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To the Township Board
St. James Township
Beaver Island, 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 St. James Township, Beaver Island, Michigan (the Township) as of and for the year ended March 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 a 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 internal control to be material weaknesses:

1. Auditing standards emphasize that management is responsible for the preparation of the financial statements and notes to the financial statements in accordance with general accepted accounting principles (GAAP). The Township is not preparing the financial statements and notes to the financial statements in accordance with generally accepted accounting principles.

Management's response – Management is currently accounting for and monitoring Township activities following the cash basis of accounting. Management does not believe that the benefits of internally prepared GAAP basis financial statements exceed the costs of internal preparation.

2. A properly designed system of internal control segregates individuals with access to physical assets such as cash and investments from those who authorize and approve transactions and those who complete account reconciliations. Specific areas noted include sewer billing and receipting and yacht dock and campground cash receipting. The Township does not currently have adequate segregation of duties which could result in a material misstatement that goes undetected or uncorrected.

Management's response – Management believes the limited size of administrative staff precludes a complete segregation of duties. Subsequent to year end, an individual was hired to assist with sewer billing and receipting.

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

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