

SYLVAN TOWNSHIP, OSCEOLA COUNTY

SEARS, MICHIGAN

MARCH 31, 2014



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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SYLVAN TOWNSHIP, OSCEOLA COUNTY
SEARS, MICHIGAN

MARCH 31, 2014

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June 20, 2014

INDEPENDENT AUDITOR'S REPORT

To the Township Board
Sylvan Township
Osceola County
Sears, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Sylvan Township, Osceola County, Sears, Michigan as of and for the year ended March 31, 2014, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of Sylvan Township, Osceola County, Sears, Michigan as of March 31, 2014, and the respective changes in financial position for the year then ended in conformity 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 viii and page 16 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 inquires 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.

SYLVAN TOWNSHIP, OSCEOLA COUNTY
SEARS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

As management of Sylvan Township ("the Township"), we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2014. 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

- ❖ The assets of the Township exceeded its liabilities at the close of this fiscal year by \$403,067 (shown as *Net Position*). Of this amount, \$278,387 represents unrestricted net position, which may be used to meet the Township's ongoing obligations to citizens and creditors.
- ❖ At the close of the current fiscal year, the Township's governmental fund reported a fund balance of \$282,770, an increase of \$28,808 in comparison with the prior year. Approximately 98% of this amount (\$278,387) 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 *committed, assigned, and unassigned* components of fund balance) for the general fund was \$278,387.

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 consist of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional details to support 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.

SYLVAN TOWNSHIP, OSCEOLA COUNTY
SEARS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

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.

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, public works, and community and economic development.

The government-wide financial statements can be found on pages 1-2 of this report.

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. Sylvan 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 *near-term inflows and outflows of spendable resources*, as well as *on balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township maintains one individual governmental fund. 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, which is considered to be a major fund.

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

The basic governmental fund financial statements can be found on pages 3-6 of this report.

SYLVAN TOWNSHIP, OSCEOLA COUNTY
SEARS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. The Township maintains one type of fiduciary fund. The Agency Fund reports resources held by the Township in a custodial capacity for other governments.

The fiduciary fund financial statement can be found on page 7 of this report.

Notes to Financial Statements The notes provide additional information that is necessary to acquire a full understanding of the data provided in the governmental-wide and fund financial statements. The notes can be found on pages 8-15 of this report.

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

Government-Wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of Sylvan Township, assets exceeded liabilities by \$403,067, at the close of the most recent fiscal year.

Sylvan Township
Net Position as of March 31, 2014

	<u>Governmental Activities</u>
Assets	
Current Assets	\$ 283,238
Non Current Assets	
Capital Assets	200,145
Less: Accumulated Depreciation	<u>(79,848)</u>
Total Non Current Assets	<u>120,297</u>
Total Assets	<u>403,535</u>
Liabilities	
Current Liabilities	<u>468</u>
Net Position	
Net Investment in Capital Assets	120,297
Restricted	4,383
Unrestricted	<u>278,387</u>
Total Net Position	<u>\$ 403,067</u>

SYLVAN TOWNSHIP, OSCEOLA COUNTY
SEARS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

A portion of the Township's net position (30%) reflects its net investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related outstanding debt that was used to acquire those assets. The Township uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending.

An additional portion of the Township's net position (1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$273,387 is unrestricted, which may be used to meet the government's ongoing obligations to its citizens and creditors. At the end of the current fiscal year, the Township is able to report positive balances in all categories of net position. The same situation held true for the prior fiscal year.

Sylvan Township's overall net position increased by \$20,408 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for the governmental activities.

Sylvan Township
Change in Net Position
for the Fiscal Year Ended March 31, 2014

	<u>Governmental</u> <u>Activities</u>
<u>Revenues</u>	
Program Revenues	
Charges for Services	\$ 765
Operating Grants and Contributions	2,506
General Revenues	
Taxes	33,310
State Grants	82,536
Interest Earnings	411
Other	737
Total Revenues	<hr/> 120,265 <hr/>
<u>Expenses</u>	
General Government	61,009
Public Safety	25,440
Public Works	9,219
Recreation and Cultural	750
Other Functions	3,439
Total Expenses	<hr/> 99,857 <hr/>
Change in Net Position	20,408
<u>NET POSITION</u> - Beginning of Year	<hr/> 382,659 <hr/>
<u>NET POSITION</u> - End of Year	<hr/> \$ 403,067 <hr/> <hr/>

SYLVAN TOWNSHIP, OSCEOLA COUNTY
SEARS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

Governmental Activities

A significant portion of the revenue for all governmental activities of Sylvan Township comes from property taxes. The Township levied 0.8304 mills for general operating purposes. 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 \$61,009. Public Safety represented the next largest expense at \$25,440.

Financial Analysis of the Governmental Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds The focus of Sylvan 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 requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Township itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Township Board.

At March 31, 2014, Sylvan Township's governmental fund reported a fund balance of \$282,770, an increase of \$28,808 in comparison with the prior year. Approximately 98% of this amount (\$278,387) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable*, *restricted*, *committed*, or *assigned* to indicate that it is 1) not in spendable form, 2) legally required to be maintained intact, 3) restricted for particular purposes (\$4,383), 4) committed for particular purposes, or 5) assigned for particular purposes.

General Fund – The General Fund increased its fund balance by \$28,808 which brings the fund balance to \$282,770. Of this amount, \$278,387 is unassigned and \$4,383 is restricted for telecommunications right-of-way.

Capital Assets

Capital Assets The Township's investment in capital assets for the governmental activities as of March 31, 2014, amounted to \$120,297 net of accumulated depreciation.

SYLVAN TOWNSHIP, OSCEOLA COUNTY
SEARS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

Capital assets of the Township include any items purchased that cost in excess of \$400 and have an expected useful life of over one year. The Township has invested in a broad range of capital assets, as detailed below:

Sylvan Township
Capital Assets as of March 31, 2014

	<u>Governmental</u> <u>Activities</u>
Land	\$ 16,000
Buildings	2,000
Building Improvements	11,125
Infrastructure	145,981
Equipment, Furniture, and Other	<u>25,039</u>
	200,145
Less: Accumulated Depreciation	<u>(79,848)</u>
Net Capital Assets	<u><u>\$ 120,297</u></u>

Economic Condition and Outlook

It appears that state-shared revenues have stabilized. The Township continues to look for ways to improve the services it provides to its residents in a manner that is financially responsible.

This factor was considered in preparing the Township's budgets for the 2014-15 fiscal year.

Request for Information

This financial report is designed to provide the wide variety of users of this document with a general overview of the Township's finances and demonstrate the Township's accountability for the financial resources entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the Township of Sylvan, 6661 20th Avenue, Sears, Michigan 49679.

SYLVAN TOWNSHIP, OSCEOLA COUNTY
SEARS, MICHIGAN

STATEMENT OF NET POSITION
MARCH 31, 2014

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 256,286
Receivables	
External Parties (Fiduciary Fund)	153
Taxes Receivable	7,441
Due from Other Governments	19,358
	<hr/>
Total Current Assets	283,238
	<hr/>
<u>CAPITAL ASSETS</u>	
Land	16,000
Buildings	2,000
Building Improvements	11,125
Infrastructure	145,981
Equipment, Furniture and Other	25,039
	<hr/>
	200,145
Less Accumulated Depreciation	79,848
Net Capital Assets	120,297
	<hr/>
Total Assets	403,535
	<hr/>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Payroll Liabilities	468
	<hr/>
<u>NET POSITION</u>	
Net Investment in Capital Assets	120,297
Restricted for Telecommunications Right-of-Way	4,383
Unrestricted	278,387
	<hr/>
TOTAL NET POSITION	\$ 403,067
	<hr/> <hr/>

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

SYLVAN TOWNSHIP, OSCEOLA COUNTY
SEARS, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2014

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSES) REVENUES AND CHANGE IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	TOTAL GOVERNMENTAL ACTIVITIES
<u>GOVERNMENTAL ACTIVITIES</u>					
General Government	\$ 61,009	\$ 765	\$ 0	\$ 0	\$ (60,244)
Public Safety	25,440	0	0	0	(25,440)
Public Works	9,219	0	2,506	0	(6,713)
Recreation and Cultural	750	0	0	0	(750)
Other Functions	3,439	0	0	0	(3,439)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 99,857	\$ 765	\$ 2,506	\$ 0	(96,586)
 <u>GENERAL REVENUES</u>					
					33,310
Taxes					82,536
State Grants					411
Interest Earnings					737
Other					116,994
Total General Revenues					
Change in Net Position					20,408
<u>NET POSITION</u> - Beginning of Year					382,659
<u>NET POSITION</u> - End of Year					\$ 403,067

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

SYLVAN TOWNSHIP, OSCEOLA COUNTY
SEARS, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
MARCH 31, 2014

	<u>GENERAL FUND</u>
<u>ASSETS</u>	
Cash	\$ 256,286
Taxes Receivable	7,441
Due from Other Governments	19,358
Due from Other Funds	153
	<hr/>
TOTAL ASSETS	\$ 283,238
	<hr/> <hr/>
<u>LIABILITIES AND FUND BALANCE</u>	
<u>LIABILITIES</u>	
Payroll Liabilities	\$ 468
	<hr/>
<u>FUND BALANCE</u>	
Restricted for Telecommunications Right-of-Way	4,383
Unassigned	278,387
	<hr/>
Total Fund Balance	282,770
	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 283,238
	<hr/> <hr/>

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

SYLVAN TOWNSHIP, OSCEOLA COUNTY
SEARS, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
MARCH 31, 2014

Total Fund Balances for Governmental Funds \$ 282,770

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	\$ 16,000	
Buildings	2,000	
Building Improvements	11,125	
Infrastructure	145,981	
Equipment, Furniture and Other	25,039	
Accumulated Depreciation	(79,848)	120,297
		<hr/>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 403,067

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

SYLVAN TOWNSHIP, OSCEOLA COUNTY
SEARS, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
YEAR ENDED MARCH 31, 2014

	<u>GENERAL FUND</u>
<u>REVENUES</u>	
Taxes	\$ 33,310
Licenses and Permits	15
State Grants	85,042
Interest and Rents	1,161
Other Revenues	<u>737</u>
Total Revenues	<u>120,265</u>
 <u>EXPENDITURES</u>	
General Government	59,908
Public Safety	25,440
Public Works	1,920
Recreation and Cultural	750
Other Functions	<u>3,439</u>
Total Expenditures	<u>91,457</u>
Net Change in Fund Balance	28,808
 <u>FUND BALANCE</u> - Beginning of Year	<u>253,962</u>
 <u>FUND BALANCE</u> - End of Year	<u>\$ 282,770</u>

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

SYLVAN TOWNSHIP, OSCEOLA COUNTY
SEARS, MICHIGAN

GOVERNMENTAL FUNDS

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

MARCH 31, 2014

Net Change in Fund Balances - Total Governmental Funds	\$ 28,808
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Amounts reported for governmental activities are different because:

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

Depreciation Expense	<u>(8,400)</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 20,408</u></u>
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The accompanying notes are an integral part of the financial statements.

SYLVAN TOWNSHIP, OSCEOLA COUNTY
SEARS, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION
MARCH 31, 2014

	<u>AGENCY FUND - TAX COLLECTIONS FUND</u>
<u>ASSETS</u>	
Cash	\$ 153
<u>LIABILITIES</u>	
Due to General Fund	153
<u>NET POSITION</u>	<u>\$ 0</u>

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

SYLVAN TOWNSHIP, OSCEOLA COUNTY
SEARS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 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. Sylvan Township does not have any *business-type activities* or *component units*.

B. Reporting Entity

Sylvan Township is a general law township located in Osceola 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.

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.

Sylvan 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.

SYLVAN TOWNSHIP, OSCEOLA COUNTY
SEARS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

Additionally, Sylvan Township reports the following fund types:

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

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

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

E. Measurement Focus and Basis of Accounting

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

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

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

SYLVAN TOWNSHIP, OSCEOLA COUNTY
SEARS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

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

F. Budgetary Information

Budgetary Basis of Accounting

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 “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 March 26, 2013.

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 expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

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.

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.

SYLVAN TOWNSHIP, OSCEOLA COUNTY
SEARS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

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 columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$400 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

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

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

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

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building Improvements	20
Land Improvements	20
Infrastructure	20
Equipment, Furniture, and Other	5-10

4. Deferred Outflows/Inflows of Resources

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

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

5. Net Position Flow Assumption

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

SYLVAN TOWNSHIP, OSCEOLA COUNTY
SEARS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 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.

SYLVAN TOWNSHIP, OSCEOLA COUNTY
SEARS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 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 and county 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 Sylvan Township totaled \$32,172,384, on which ad valorem taxes levied consisted of 0.8304 mills for Sylvan Township operating purposes. The levy raised approximately \$26,689 for general operating purposes.

II. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits with Financial Institutions

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2014, \$6,508 of the Township's bank balance of \$331,661 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although it is not specifically addressed in the Township's investment policy, the Township typically limits its exposure to this type of risk by controlling who holds its 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.

SYLVAN TOWNSHIP, OSCEOLA COUNTY
SEARS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

B. Receivables

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

	<u>General</u>
Receivables	
Taxes	\$ 7,441
Intergovernmental	19,358
	\$ 26,799

By ordinance, the Township can place substantially all of its delinquent receivables on the tax rolls as a lien against real property. As a result, its uncollectible accounts are virtually nil.

C. Capital Assets

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 16,000	\$ 0	\$ 0	\$ 16,000
Capital assets, being depreciated				
Buildings	2,000	0	0	2,000
Building Improvements	11,125	0	0	11,125
Infrastructure	145,981	0	0	145,981
Equipment, Furniture and Other	25,039	0	0	25,039
Total capital assets, being depreciated	184,145	0	0	184,145
Less accumulated depreciation for:				
Building	2,000	0	0	2,000
Building Improvements	7,252	556	0	7,808
Infrastructure	41,167	7,299	0	48,466
Equipment, Furniture, and Other	21,029	545	0	21,574
Total accumulated depreciation	71,448	8,400	0	79,848
Total capital assets, being depreciated, net	112,697	(8,400)	0	104,297
Governmental activities capital assets, net	\$ 128,697	\$ (8,400)	\$ 0	\$ 120,297

SYLVAN TOWNSHIP, OSCEOLA COUNTY
SEARS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2014

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

Governmental Activities:

General Government	\$ 1,101
Public Works	7,299
	\$ 8,400

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at March 31, 2014, were:

	DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS
General Fund	\$ 153	\$ 0
Fiduciary Funds		
Current Tax Collection Fund	0	153
	\$ 153	\$ 153

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.

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The Township has no interfund transfers.

E. Risk Management

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

SYLVAN TOWNSHIP, OSCEOLA COUNTY
SEARS, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

MAJOR GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2014

	<u>GENERAL FUND</u>		
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Taxes	\$ 33,200	\$ 33,200	\$ 33,310
Licenses and Permits	20	20	15
State Grants	83,200	83,200	85,042
Charges for Services	200	200	0
Interest and Rents	1,200	1,200	1,161
Other Revenues	700	700	737
Total Revenues	118,520	118,520	120,265
<u>EXPENDITURES</u>			
General Government			
Township Board	18,382	17,532	9,673
Supervisor	5,200	5,300	5,244
Assessor	13,701	13,701	13,348
Clerk	12,253	12,253	10,849
Board of Review	2,245	2,245	2,245
Treasurer	11,519	11,519	10,894
Elections	1,300	2,050	238
Building and Grounds	14,650	14,650	4,228
Cemetery	3,330	3,330	3,189
Public Safety			
Fire Department	25,440	25,440	25,440
Public Works			
Street Lighting	320	320	303
Highways, Streets and Bridges	4,000	4,000	0
Sanitation Department	1,900	1,900	1,617
Recreation and Cultural			
Library	750	750	750
Other Functions			
Employer's Share of Payroll Taxes	3,530	3,530	3,439
Total Expenditures	118,520	118,520	91,457
Net Change in Fund Balance	0	0	28,808
<u>FUND BALANCE</u> - Beginning of Year	0	0	253,962
<u>FUND BALANCE</u> - End of Year	\$ 0	\$ 0	\$ 282,770



Baird, Cotter & Bishop, P.C.

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June 20, 2014

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

To the Township Board
Sylvan Township
Osceola County
Sears, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Sylvan Township for the year ended March 31, 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 April 28, 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 Sylvan 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, the major fund and the aggregate remaining fund information of the Sylvan Township's financial statements was:

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all 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 as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 20, 2014.

Other Audit Findings or Issues

During the course of our audit of the basic financial statements of Sylvan Township for the year ended March 31, 2014, we noted the following item which we feel deserves comment:

Condition of Accounting Records and Accounting Controls

We would like to thank the accounting personnel for their efforts in accumulating the information needed for our audit. We encourage you to review your internal and accounting controls on an annual basis to ensure they are adequate and operating as intended.

Other Matters

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

Restriction on Use

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.

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June 20, 2014

COMMUNICATION OF MATERIAL WEAKNESSES

To the Township Board
Sylvan Township
Osceola County
Sears, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Sylvan Township as of and for the year ended March 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered Sylvan Township's internal control over financial reporting (internal control) as a basis for designing audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sylvan Township's internal control. Accordingly, we do not express an opinion on the effectiveness of Sylvan 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 Sylvan 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 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 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.

Sylvan 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 the Township Board and others within Sylvan 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.

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