

**SPRINGVILLE TOWNSHIP, WEXFORD COUNTY**

**MESICK, MICHIGAN**

**JUNE 30, 2014**



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

CERTIFIED PUBLIC ACCOUNTANTS  
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SPRINGVILLE TOWNSHIP, WEXFORD COUNTY  
MESICK, MICHIGAN

JUNE 30, 2014

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October 21, 2014

## INDEPENDENT AUDITOR'S REPORT

To the Township Board  
Springville Township  
Wexford County  
Mesick, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Springville Township, Wexford County, Mesick, 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 from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Springville Township, Wexford County, Mesick, Michigan as of June 30, 2014, and the respective changes in financial position 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-ix and 17 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.*

SPRINGVILLE TOWNSHIP, WEXFORD COUNTY  
MESICK, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

The management of Springville Township, Michigan (“the Township”) offers this narrative overview and analysis of the financial activities of the Township for the fiscal year ended June 30, 2014. This management’s discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the Township’s financial activity. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

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

**Financial Highlights**

**Government-Wide**

- ❖ The assets of the Township exceeded its liabilities at the close of this fiscal year by \$763,999 (shown as *net position*). Of this amount, \$400,758 (*unrestricted net position*) may be used to meet the Township’s ongoing obligations to citizens and creditors.
  
- ❖ The Township’s net position increased by \$57,873 during the fiscal year.

**Fund Level Financial Highlights**

- ❖ As of June 30, 2014, the governmental funds of Springville Township reported combined ending fund balances of \$540,934, an increase of \$54,040 in comparison with the prior year. Approximately 74% of this amount (\$400,758) is available for spending at the Township’s discretion (*unassigned fund balance*).
  
- ❖ At the end of the current fiscal year, unrestricted fund balance (the total of *nonspendable, committed, assigned, and unassigned* components of fund balance) for the general fund was \$405,908.

**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.

SPRINGVILLE TOWNSHIP, WEXFORD COUNTY  
MESICK, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

**Government-Wide Financial Statements**

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

The *Statement of Net Position* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net position of the Township. 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. An increase in net position would indicate an improvement in financial condition. On the other hand, a consistent decrease over time in net position may indicate a decline in the financial health of an organization.

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

**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. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. Springville Township uses fund accounting to ensure 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 statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance 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 balance for the General Fund, Fire Fund, Ambulance Fund, and Cemetery Perpetual Care Fund, which are considered to be major funds.

SPRINGVILLE TOWNSHIP, WEXFORD COUNTY  
MESICK, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

The Township is required to adopt an annual budget for all major funds. A budgetary comparison has been provided for all major funds which adopted budgets to demonstrate compliance with this budget.

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

**Notes to Financial Statements**

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

**Other Information**

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

**Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The net position of the Township was \$763,999 at June 30, 2014, meaning that the Township's assets were greater than its liabilities by this amount.

The most significant portion of the Township's net position reflects cash and its investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt that is outstanding that the Township used to acquire or construct the asset. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

**Springville Township**  
**Net Position as of June 30, 2014**

	<b><u>Governmental Activities</u></b>
<b>Assets</b>	
Current Assets	\$ 551,290
Non Current Assets	
Capital Assets	536,668
Less: Accumulated Depreciation	<u>313,603</u>
Total Non Current Assets	<u>223,065</u>
<b>Total Assets</b>	<u>774,355</u>

SPRINGVILLE TOWNSHIP, WEXFORD COUNTY  
MESICK, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

**Springville Township**  
**Net Position as of June 30, 2014**

	<u><b>Governmental Activities</b></u>
<b>Liabilities</b>	
Current Liabilities	10,356
<b>Net Position</b>	
Net Investment in Capital Assets	223,065
Restricted for Specific Purposes	140,176
Unrestricted	400,758
<b>Total Net Position</b>	<u><u>\$ 763,999</u></u>

A portion of the Township's net position represents resources, \$140,176, that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$400,758, may be used to meet the Township's ongoing obligations to citizens and creditors.

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

The total net position of the Township increased by \$57,873.

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*.

**Springville Township**  
**Change in Net Position**  
**for the Fiscal Year Ended June 30, 2014**

	<u><b>Governmental Activities</b></u>
<b>Revenues</b>	
<b>Program Revenues</b>	
Charges for Services	\$ 6,363
Operating Grants and Contributions	24,005
<b>General Revenues</b>	
Taxes	87,871
State Shared Revenue	102,831
Interest Earnings	1,269
Other	8,834
<b>Total Revenues</b>	<u><u>231,173</u></u>



SPRINGVILLE TOWNSHIP, WEXFORD COUNTY  
MESICK, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

**Springville Township**  
**Change in Net Position**  
**for the Fiscal Year Ended June 30, 2014**

	<u>Governmental Activities</u>
<b><u>Expenses</u></b>	
General Government	98,925
Public Safety	69,628
Community and Economic Development	216
Other Functions	4,531
<b>Total Expenses</b>	<u>173,300</u>
Change in Net Position	57,873
<u>NET POSITION</u> - Beginning of Year	<u>706,126</u>
<u>NET POSITION</u> - End of Year	<u>\$ 763,999</u>

**Governmental Activities**

During the fiscal year ended June 30, 2014, the Township's net position increased by \$57,873 in the governmental funds. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses.

The most significant portion of the revenue for all governmental activities of Springville Township comes from taxes. The Township levied 0.9514 mills for operating purposes and 0.7478 mills for ambulance services.

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 general governmental expenses that total \$98,925. Public Safety represented the next largest expense at \$69,628. Depreciation expense added \$8,621 to general governmental expenses and \$12,000 to public safety expenses.

**Financial Analysis of the Government's Funds**

**Governmental Funds** – At the completion of the Township's fiscal year ended June 30, 2014, its governmental funds reported fund balances of \$540,934. \$400,758 of this amount is unassigned.

**General Fund** – The General Fund is the main operating fund of the Township. The General Fund increased its fund balance in this fiscal year by \$38,418, bringing the balance to \$408,359.

**Fire Fund** – The Fire Fund increased its fund balance in this fiscal year by \$15,555, bringing the balance to \$125,857.

SPRINGVILLE TOWNSHIP, WEXFORD COUNTY  
MESICK, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

**Ambulance Fund** – The Ambulance Fund had no change in its fund balance in this fiscal year, leaving the balance at \$0.

**Cemetery Perpetual Care Fund** – The Cemetery Perpetual Care Fund increased its fund balance in this fiscal year due to interest income, bringing the balance to \$6,718.

**General Fund Budgetary Highlights**

During the year, there was no increase in appropriations between the original budget and final amended 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	<u>\$ 177,700</u>	<u>\$ 177,700</u>	<u>\$ 178,389</u>
Total Expenditures	<u>\$ 142,700</u>	<u>\$ 142,700</u>	<u>\$ 119,505</u>

Actual expenditures compared to final budgeted expenditures are lower due to lower than anticipated expenditures during the fiscal year.

**Capital Assets and Debt Administration**

**Capital Assets.** The Township's investment in capital assets for governmental activities as of June 30, 2014, amounted to \$223,065 net of accumulated depreciation.

Capital assets summarized below include any items purchased with a cost greater than \$5,000 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

**Springville Township**  
**Capital Assets as of June 30, 2014**

	<b><u>Governmental Activities</u></b>
Land and Land Improvements	\$ 88,464
Buildings	135,426
Machinery and Equipment	257,995
Infrastructure	<u>54,783</u>
	536,668
Less Accumulated Depreciation	<u>313,603</u>
<b>Net Capital Assets</b>	<b><u>\$ 223,065</u></b>

SPRINGVILLE TOWNSHIP, WEXFORD COUNTY  
MESICK, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

During the fiscal year, the following asset was added:

- ❖ A new fence for the cemetery at a cost of \$24,454

**Economic Condition and Outlook**

State-shared revenues are expected to remain near the level recorded in 2013-2014. 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 Springville Township at P.O. Box 413, Mesick, Michigan 49668.

SPRINGVILLE TOWNSHIP, WEXFORD COUNTY  
MESICK, MICHIGAN

STATEMENT OF NET POSITION  
JUNE 30, 2014

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 511,772
Receivables	
Intergovernmental	36,985
External Party (Fiduciary Fund)	2,533
Total Current Assets	<u>551,290</u>
<u>CAPITAL ASSETS</u>	
Land and Land Improvements	88,464
Buildings	135,426
Machinery and Equipment	257,995
Infrastructure	54,783
	<u>536,668</u>
Less Accumulated Depreciation	313,603
Net Capital Assets	<u>223,065</u>
<b>TOTAL ASSETS</b>	<u><b>774,355</b></u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	2,400
Due To Other Governments	7,956
	<u>10,356</u>
<b>TOTAL LIABILITIES</b>	<u><b>10,356</b></u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	223,065
Restricted for Fire Protection	125,857
Restricted for Cemetery Perpetual Care	
Temporarily Restricted	1,568
Permanently Restricted	5,150
Restricted for Right of Way Maintenance	7,601
Unrestricted	400,758
<b>TOTAL NET POSITION</b>	<u><u><b>\$ 763,999</b></u></u>

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

SPRINGVILLE TOWNSHIP, WEXFORD COUNTY  
MESICK, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2014

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSES) REVENUES AND CHANGE IN NET POSITION</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>TOTAL GOVERNMENTAL ACTIVITIES</u>
<u>GOVERNMENTAL ACTIVITIES</u>					
General Government	\$ 98,925	\$ 6,363	\$ 0	\$ 0	\$ (92,562)
Public Safety	69,628	0	21,576	0	(48,052)
Public Works	0	0	2,429	0	2,429
Community and Economic Development	216	0	0	0	(216)
Other Functions	4,531	0	0	0	(4,531)
Total	\$ 173,300	\$ 6,363	\$ 24,005	\$ 0	(142,932)
 <u>GENERAL REVENUES</u>					
Taxes					87,871
State Shared Revenue					102,831
Interest Earnings					1,269
Other					8,834
Total General Revenues					200,805
Change in Net Position					57,873
<u>NET POSITION</u> - Beginning of Year					706,126
<u>NET POSITION</u> - End of Year					\$ 763,999

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

SPRINGVILLE TOWNSHIP, WEXFORD COUNTY  
MESICK, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET  
JUNE 30, 2014

	GENERAL FUND	SPECIAL REVENUE FUNDS		PERMANENT FUND	TOTALS
		FIRE FUND	AMBULANCE FUND	CEMETERY PERPETUAL CARE FUND	
<u>ASSETS</u>					
Cash	\$ 379,197	\$ 125,857	\$ 0	\$ 6,718	\$ 511,772
Due from Other Funds	2,533	0	7,956	0	10,489
Due from Other Governments	36,985	0	0	0	36,985
<b>TOTAL ASSETS</b>	<b>\$ 418,715</b>	<b>\$ 125,857</b>	<b>\$ 7,956</b>	<b>\$ 6,718</b>	<b>\$ 559,246</b>
<u>LIABILITIES AND FUND BALANCE</u>					
<u>LIABILITIES</u>					
Accounts Payable	\$ 2,400	\$ 0	\$ 0	\$ 0	\$ 2,400
Due to Other Funds	7,956	0	0	0	7,956
Due to Other Governments	0	0	7,956	0	7,956
<b>TOTAL LIABILITIES</b>	<b>10,356</b>	<b>0</b>	<b>7,956</b>	<b>0</b>	<b>18,312</b>
<u>FUND BALANCE</u>					
Nonspendable:					
Cemetery Endowed	0	0	0	5,150	5,150
Restricted for:					
Fire Protection	0	125,857	0	0	125,857
Cemetery Perpetual Care	0	0	0	1,568	1,568
Right of Way Maintenance	7,601	0	0	0	7,601
Unassigned	400,758	0	0	0	400,758
<b>Total Fund Balance</b>	<b>408,359</b>	<b>125,857</b>	<b>0</b>	<b>6,718</b>	<b>540,934</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 418,715</b>	<b>\$ 125,857</b>	<b>\$ 7,956</b>	<b>\$ 6,718</b>	<b>\$ 559,246</b>

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

SPRINGVILLE TOWNSHIP, WEXFORD COUNTY  
MESICK, MICHIGAN

GOVERNMENTAL FUNDS

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

Total Fund Balance for Governmental Funds \$ 540,934

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 and Land Improvements	\$ 88,464	
Buildings	135,426	
Machinery and Equipment	257,995	
Infrastructure	54,783	
Accumulated Depreciation	(313,603)	223,065
		<hr/>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 763,999

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

SPRINGVILLE TOWNSHIP, WEXFORD COUNTY  
MESICK, MICHIGAN

GOVERNMENTAL FUNDS

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

	GENERAL FUND	SPECIAL REVENUE FUNDS		PERMANENT FUND	TOTALS
		FIRE FUND	AMBULANCE FUND	CEMETERY PERPETUAL CARE FUND	
<u>REVENUES</u>					
Taxes	\$ 58,261	\$ 0	\$ 29,610	\$ 0	\$ 87,871
Contributions from Other Local Units	0	21,576	0	0	21,576
State Grants	105,260	0	0	0	105,260
Charges for Services	6,063	0	0	0	6,063
Interest and Rents	1,263	239	0	67	1,569
Other Revenues	7,542	1,292	0	0	8,834
Total Revenues	178,389	23,107	29,610	67	231,173
<u>EXPENDITURES</u>					
General Government	114,758	0	0	0	114,758
Public Safety	0	28,018	29,610	0	57,628
Community and Economic Development	216	0	0	0	216
Other Functions	4,531	0	0	0	4,531
Total Expenditures	119,505	28,018	29,610	0	177,133
Excess (Deficiency) of Revenues Over Expenditures	58,884	(4,911)	0	67	54,040
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers In (Out)	(20,466)	20,466	0	0	0
Net Change in Fund Balance	38,418	15,555	0	67	54,040
<u>FUND BALANCE - Beginning of Year</u>	369,941	110,302	0	6,651	486,894
<u>FUND BALANCE - End of Year</u>	\$ 408,359	\$ 125,857	\$ 0	\$ 6,718	\$ 540,934

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



SPRINGVILLE TOWNSHIP, WEXFORD COUNTY  
MESICK, 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	\$ 54,040
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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.

Capital Outlay	24,454
Depreciation Expense	<u>(20,621)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 57,873</u></u>
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The accompanying notes are an integral part of the financial statements.

SPRINGVILLE TOWNSHIP, WEXFORD COUNTY  
MESICK, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2014

	<u>AGENCY FUND</u> <u>CURRENT TAX</u> <u>COLLECTION</u> <u>FUND</u>
<u>ASSETS</u>	
Cash	\$ 6,271
<u>LIABILITIES</u>	
Due to Individuals	3,738
Due to Other Funds	2,533
 TOTAL LIABILITIES	 6,271
 <u>NET POSITION</u>	 \$ 0

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

SPRINGVILLE TOWNSHIP, WEXFORD COUNTY  
MESICK, 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 governmental is financially accountable. Springville Township does not have any *business-type activities* or *component units*.

**B. Reporting Entity**

The 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, each displayed in a separate column.

The 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 expenditure for fire protection.

SPRINGVILLE TOWNSHIP, WEXFORD COUNTY  
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The *Ambulance Fund* accounts for revenue sources that are legally restricted to expenditures for ambulance service.

The *Cemetery Perpetual Care Fund* accounts for receipts from the sale of cemetery lots, the principal of which is an endowment, and the interest earnings are used for cemetery operations.

Additionally the Township reports the following fund type:

*Agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

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

SPRINGVILLE TOWNSHIP, WEXFORD COUNTY  
MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
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recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

Property Taxes, licenses, 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 Information***

The annual budget is adopted on a basis consistent with generally accepted accounting principles. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budget amounts presented are as originally adopted on June 17, 2013, or as amended by the Township Board from time to time throughout the year.

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

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

***2. Excess of Expenditures Over Appropriations***

	<u>APPROPRIATIONS</u>		<u>EXPENDITURES</u>
General Fund			
General Government - Assessor	\$ 18,700	\$	19,823
General Government - Treasurer	11,500		20,329
General Government - Building and Grounds	26,950		29,129

These overages were funded by available fund balance. The Township did not adopt a budget for the Ambulance Fund.

SPRINGVILLE TOWNSHIP, WEXFORD COUNTY  
MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

***1. Cash and Cash Equivalents***

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

The investment policy adopted by the Township states that the treasurer may invest Township funds in certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank but only if the bank, savings and loan association, or credit union meets all criteria as a depository of public funds contained in state law. The Township may also invest in bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States; commercial paper rated within the two highest classification which mature not more than 270 days after the date of purchase; United States government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

***2. Receivables and Payables***

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

***3. 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.

***4. Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

SPRINGVILLE TOWNSHIP, WEXFORD COUNTY  
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NOTES TO FINANCIAL STATEMENTS  
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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 are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Land Improvements	15
Buildings	50
Building Improvements	20
Public Domain Infrastructure	20
System Infrastructure	20
Vehicles	10
Machinery and Equipment	5-10

**5. *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.

**6. *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.

**7. *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

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MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
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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.

**8. *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.

**9. *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



SPRINGVILLE TOWNSHIP, WEXFORD COUNTY  
MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

segment. All taxes, including those dedicated for specific purposes and other internally dedicated resources are reported as general revenues rather than as program revenues.

**2. *Property Taxes***

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

The 2013 taxable valuation of the Township totaled \$39,814,883, on which ad valorem taxes levied consisted of 0.9514 mills for the Township operating purposes and 0.7478 mills for Township ambulance services. The levy raised approximately \$37,880 for operating purposes and \$29,610 for ambulance services.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. *Violations of Legal or Contractual Provisions***

Note I.F.2, on the Excess of Expenditures Over Appropriations, describes a budgetary violation that occurred for the year ended June 30, 2014.

**III. DETAILED NOTES ON ALL FUNDS**

**A. *Deposits and Investments***

The Township's deposits are all on deposit with FirstMerit Bank in Mesick, 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, \$128,350 of the government's bank balance of \$518,274 was exposed to custodial credit risk because it was uninsured and uncollateralized. Of the \$128,350 of uninsured funds, all of this was in the general fund. 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.

SPRINGVILLE TOWNSHIP, WEXFORD COUNTY  
MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

**B. Capital Assets**

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Land	\$ 45,000	\$ 0	\$ 0	\$ 45,000
Capital assets, being depreciated				
Land Improvements	19,010	24,454	0	43,464
Buildings	135,426	0	0	135,426
Machinery and equipment	257,995	0	0	257,995
Infrastructure	54,783	0	0	54,783
Total capital assets, being depreciated	467,214	24,454	0	491,668
Less accumulated depreciation for:				
Land Improvements	6,540	2,173	0	8,713
Buildings	28,219	2,709	0	30,928
Machinery and equipment	236,994	13,000	0	249,994
Infrastructure	21,229	2,739	0	23,968
Total accumulated depreciation	292,982	20,621	0	313,603
Total capital assets, being depreciated, net	174,232	3,833	0	178,065
Governmental activities capital assets, net	<u>\$ 219,232</u>	<u>\$ 3,833</u>	<u>\$ 0</u>	<u>\$ 223,065</u>

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

Governmental Activities:	
General Government	\$ 8,621
Public Safety	12,000
Total Depreciation Expense - Governmental Activities	<u>\$ 20,621</u>

SPRINGVILLE TOWNSHIP, WEXFORD COUNTY  
MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

**C. 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	\$ 2,533	\$ 7,956
Ambulance Fund	7,956	0
Fiduciary Funds		
Current Tax Collection Fund	0	2,533
	<u>\$ 10,489</u>	<u>\$ 10,489</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.

Interfund Transfers as of June 30, 2014, were:

	<u>TRANSFERS</u>	
	<u>IN</u>	<u>OUT</u>
General Fund	\$ 0	\$ 20,466
Fire Fund	20,466	0
	<u>\$ 20,466</u>	<u>\$ 20,466</u>

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

**D. 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.

SPRINGVILLE TOWNSHIP, WEXFORD COUNTY  
MESICK, 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	\$ 67,950	\$ 67,950	\$ 58,261	\$ 0	\$ 0	\$ 0
Contributions from Other Local Units	0	0	0	20,000	20,000	21,576
State Grants	102,000	102,000	105,260	0	0	0
Charges for Services	1,200	1,200	6,063	1,500	1,500	0
Interest and Rents	550	550	1,263	250	250	239
Other Revenues	6,000	6,000	7,542	6,000	6,000	1,292
Total Revenues	<u>177,700</u>	<u>177,700</u>	<u>178,389</u>	<u>27,750</u>	<u>27,750</u>	<u>23,107</u>
<u>EXPENDITURES</u>						
General Government						
Township Board	13,750	13,750	5,543	0	0	0
Supervisor	10,300	10,300	9,705	0	0	0
Clerk	14,850	14,850	13,552	0	0	0
Board of Review	1,200	1,200	512	0	0	0
Treasurer	11,500	11,500	20,329	0	0	0
Assessor	18,700	18,700	19,823	0	0	0
Election	2,600	2,600	182	0	0	0
Building and Grounds	26,950	26,950	29,129	0	0	0
Cemetery	19,750	19,750	15,983	0	0	0
Public Safety	0	0	0	35,950	35,950	28,018
Public Works	7,000	7,000	0	0	0	0
Community and Economic Development	600	600	216	0	0	0
Other Functions	15,500	15,500	4,531	0	0	0
Debt Service	0	0	0	0	0	0
Total Expenditures	<u>142,700</u>	<u>142,700</u>	<u>119,505</u>	<u>35,950</u>	<u>35,950</u>	<u>28,018</u>
Excess (Deficiency) of Revenues Over Expenditures	35,000	35,000	58,884	(8,200)	(8,200)	(4,911)
<u>OTHER FINANCING SOURCES (USES)</u>						
Transfer In (Out)	(20,000)	(20,000)	(20,466)	19,950	19,950	20,466
Net Change in Fund Balance	15,000	15,000	38,418	11,750	11,750	15,555
<u>FUND BALANCE</u> - Beginning of Year	0	0	369,941	0	0	110,302
<u>FUND BALANCE</u> - End of Year	<u>\$ 15,000</u>	<u>\$ 15,000</u>	<u>\$ 408,359</u>	<u>\$ 11,750</u>	<u>\$ 11,750</u>	<u>\$ 125,857</u>



**Baird, Cotter & Bishop, P.C.**

SERVING YOUR PAST, PRESENT & FUTURE

CERTIFIED PUBLIC ACCOUNTANTS

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

www.bcbcpa.com

October 21, 2014

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

To Township Board  
Springville Township  
Wexford County  
Mesick, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Springville 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 September 2, 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 Springville Township are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013-2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. 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 significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such 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 21, 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 Springville 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 Springville Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

#### Budgetary Accounting

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

Michigan State Law requires the Township to adopt a beginning and ending fund balance each year on their budget and also requires a budget for each special revenue fund. We recommend the Township begin to adopt beginning and ending fund balances for each budget and also adopt a budget for the Ambulance Fund.

#### Bank Reconciliations

When examining the bank reconciliations that were completed, it was observed that there were changes to the bank reconciliation after the account was reconciled in the software. We recommend that once the bank reconciliation is completed and reconciled that no changes are made to the cash account. If a change must be made, we recommend the clerk and/or treasurer verify the account is still reconciled, agrees with the general ledger, and print out new bank reconciliations for each month.

#### Payroll Reconciliation

During the course of our audit, we noted that the amounts reported on the quarterly 941 reports do not tie up in total to the W-2's reported to the Social Security Administration. We recommend a system be implemented that ensures that the numbers on the quarterly 941 forms agree with what is reported on the W-2's filed with the Social Security Administration.

#### 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 Springville 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.*



# Baird, Cotter & Bishop, P.C.

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www.bcbcpa.com

October 21, 2014

## COMMUNICATION OF MATERIAL WEAKNESSES

To the Township Board  
Springville Township  
Wexford County  
Mesick, 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 Springville 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 Springville Township's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Springville Township's internal control. Accordingly, we do not express an opinion on the effectiveness of Springville 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 Springville Township's internal control to be material weaknesses:

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

This communication is intended solely for the information and use of management, the Board and others within Springville 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.*