

**GRANT TOWNSHIP, GRAND TRAVERSE COUNTY**

**BUCKLEY, MICHIGAN**

**MARCH 31, 2014**



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

CERTIFIED PUBLIC ACCOUNTANTS  
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GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

MARCH 31, 2014

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June 16, 2014

## INDEPENDENT AUDITOR'S REPORT

To the Township Board  
Grant Township  
Grand Traverse County  
Buckley, Michigan

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Grant Township, Grand Traverse County, Buckley, Michigan as of March 31, 2014, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages iii through ix and 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BAIRD, COTTER AND BISHOP, P.C.

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

GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

The Management's Discussion and Analysis is intended to be the Grant Township Board's discussion and analysis of the financial results for the fiscal year ended March 31, 2014.

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

**Financial Highlights**

**Government-Wide:**

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$287,768. Of this amount, \$255,523 may be used to meet the Township's ongoing obligations to citizens and creditors.
- ◆ The Township's net position increased by \$21,750 during the fiscal year.

**Fund Level:**

- ◆ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balance of \$281,633, an increase of \$23,067 in comparison with the prior year.

**Overview of the Financial Statements**

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

**Government-Wide Financial Statements**

The *Government-Wide Financial Statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Position* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

The *Statement of Activities* presents information showing how the Township's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods. Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include general government, public safety, public works, recreation and culture, and other functions. The Township does not have any business-type activities.

### **Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

**Governmental Funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The Township maintains two individual governmental funds. Information is presented 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 Cemetery Perpetual Care Fund, which are considered to be a major fund.

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

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

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

GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

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

**Notes to Financial Statements**

The notes provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements.

**Other Information**

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

**Government-Wide Financial Analysis**

The Statement of Net Position is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township's financial position over time. The net position of the Township was \$287,768 at March 31, 2014, meaning the Township's assets were greater than its liabilities by this amount.

**Grant Township**  
**Net Position as of March 31, 2014**

	<b><u>Governmental Activities</u></b>
<b>Assets</b>	
Current Assets	\$ 285,094
Non Current Assets	
Capital Assets	56,532
Less: Accumulated Depreciation	<u>(50,397)</u>
Total Non Current Assets	<u>6,135</u>
<b>Total Assets</b>	<b><u>291,229</u></b>
<b>Liabilities</b>	
Current Liabilities	<u>3,461</u>
<b>Net Position</b>	
Net Investment in Capital Assets	6,135
Permanently Restricted for Cemetery	24,200
Temporarily Restricted for Cemetery	1,910
Unrestricted	<u>255,523</u>
<b>Total Net Position</b>	<b><u>\$ 287,768</u></b>

The most significant portion of the Township's net position is cash. The Township has \$255,523 in unrestricted net position. These assets represent resources that are available for appropriation, but are limited by Township policies regarding their use.

GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net position for the government and as a whole.

The total net position of the Township increased by \$21,750 in this fiscal year, an indicator that the Township experienced positive financial growth. As a result, the Township ended the fiscal year in better condition than when the year began.

The following table illustrates and summarizes the results of the changes in the net position for the Township. The condensed information was derived from the government-wide Statement of Activities.

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

	<u>Governmental Activities</u>
<b><u>Revenues</u></b>	
<b>Program Revenues</b>	
Charges for Services	\$ 3,488
Operating Grants and Contributions	3,127
<b>General Revenues</b>	
Taxes	34,746
State Grants	82,455
Interest Earnings	909
Other	671
<b>Total Revenues</b>	<u>125,396</u>
<b><u>Expenses</u></b>	
General Government	62,570
Public Safety	28,074
Public Works	3,251
Community and Economic Development	4,047
Other Functions	5,704
<b>Total Expenses</b>	<u>103,646</u>
Change in Net Position	21,750
<u>NET POSITION</u> - Beginning of Year	<u>266,018</u>
<u>NET POSITION</u> - End of Year	<u>\$ 287,768</u>



GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

**Governmental Activities**

During the fiscal year ended March 31, 2014, the Township's net position increased by \$21,750 in the governmental funds. The Township is required to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net position.

The most significant portion of the revenue for all governmental activities of Grant Township comes from state-shared revenues and property taxes. The Township levied .7377 mills for operating purposes.

State-shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax.

The Township's governmental activities expenses are dominated by general government expenses and public safety expenses. The Township spent \$62,570 in fiscal year 2013-2014 on General Government expenses. Public safety represented the next largest expense at \$28,074.

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

***Governmental Funds*** The focus of Grant Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, Grant Township's governmental fund reported an ending fund balances of \$281,633. \$255,523 constitutes unassigned fund balance. The remainder of the fund balance is either nonspendable (\$24,200) or restricted (\$1,910).

**General Fund** – The General Fund increased its fund balance by \$22,985 which brings the fund balance to \$255,523, of which all was unassigned. Property taxes and related revenues collected amounted to \$34,746. State grant revenues were collected in the amount of \$85,582. The reason for the increase in fund balance is due to an increase in the state-shared revenues and the fact that the Township board consistently monitors its budgets and is fiscally responsible.

**Cemetery Perpetual Care Fund** – The Cemetery Perpetual Care Fund increased its fund balance by \$82, bringing the balance to \$26,110. The only activity for the fund during the year was interest income. All of this balance is either nonspendable (\$24,200) or restricted (\$1,910).

**General Fund Budgetary Highlights**

During the year, the Township amended its budget various times. Total appropriations did not change, but appropriations between various functions were adjusted. A detailed summary of the original and amended budget can be found on page 18 of this report.

GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Total Revenues	\$ 121,750	\$ 121,750	\$ 125,314
Total Expenditures	\$ 121,750	\$ 121,750	\$ 102,329

The majority of the functions of the Township had less expenses than were budgeted for causing the variance between budgeted and actual expenditures. The amount of state-shared revenue the township received was significantly higher than the amount budgeted for, offsetting less property tax revenues collected than anticipated.

**Capital Assets**

**Capital Assets** The Township's investment in capital assets for governmental activities as of March 31, 2014, amounted to \$6,135 net of accumulated depreciation.

Capital assets summarized below include any items purchased with a cost greater than \$1,000 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

**Grant Township**  
**Capital Assets as of March 31, 2014**

	<b>Governmental Activities</b>
Land	\$ 3,500
Buildings and Improvements	30,000
Equipment, Furniture and Fixtures	23,032
	56,532
Less Accumulated Depreciation	(50,397)
<b>Net Capital Assets</b>	<b>\$ 6,135</b>

**Economic Condition and Outlook**

It appears that state-shared revenues and taxable values have stabilized, stabilizing the two largest revenue streams of the Township. The Township continues to look for ways to improve the services it provides to its resident in a manner that is financially responsible.

These factors were considered in preparing the Township's budgets for the 2014-2015 fiscal year.

GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2014

**Request for Information**

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Grant Township at 8986 Davis Road, Buckley, Michigan 49620.

GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

STATEMENT OF NET POSITION  
MARCH 31, 2014

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 245,872
Taxes Receivable	2,814
Due from Other Governments	31,504
Due from External Parties (Fiduciary Fund)	4,904
Total Current Assets	<u>285,094</u>
 <u>CAPITAL ASSETS</u>	
Land	3,500
Buildings and Improvements	30,000
Equipment, Furniture and Fixtures	23,032
	<u>56,532</u>
Less Accumulated Depreciation	50,397
Net Capital Assets	<u>6,135</u>
 Total Assets	 <u>291,229</u>
 <u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	3,081
Payroll Taxes and Withholdings	380
	<u>3,461</u>
 Total Liabilities	 <u>3,461</u>
 <u>NET POSITION</u>	
Net Investment in Capital Assets	6,135
Permanently Restricted for Cemetery	24,200
Temporarily Restricted for Cemetery	1,910
Unrestricted	255,523
	<u>287,768</u>
 TOTAL NET POSITION	 <u>\$ 287,768</u>

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

GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2014

FUNCTIONS/PROGRAMS	EXPENSES	<u>PROGRAM REVENUES</u>			NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
<u>GOVERNMENTAL ACTIVITIES</u>					
General Government	\$ 62,570	\$ 2,983	\$ 0	\$ 0	\$ (59,587)
Public Safety	28,074	0	0	0	(28,074)
Public Works	3,251	0	3,127	0	(124)
Community and Economic Development	4,047	505	0	0	(3,542)
Other Functions	5,704	0	0	0	(5,704)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 103,646</b>	<b>\$ 3,488</b>	<b>\$ 3,127</b>	<b>\$ 0</b>	<b>(97,031)</b>
<u>GENERAL REVENUES</u>					
					34,746
					82,455
					909
					671
					<u>118,781</u>
Change in Net Position					21,750
<u>NET POSITION</u> - Beginning of Year					<u>266,018</u>
<u>NET POSITION</u> - End of Year					<u>\$ 287,768</u>

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

GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET  
MARCH 31, 2014

		<u>PERMANENT</u> <u>FUND</u>		
	<u>GENERAL</u> <u>FUND</u>	<u>CEMETERY</u> <u>PERPETUAL</u> <u>CARE FUND</u>		<u>TOTALS</u>
<u>ASSETS</u>				
Cash	\$ 219,762	\$ 26,110		\$ 245,872
Taxes Receivable	2,814	0		2,814
Due from Other Governments	31,504	0		31,504
Due from Other Funds	4,904	0		4,904
TOTAL ASSETS	<u>\$ 258,984</u>	<u>\$ 26,110</u>		<u>\$ 285,094</u>
 <u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 3,081	\$ 0		\$ 3,081
Payroll Taxes and Withholdings	380	0		380
Total Liabilities	<u>3,461</u>	<u>0</u>		<u>3,461</u>
 <u>FUND BALANCE</u>				
Nonspendable, Cemetery	0	24,200		24,200
Restricted for Cemetery	0	1,910		1,910
Unassigned	255,523	0		255,523
Total Fund Balance	<u>255,523</u>	<u>26,110</u>		<u>281,633</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 258,984</u>	 <u>\$ 26,110</u>		 <u>\$ 285,094</u>

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

GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

GOVERNMENTAL FUNDS

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

Total Fund Balances for Governmental Funds	\$	281,633
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Land	\$	3,500
Buildings and Improvements		30,000
Equipment, Furniture and Fixtures		23,032
Accumulated Depreciation		(50,397)
		<hr/> 6,135
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<hr/> <hr/> 287,768

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

GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

GOVERNMENTAL FUNDS

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

	<u>PERMANENT</u> <u>FUND</u>		
	GENERAL FUND	CEMETERY PERPETUAL CARE FUND	TOTALS
<u>REVENUES</u>			
Taxes	\$ 34,746	\$ 0	\$ 34,746
State Grants	85,582	0	85,582
Charges for Services	3,488	0	3,488
Interest and Rents	827	82	909
Other Revenues	671	0	671
 Total Revenues	 125,314	 82	 125,396
<u>EXPENDITURES</u>			
General Government	61,253	0	61,253
Public Safety	28,074	0	28,074
Public Works	3,251	0	3,251
Community and Economic Development	4,047	0	4,047
Other Functions	5,704	0	5,704
 Total Expenditures	 102,329	 0	 102,329
 Excess (Deficiency) of Revenues Over Expenditures	 22,985	 82	 23,067
<u>FUND BALANCE</u> - Beginning of Year	232,538	26,028	258,566
<u>FUND BALANCE</u> - End of Year	\$ 255,523	\$ 26,110	\$ 281,633

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



GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
MARCH 31, 2014

Net Change in Fund Balance - Total Governmental Funds \$ 23,067

Amounts reported for governmental activities are different because:

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

Capital Outlay	0
Depreciation Expense	<u>(1,317)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 21,750

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

GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION  
MARCH 31, 2014

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ 4,904
<u>LIABILITIES</u>	
Due to Other Funds	<u>4,904</u>
<u>NET POSITION</u>	<u><u>\$ 0</u></u>

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

GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of Government-Wide Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report the information on all of the non-fiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary governmental is financially accountable. The Township does not have any component units or business-type activities.

**B. Reporting Entity**

Grant Township is a general law township located in Grand Traverse County which operates under the direction of an elected township board. Under the criteria established by generally accepted accounting principles, the Township has determined that there are no component units which should be included in its reporting entity.

**C. Basis of Presentation – Government-Wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The government activities column incorporates data from the governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**D. Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

Grant Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Cemetery Perpetual Care Fund* is defined as a permanent fund and accounts for all revenue sources that are restricted as expenditures for cemetery improvements.

GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

Additionally Grant Township reports the following fund types:

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

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

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

**E. Measurement Focus and Basis of Accounting**

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

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

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

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including

GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
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any time requirements, and the amount is received during the period or within the availability period for this revenue resource (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

**F. Budgetary Information**

**1. Budgetary Basis of Accounting**

The annual budget is adopted on the modified accrual basis in accordance with the requirements of "The Uniform Budgeting and Accounting Act". A public hearing is held to obtain taxpayer comments. Appropriations lapse at year-end. Budget amounts are as originally adopted on March 18, 2013, or as amended from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures. Encumbrance accounting is not employed in governmental funds.

**2. Funds with Expenditures in Excess of Appropriations were as Follows:**

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
General Government		
Assessor	\$ 14,000	\$ 15,813
Building and Grounds	5,000	5,448

These overages were funded by fund balance and greater than anticipated fund balance.

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

**1. Deposits and Investments**

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

(I) The Township authorized the Township Treasurer to invest funds as follows:

(a) In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

(b) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (II).

GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

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- (c) In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
  - (d) In repurchase agreements consisting of instruments listed in subdivision (a).
  - (e) In bankers' acceptances of United States banks.
  - (f) In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
  - (g) Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 Stat 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
    - (i) The purchase of securities on a when-issued or delayed delivery basis.
    - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
    - (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
  - (h) In obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
  - (i) In the investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.11 to 129.18.
  - (j) In the investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.
- (II) A public corporation that invests its funds under subsection (I) shall not deposit or invest the funds in a financial institution that is not eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- (III) Assets acceptable for pledging to secure deposits of public funds are limited to assets authorized for direct investment under subsection (I).
- (IV) As used in this section, "financial institution" means 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 that maintains a principal office or branch office located in this state under the laws of this state or the United States.

GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

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**2. *Receivables and Payables***

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

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and county taxes are levied and due July 1, and become delinquent after September 14. The remaining millages are levied and due December 1, and become delinquent after February 14. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations.

The 2013 taxable valuation of Grant Township totaled \$46,840,197, on which ad valorem taxes levied consisted of .7377 mills for Grant Township operating purposes. The levy raised approximately \$34,746 for operating purposes.

**3. *Inventories and Prepaid Items***

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items, if applicable.

**4. *Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

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

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

GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

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

<u>ASSETS</u>	<u>YEARS</u>
Buildings and Improvements	15-60
Equipment, Furniture and Fixtures	3-5

**5. *Deferred Outflows/Inflows of Resources***

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Township does not have any items that qualify for reporting in this category as of March 31, 2014.

In addition to liabilities, the statement of net position 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 that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Township does not have any items that qualify for reporting in this category as of March 31, 2014.

**6. *Net Position Flow Assumption***

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

**7. *Fund Balance Flow Assumptions***

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



GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

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**8. Fund Equity**

In the fund financial statements, governmental funds report the following classifications of fund balance:

*Nonspendable* – Includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.

*Restricted* – Includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

*Committed* – Includes amounts that can only be used for specific purposes determined by a formal action by Board Resolution. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (Board Resolution) that was employed when the funds were initially committed.

*Assigned* – Includes amounts a government intends to use for a specific purpose. Intent can be expressed by the Board or by an official or body to which the Board delegates the authority.

*Unassigned* – Includes amounts that are available for any purpose. Positive amounts are only reported in the General Fund.

As stated in Note 1C above, restricted resources are used first when an expense is incurred for which both restricted and unrestricted resources are available. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Township considers amounts to have been spent first from committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

**9. Use of Estimates**

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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

Note I.F.2, on the Excess of Expenditures Over Appropriations, describes a budgetary violation that occurred for the year ended March 31, 2014. It also explains the provision provided by law that was used to remedy the violation.

GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
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**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The Township's deposits are on deposit with Northwestern Bank and Honor State Bank.

*Custodial Credit Risk – Deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2014, none of the Township's bank balance of \$253,660 was exposed to custodial credit risk because it was all insured and collateralized. Although the Township's investment policy does not specifically address custodial credit risk, it typically limits its exposure by controlling who holds the Township's deposits.

*Foreign Currency Risk.* The Township is not authorized to invest in investments which have this type of risk; therefore, it is not addressed in the investment policy.

**B. Receivables**

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

	<u>GENERAL FUND</u>
Receivables	
Taxes	\$ 2,814
Due from Other Governments	31,504
TOTAL	\$ 34,318

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report unearned or unavailable revenue in connection with receivables for revenues that are not considered to be earned or available to liquidate liabilities of the current period. At the end of the fiscal year, the Township did not have any unearned or unavailable revenue.

**C. Interfund Receivables, Payables and Transfers**

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

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 4,904	\$ 0
Fiduciary Fund		
Current Tax Collection Fund	0	4,904
TOTAL	\$ 4,904	\$ 4,904

GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

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All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

**D. Capital Assets**

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 3,500	\$ 0	\$ 0	\$ 3,500
Capital Assets, Being Depreciated				
Buildings and Improvements	30,000	0	0	30,000
Equipment, Furniture and Fixtures	23,032	0	0	23,032
Total Capital Assets, Being Depreciated	53,032	0	0	53,032
Less Accumulated Depreciation For:				
Buildings	29,428	250	0	29,678
Equipment, Furniture and Fixtures	19,652	1,067	0	20,719
Total Accumulated Depreciation	49,080	1,317	0	50,397
Total Capital Assets, Being Depreciated, Net	3,952	(1,317)	0	2,635
Governmental Activities Capital Assets, Net	\$ 7,452	\$ (1,317)	\$ 0	\$ 6,135

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

Governmental Activities:

General Government	<u>\$ 1,317</u>
--------------------	-----------------

**E. Retirement Plan**

The Township participates in a defined contribution money purchase pension plan administered by Manufacturer's Life Insurance Co. and the Township. By Board resolution, the Township pays a contribution of 15% of annual compensation.

The plan covers all elected officials with 100% immediate vesting upon early retirement, termination of service, death, disability, or normal retirement. Required Township contributions of \$3,081 were paid for the audit year. Covered compensation for the audit year was \$20,538 out of total employee compensation of \$27,652. Township employees are not required to and did not make any voluntary contributions to the plan in 2013-2014.

GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
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**IV. OTHER INFORMATION**

**A. Risk Management**

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, workers compensation insurance and errors and omissions insurance. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

**B. Fire Contract**

The Township has a fire contract with Grand Traverse Rural Fire Department to provide the Township's residents with fire protection. For the year ended March 31, 2014, the Township paid \$28,074 to the Department for fire protection.

GRANT TOWNSHIP, GRAND TRAVERSE COUNTY  
BUCKLEY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS  
YEAR ENDED MARCH 31, 2014

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Taxes	\$ 45,250	\$ 45,250	\$ 34,746
State Grants	66,000	66,000	85,582
Charges for Services	3,200	3,200	3,488
Interest and Rents	1,800	1,800	827
Other Revenues	5,500	5,500	671
Total Revenues	121,750	121,750	125,314
<u>EXPENDITURES</u>			
General Government			
Township Board	17,050	17,050	12,888
Supervisor	5,400	5,400	5,274
Elections	1,000	1,325	1,325
Assessor	14,000	14,000	15,813
Board of Review	1,100	1,100	696
Clerk	8,069	8,069	7,121
Treasurer	10,569	13,069	10,478
Building and Grounds	4,000	5,000	5,448
Cemetery	3,000	3,000	2,210
Public Safety			
Fire Department	29,000	29,000	28,074
Public Works			
Highways, Streets, Bridges	9,002	9,002	2,381
Street Lighting	1,000	1,000	870
Community and Economic Development			
Planning	4,500	4,500	4,047
Other Functions			
Insurance and Bonds	6,000	6,000	5,020
Employee Benefits	1,000	1,000	684
Miscellaneous	100	100	0
Contingency	6,960	3,135	0
Total Expenditures	121,750	121,750	102,329
Excess (Deficiency) of Revenues			
Over Expenditures	0	0	22,985
<u>FUND BALANCE</u> - Beginning of Year	0	0	232,538
<u>FUND BALANCE</u> - End of Year	\$ 0	\$ 0	\$ 255,523



# Baird, Cotter & Bishop, P.C.

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

www.bcbcpa.com

June 16, 2014

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

To the Township Board  
Grant Township  
Grand Traverse County  
Buckley, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Grant Township for the year ended March 31, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 2, 2014. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Grant Township are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013-2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

The financial statement disclosures are neutral, consistent and clear.

#### *Difficulties Encountered in Performing the Audit*

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

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We detected various material misstatements as a result of our audit procedures that were corrected by management. The majority of these misstatements were a result of converting the township's records from cash to accrual basis.

#### *Disagreements with Management*

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

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated June 16, 2014.

#### *Management Consultations with Other Independent Accountants*

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

#### *Other Audit Findings or Issues*

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

##### Review of Bank Statements and Reconciliations

We recommend that the bank reconciliations be performed at the end of each month, reconciling the balance on the bank statements to the balance in the accounting system. This may require the Township to segregate some of its cash and deposits accounts in the accounting system. Also, as a method of strengthening internal control, we recommend that all bank statements and corresponding reconciliations be approved by a member of the Township board independent of the person reconciling the account. As a part of this review, the reviewer should initial each page of the documents reviewed.

### Payroll

During the course of our audit, it was noted that the quarterly form 941's did not reconcile with the W-3. Although a small difference, this will likely trigger correspondence at some point from the IRS. The Township may be asked to file amended payroll forms.

### Condition of Accounting Records

The records were found to be in great condition and we appreciate the assistance the Township provided us in completing the audit. We encourage you to continuously evaluate your internal controls and closely monitor your system on a regular basis.

### Other Matters

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

### Restriction on Use

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

BAIRD, COTTER AND BISHOP, P.C.

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





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

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June 16, 2014

COMMUNICATION OF MATERIAL WEAKNESSES

To the Township Board  
Grant Township  
Grand Traverse County  
Buckley, Michigan

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in Grant Township's internal control to be material weaknesses:

*1) Segregation of Incompatible Duties and Documented Independent Review*

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

Condition: The government has several accounting functions that are performed by the same individual.

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

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

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

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

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

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

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

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

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

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

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

Grant Township's responses to the material weaknesses identified in our audit are described above. We did not audit Grant Township's response and, accordingly, we express no opinion on it.

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

BAIRD, COTTER AND BISHOP, P.C.

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