

**Charter Township of East Bay
Grand Traverse County, Michigan**

FINANCIAL STATEMENTS

December 31, 2014

Charter Township of East Bay

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INDEPENDENT AUDITOR'S REPORT

Members of the Township Board
Charter Township of East Bay
Traverse City, Michigan

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of East Bay (the Township), as of and for the year ended December 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 business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of East Bay, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as identified in the table of contents, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly, stated in all material respects, in relation to the basic financial statements as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 24, 2015

Charter Township of East Bay
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

Financial Reporting

This discussion and analysis of the Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2014. Please read it in conjunction with the Township's financial statements.

Financial Highlights

Government-wide:

- Total net position was \$22,001,406.
- Governmental activities net position was \$7,574,642.
- Business-type activity net position was \$14,426,764.

Fund Level:

- At the close of the year, the Township's governmental funds reported a combined ending fund balance of \$3,340,922, of which \$687,931 was nonspendable for prepaids and advances; \$876,228 was restricted for emergency service, street lighting, and capital projects; and \$443,383 was assigned for parks, health reimbursement, various maintenance and repairs, and road and other capital projects. Additional information related to fund balance classifications is detailed in Note L of the Financial Statements.
- The General Fund realized \$169,469 more in revenues than budgeted for the year mainly due to an increase in the sale of general licenses and permits, an increase in state revenue sharing funds, and an increase in other miscellaneous revenues collected during the year.
- Overall, the General Fund, fund balance increased by a net of \$184,629 to \$2,462,432.

Capital and Long-term Debt Activities:

- The total net change to the capital assets for governmental and business-type activities for the Township was a net reduction of \$88,694 as a result of current year depreciation being larger than current year capital asset additions.
- The total long-term debt for the Township was \$3,623,249 with a net reduction of \$405,899 from the prior year.
- The Township remains below its authorized legal debt limit.

Using this Annual Report

This discussion and analysis are intended to serve as an introduction to the Charter Township of East Bay's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information, in addition to the basic financial statements themselves.

Government-wide Financial Statements. The statement of net position and the statement of activities provide information about the activities of the Charter Township of East Bay as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

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 a significant portion of their costs through user fees and charges (business-type activities).

Charter Township of East Bay

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

These statements, which include all nonfiduciary assets, deferred inflows of resources, deferred outflows of resources, and liabilities, are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

The Statement of Net Position presents all of the Township's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, recording the difference between them as "net position". Over time, increases or decreases in net position measure whether the Township's financial position is improving or deteriorating.

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 based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes.

Both statements report the following activities:

- **Governmental Activities** - Most of the Township's basic services are reported under this category. Taxes, charges for services, and intergovernmental revenue primarily fund these services. Most of the Township's general government, public safety, public works, and other Township-wide official operations are reported under these activities.
- **Business-type Activities** - These activities operate like private businesses. The Township charges fees to recover the cost of the services provided. The Water Fund and the Sewer Fund are examples of these activities.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the governmental fund statements (described below) and the government-wide statements, reconciliations are presented between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental fund. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.
- Equity interest in the Grand Traverse Metro Emergency Services Authority appears as an asset on the government-wide statements; however, it will not appear on the fund financial statements.
- Long-term liabilities, such as amounts related to bonded debt, contracts, installment purchase agreements, etc. appear as liabilities on the government-wide statements; however, they will not appear on the fund financial statements unless current resources are used to pay a specific obligation.
- Long-term debt proceeds, if any, are reported as liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund financial statements.

In addition, it should be noted that the government-wide financial statements include the net value of the Township's general capital assets such as buildings, land, equipment, etc. These values are not included in the governmental fund financial statements.

Charter Township of East Bay

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

Fund Financial Statements. The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Charter Township of East Bay in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Charter Township of East Bay acts solely as a trustee or agent for the benefit of those outside the government.

The fund financial statements provide information on the Township's significant (major) funds, and the aggregate of nonmajor funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Township uses to track specific sources of funding and spending for a particular purpose. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets and deferred outflows of resources, total liabilities and deferred inflows of resources, total revenues, or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for the Township include the General Fund, the Emergency Services Fund, the Water Fund, and the Sewer Fund. All other funds are classified as nonmajor funds and are reported in aggregate by the applicable fund type.

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 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 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 Charter Township of East Bay maintains six (6) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Emergency Services Fund, both of which are considered to be major funds. Data for the other governmental funds is presented into a single, aggregated presentation. The Township includes detailed information on its nonmajor funds in the other supplementary information section of this report.

The Township adopts an annual appropriated budget for its General Fund and Special Revenue Funds. A budgetary comparison statement has been provided for the General Fund and the major governmental funds to demonstrate compliance with this budget.

Proprietary Funds. The Charter Township of East Bay maintains two (2) proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses Enterprise Funds to account for its sewer system and water system activity.

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.

Charter Township of East Bay

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 11 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, such as this MD&A and the General Fund and the major governmental funds budgetary comparison schedules.

The Township as a Whole

The following table shows, in a condensed format, a comparative analysis of the net position as of December 31, 2014 and December 31, 2013 as restated.

| | Governmental Activities | | Business-type Activities | | Total | |
|--|------------------------------------|---------------------|-------------------------------------|----------------------|----------------------|----------------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Assets | | | | | | |
| Current and other assets | \$ 7,923,109 | \$ 7,769,573 | \$ 5,179,893 | \$ 4,501,286 | \$ 13,103,002 | \$ 12,270,859 |
| Capital assets | 1,545,809 | 1,490,047 | 13,052,684 | 13,197,140 | 14,598,493 | 14,687,187 |
| Total assets | 9,468,918 | 9,259,620 | 18,232,577 | 17,698,426 | 27,701,495 | 26,958,046 |
| Liabilities | | | | | | |
| Current liabilities | 64,456 | 86,738 | 567,220 | 576,923 | 631,676 | 663,661 |
| Noncurrent liabilities | - | 28,000 | 3,238,593 | 3,626,224 | 3,238,593 | 3,654,224 |
| Total liabilities | 64,456 | 114,738 | 3,805,813 | 4,203,147 | 3,870,269 | 4,317,885 |
| Deferred inflows of resources | <u>1,829,820</u> | <u>1,794,900</u> | <u>-</u> | <u>-</u> | <u>1,829,820</u> | <u>1,794,900</u> |
| Net position | | | | | | |
| Net investment in capital assets | 1,545,809 | 1,449,047 | 9,429,435 | 9,208,992 | 10,975,244 | 10,658,039 |
| Restricted | 3,543,222 | 3,574,655 | - | - | 3,543,222 | 3,574,655 |
| Unrestricted | <u>2,485,611</u> | <u>2,326,280</u> | <u>4,997,329</u> | <u>4,286,287</u> | <u>7,482,940</u> | <u>6,612,567</u> |
| Total net position | <u>\$ 7,574,642</u> | <u>\$ 7,349,982</u> | <u>\$ 14,426,764</u> | <u>\$ 13,495,279</u> | <u>\$ 22,001,406</u> | <u>\$ 20,845,261</u> |

Net position may serve over time as a useful indicator of a government's financial position. Charter Township of East Bay's assets exceeded liabilities and deferred inflows of resources by \$22,001,406 as of December 31, 2014. The most significant portion of the Township's net position (50 percent) reflects its investment in capital assets (e.g., land, buildings, equipment) less any related debt used to acquire those assets that are still outstanding. The Township used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Township's net position (approximately 16 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$7,482,940) may be used to meet the Township's ongoing obligations to citizens and creditors.

Charter Township of East Bay

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

At the end of the current fiscal year, the Township is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The Township's net position increased by \$1,156,145 during the current year as indicated.

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------------------|------------------------------------|-------------------|-------------------------------------|---------------------|---------------------|---------------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Revenues | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 311,170 | \$ 348,545 | \$ 2,395,621 | \$ 3,679,829 | \$ 2,706,791 | \$ 4,028,374 |
| Operating grants and contributions | 12,046 | 15,630 | - | - | 12,046 | 15,630 |
| General revenues | | | | | | |
| Property taxes | 1,875,060 | 1,693,284 | - | - | 1,875,060 | 1,693,284 |
| State shared revenues | 818,765 | 793,473 | - | - | 818,765 | 793,473 |
| Change in equity interest in GT MESA | (79,902) | (54,193) | - | - | (79,902) | (54,193) |
| Investment earnings | 1,116 | 2,845 | 2,004 | 1,572 | 3,120 | 4,417 |
| Miscellaneous | 85,851 | 100,403 | - | - | 85,851 | 100,403 |
| Transfers | (41,163) | (2,223) | 41,163 | 2,223 | -0- | -0- |
| Total revenues | 2,982,943 | 2,897,764 | 2,438,788 | 3,683,624 | 5,421,731 | 6,581,388 |
| Program expenses | | | | | | |
| General government | 780,523 | 709,536 | - | - | 780,523 | 709,536 |
| Public safety | 1,361,383 | 1,307,314 | - | - | 1,361,383 | 1,307,314 |
| Public works | 55,002 | 58,149 | - | - | 55,002 | 58,149 |
| Health and welfare | 406,782 | 362,288 | - | - | 406,782 | 362,288 |
| Community and economic development | 102,268 | 95,343 | - | - | 102,268 | 95,343 |
| Recreation and culture | 51,027 | 33,826 | - | - | 51,027 | 33,826 |
| Interest on long-term debt | 1,298 | 2,086 | - | - | 1,298 | 2,086 |
| Sewer | - | - | 785,736 | 628,451 | 785,736 | 628,451 |
| Water | - | - | 721,567 | 646,210 | 721,567 | 646,210 |
| Total program expenses | 2,758,283 | 2,568,543 | 1,507,303 | 1,274,661 | 4,265,586 | 3,843,204 |
| Change in net position | \$ 224,660 | \$ 329,221 | \$ 931,485 | \$ 2,408,963 | \$ 1,156,145 | \$ 2,738,184 |

Governmental Activities

Governmental activities increased the Township's net position by \$224,660 during 2014. Key elements of this increase are as follows:

The Township's governmental activities revenues totaled \$2,982,943, an increase from the prior year governmental activities revenue of \$85,179. This was largely related to an increase in the Township's property tax revenue as opposed to the prior year.

The Township incurred governmental expenses of \$2,758,283 during 2014, an increase from \$2,568,543 in 2013. The increase was approximately 7% which is deemed to be very reasonable.

Charter Township of East Bay
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

Business-type Activities

Business-type activities increased the Township's net position by \$931,485 during 2014. The increase is related to strong sales of water and sewage disposal charges and maintaining operating expenses at a constant level.

The Township's Funds

Governmental Funds. The analysis of the Township's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Charter Township of East Bay as a whole. The Charter Township of East Bay's Board of Trustees creates funds to help manage money for specific purposes. The Township's major governmental funds for the year ended December 31, 2014, were the General Fund and the Emergency Services Fund. The General Fund pays for most of the Township's governmental services. The most significant service provided during the fiscal year was for public safety, which incurred expenditures of \$1,184,291, which includes the annual contract for two (2) community police officers and GTMESA for the year. The GTMESA is supported by a portion of the special voter-approved tax millage from the Emergency Services Fund. The Emergency Services Fund was established for emergency services within the Township.

Proprietary Funds. The Township's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Sewer Fund and the Water Fund at the end of the year amounted to \$3,034,585 and \$1,962,744, respectively. The increase in net position for the Sewer and Water Funds for the fiscal year was \$340,398 and \$591,087, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Township's business-type activities as noted above.

Financial Analysis of the Township's Major and Nonmajor Funds

As the Township completed the current fiscal year, its governmental funds reported *combined* fund balances of \$3,340,922. The major governmental funds were the General and Emergency Services funds while the nonmajor governmental funds include the Street Lights, Public Improvement, Township Improvement, and Township Improvement Revolving funds. The total net increase to fund balance was \$233,098. The net changes are summarized in the following chart:

| | General Fund | Emergency Services Fund | Nonmajor Governmental Funds |
|-------------------------|-------------------------|--|--|
| Fund Balance 12/31/2013 | \$ 2,277,803 | \$ 771,059 | \$ 58,962 |
| Fund Balance 12/31/2014 | \$ 2,462,432 | \$ 817,307 | \$ 61,183 |
| Net Change | \$ 184,629 | \$ 46,248 | \$ 2,221 |

General Fund Budgetary Highlights

Over the course of the fiscal year, the Township Board made necessary budget adjustments to fund unanticipated expenditures during the year. The Township's General Fund revenue budget was increased by \$3,000 during the fiscal year. Actual General Fund revenues totaled \$1,520,609, \$169,469 more than the final amended budget. This was mainly due to an increase in license and permit revenue.

Charter Township of East Bay

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

The Township's expenditure budget was increased by \$103,431 during the fiscal year. Actual Township expenditures for the year were \$145,250 under budget. General Fund actual expenditures and other financing uses came in at \$1,335,980 and the final budgeted amount was \$1,481,230. The favorable expenditure budget variance is mainly due to changes reducing hall and grounds costs and fewer costs than budgeted in larger areas such as elections, roads, recreation, culture, debt service, planner/zoning administrator, and other expenditures.

Emergency Services Fund

As of December 31, 2014, the Emergency Services Fund reported a fund balance of \$817,307, a increase of \$46,248 from the prior year. Actual revenues were higher than the budget by \$91,970 mainly due to higher tax revenue and more charges for services being collected in the Emergency Services Fund. Expenditures were under budget in total by \$44,523 as mostly due to the metro services costs being less than anticipated.

Capital Asset and Debt Administration

Capital Assets. At the end of the year, the Township had invested \$14,598,493 net of accumulated depreciation, in a broad range of capital assets (see table below). Accumulated depreciation was \$9,061,025 for the Township. Depreciation charges for the fiscal year totaled \$514,526 for the Township. Additional information related to capital assets is detailed in Note F of the Financial Statements. Net book value of capital assets at December 31, 2014, was as follows:

| | Governmental Activities | Business-type Activities | Total |
|---------------------------------------|------------------------------------|-------------------------------------|----------------------|
| Land and land improvements | \$ 768,104 | \$ 151,926 | \$ 920,030 |
| Construction in progress | - | 110,727 | 110,727 |
| Roads and sidewalks, net | 52,760 | - | 52,760 |
| Buildings and improvements, net | 532,017 | - | 532,017 |
| Vehicles, net | 64,461 | - | 64,461 |
| Office furnishings and equipment, net | 128,467 | - | 128,467 |
| Water and sewer systems, net | - | 12,790,031 | 12,790,031 |
| Capital assets, net | <u>\$ 1,545,809</u> | <u>\$ 13,052,684</u> | <u>\$ 14,598,493</u> |

Long-term Debt. As of December 31, 2014, the Township had \$3,623,249 in debt outstanding for the Business-type Activities. This level of net obligation is \$405,899 less than the obligation recorded as of December 31, 2013.

Outstanding Debt as of December 31, 2014

| | Jan. 1, 2014 | Additions | Deletions | Dec. 31, 2014 |
|---|---------------------|------------------|---------------------|----------------------|
| Governmental Activities | | | | |
| Capital Improvement Bonds | \$ 41,000 | \$ - | \$ (41,000) | \$ -0- |
| Business-type Activities | | | | |
| Contractual Obligations with Grand Traverse County | <u>3,988,148</u> | <u>-</u> | <u>(364,899)</u> | <u>3,623,249</u> |
| Total Reporting Entity | <u>\$ 4,029,148</u> | <u>\$ -0-</u> | <u>\$ (405,899)</u> | <u>\$ 3,623,249</u> |

A more detailed discussion of the Township's long-term debt obligations is presented in Note G to the financial statements.

Charter Township of East Bay
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

Current Economic Factors

East Bay Charter Township continues to be financially sound and is able to look at opportunities to improve the services provided to our township residence. This is accomplished by looking at the current and future needs of our community and putting plans in place to meet those needs as well as maintaining our current services offered.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Township Supervisor, Clerk, or Treasurer at the Township Hall.

BASIC FINANCIAL STATEMENTS

Charter Township of East Bay
STATEMENT OF NET POSITION
December 31, 2014

| | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|-------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 2,790,949 | \$ 5,344,506 | \$ 8,135,455 |
| Receivables, net | 1,779,497 | 435,068 | 2,214,565 |
| Prepays | 15,540 | - | 15,540 |
| | <u>4,585,986</u> | <u>5,779,574</u> | <u>10,365,560</u> |
| Total current assets | | | |
| Noncurrent assets | | | |
| Internal balances | 672,391 | (672,391) | -0- |
| Equity interest in Grand Traverse MESA | 2,664,732 | - | 2,664,732 |
| Cash held at county | - | 72,710 | 72,710 |
| Capital assets not being depreciated | 768,104 | 262,653 | 1,030,757 |
| Capital assets, net of accumulated depreciation | 777,705 | 12,790,031 | 13,567,736 |
| | <u>4,882,932</u> | <u>12,453,003</u> | <u>17,335,935</u> |
| Total noncurrent assets | | | |
| TOTAL ASSETS | <u>9,468,918</u> | <u>18,232,577</u> | <u>27,701,495</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable | 53,865 | 166,329 | 220,194 |
| Accrued liabilities | 10,591 | - | 10,591 |
| Accrued interest payable | - | 16,235 | 16,235 |
| Current portion of long-term debt | - | 384,656 | 384,656 |
| | <u>64,456</u> | <u>567,220</u> | <u>631,676</u> |
| Total current liabilities | | | |
| Noncurrent liabilities | | | |
| Noncurrent portion of long-term debt | - | 3,238,593 | 3,238,593 |
| | <u>64,456</u> | <u>3,805,813</u> | <u>3,870,269</u> |
| TOTAL LIABILITIES | | | |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Taxes levied for subsequent period | 1,829,820 | - | 1,829,820 |
| | <u>1,829,820</u> | <u>-</u> | <u>1,829,820</u> |
| NET POSITION | | | |
| Net investment in capital assets | 1,545,809 | 9,429,435 | 10,975,244 |
| Restricted | 3,543,222 | - | 3,543,222 |
| Unrestricted | 2,485,611 | 4,997,329 | 7,482,940 |
| | <u>7,574,642</u> | <u>14,426,764</u> | <u>22,001,406</u> |
| TOTAL NET POSITION | | | |

See accompanying notes to financial statements.

Charter Township of East Bay
STATEMENT OF ACTIVITIES
Year Ended December 31, 2014

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position | | |
|--------------------------------------|---------------------|-------------------------|--|--|-----------------------------|----------------------|
| | | Charges for Services | Operating Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Governmental activities | | | | | | |
| General government | \$ 780,523 | \$ 203,893 | \$ 12,046 | \$ (564,584) | \$ - | \$ (564,584) |
| Public safety | 1,361,383 | - | - | (1,361,383) | - | (1,361,383) |
| Public works | 55,002 | - | - | (55,002) | - | (55,002) |
| Health and welfare | 406,782 | 98,487 | - | (308,295) | - | (308,295) |
| Community and economic development | 102,268 | 8,790 | - | (93,478) | - | (93,478) |
| Recreation and culture | 51,027 | - | - | (51,027) | - | (51,027) |
| Interest on long-term debt | 1,298 | - | - | (1,298) | - | (1,298) |
| Total governmental activities | 2,758,283 | 311,170 | 12,046 | (2,435,067) | -0- | (2,435,067) |
| Business-type activities | | | | | | |
| Water | 721,567 | 1,318,591 | - | - | 597,024 | 597,024 |
| Sewer | 785,736 | 1,077,030 | - | - | 291,294 | 291,294 |
| Total business-type activities | 1,507,303 | 2,395,621 | -0- | -0- | 888,318 | 888,318 |
| Total government | <u>\$ 4,265,586</u> | <u>\$ 2,706,791</u> | <u>\$ 12,046</u> | (2,435,067) | 888,318 | (1,546,749) |
| General revenues | | | | | | |
| Property taxes | | | | 1,875,060 | - | 1,875,060 |
| State shared revenues | | | | 818,765 | - | 818,765 |
| Change in equity interest in GT MESA | | | | (79,902) | - | (79,902) |
| Investment earnings | | | | 1,116 | 2,004 | 3,120 |
| Miscellaneous | | | | 85,851 | - | 85,851 |
| Transfers | | | | (41,163) | 41,163 | -0- |
| Total general revenues and transfers | | | | 2,659,727 | 43,167 | 2,702,894 |
| Change in net position | | | | 224,660 | 931,485 | 1,156,145 |
| Net position beginning of the year | | | | 7,349,982 | 13,495,279 | 20,845,261 |
| Net position, end of the year | | | | <u>\$ 7,574,642</u> | <u>\$ 14,426,764</u> | <u>\$ 22,001,406</u> |

See accompanying notes to financial statements.

Charter Township of East Bay

Governmental Funds

BALANCE SHEET

December 31, 2014

| | General | Emergency Services | Nonmajor Governmental Funds | Total Governmental Funds |
|--|---------------------|-----------------------|-----------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,814,592 | \$ 916,847 | \$ 59,510 | \$ 2,790,949 |
| Receivables | | | | |
| Accounts, net | 46,851 | 17,929 | 2,970 | 67,750 |
| Taxes | 347,060 | 1,359,437 | - | 1,706,497 |
| Special assessments | 5,250 | - | - | 5,250 |
| Prepays | 13,278 | 2,262 | - | 15,540 |
| Advance to other funds | 672,391 | - | - | 672,391 |
| TOTAL ASSETS | \$ 2,899,422 | \$ 2,296,475 | \$ 62,480 | \$ 5,258,377 |
| LIABILITIES | | | | |
| Accounts payable | \$ 47,323 | \$ 5,245 | \$ 1,297 | \$ 53,865 |
| Accrued liabilities | 5,204 | 5,387 | - | 10,591 |
| TOTAL LIABILITIES | 52,527 | 10,632 | 1,297 | 64,456 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenues | 5,249 | 17,930 | - | 23,179 |
| Taxes levied for subsequent period | 379,214 | 1,450,606 | - | 1,829,820 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 384,463 | 1,468,536 | -0- | 1,852,999 |
| FUND BALANCES | | | | |
| Nonspendable | 685,669 | 2,262 | - | 687,931 |
| Restricted | - | 815,045 | 61,183 | 876,228 |
| Assigned | 443,383 | - | - | 443,383 |
| Unassigned | 1,333,380 | - | - | 1,333,380 |
| TOTAL FUND BALANCES | 2,462,432 | 817,307 | 61,183 | 3,340,922 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | \$ 2,899,422 | \$ 2,296,475 | \$ 62,480 | \$ 5,258,377 |

See accompanying notes to financial statements.

Charter Township of East Bay

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET POSITION

December 31, 2014

Total fund balances - governmental funds \$ 3,340,922

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 as assets in the governmental funds.

| | |
|-------------------------------|--------------------|
| The cost of capital assets is | \$ 3,041,390 |
| Accumulated depreciation is | <u>(1,495,581)</u> |

| | |
|---------------------|-----------|
| Capital assets, net | 1,545,809 |
|---------------------|-----------|

| | |
|---|-----------|
| Equity interest in Grand Traverse Metro Emergency Services Authority is not a current financial resource and therefore is not reported as an asset in the governmental funds. | 2,664,732 |
|---|-----------|

Long-term receivables are not available to pay for current period expenditures and, therefore, are considered unavailable in the funds. These consist of:

| | |
|---------------------|---------------|
| Unavailable revenue | <u>23,179</u> |
|---------------------|---------------|

| | |
|--|----------------------------|
| Net position of governmental activities | <u><u>\$ 7,574,642</u></u> |
|--|----------------------------|

Charter Township of East Bay

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2014

| | General | Emergency Services | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---------------------|-----------------------|-----------------------------------|--------------------------------|
| REVENUES | | | | |
| Taxes | \$ 401,701 | \$ 1,473,359 | \$ - | \$ 1,875,060 |
| Licenses and permits | 202,584 | - | 12,046 | 214,630 |
| Intergovernmental | 818,765 | - | - | 818,765 |
| Charges for services | 27,217 | 108,294 | - | 135,511 |
| Interest | 1,083 | 33 | - | 1,116 |
| Other | 69,259 | 9,231 | 7,361 | 85,851 |
| TOTAL REVENUES | 1,520,609 | 1,590,917 | 19,407 | 3,130,933 |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | 717,242 | - | - | 717,242 |
| Public safety | - | 1,184,291 | - | 1,184,291 |
| Public works | 40,967 | - | 7,761 | 48,728 |
| Health and welfare | - | 360,378 | - | 360,378 |
| Community and economic development | 81,177 | - | 9,425 | 90,602 |
| Recreation and culture | 90,639 | - | - | 90,639 |
| Other | 320,867 | - | - | 320,867 |
| Debt service | 43,925 | - | - | 43,925 |
| TOTAL EXPENDITURES | 1,294,817 | 1,544,669 | 17,186 | 2,856,672 |
| EXCESS OF REVENUES OVER EXPENDITURES | 225,792 | 46,248 | 2,221 | 274,261 |
| OTHER FINANCING (USES) | | | | |
| Transfers out | (41,163) | - | - | (41,163) |
| NET CHANGE IN FUND BALANCES | 184,629 | 46,248 | 2,221 | 233,098 |
| Fund balances, beginning of year | 2,277,803 | 771,059 | 58,962 | 3,107,824 |
| Fund balances, end of year | <u>\$ 2,462,432</u> | <u>\$ 817,307</u> | <u>\$ 61,183</u> | <u>\$ 3,340,922</u> |

See accompanying notes to financial statements.

Charter Township of East Bay

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

Year Ended December 31, 2014

Net change in fund balances - total governmental funds \$ 233,098

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

| | | |
|--|------------------|--------|
| Capital Outlay | \$ 163,179 | |
| Depreciation expense | <u>(107,417)</u> | |
| Excess of capital outlay over depreciation expense | | 55,762 |

Some items reported in the statement of activities do not provide a source of current financial resources and therefore are not reported as revenues in governmental funds. These activities consist of:

| | |
|--|----------|
| (Decrease) in equity interest in Grand Traverse Metro Emergency Service Authority | (79,902) |
|--|----------|

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

| | |
|-----------------------------------|----------|
| (Decrease) in unavailable revenue | (26,925) |
|-----------------------------------|----------|

Repayment of long-term debt and borrowing of long-term debt are reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net position. In the current year, these amounts consist of:

| | |
|----------------------|--------|
| Principal retirement | 41,000 |
|----------------------|--------|

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

| | |
|--------------------------------------|--------------|
| Decrease in accrued interest payable | <u>1,627</u> |
|--------------------------------------|--------------|

| | |
|--|--------------------------|
| Change in net position of governmental activities | <u>\$ 224,660</u> |
|--|--------------------------|

Charter Township of East Bay
Proprietary Funds
STATEMENT OF NET POSITION
December 31, 2014

| | Business-type Activities | | |
|---|--------------------------|---------------------|----------------------|
| | Water Fund | Sewer Fund | Total |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 1,901,798 | \$ 3,442,708 | \$ 5,344,506 |
| Special assessments receivable | - | 154,137 | 154,137 |
| Due from other governmental units | 128,879 | 152,052 | 280,931 |
| Total current assets | 2,030,677 | 3,748,897 | 5,779,574 |
| Noncurrent assets | | | |
| Cash held at county | 28,500 | 44,210 | 72,710 |
| Capital assets not being depreciated | 110,727 | 151,926 | 262,653 |
| Capital assets, net of accumulated depreciation | 5,051,476 | 7,738,555 | 12,790,031 |
| Total noncurrent assets | 5,190,703 | 7,934,691 | 13,125,394 |
| TOTAL ASSETS | 7,221,380 | 11,683,588 | 18,904,968 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable | 87,574 | 78,755 | 166,329 |
| Accrued interest payable | 8,859 | 7,376 | 16,235 |
| Current portion of long-term debt | 253,737 | 130,919 | 384,656 |
| Total current liabilities | 350,170 | 217,050 | 567,220 |
| Noncurrent liabilities | | | |
| Advance from other funds | - | 672,391 | 672,391 |
| Noncurrent portion of long-term debt | 2,006,669 | 1,231,924 | 3,238,593 |
| Total noncurrent liabilities | 2,006,669 | 1,904,315 | 3,910,984 |
| TOTAL LIABILITIES | 2,356,839 | 2,121,365 | 4,478,204 |
| NET POSITION | | | |
| Net investment in capital assets | 2,901,797 | 6,527,638 | 9,429,435 |
| Unrestricted | 1,962,744 | 3,034,585 | 4,997,329 |
| TOTAL NET POSITION | <u>\$ 4,864,541</u> | <u>\$ 9,562,223</u> | <u>\$ 14,426,764</u> |

See accompanying notes to financial statements.

Charter Township of East Bay

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended December 31, 2014

| | Business-type Activities | | |
|--|--------------------------|--------------|---------------|
| | Water Fund | Sewer Fund | Total |
| OPERATING REVENUES | | | |
| Sale of water/benefit fees | \$ 1,318,591 | \$ - | \$ 1,318,591 |
| Sewage disposal charges/benefits | - | 1,077,030 | 1,077,030 |
| TOTAL OPERATING REVENUES | 1,318,591 | 1,077,030 | 2,395,621 |
| OPERATING EXPENSES | | | |
| Cost of water produced/purchased | 516,102 | - | 516,102 |
| Cost of sewage treatment | - | 457,862 | 457,862 |
| Depreciation | 149,375 | 257,734 | 407,109 |
| TOTAL OPERATING EXPENSES | 665,477 | 715,596 | 1,381,073 |
| OPERATING INCOME | 653,114 | 361,434 | 1,014,548 |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Interest revenue | - | 2,004 | 2,004 |
| Interest expense | (56,090) | (70,140) | (126,230) |
| TOTAL NONOPERATING REVENUES (EXPENSES) | (56,090) | (68,136) | (124,226) |
| INCOME BEFORE TRANSFERS | 597,024 | 293,298 | 890,322 |
| TRANSFERS | | | |
| Transfers in (out) | (5,937) | 47,100 | 41,163 |
| CHANGE IN NET POSITION | 591,087 | 340,398 | 931,485 |
| Net position, beginning of year | 4,273,454 | 9,221,825 | 13,495,279 |
| Net position, end of year | \$ 4,864,541 | \$ 9,562,223 | \$ 14,426,764 |

See accompanying notes to financial statements.

Charter Township of East Bay
Proprietary Funds
STATEMENT OF CASH FLOWS
Year Ended December 31, 2014

| | Business-type Activities | | |
|--|--------------------------|--------------|--------------|
| | Water Fund | Sewer Fund | Total |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash receipts from customers | \$ 1,362,490 | \$ 1,182,569 | \$ 2,545,059 |
| Cash paid to suppliers | (486,531) | (519,868) | (1,006,399) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 875,959 | 662,701 | 1,538,660 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Transfers | (5,937) | 47,100 | 41,163 |
| Cash paid on advance | - | (41,163) | (41,163) |
| NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES | (5,937) | 5,937 | -0- |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Interest payments | (56,090) | (70,140) | (126,230) |
| Payments on borrowings | (238,143) | (126,756) | (364,899) |
| Purchase of capital assets | (262,653) | - | (262,653) |
| NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | (556,886) | (196,896) | (753,782) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | - | 2,004 | 2,004 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 313,136 | 473,746 | 786,882 |
| Cash and cash equivalents, beginning of year | 1,588,662 | 2,968,962 | 4,557,624 |
| Cash and cash equivalents, end of year | \$ 1,901,798 | \$ 3,442,708 | \$ 5,344,506 |
| Reconciliation of operating income to net cash provided by operating activities | | | |
| Operating income | \$ 653,114 | \$ 361,434 | \$ 1,014,548 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | | |
| Depreciation | 149,375 | 257,734 | 407,109 |
| Decrease in: | | | |
| Special assessments receivable | 584 | 69,707 | 70,291 |
| Due from other governmental units | 43,315 | 35,832 | 79,147 |
| Increase (decrease) in: | | | |
| Accounts payable | 30,365 | (61,430) | (31,065) |
| Accrued interest payable | (794) | (576) | (1,370) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 875,959 | \$ 662,701 | \$ 1,538,660 |

See accompanying notes to financial statements.

Charter Township of East Bay

Fiduciary Funds

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2014

| | <u>Agency Funds</u> |
|---------------------------------|---------------------|
| ASSETS | |
| Cash and cash equivalents | <u>\$ 1,941,656</u> |
| LIABILITIES | |
| Due to other governmental units | \$ 1,903,828 |
| Due to others | <u>37,828</u> |
| TOTAL LIABILITIES | <u>\$ 1,941,656</u> |

See accompanying notes to financial statements.

Charter Township of East Bay

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Charter Township of East Bay, Michigan (the Township) was organized as a Township under provisions of the constitution and general law of the State of Michigan. The Township operates under an elected Township Board which consists of a seven (7) member elected Township Board, and provides services to its residents in many areas including general government, emergency services protection, law enforcement, and water and sewer utility services.

The financial statements of the Township have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Township governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Township's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the financial activities of the Charter Township of East Bay. The Township does not have any activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Charter Township of East Bay contain all the funds controlled by the Township Board.

2. Joint Ventures

The Township entered into a master sewer agreement effective July 1, 1987 through June 30, 2041 with the City of Traverse City, the Townships of Acme, Peninsula, and Garfield in Grand Traverse County, the Township of Elmwood in Leelanau County, and Grand Traverse County. This master sewer agreement defines the allocation of the costs and established certain rights and responsibilities with respect to the wastewater treatment plant. Grand Traverse County is the owner of the treatment plant and the City of Traverse City is the owner of all multi-user facilities. Ownership of the treatment plant will revert to the City of Traverse City when certain bonds issued by Grand Traverse County are retired.

The City of Traverse City is the exclusive manager of the plant for the benefit of itself, the County, and the townships. As the exclusive manager, the City of Traverse City had the obligation to fully inform and advise the townships as to the treatment plant's operation and the townships shall have the right to comment on all matters connected with the administration of the plant.

Each participant in the joint venture pays an amount sufficient to cover its pro rata share of treatment plant costs. Each participant's pro rata share is determined by the volume of its sewage treated in relation to the total sewage treated at the plant.

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Joint Ventures - continued

The Township is responsible for debt service on the debt issues listed in Note G as determined biannually based upon the percentage of the Township's flow to the total flow through the treatment plant. The other activity related to this joint venture is reported in Grand Traverse County and the City of Traverse City and not in the Township in accordance with GASB 61. Audited financial statements of those other entities can be obtained at their respective administrative offices.

The Township is a member of Grand Traverse Metro Emergency Services Authority. The incorporating municipalities are the Township of Acme, the Charter Township of East Bay, and the Charter Township of Garfield. The purpose of the Authority is to provide fire protection, prevention and inspection and other emergency health and safety services in accordance with the authorization contained in Act 57, Public Acts of Michigan, 1998 as amended. The Authority's year end is December 31.

The Charter Township of East Bay currently is represented by two (2) of the six (6) members of the Authority Board and has an on-going financial interest in the Authority. There are two (2) members each from the other two (2) Townships. The Charter Township of East Bay's equity interest, as calculated based on the formation agreement, in the Authority at December 31, 2014 was \$2,664,732. The Authority's government-wide total assets at December 31, 2014 were \$9,451,569 and total liabilities and deferred inflows of resources were \$1,333,316, which resulted in a net position of \$8,118,253. Financial support for the Authority comes mainly from the member Townships based on a funding formula as detailed in the creation agreement. The components of funding are based on the Authority's proposed annual budget and taxable value of the Authority to determine a uniform millage rate. This rate is then applied to all real property in each Township.

The equity determination at year-end was calculated based on the formation agreement. The agreement states that at termination and dissolution of the Authority, each Township would receive a percentage of the net position based on an analysis of assets and liabilities and applying criteria to each as detailed in the agreement. Based on an analysis at December 31, 2014, the Charter Township of East Bay has an equity interest of 32.82 percent. The resulting amount has been recorded in the government-wide financial statements of the Township in accordance with applicable GASB standards.

The financial statements of the Authority can be obtained from the Authority's administrative office.

3. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the government-wide financial statements) present information for the government as a whole. All nonfiduciary activities are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

Charter Township of East Bay
NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS

The fund financial statements present the Township's individual major funds and the aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The Township reports the following major governmental funds:

- a. The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Emergency Services Fund accounts for the emergency services restricted tax levy that provides operating revenue to fund fire, police, and ambulance activities.

The Township reports the following major enterprise funds:

- a. The Water Fund accounts for resources generated by providing water services to certain residents of the Township; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- b. The Sewer Fund accounts for resources generated by providing sewer and septic treatment services to residents of the Township; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

The Township also reports agency funds to account for assets held by the Township as an agent for other governments or individuals. Agency funds are, by nature, custodial, therefore, operation results are not measured.

4. Measurement Focus

The government-wide and proprietary financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide financial statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

There is no measurement focus for the fiduciary agency funds since assets equal liabilities.

5. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Charter Township of East Bay
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Basis of Accounting - continued

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is sixty (60) days. Revenues that are considered measurable but not available are recorded as receivable and deferred inflows of resources. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary and agency funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

If/when both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

6. Budgets and Budgetary Accounting

Budgets for General and Special Revenue Funds are adopted on a basis consistent with the modified accrual basis used to reflect actual results in the fund financial statements. The Township employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to January 1, the budget is adopted on a departmental (activity) level through passage of a Board resolution after a public hearing is held to obtain taxpayers comments. After the budget is adopted all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of the fund or activity must be approved by the Township Board.
- b. Formal budgetary integration is employed as a management control device during the year at the activity level for the General Fund and Special Revenue Funds.
- c. The Township does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at December 31 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted or amended by the Township Board during the year.

7. Cash and Cash Equivalents

Cash and cash equivalents consist of checking and savings accounts and uncategorized pooled investment accounts with a maturity from date of purchase of 90 days or less. The cash equivalents are recorded at market value.

Charter Township of East Bay
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Receivables

Receivables consist of amounts due from various individuals, businesses, and other governmental units related to charges for services; amounts owed to the Township from special assessments; and taxes levied that have not been collected.

9. Property Tax

The Township bills and collects both its own property tax levy and the tax levy for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are as follows:

Property taxes are levied on December 1. The tax levies are due February 14. All taxes not paid by their due dates are deemed delinquent. Delinquent real property taxes are turned over to the Grand Traverse County Treasurer on March 1 of the year following the levy. The Grand Traverse County Treasurer remits payment to all taxing units on all delinquent real property taxes. Delinquent personal property taxes are retained by the Township for subsequent collection.

The Township's property tax is levied each December 1 on the taxable valuation of property located in the Township as of the preceding December 31. Although the Township's 2014 tax is levied and collectible on December 1, 2014, it is the Township's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of the levy are budgeted and made available for the financing of Township operations.

For the 2013 tax levy, which was recognized as revenue in 2014, the Township was permitted to levy up to \$0.7348 per \$1,000 of real and personal property taxable value for general governmental service and additional amounts for emergency services up to \$2.959 per \$1,000 of real property taxable value. The total taxable value for the 2013 levy for property within the Township was \$502,346,431.

10. Interfund Transactions

During the course of normal operations, the Township has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

11. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or the fund level balance sheet 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/fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

The Township currently has no items which qualify for reporting in this category.

In addition to liabilities, the statement of financial position and/or the fund level balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position/fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Charter Township of East Bay
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Deferred Outflows/Inflows of Resources - continued

The Township has only two (2) types of deferred inflows of resources, one (1) of which arises only under the modified accrual basis of accounting. Unavailable revenues for special assessments and ambulance fees qualify for reporting in this category. Accordingly, these items, *unavailable revenues*, are reported in the governmental activities and in the governmental funds balance sheet. The governmental funds report unavailable revenues from revenues collected subsequent to 60 days after year end. These amounts are deferred and recognized as an inflows of resources in the period that the amounts become available. The other type of deferred inflows of resources reported at the fund level and the government-wide level is for taxes levied for subsequent periods.

12. Capital Assets

Capital assets are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental and business-type activities columns. Capital assets are those with an initial individual cost greater than \$5,000 and an estimated useful life of more than one year. Capital assets are recorded in the proprietary funds, but not the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

| | |
|-----------------------------------|---------------|
| Roads and sidewalks | 15 - 20 years |
| Water, sewer, and septage systems | 50 years |
| Buildings and improvements | 15 - 50 years |
| Vehicles | 3 - 5 years |
| Furniture and equipment | 3 - 7 years |

13. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary funds when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

14. Accrued Interest Payable

Accrued interest payable is presented for long-term obligations in the government-wide financial statements.

15. Restrictions of Net Position

Restrictions of net position shown in the government-wide financial statements indicate restrictions that have been imposed by outside sources which preclude a portion of net position from their use for unrestricted purposes.

Charter Township of East Bay
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

16. Advances to Other Funds

Long-term advances from certain funds to other funds are made to finance certain debt-related activities. For the governmental fund types, fund balance is reported as Nonspendable for the amount of the advance made to other funds to reflect the fund balance is not currently available for expenditure.

17. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Compiled Laws, the Township is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Deposits

There is a custodial credit risk as it relates to 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 December 31, 2014, the carrying amounts of the Township's deposits were \$9,291,069 and the total bank balances were \$9,183,809.

Deposits of the Township are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Township. As of December 31, 2014, the Township accounts were insured by the Federal Deposit Insurance Corporation (FDIC) for \$1,612,956, \$6,902,287 was uninsured but collateralized and the remaining amount of \$668,566 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Township held as cash increased significantly. As a result, the amount of uninsured and uncollateralized cash was substantially higher at these peak periods than at year-end.

Charter Township of East Bay
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Cash equivalents

As of December 31, 2014, the carrying amounts and market values for the cash equivalents are as follows:

| <u>INVESTMENT TYPE</u> | <u>Carrying Amount</u> | <u>Market Value</u> | <u>S&P Rating</u> | <u>Weighted Average Maturity</u> |
|---------------------------------------|----------------------------|-------------------------|---------------------------|--|
| Uncategorized pooled investment funds | | | | |
| MBIA - Michigan Class | <u>\$ 785,642</u> | <u>\$ 785,642</u> | AAAm | 45 days |

Credit risk

State law limits municipalities to certain types of investment vehicles that have a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of December 31, 2014, rating information on the Township's investments is presented above.

Interest rate risk

The Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market rate interest rates, by structuring the investment portfolio so the securities mature to meet cash requirements, and investing in operating funds primarily in shorter-term securities.

Concentration of credit risk

The Township will minimize a concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township will limit their deposits to financial institutions with deposit insurance, and with other institutions that have met the Township's parameters for investment.

As of December 31, 2014, the cash and cash equivalents referred to above have been reported in the basic financial statements in the following categories:

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Fiduciary Fund</u> | <u>Total</u> |
|---------------------------|------------------------------------|-------------------------------------|---------------------------|----------------------|
| Cash and cash equivalents | <u>\$ 2,790,949</u> | <u>\$ 5,344,506</u> | <u>\$ 1,941,656</u> | <u>\$ 10,077,111</u> |

The cash and cash equivalents caption on the financial statements includes \$400 in petty cash.

Charter Township of East Bay
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE C: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, interfund transfers have been eliminated.

| | |
|---------------------------------|------------------|
| Transfers from General Fund to: | |
| Sewer Fund | <u>\$ 41,163</u> |
| Transfers from Water Fund to: | |
| Sewer Fund | <u>\$ 5,937</u> |

The transfer from the General Fund and Water Fund to the Sewer Fund was the result of the General Fund and Water Fund paying a portion of certain Sewer Fund expenses.

NOTE D: INTERNAL BALANCES

The following schedule details advances receivable and payable between funds of the primary government at December 31, 2014:

| | |
|-------------------------------|-------------------|
| Advance from General Fund to: | |
| Sewer Fund | <u>\$ 672,391</u> |

The advance to the Sewer Fund was made for the purpose of investing in the Septage plant by refinancing certain long-term debt of the Sewer Fund.

NOTE E: ACCOUNTS RECEIVABLE

The following is an analysis of accounts receivable for the Emergency Services Fund as of December 31, 2014:

| | |
|---------------------------------------|------------------|
| Accounts receivable, gross | \$ 22,270 |
| Less: allowance for doubtful accounts | <u>(4,341)</u> |
| | <u>\$ 17,929</u> |

NOTE F: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014, was as follows:

| | Balance Jan. 1, 2014 | Additions | Deletions | Balance Dec. 31, 2014 |
|---------------------------------------|-------------------------|-----------|-----------|--------------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 768,104 | \$ - | \$ - | \$ 768,104 |

Charter Township of East Bay

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE F: CAPITAL ASSETS - CONTINUED

| | Balance Jan. 1, 2014 | Additions | Deletions | Balance Dec. 31, 2014 |
|---|-------------------------|-----------|-----------|--------------------------|
| Governmental Activities - Continued | | | | |
| Capital assets, being depreciated: | | | | |
| Roads and sidewalks | \$ 121,441 | \$ - | \$ - | \$ 121,441 |
| Buildings and improvements | 1,139,545 | - | - | 1,139,545 |
| Vehicles | 465,058 | - | - | 465,058 |
| Furniture and equipment | 384,063 | 163,179 | - | 547,242 |
| Subtotal of capital assets being depreciated | 2,110,107 | 163,179 | -0- | 2,273,286 |
| Less accumulated depreciation for: | | | | |
| Roads and sidewalks | (60,585) | (8,096) | - | (68,681) |
| Buildings and improvements | (576,708) | (30,820) | - | (607,528) |
| Vehicles | (368,366) | (32,231) | - | (400,597) |
| Furniture and equipment | (382,505) | (36,270) | - | (418,775) |
| Total accumulated depreciation | (1,388,164) | (107,417) | -0- | (1,495,581) |
| Net capital assets being depreciated | 721,943 | 55,762 | -0- | 777,705 |
| Net capital assets | \$ 1,490,047 | \$ 55,762 | \$ -0- | \$ 1,545,809 |

Depreciation expense for the governmental activities was charged to the following functions and activities:

| | |
|----------------------------|-------------------|
| General government | \$ 49,190 |
| Public safety | 39,510 |
| Recreation and culture | 18,717 |
| Total depreciation expense | <u>\$ 107,417</u> |

| | Balance Jan. 1, 2014 | Additions | Deletions | Balance Dec. 31, 2014 |
|---|-------------------------|------------|-----------|--------------------------|
| Business-Type Activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land and land improvements | \$ - | \$ 151,926 | \$ - | \$ 151,926 |
| Construction in progress | - | 110,727 | - | 110,727 |
| Subtotal of capital assets not being depreciated | -0- | 262,653 | -0- | 262,653 |
| Capital assets, being depreciated: | | | | |
| Water and sewer systems | 18,103,037 | - | - | 18,103,037 |
| Septage treatment facilities | 2,252,438 | - | - | 2,252,438 |
| Subtotal of capital assets being depreciated | 20,355,475 | -0- | -0- | 20,355,475 |

Charter Township of East Bay
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE F: CAPITAL ASSETS - CONTINUED

| | Balance Jan. 1, 2014 | Additions | Deletions | Balance Dec. 31, 2014 |
|---|-------------------------|---------------------|---------------|--------------------------|
| Business-Type Activities - Continued | | | | |
| Less accumulated depreciation for: | | | | |
| Water and sewer systems | \$ (6,888,041) | \$ (362,061) | \$ - | \$ (7,250,102) |
| Septage treatment facilities | (270,294) | (45,048) | - | (315,342) |
| | <u>(7,158,335)</u> | <u>(407,109)</u> | <u>-0-</u> | <u>(7,565,444)</u> |
| Total accumulated depreciation | <u>(7,158,335)</u> | <u>(407,109)</u> | <u>-0-</u> | <u>(7,565,444)</u> |
| Total capital assets being depreciated, | <u>13,197,140</u> | <u>(407,109)</u> | <u>-0-</u> | <u>12,790,031</u> |
| Net capital assets | <u>\$ 13,197,140</u> | <u>\$ (144,456)</u> | <u>\$ -0-</u> | <u>\$ 13,052,684</u> |

Depreciation expense for the business-type activities was charged to the following functions and activities.

| | |
|----------------------------|-------------------|
| Water | \$ 149,375 |
| Sewer | <u>257,734</u> |
| Total depreciation expense | <u>\$ 407,109</u> |

NOTE G: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Township for the year ended December 31, 2014:

| | Balance Jan. 1, 2014 | Additions | Deletions | Balance Dec. 31, 2014 | Amounts Due Within One Year |
|--|-------------------------|---------------|---------------------|--------------------------|-----------------------------------|
| Governmental-type Activities | | | | | |
| 2006 Capital Improvement Bonds | \$ 41,000 | \$ - | \$ (41,000) | \$ -0- | \$ - |
| Business-type Activities | | | | | |
| Contractual obligations with Grand Traverse County | | | | | |
| Sewage Disposal System Bonds 1995 | 54,275 | - | (26,537) | 27,738 | 27,738 |
| Sewage Disposal System Bonds 2002 | 607,263 | - | (61,700) | 545,563 | 60,967 |
| Grand Traverse County note payable Disposal System Bonds 2001 | 640,000 | - | (65,000) | 575,000 | 70,000 |
| Sewer/Water System Refunding Bonds 2012 | 1,969,870 | - | (183,511) | 1,786,359 | 194,740 |
| Grand Traverse County Septage Plant Bonds 2012 | 716,740 | - | (28,151) | 688,589 | 31,211 |
| | <u>3,988,148</u> | <u>-0-</u> | <u>(364,899)</u> | <u>3,623,249</u> | <u>384,656</u> |
| Total Business-type Activities | <u>3,988,148</u> | <u>-0-</u> | <u>(364,899)</u> | <u>3,623,249</u> | <u>384,656</u> |
| Total | <u>\$ 4,029,148</u> | <u>\$ -0-</u> | <u>\$ (405,899)</u> | <u>\$ 3,623,249</u> | <u>\$ 384,656</u> |

Charter Township of East Bay
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE G: LONG-TERM DEBT - CONTINUED

Significant details regarding outstanding long-term debt (including current portion) are presented below:

The payments due in one year for the Sewage Disposal System Bonds and the Septage Plant Bonds are not included in the annual requirements table on the next page as the amounts are estimates based on the current year payments.

Business-type Activities

Contractual obligations with Grand Traverse County

\$3,725,000 Sewage Disposal System Bonds, dated May 1, 1995 due in annual installments based on a percentage of flow through May 1, 2015, with interest of 2.62 percent, payable semi-annually. \$ 27,738

\$32,900,000 Sewage Disposal System Bonds, dated July 1, 2002, due in annual installments based on a percentage of flow through November 1, 2022, with interest ranging from 4.25 to 5.00 percent, payable semi-annually. 545,563

\$765,000 Grand Traverse County Note Payable, dated May 1, 2011, which replaced the Water System Improvement Bonds, dated July 1, 2001, due in annual installments ranging from \$70,000 to \$95,000 through May 1, 2021, with interest ranging from 4.85 to 5.00 percent, payable semi-annually. 575,000

\$2,875,000 Sewer/Water Projects Refunding Bonds, dated October 1, 2012, due in annual installments ranging from \$255,000 to \$275,000 through November 1, 2023, with interest ranging from 1.25 to 2.20 percent, payable semi-annually. The Township's obligation is 74.90 percent of the outstanding balance. 1,786,359

\$7,800,000 Grand Traverse County Septage Plant Bonds, dated November 1, 2012 and May 1, 2013, due in annual installments ranging from \$101,500 to \$152,657 through November 1, 2032, with interest of 2.00 percent, payable semi-annually. The Township's obligation is 30.75 percent of the outstanding balance. 688,589

Total Business-type Activities \$ 3,623,249

The annual requirement to pay the debt principal and interest outstanding for the long-term debt is as follows:

| Year Ending December 31, | <u>Contractual Obligations with County and Direct Obligations</u> | |
|-----------------------------|---|--------------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2015 | \$ 264,740 | \$ 53,560 |
| 2016 | 265,995 | 48,226 |
| 2017 | 278,485 | 42,261 |
| 2018 | 274,740 | 36,083 |
| 2019 | 287,230 | 29,862 |
| 2020-2023 | <u>990,169</u> | <u>50,350</u> |
| | <u><u>\$ 2,361,359</u></u> | <u><u>\$ 260,342</u></u> |

Charter Township of East Bay
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE G: LONG-TERM DEBT - CONTINUED

Business-type Activities - continued

Contractual obligations with Grand Traverse County - continued

The bond issuances detailed below are not included in the above schedule because the principal and interest payments vary from year to year because the Township's obligation is based on flow for the Sewage Disposal System Bonds and by the amount of profit/loss for the Septage Plant.

| | |
|--|----------------------------|
| Sewage Disposal System Bonds 1995 | \$ 27,738 |
| Sewage Disposal System Bonds 2002 | 545,563 |
| Grand Traverse County Septage Plant Bonds 2012 and 2013 | <u>688,589</u> |
| | <u><u>\$ 1,261,890</u></u> |

The above contractual obligations to the County are the result of the County's issuance of bonds on the Township's behalf. The Township has pledged substantially all revenue of the Water and Sewer Funds, net of operating expenses, to repay the obligations; in addition, it has pledged to raise property taxes, to the extent permitted by law, if necessary to fund the obligation to repay the County.

Advance Refunding - Prior

On October 1, 2012, Grand Traverse County defeased a portion of the 2003 Sewer/Water System Improvement Bonds which were due and payable November 1, 2013 through November 1, 2023, and for which the Township had a contractual obligation for a portion of. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. Grand Traverse County issued 2012 Sewer and Water Projects Refunding Bonds in the amount of \$2,875,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds, and provide for certain capital projects. Accordingly, the trust account assets and liabilities for the defeased bonds would not be included in the County's financial statements nor are the portion related to the Township included in the Township's financial statements. At December 31, 2014, bonds due and payable November 1, 2015 through November 1, 2023 for the 2003 Sewer/Water System Improvement Bonds in the amount of \$2,495,000 are considered defeased. The Township's portion of the defeased amount is \$1,868,755.

NOTE H: RISK MANAGEMENT

The Township participates in the Michigan Township Participating Plan (the Plan) with other municipalities for auto, employee benefits, property, public officials, electronic data processing (EDP), crime, inland marine, boiler and machinery, and liability losses. The Plan is organized under Public Act 138 of 1982, as amended. The Plan, while it operates under the Michigan Legislation of Public Act 138, does not operate as a risk pool due to the transfer of risk to U.S. Specialty Insurance Company ("USSIC") backing the Michigan Township Participating Plan under a master policy for the period July 1, 2011 to July 1, 2019. Due to this Master Policy purchase, there is no pooling of risk between members but instead it is commercial insurance. Settled claims relating to this insurance have not exceeded the amount of insurance coverage in any of the past three (3) fiscal years.

The Township also maintains commercial insurance coverage for workers' compensation.

Charter Township of East Bay

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE I: RETIREMENT PLAN

The Township provides benefits to all of its full-time employees through a defined contribution benefits plan called the East Bay Charter Township Group Pension Plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. The Township contributes 11 percent of employees' gross earnings and employee contributions for each employee plus interest allocated to the employee's account are fully vested immediately. The Plan is administered by Burnham and Flower Insurance Group through John Hancock.

The Township's total payroll during the current year was \$573,570, made up of \$379,254 from the General Fund and \$194,316 from the Ambulance Fund. The current year contribution was calculated on covered payroll of \$439,912, including \$352,511 from the General Fund and \$87,401 from the Ambulance Fund. This resulted in an employer contribution of \$37,609 for the General Fund and \$10,137 for the Ambulance Fund. There were no employee contributions during the current year.

NOTE J: DEFERRED COMPENSATION PLAN

The Township offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in a custodial account as described in IRC Section 457(g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the Township for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of accounting principles generally accepted in the United States of America, plan balances and activities are not reflected in the Township's financial statements.

NOTE K: CONTINGENCIES

There are various potential legal actions pending with the Township. Due to the inconclusive nature of many of the actions, it is not possible for legal counsel to determine the probable outcome or a reasonable estimate of the potential liability, if any. Those various other legal actions for which a reasonable estimate can be determined of the Township's potential liability and that would not be covered by insurance and reserves, if any, are considered by Township management and legal counsel to be immaterial.

NOTE L: RESTRICTED NET POSITION

Restrictions on net position shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net position restrictions as of December 31, 2014.

PRIMARY GOVERNMENT

Governmental Activities

| | |
|---|---------------------|
| Emergency service activities | \$ 817,307 |
| Equity interest in Grand Traverse Metro | 2,664,732 |
| Street lights | 10,289 |
| Capital projects | <u>50,894</u> |
| | <u>\$ 3,543,222</u> |

Charter Township of East Bay

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE M: DETAILS OF FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five (5) fund balance classifications under this standard:

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after nonspendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, Charter Township of East Bay's highest level of decision-making authority is the Board of Trustees. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution.

For assigned fund balance, the Township Trustees are authorized to assign amounts to a specific purpose. Currently assigned fund balance is determined through the budget, Board action, and any residual amounts of fund balance in governmental funds other than the General Fund.

For the classification of fund balances, the Charter Township of East Bay considers restricted amounts to have been spent first when an expenditure is incurred for which both restricted and unrestricted fund balance is available. Also for the classification of fund balances, Charter Township of East Bay considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

| | General Fund | Emergency Services | Nonmajor Governmental Funds | Total |
|---------------|-----------------|-----------------------|-----------------------------------|-----------|
| Fund Balances | | | | |
| Nonspendable | | | | |
| Prepays | \$ 13,278 | \$ 2,262 | \$ - | \$ 15,540 |
| Advances | 672,391 | - | - | 672,391 |
| Subtotal | 685,669 | 2,262 | -0- | 687,931 |

Charter Township of East Bay
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE M: DETAILS OF FUND BALANCE CLASSIFICATIONS - CONTINUED

| | General Fund | Emergency Services | Nonmajor Governmental Funds | Total |
|---|---------------------|-----------------------|-----------------------------------|---------------------|
| Restricted | | | | |
| Emergency services activities | \$ - | \$ 815,045 | \$ - | \$ 815,045 |
| Street lighting | - | - | 10,289 | 10,289 |
| Capital projects | - | - | 50,894 | 50,894 |
| Subtotal | -0- | 815,045 | 61,183 | 876,228 |
| Assigned | | | | |
| Buildings and grounds maintenance/repairs | 30,011 | - | - | 30,011 |
| Grounds vehicle | 25,000 | - | - | 25,000 |
| Compactor trailer | 35,415 | - | - | 35,415 |
| Compactor maintenance | 11,232 | - | - | 11,232 |
| Health reimbursement | 72,332 | - | - | 72,332 |
| Parks | 74,136 | - | - | 74,136 |
| Building maintenance | 60,905 | - | - | 60,905 |
| Township improvements | 20,000 | - | - | 20,000 |
| Future park and land purchases | 6,865 | - | - | 6,865 |
| Elections | 10,000 | - | - | 10,000 |
| Road projects | 59,262 | - | - | 59,262 |
| Capital projects | 38,194 | - | - | 38,194 |
| Little Libraries | 31 | - | - | 31 |
| Subtotal | 443,383 | -0- | -0- | 443,383 |
| Unassigned | 1,333,380 | - | - | 1,333,380 |
| TOTAL FUND BALANCES | <u>\$ 2,462,432</u> | <u>\$ 817,307</u> | <u>\$ 61,183</u> | <u>\$ 3,340,922</u> |

Charter Township of East Bay
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE N: BUILDING AND ZONING FINANCIAL INFORMATION

The Township elected to report the financial activities of the building and zoning department in the General Fund. The following is the required information as it relates to this department for the year ended December 31, 2014:

| | |
|--|----------------------------|
| Deficit at January 1, 2014 | \$ (261,281) |
| REVENUES | |
| Licenses and permits | |
| Building permits | 8,790 |
| EXPENDITURES | |
| Salaries and fringes | 54,121 |
| Supplies and other | <u>13,082</u> |
| TOTAL EXPENDITURES | <u>67,203</u> |
| EXCESS OF REVENUES (UNDER) EXPENDITURES | <u>(58,413)</u> |
| Cumulative deficit at December 31, 2014 | <u><u>\$ (319,694)</u></u> |

NOTE O: UPCOMING ACCOUNTING PRONOUNCEMENT

In March 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Township is currently evaluating the impact this standard will have on the financial statements when adopted for the 2016 year.

REQUIRED SUPPLEMENTARY INFORMATION

Charter Township of East Bay
General Fund
BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2014

| | Budgeted Amounts | | | Variances with Final Budget Positive (Negative) |
|--|------------------|------------|------------|--|
| | Original | Final | Actual | |
| REVENUES | | | | |
| Taxes | \$ 398,861 | \$ 398,861 | \$ 401,701 | \$ 2,840 |
| Licenses and permits | 150,376 | 150,376 | 202,584 | 52,208 |
| Intergovernmental | 797,903 | 797,903 | 818,765 | 20,862 |
| Charges for services | - | - | 27,217 | 27,217 |
| Interest | 1,000 | 1,000 | 1,083 | 83 |
| Other | - | 3,000 | 69,259 | 66,259 |
| TOTAL REVENUES | 1,348,140 | 1,351,140 | 1,520,609 | 169,469 |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | | | | |
| Legislative | 74,816 | 74,816 | 61,704 | 13,112 |
| Supervisor | 60,366 | 60,366 | 57,996 | 2,370 |
| Clerk | 94,091 | 94,091 | 94,021 | 70 |
| Treasurer | 92,861 | 92,861 | 92,568 | 293 |
| Assessor | 147,500 | 147,500 | 129,925 | 17,575 |
| Elections | 31,500 | 31,500 | 27,892 | 3,608 |
| Hall and grounds | 292,523 | 292,523 | 251,714 | 40,809 |
| Board of review | 3,324 | 3,324 | 1,422 | 1,902 |
| Total general government | 796,981 | 796,981 | 717,242 | 79,739 |
| Public works | | | | |
| Road projects | 31,000 | 31,000 | 23,277 | 7,723 |
| Street lights | 24,000 | 24,000 | 17,690 | 6,310 |
| Total public works | 55,000 | 55,000 | 40,967 | 14,033 |
| Community and economic development | | | | |
| Planning Commission/Board of Appeals | 20,957 | 20,957 | 13,974 | 6,983 |
| Planner/Zoning administrator | 128,608 | 128,608 | 67,203 | 61,405 |
| Total community and economic development | 149,565 | 149,565 | 81,177 | 68,388 |

Charter Township of East Bay

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended December 31, 2014

| | Budgeted Amounts | | Actual | Variances with Final Budget Positive (Negative) |
|---|---------------------|---------------------|---------------------|--|
| | Original | Final | | |
| EXPENDITURES - CONTINUED | | | | |
| Current - continued | | | | |
| Recreation and culture | \$ 60,451 | \$ 115,168 | \$ 90,639 | \$ 24,529 |
| Other | 315,802 | 315,802 | 320,867 | (5,065) |
| Debt service | - | - | 43,925 | (43,925) |
| TOTAL EXPENDITURES | <u>1,377,799</u> | <u>1,432,516</u> | <u>1,294,817</u> | <u>137,699</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | (29,659) | (81,376) | 225,792 | 307,168 |
| OTHER FINANCING (USES) | | | | |
| Transfers out | <u>-</u> | <u>(48,714)</u> | <u>(41,163)</u> | <u>7,551</u> |
| NET CHANGE IN FUND BALANCE | (29,659) | (130,090) | 184,629 | 314,719 |
| Fund balance, beginning of year | <u>2,277,803</u> | <u>2,277,803</u> | <u>2,277,803</u> | <u>-0-</u> |
| Fund balance, end of year | <u>\$ 2,248,144</u> | <u>\$ 2,147,713</u> | <u>\$ 2,462,432</u> | <u>\$ 314,719</u> |

Charter Township of East Bay
Emergency Services Fund
BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2014

| | Budgeted Amounts | | | Variances with Final Budget Positive (Negative) |
|---|-------------------|-------------------|-------------------|--|
| | Original | Final | Actual | |
| REVENUES | | | | |
| Taxes | \$ 1,441,447 | \$ 1,441,447 | \$ 1,473,359 | \$ 31,912 |
| Charges for services | 50,000 | 50,000 | 108,294 | 58,294 |
| Interest | 500 | 500 | 33 | (467) |
| Other | 7,000 | 7,000 | 9,231 | 2,231 |
| TOTAL REVENUES | 1,498,947 | 1,498,947 | 1,590,917 | 91,970 |
| EXPENDITURES | | | | |
| Current | | | | |
| Public safety | | | | |
| Sheriff patrol | 160,769 | 160,769 | 152,427 | 8,342 |
| Metro services | 1,022,994 | 1,071,708 | 1,031,864 | 39,844 |
| Total public safety | 1,183,763 | 1,232,477 | 1,184,291 | 48,186 |
| Health and welfare | | | | |
| Ambulance services | 351,715 | 351,715 | 360,378 | (8,663) |
| Capital outlay | 5,000 | 5,000 | - | 5,000 |
| TOTAL EXPENDITURES | 1,540,478 | 1,589,192 | 1,544,669 | 44,523 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (41,531) | (90,245) | 46,248 | 136,493 |
| OTHER FINANCING SOURCES | | | | |
| Transfers in | 16 | 16 | - | (16) |
| NET CHANGE IN FUND BALANCE | (41,515) | (90,229) | 46,248 | 136,477 |
| Fund balance, beginning of year | 771,059 | 771,059 | 771,059 | -0- |
| Fund balance, end of year | <u>\$ 729,544</u> | <u>\$ 680,830</u> | <u>\$ 817,307</u> | <u>\$ 136,477</u> |

Charter Township of East Bay

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended December 31, 2014

NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

In the required supplementary information to the financial statements, the Township's budgeted expenditures in the General Fund and Special Revenue Funds have been shown at the functional classification level. The approved budgets of the Township have been adopted at the activity level for the General Fund and the total expenditure level for the Special Revenue Funds.

During the year ended December 31, 2014, the Township incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

| | <u>Amounts Appropriated</u> | <u>Amounts Expended</u> | <u>Variance</u> |
|--------------|---------------------------------|-----------------------------|-----------------|
| Current | | | |
| Other | \$ 315,802 | \$ 320,867 | \$ 5,065 |
| Debt Service | - | 43,925 | 43,925 |

OTHER SUPPLEMENTARY INFORMATION

Charter Township of East Bay
Nonmajor Governmental Funds
COMBINING BALANCE SHEET
December 31, 2014

| | Special Revenue | Capital Projects | | | |
|--|-----------------------|-------------------------------|---------------------------------|--|------------------|
| | Street Lights Fund | Public Improvement Fund | Township Improvement Fund | Township Improvement Revolving Fund | Total |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 11,586 | \$ 7,459 | \$ 10,139 | \$ 30,326 | \$ 59,510 |
| Accounts receivable | - | 2,970 | - | - | 2,970 |
| TOTAL ASSETS | <u>\$ 11,586</u> | <u>\$ 10,429</u> | <u>\$ 10,139</u> | <u>\$ 30,326</u> | <u>\$ 62,480</u> |
| LIABILITIES | | | | | |
| Accounts payable | \$ 1,297 | \$ - | \$ - | \$ - | \$ 1,297 |
| FUND BALANCES | | | | | |
| Restricted | <u>10,289</u> | <u>10,429</u> | <u>10,139</u> | <u>30,326</u> | <u>61,183</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 11,586</u> | <u>\$ 10,429</u> | <u>\$ 10,139</u> | <u>\$ 30,326</u> | <u>\$ 62,480</u> |

Charter Township of East Bay

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2014

| | Special Revenue | Capital Projects | | | |
|---------------------------------------|-----------------------|-------------------------------|---------------------------------|--|-----------|
| | Street Lights Fund | Public Improvement Fund | Township Improvement Fund | Township Improvement Revolving Fund | Total |
| REVENUES | | | | | |
| Licenses and permits | \$ - | \$ 12,046 | \$ - | \$ - | \$ 12,046 |
| Other | 7,361 | - | - | - | 7,361 |
| TOTAL REVENUES | 7,361 | 12,046 | -0- | -0- | 19,407 |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Public works | 7,761 | - | - | - | 7,761 |
| Community and economic development | - | 9,425 | - | - | 9,425 |
| TOTAL EXPENDITURES | 7,761 | 9,425 | -0- | -0- | 17,186 |
| NET CHANGE IN FUND BALANCES | (400) | 2,621 | -0- | -0- | 2,221 |
| Fund balances, beginning of year | 10,689 | 7,808 | 10,139 | 30,326 | 58,962 |
| Fund balances, end of year | \$ 10,289 | \$ 10,429 | \$ 10,139 | \$ 30,326 | \$ 61,183 |

Charter Township of East Bay

Agency Funds

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

December 31, 2014

| | Developers Escrow Fund | Property Tax Fund | Total |
|---------------------------------|---------------------------|----------------------|--------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 37,828 | \$ 1,903,828 | \$ 1,941,656 |
| LIABILITIES | | | |
| Due to other governmental units | \$ - | \$ 1,903,828 | \$ 1,903,828 |
| Due to others | 37,828 | - | 37,828 |
| TOTAL LIABILITIES | \$ 37,828 | \$ 1,903,828 | \$ 1,941,656 |

Principals

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS

Members of the Township Board
Charter Township of East Bay
Traverse City, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of East Bay (the Township) as of and for the year ended December 31, 2014, 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 the Township's internal control.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance.

UNFAVORABLE BUDGET VARIANCES

As noted in the financial statements, certain expenditures of the Township exceeded the amount appropriated. The variances noted were in the General Fund.

UNFAVORABLE BUDGET VARIANCES - CONTINUED

Michigan Public Act 621 of 1978, as amended, provides that the Township adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We recommend the Township monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 24, 2015