000.

Other Matters

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

Restriction on Use

This information is intended solely for the use of the Township Board and management of the South Branch Township 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.



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October 1, 2014

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 and the aggregate remaining fund information of South Branch Township as of and for the year ended June 30, 2014, 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 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 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. 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) 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.

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 full-time staff, and applies its judgment in determining how best to allocate the government's resources to provide and appropriate balance between sound internal controls and fiscal prudence.

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

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

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

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

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

Recommendation: Due to 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 noted prior to approving them and accepting responsibility for their content and presentation.

South Branch Township's responses to the material weaknesses identified in our audit are described above. We did not audit South Branch Township's response 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.