

**LAKE TOWNSHIP, MISSAUKEE COUNTY**

**LAKE CITY, MICHIGAN**

**MARCH 31, 2014**



**Baird, Cotter & Bishop, P.C.**  
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LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

MARCH 31, 2014

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www.bcbcpa.com

May 8, 2014

## INDEPENDENT AUDITOR'S REPORT

To the Township Board  
Lake Township  
Missaukee County  
Lake City, Michigan

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 Lake Township, Missaukee County, Lake City, Michigan as of and for the year ended March 31, 2014, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in 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 Lake Township, Missaukee County, Lake City, Michigan as of March 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 on pages iii through xi and 24 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 Lake Township's basic financial statements. The other information section is presented for purposes of additional analysis and is not a required part of the financial statements.

The Other Information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

BAIRD, COTTER AND BISHOP, P.C.

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

LAKE TOWNSHIP, MISSAUKEE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2014

The Management's Discussion and Analysis is intended to be the Lake Township Board's discussion and analysis of the financial results for the fiscal year ended March 31, 2014, along with specific comparative information as required.

**Financial Highlights**

- The assets of the Township exceeded its liabilities at the close of the fiscal year by \$5,190,616 (shown as *Net Position*). Of this amount, \$1,228,844 (*Unrestricted Net Position*) may be used to meet the Township's ongoing obligations to citizens and creditors.
- The Township's net position increased by \$26,908 during the fiscal year. Government activities had a \$122,549 increase, while business-type activities had a \$95,641 decrease.
- As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$1,088,686 an increase of \$49,412 in comparison with the prior year.
- The Township's Sewer Fund net position decreased by \$95,641 during the year to \$3,085,458.

**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.

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

LAKE TOWNSHIP, MISSAUKEE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2014

Both of the government-wide financial statements distinguish functions of the Townships that are principally supported by taxes and intergovernmental revenues (governmental activities) from 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, culture and recreation, other functions, and debt service. Business-type activities of the Township include sewer utility services.

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

### **Fund Financial Statements**

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

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

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

The Township maintains five 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, Fire Fund, Public Improvement Fund, Sewer Project #3 Fund, and Sewer Project #4 Fund, which are considered to be major funds.

Lake Township adopts an annual budget for the General Fund and all major special revenue funds. A budgetary comparison has been provided for the above mentioned funds to demonstrate compliance with this budget.

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

LAKE TOWNSHIP, MISSAUKEE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2014

***Proprietary Funds*** The Township uses enterprise funds to account for its sewer activity. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer activity, which is considered to be a major fund of Lake Township.

The basic proprietary fund financial statements can be found on pages 7-9 of this report.

***Fiduciary Funds*** Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support Lake Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Lake Township maintains one type of fiduciary fund. The Agency Fund reports resources held by the Township in a custodial capacity for individuals, private organizations and other governments.

The fiduciary fund financial statements can be found on page 10 of this report.

### **Notes to 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 can be found on pages 11-23 of this report.

### **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 \$5,190,616 at March 31, 2014, meaning the Township's assets were greater than its liabilities by this amount. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. A comparison with the previous fiscal year is presented in order to show the change in net position over the previous fiscal year.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2014

**Lake Township**  
**Net Position as of March 31,**

	<b>Governmental</b>		<b>Business-Type</b>		<b>Total Primary</b>	
	<b>Activities</b>		<b>Activities</b>		<b>Government</b>	
	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>
<b>Assets</b>						
Current Assets	\$ 1,039,274	\$ 1,092,333	\$ 135,200	\$ 145,628	\$ 1,174,474	\$ 1,237,961
Non Current Assets						
Capital Assets	1,287,822	1,337,552	4,795,787	4,798,719	6,083,609	6,136,271
Less: Accumulated Depreciation	(268,062)	(321,080)	(1,749,888)	(1,855,239)	(2,017,950)	(2,176,319)
Total Non Current Assets	<u>1,019,760</u>	<u>1,016,472</u>	<u>3,045,899</u>	<u>2,943,480</u>	<u>4,065,659</u>	<u>3,959,952</u>
<b>Total Assets</b>	<b><u>2,059,034</u></b>	<b><u>2,108,805</u></b>	<b><u>3,181,099</u></b>	<b><u>3,089,108</u></b>	<b><u>5,240,133</u></b>	<b><u>5,197,913</u></b>
<b>Liabilities</b>						
Current Liabilities	<u>76,425</u>	<u>3,647</u>	<u>0</u>	<u>3,650</u>	<u>76,425</u>	<u>7,297</u>
<b>Net Position</b>						
Invested in Capital Assets						
Net of Related Debt	944,760	1,016,472	3,045,899	2,943,480	3,990,659	3,959,952
Restricted for Specific Purposes	86,805	1,820	0	0	86,805	1,820
Unrestricted	<u>951,044</u>	<u>1,086,866</u>	<u>135,200</u>	<u>141,978</u>	<u>1,086,244</u>	<u>1,228,844</u>
Total Net Position	<b><u>\$ 1,982,609</u></b>	<b><u>\$ 2,105,158</u></b>	<b><u>\$ 3,181,099</u></b>	<b><u>\$ 3,085,458</u></b>	<b><u>\$ 5,163,708</u></b>	<b><u>\$ 5,190,616</u></b>

The most significant portions of the Township's net position are cash and investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt that is outstanding that the Township used to acquire the asset. The Township has \$1,228,844 in unrestricted net position. These assets represent resources that are available for appropriation, but are limited by Township policies regarding their use.

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

The total net position of the Township increased by \$26,908 in this fiscal year, which is an indicator that the Township experienced positive financial growth during the year. 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.



LAKE TOWNSHIP, MISSAUKEE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2014

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

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total Primary</u>	
	<u>Activities</u>		<u>Activities</u>		<u>Government</u>	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
<b><u>Revenues</u></b>						
<b>Program Revenues</b>						
Charges for Services	\$ 9,015	\$ 9,075	\$ 194,022	\$ 195,427	\$ 203,037	\$ 204,502
Operating Grants and Contributions	5,424	4,750	0	0	5,424	4,750
<b>General Revenues</b>						
Taxes	246,176	245,600	0	0	246,176	245,600
State Grants	204,172	209,871	0	0	204,172	209,871
Interest Earnings	1,033	841	94	96	1,127	937
Other	2,456	2,002	5,587	17,071	8,043	19,073
<b>Total Revenues</b>	<b>468,276</b>	<b>472,139</b>	<b>199,703</b>	<b>212,594</b>	<b>667,979</b>	<b>684,733</b>
<b><u>Expenses</u></b>						
General Government	175,055	145,572	0	0	175,055	145,572
Public Safety	68,480	67,764	0	0	68,480	67,764
Public Works	54,298	109,282	0	0	54,298	109,282
Culture and Recreation	1,799	7,798	0	0	1,799	7,798
Other Functions	17,104	17,747	0	0	17,104	17,747
Debt Service	4,306	1,427	0	0	4,306	1,427
Sewer	0	0	292,350	308,235	292,350	308,235
<b>Total Expenses</b>	<b>321,042</b>	<b>349,590</b>	<b>292,350</b>	<b>308,235</b>	<b>613,392</b>	<b>657,825</b>
Change in Net Position	147,234	122,549	(92,647)	(95,641)	54,587	26,908
<b>NET POSITION – Beginning of Year</b>	<b>1,835,375</b>	<b>1,982,609</b>	<b>3,273,746</b>	<b>3,181,099</b>	<b>5,109,121</b>	<b>5,163,708</b>
<b>NET POSITION – End of Year</b>	<b>\$ 1,982,609</b>	<b>\$ 2,105,158</b>	<b>\$ 3,181,099</b>	<b>\$ 3,085,458</b>	<b>\$ 5,163,708</b>	<b>\$ 5,190,616</b>

LAKE TOWNSHIP, MISSAUKEE COUNTY  
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 \$122,549 in the governmental funds. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This is true despite the fact that GASB 34 requires the Township 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.

A significant part of the revenue for all governmental activities of Lake Township comes from property taxes. The Township levied a millage for fire protection, in addition to the operating millage, this fiscal year. The Township levied 1.4434 mills for operating purposes, and 0.4479 mills for fire protection.

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

Capital grants represent grant dollars, whether federal, state, or local, that the Township has secured in order to assist in capital asset construction and infrastructure improvement within the Township. The contributions received during the current fiscal year represent special assessments and related interest used by the Township for sewer purposes.

The Township's governmental activities expenses are dominated by general governmental expenses. The Township spent \$145,572 in fiscal year 2014 on general government expenses.

**Business-Type Activities**

The Township utilizes a Sewer Fund to account for its sewer operations. Revenue is collected from customers within the Township. These charges for services totaled \$195,427 for 2014. Expenses for depreciation represent the largest portion of the Sewer Fund expenses at \$105,351.

The Sewer Fund is the Township's only business-type activity.

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

***Governmental Funds*** The focus of Lake Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Township itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Township Board.

At March 31, 2014, Lake Township's governmental funds reported combined fund balances of \$1,088,686, an increase of \$49,412 in comparison with the prior year. Of this amount, \$515,851 constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable*, *restricted*, or *committed* to indicate that it is 1) not

LAKE TOWNSHIP, MISSAUKEE COUNTY  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2014

in spendable form (\$1,923), 2) legally required to be maintained intact, 3) restricted for particular purposes (\$1,820), or 4) committed for particular purposes.

**General Fund** – The General Fund decreased its fund balance by \$66,013 which brings the fund balance to \$517,774. Of the General Fund’s fund balance, \$515,851 is unassigned.

**Fire Fund** – The Fire Fund decreased its fund balance by \$6,744 which brings the fund balance to \$1,820. This balance is restricted and must be used for fire protection.

The Township levied a fire millage on the 2013 tax roll. This resulted in \$57,620 in tax related revenues during the current fiscal year.

**Public Improvement Fund** – The Public Improvement Fund increased its fund balance by \$200,410 which brings the fund balance to \$569,092.

**Sewer Project #3 Debt Service Fund** – The Sewer Project #3 Debt Service Fund accounts for the servicing of long-term debt on Sewer Project #3 that is not being financed by proprietary or nonexpendable trust funds. The fund had no change to its fund balance of \$0 during the year.

**Sewer Project #4 Debt Service Fund** – The Sewer Project #4 Debt Service Fund accounts for the servicing of long-term debt on Sewer Project #4 that is not being financed by proprietary or nonexpendable trust funds. The fund decreased its fund balance during the year by \$78,241 which brings the fund balance to \$0.

**Proprietary Fund** The Township’s proprietary fund provides the same information as the government-wide statements.

**Sewer Fund** – The Sewer Fund ended the fiscal year with a decrease in net position of \$95,641. This is due largely to the deduction of depreciation expense on the fund’s capital assets.

**General Fund Budgetary Highlights**

During the year, the Township amended its general fund budget. A detailed summary of the original and amended budget can be found on page 25 of this report.

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	\$ 415,400	\$ 415,400	\$ 414,498
Total Expenditures	\$ 374,200	\$ 374,200	\$ 280,511

LAKE TOWNSHIP, MISSAUKEE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2014

The Township budgeted for fire protection, streets and roads repairs to the Township's roads, and cemetery improvements but did not incur as many expenditures as budgeted for. These are the principal reasons for the variance between budgeted and actual expenditures.

During the year, there was no increase in appropriations between the original budget and final amended budget. Following are the items that changed:

- \$22,500 increase in General Government expenditures.
- \$11,000 decrease in Public Works expenditures.
- \$11,500 decrease in Contingency expenditures.

**Capital Assets and Debt Administration**

**Capital Assets**

The Township's investment in capital assets for governmental and business-type activities as of March 31, 2014 amounted to \$3,959,952 net of accumulated depreciation.

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

**Lake Township**  
**Capital Assets as of March 31,**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>
Land	\$ 16,000	\$ 16,000	\$ 0	\$ 0	\$ 16,000	\$ 16,000
Buildings	439,895	439,895	0	0	439,895	439,895
Infrastructure	739,159	773,547	0	0	739,159	773,547
Improvements other than Buildings	80,272	95,614	4,688,714	4,688,714	4,768,986	4,784,328
Equipment, Furniture and Fixtures	12,496	12,496	107,073	110,005	119,569	122,501
	1,287,822	1,337,552	4,795,787	4,798,719	6,083,609	6,136,271
Less Accumulated Depreciation	268,062	321,080	1,749,888	1,855,239	2,017,950	2,176,319
Net Capital Assets	\$1,019,760	\$1,016,472	\$3,045,899	\$2,943,480	\$4,065,659	\$3,959,952

LAKE TOWNSHIP, MISSAUKEE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2014

*Major capital asset events during the current fiscal year included the following:*

- Improvements to Redman Island Bridge
- Cemetery fence
- Equipment for the Sewer Fund

**Economic Condition and Outlook**

It appears that state-shared revenues have stabilized and may increase during 2014-15.

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

**Request for Information**

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Lake Township at 8105 Kelly Road, Lake City, Michigan 49651.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

STATEMENT OF NET POSITION  
MARCH 31, 2014

	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTALS
<u>ASSETS</u>			
Cash	\$ 1,020,843	\$ 124,356	\$ 1,145,199
Receivables			
Accounts	0	23,912	23,912
External Parties (Fiduciary Funds)	17,605	0	17,605
Prepaid Expense	1,923	0	1,923
Due from Other Governments	49,322	0	49,322
Internal Balances	2,640	(2,640)	0
	<hr/>		
Total Current Assets	1,092,333	145,628	1,237,961
	<hr/>		
<u>CAPITAL ASSETS</u>			
Land	16,000	0	16,000
Buildings	439,895	0	439,895
Infrastructure	773,547	0	773,547
Improvements Other Than Buildings	95,614	4,688,714	4,784,328
Equipment, Furniture and Fixtures	12,496	110,005	122,501
	<hr/>		
	1,337,552	4,798,719	6,136,271
Less Accumulated Depreciation	(321,080)	(1,855,239)	(2,176,319)
	<hr/>		
Net Capital Assets	1,016,472	2,943,480	3,959,952
	<hr/>		
Total Assets	2,108,805	3,089,108	5,197,913
	<hr/>		
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Accounts Payable	1,648	3,650	5,298
Payroll Liabilities	1,999	0	1,999
	<hr/>		
Total Current Liabilities	3,647	3,650	7,297
	<hr/>		
<u>NET POSITION</u>			
Net Investments in Capital Assets	1,016,472	2,943,480	3,959,952
Restricted for Specific Purposes	1,820	0	1,820
Unrestricted	1,086,866	141,978	1,228,844
	<hr/>		
TOTAL NET POSITION	\$ 2,105,158	\$ 3,085,458	\$ 5,190,616
	<hr/> <hr/>		

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

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2014

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		TOTALS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
<u>GOVERNMENTAL ACTIVITIES</u>							
General Government	\$ 145,572	\$ 9,075	\$ 0	\$ 0	\$ (136,497)	\$ 0	\$ (136,497)
Public Safety	67,764	0	0	0	(67,764)	0	(67,764)
Public Works	109,282	0	4,656	0	(104,626)	0	(104,626)
Culture and Recreation	7,798	0	0	0	(7,798)	0	(7,798)
Other Functions	17,747	0	0	0	(17,747)	0	(17,747)
Debt Service	1,427	0	94	0	(1,333)	0	(1,333)
Total Governmental Activities	349,590	9,075	4,750	0	(335,765)	0	(335,765)
<u>BUSINESS-TYPE ACTIVITIES</u>							
Sewer System	308,235	195,427	0	0	0	(112,808)	(112,808)
TOTAL	\$ 657,825	\$ 204,502	\$ 4,750	\$ 0	(335,765)	(112,808)	(448,573)
<u>GENERAL REVENUES</u>							
Taxes					245,600	0	245,600
State Grants					209,871	0	209,871
Interest Earnings					841	96	937
Other					2,525	16,548	19,073
Transfers					(523)	523	0
Total General Revenues and Transfers					458,314	17,167	475,481
Change in Net Position					122,549	(95,641)	26,908
<u>NET POSITION</u> - Beginning of Year					1,982,609	3,181,099	5,163,708
<u>NET POSITION</u> - End of Year					\$ 2,105,158	\$ 3,085,458	\$ 5,190,616

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

LAKE TOWNSHIP, MISSAUKEE COUNTY

LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET

MARCH 31, 2014

	GENERAL FUND	FIRE FUND	PUBLIC IMPROVEMENT FUND	SEWER PROJECT #3	SEWER PROJECT #4	TOTALS
<u>ASSETS</u>						
Cash	\$ 449,952	\$ 1,799	\$ 569,092	\$ 0	\$ 0	\$ 1,020,843
Prepaid Expenditures	1,923	0	0	0	0	1,923
Due from Other Funds	20,224	21	0	0	0	20,245
Due from Other Governments	49,322	0	0	0	0	49,322
TOTAL ASSETS	<u>\$ 521,421</u>	<u>\$ 1,820</u>	<u>\$ 569,092</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,092,333</u>
<u>LIABILITIES AND FUND BALANCE</u>						
<u>LIABILITIES</u>						
Accounts Payable	\$ 1,648	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,648
Payroll Liabilities	1,999	0	0	0	0	1,999
Total Liabilities	<u>3,647</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,647</u>
<u>FUND BALANCE</u>						
Nonspendable:						
Prepaid Expenditures	1,923	0	0	0	0	1,923
Restricted for:						
Fire Protection	0	1,820	0	0	0	1,820
Committed for Public						
Improvements	0	0	569,092	0	0	569,092
Unassigned	515,851	0	0	0	0	515,851
Total Fund Balance	<u>517,774</u>	<u>1,820</u>	<u>569,092</u>	<u>0</u>	<u>0</u>	<u>1,088,686</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 521,421</u>	<u>\$ 1,820</u>	<u>\$ 569,092</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,092,333</u>

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



LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

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

Total Fund Balances for Governmental Funds \$ 1,088,686

Amounts reported for Governmental Activities in the  
Statement of Net Position are different because:

Capital assets used in Governmental Activities are not  
financial resources and therefore are not reported in the funds.

Land	\$ 16,000	
Buildings	439,895	
Infrastructure	773,547	
Improvements Other Than Buildings	95,614	
Equipment	12,496	
Accumulated Depreciation	<u>(321,080)</u>	<u>1,016,472</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 2,105,158

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

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

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

	GENERAL FUND	FIRE FUND	PUBLIC IMPROVEMENT FUND	SEWER PROJECT #3	SEWER PROJECT #4	TOTALS
<u>REVENUES</u>						
Taxes	\$ 187,980	\$ 57,620	\$ 0	\$ 0	\$ 0	\$ 245,600
State Grants	214,527	0	0	0	0	214,527
Charges for Services	7,625	0	0	0	0	7,625
Interest and Rents	1,841	0	410	2	38	2,291
Other Revenues	2,525	0	0	0	94	2,619
<b>Total Revenues</b>	<b>414,498</b>	<b>57,620</b>	<b>410</b>	<b>2</b>	<b>132</b>	<b>472,662</b>
<u>EXPENDITURES</u>						
General Government	181,375	0	0	0	0	181,375
Public Safety	3,400	64,364	0	0	0	67,764
Public Works	71,321	0	0	0	0	71,321
Culture and Recreation	6,668	0	0	0	0	6,668
Other Functions	17,747	0	0	0	0	17,747
Debt Service	0	0	0	2	77,850	77,852
<b>Total Expenditures</b>	<b>280,511</b>	<b>64,364</b>	<b>0</b>	<b>2</b>	<b>77,850</b>	<b>422,727</b>
Excess (Deficiency) of Revenues Over Expenditures	133,987	(6,744)	410	0	(77,718)	49,935
<u>OTHER FINANCING SOURCES (USES)</u>						
Transfers In	0	0	200,000	0	0	200,000
Transfers Out	(200,000)	0	0	0	(523)	(200,523)
<b>Total Other Financing Sources (Uses)</b>	<b>(200,000)</b>	<b>0</b>	<b>200,000</b>	<b>0</b>	<b>(523)</b>	<b>(523)</b>
<b>Net Change in Fund Balance</b>	<b>(66,013)</b>	<b>(6,744)</b>	<b>200,410</b>	<b>0</b>	<b>(78,241)</b>	<b>49,412</b>
<u>FUND BALANCE</u> - Beginning of Year	583,787	8,564	368,682	0	78,241	1,039,274
<u>FUND BALANCE</u> - End of Year	\$ 517,774	\$ 1,820	\$ 569,092	\$ 0	\$ 0	\$ 1,088,686

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

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, 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 \$ 49,412

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.

Depreciation Expense	(53,018)
Capital Outlay	49,730

Accrued interest on bonds is recorded in the Statement of Activities when incurred; it is not recorded in Governmental Funds until it is paid.

Accrued Interest Payable - Beginning of Year	1,425
Accrued Interest Payable - End of Year	0

Repayments of principal on long-term debt are an expenditure in the Governmental Funds, but not in the Statement of Activities (where they are a reduction of liabilities).	<u>75,000</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 122,549</u></u>
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The accompanying notes are an integral part of the financial statements.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

PROPRIETARY FUND

STATEMENT OF NET POSITION  
MARCH 31, 2014

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUND - MAJOR FUND

	<u>SEWER FUND</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 124,356
Accounts Receivable	23,912
	<hr/>
Total Current Assets	148,268
	<hr/>
<u>CAPITAL ASSETS</u>	
Equipment	110,005
Improvements Other Than Buildings	4,688,714
	<hr/>
	4,798,719
Less Accumulated Depreciation	1,855,239
	<hr/>
Net Capital Assets	2,943,480
	<hr/>
Total Assets	3,091,748
	<hr/>
<u>LIABILITIES AND NET POSITION</u>	
<u>LIABILITIES</u>	
Accounts Payables	3,650
Due to Other Funds	2,640
	<hr/>
Total Liabilities	6,290
	<hr/>
<u>NET POSITION</u>	
Net Investment in Capital Assets	2,943,480
Unassigned	141,978
	<hr/>
TOTAL NET POSITION	\$ 3,085,458
	<hr/> <hr/>

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

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
MARCH 31, 2014

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUND - MAJOR FUND

	<u>SEWER FUND</u>
<u>OPERATING REVENUES</u>	
Charges for Services	\$ 195,427
Other Revenue	16,548
	<hr/>
Total Operating Revenues	211,975
	<hr/>
<u>OPERATING EXPENSES</u>	
Administration and General	6,304
Plant	301,931
	<hr/>
Total Operating Expenses	308,235
	<hr/>
Operating Income (Loss)	(96,260)
	<hr/>
<u>NONOPERATING REVENUES (EXPENSES)</u>	
Interest Income	96
	<hr/>
Total Nonoperating Revenues (Expenses)	96
	<hr/>
Income Before Transfers	(96,164)
	<hr/>
Transfers In	523
	<hr/>
Change in Net Position	(95,641)
	<hr/>
<u>NET POSITION</u> - Beginning of Year	3,181,099
	<hr/>
<u>NET POSITION</u> - End of Year	\$ 3,085,458
	<hr/> <hr/>

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

LAKE TOWNSHIP, MISSAUKEE COUNTY

LAKE CITY, MICHIGAN

PROPRIETARY FUND

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2014

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUND - MAJOR FUND

	<u>SEWER FUND</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	
Cash Flows from Operating Activities	
Cash Received from Customers	\$ 204,377
Cash Payments to Suppliers for Goods and Services	(126,092)
Cash Payments to Employees for Services	(64,652)
Other Operating Revenues	16,548
	<hr/>
Net Cash Provided by Operating Activities	30,181
	<hr/>
Cash Flows from Noncapital Financing Activities	
Transfer from Other Fund	523
	<hr/>
Cash Flows from Capital and Related Financing Activities:	
Cash Payments for Purchases of Capital Assets	(2,932)
	<hr/>
Cash Flows from Investing Activities	
Interest Received	96
	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	27,868
	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	96,488
	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	\$ 124,356
	<hr/> <hr/>
<u>RECONCILIATION OF OPERATING INCOME</u>	
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	
Operating Income (Loss)	\$ (96,260)
	<hr/>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	105,351
(Increase) Decrease in Current Assets	
Accounts Receivable	8,950
Due from Other Funds	5,850
Increase (Decrease) in Current Liabilities	
Accounts Payable	3,650
Due to Other Funds	2,640
	<hr/>
Total Adjustments	126,441
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 30,181
	<hr/> <hr/>

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

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

FIDUCIARY FUND

STATEMENT OF FIDUCIARY NET POSITION  
MARCH 31, 2014

	<u>AGENCY</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 20,816
<u>LIABILITIES</u>	
Due to Other Governments	3,211
Due to Other Funds	17,605
Total Liabilities	20,816
<u>TOTAL NET POSITION</u>	\$ 0

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

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, 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 information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. Lake Township does not have any component units.

**B. Reporting Entity**

Lake Township is a general law township located in Missaukee County that operates under the direction of an elected township board.

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between government's water and sewer functions and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**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 proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

Lake 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.



LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

The *Fire Fund* accounts for revenue sources that are legally restricted to expenditure for fire protection.

The *Public Improvement Fund* accounts for revenue sources that are committed for improvements in the Township.

The *Sewer Project #3 Debt Service Fund* accounts for the servicing of long-term debt on Sewer Project #3 that is not being financed by proprietary or nonexpendable trust funds.

The *Sewer Project #4 Debt Service Fund* accounts for the servicing of long-term debt on Sewer Project #4 that is not being financed by proprietary or nonexpendable trust funds.

Lake Township reports the following major proprietary fund:

The *Sewer Fund* records financial activity of the Township's sewer system.

Additionally Lake Township reports the following fund type:

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

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

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

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

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

**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.

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

The proprietary funds are reported using the economic resources focus and the accrual basis of accounting. 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***

- Prior to April 1, the Township Supervisor submits to the Township Board a proposed operating budget for all governmental funds for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

- The Township Board holds a public hearing and adopts a resolution approving the budgets.
- All transfers of budget amounts between functions within the General Fund and any revisions that alter the total expenditures of any fund must be approved by the Township Board.
- Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
- Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). All appropriations lapse at year-end. Budgeted amounts are as originally adopted, or as amended by the Township Board from time to time throughout the year.
- Encumbrance accounting is not employed in governmental funds.

**G. Assets, Liabilities, 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 Board has authorized the Township Treasurer to invest in the following:

The Treasurer may invest Township funds in certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank but only if the bank, savings and loan association, or credit union meets all criteria as a depository of public funds contained in state law. The standard of prudence to be used shall be the "fiduciary" standard and shall be applied in context of managing an overall portfolio.

The prior approval of the Township Board shall be required for the Treasurer to invest in any other lawful investment instruments. The Township Board's standard of prudence shall be the "fiduciary" standard, which shall be applied in context of managing an overall portfolio. The Township Board may authorize the Treasurer to invest in the following:

- a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b) Repurchase agreements consisting of instruments listed above.
- c) 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.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

- d) Bankers' acceptances of United States banks.
- e) 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.
- f) 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 or the following:
  - (1) The purchase of securities on a when-issued or delayed delivery basis.
  - (2) 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.
  - (3) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- g) Obligations described above if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- h) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.110 to 129.118.
- i) The investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

**2. *Inventories and Prepaid Items***

Inventories are not significant and are expensed as acquired.

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

**3. *Capital Assets***

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

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

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. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

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	50
Building Improvements	20
Public Domain Infrastructure	50
System Infrastructure	20
Vehicles	5
Equipment	5-10

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

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

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

***5. Net Position Flow Assumption***

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary 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 – net position to have been depleted before unrestricted – net position is applied.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

**6. *Fund Balance Flow Assumption***

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

**7. *Fund Balance Policies***

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing board is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an addition action is essential to either remove or revise a commitment.

**8. *Long-Term Obligations***

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as expenditures in the year in which they are incurred.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**9. *Use of Estimates***

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

**H. Revenues and Expenditures/Expenses**

**1. *Program Revenues***

Amounts reported as program revenue include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes and other internally dedicated resources are reported as general revenues rather than as program revenues.

**2. *Property Taxes***

The 2013 taxable valuation of the Lake Township totaled \$128,727,600, on which ad valorem taxes levied consisted of 1.4434 mills for operating purposes, and 0.4479 mills for fire protection.

**3. *Proprietary Funds Operating and Nonoperating Revenues and Expenses***

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. Eventually, the principal operating revenues of the sewer fund are charges to customers for services. Operating expenses for enterprise funds include cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year-end. Budgeted amounts presented are as originally adopted on March 27, 2013, or as amended by the Township Board from time to time throughout the year.

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

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

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The Township's deposits are all on deposit with Chemical Bank West in Lake City, Michigan.

*Custodial Credit Risk – Deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2014, \$522,925 of the government's bank balance of \$1,171,142 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the Township's investment policy does not directly address custodial credit risk, it typically limits its exposure by controlling who holds the Township's deposits.

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

**B. Receivables**

Receivables as of year-end for the government's individual major funds in aggregate, including the applicable allowances for uncollectible accounts are as follows:

Due from Other Governments	General \$ 49,322
----------------------------	----------------------

Amounts due from other governments include amounts consisting primarily of state-shared revenues.

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



LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

**C. Capital Assets**

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital assets, not being depreciated				
Land	\$ 16,000	\$ 0	\$ 0	\$ 16,000
Capital assets, being depreciated				
Buildings	439,895	0	0	439,895
Equipment, Furniture and Fixtures	12,496	0	0	12,496
Improvements Other Than Buildings	80,272	15,342	0	95,614
Infrastructure	739,159	34,388	0	773,547
Total capital assets, being depreciated	1,271,822	49,730	0	1,321,552
Less accumulated depreciation for:				
Buildings	74,142	10,724	0	84,866
Equipment, Furniture and Fixtures	12,497	0	0	12,497
Improvements Other Than Buildings	10,611	4,333	0	14,944
Infrastructure	170,812	37,961	0	208,773
Total accumulated depreciation	268,062	53,018	0	321,080
Total capital assets, being depreciated, net	1,003,760	(3,288)	0	1,000,472
Governmental activities capital assets, net	<u>\$ 1,019,760</u>	<u>\$ (3,288)</u>	<u>\$ 0</u>	<u>\$ 1,016,472</u>
<u>Business-Type Activities</u>				
Capital assets, being depreciated				
Improvements Other than Buildings	\$ 4,688,714	\$ 0	\$ 0	\$ 4,688,714
Machinery and Equipment	107,073	2,932	0	110,005
Total capital assets, being depreciated	4,795,787	2,932	0	4,798,719
Less accumulated depreciation for:				
Improvements Other than Buildings	1,684,131	94,365	0	1,778,496
Machinery and Equipment	65,757	10,986	0	76,743
Total accumulated depreciation	1,749,888	105,351	0	1,855,239
Business-type activities capital assets, net	<u>\$ 3,045,899</u>	<u>\$ (102,419)</u>	<u>\$ 0</u>	<u>\$ 2,943,480</u>

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

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

Governmental Activities	
General Government	\$ 13,927
Public Works	37,961
Culture and Recreation	1,130
	<u>\$ 53,018</u>
Business-Type Activities	
Sewer	\$ 105,351
	<u>\$ 105,351</u>

**D. 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	\$ 20,224	\$ 0
Fire Fund	21	0
Enterprise Funds		
Sewer	0	2,640
Fiduciary Funds		
Current Tax Collection Fund	0	17,605
	<u>\$ 20,245</u>	<u>\$ 20,245</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All interfund balances outstanding at March 31, 2014, are expected to be repaid within one year.

Interfund Transfers as of March 31, 2014, were:

<u>Primary Government</u>	<u>TRANSFERS</u>	
	<u>IN</u>	<u>OUT</u>
General Fund	\$ 0	\$ 200,000
Public Improvement Fund	200,000	0
Sewer Project #4 Fund	0	523
Sewer Fund	523	0
	<u>\$ 200,523</u>	<u>\$ 200,523</u>

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

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

**E. Long-Term Debt**

The following is a summary of the long-term debt transactions of the Township for the year ended March 31, 2014:

	<u>SPECIAL ASSESSMENT BONDS</u>
Debt Payable at April 1, 2013	\$ 75,000
New Debt Incurred	0
Debt Retired	<u>75,000</u>
Debt Payable at March 31, 2014	<u>\$ 0</u>
Due Within One Year	<u>\$ 0</u>

The total interest incurred for the year ended March 31, 2014, was \$2,850.

**F. Commitments**

As of March 31, 2014, the Township has committed to paying a contractor for work done to build a pavilion that is to be completed in the 2014-2015 fiscal year. The total additional cost to the Township is expected to be \$25,577. Additionally, the Township has committed to paying an engineering firm for work done to develop trail alignment mapping within the township that is to be completed in the 2014-2015 fiscal year. The total additional cost to the township is expected to be \$3,712.

**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, errors and omissions insurance and workers' compensation. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2014

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

**B. Fire Protection**

The joint venture agreement with the City of Lake City calls for a cost sharing arrangement whereby the Township contributes a percentage of Fire Department expenditures based on provisions of the agreement. As of March 31, 2014, the Township has contributed \$64,364 to the new Fire Department. The agreement also calls for the recordkeeping to be performed by the City of Lake City, and included in the City's audited financial statements. A copy of these financial statements may be obtained upon request from the City of Lake City.

**C. Retirement Plan**

The Township has a defined contribution pension plan with Municipal Retirement Systems, Inc., which covers Township employees who have satisfied the eligibility requirements. Each employee becomes eligible for coverage on the first policy anniversary date after the employee reaches age 18. An employee's normal retirement date is age 65 or the 5th anniversary of the first day of the plan year in which participation in the plan is commenced.

The formula for determining contributions is based on an employee's annual compensation. Annual compensation is based on compensation which coincides with the calendar year coinciding with or ending within the plan year. Plan year is April 1st to March 31st of the following year. The Township has elected to contribute 12% of compensation to the plan annually. Past service credit is calculated as 3% of current compensation for each year of past service to a maximum of 10 years.

Township contributions to the plan for 2013-14 plan year amounted to \$14,087. Of the \$14,087 in contributions, \$7,035 was paid out of the Sewer Fund. In addition, the Township paid \$140 in service fees. Total wages for those covered under the plan was \$117,389 and total wages for the employees including non-covered payroll was \$125,301.

**D. Due from Other Governments**

Amounts due from other governments consist of \$49,322 in state-shared revenues.

**E. Statement of Cash Flows**

For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

**F. Subsequent Events**

In April, 2014, the Board approved to pay \$13,915 for tanks for a new septicage receiving station. No adjustments were made to the financial statements for the year ending March 31, 2014, related to this subsequent event.

LAKE TOWNSHIP, MISSAUKEE COUNTY  
LAKE CITY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>GENERAL FUND</u>			<u>FIRE FUND</u>		
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>						
Taxes	\$ 185,000	\$ 185,000	\$ 187,980	\$ 65,000	\$ 65,000	\$ 57,620
State Grants	220,000	220,000	214,527	0	0	0
Charges for Services	7,000	7,000	7,625	0	0	0
Interest and Rents	2,400	2,400	1,841	0	0	0
Other Revenues	1,000	1,000	2,525	0	0	0
Total Revenues	415,400	415,400	414,498	65,000	65,000	57,620
<u>EXPENDITURES</u>						
General Government						
Township Board	22,000	22,000	14,451	0	0	0
Supervisor	15,050	15,050	13,697	0	0	0
Election	2,500	2,500	508	0	0	0
Assessor	52,000	52,000	46,186	0	0	0
Legal Fees	11,000	11,000	3,427	0	0	0
Clerk	17,150	17,150	14,513	0	0	0
Board of Review	2,500	2,500	1,358	0	0	0
Treasurer	35,800	35,800	35,194	0	0	0
Building and Grounds	16,000	20,500	17,533	0	0	0
Cemetery	20,000	38,000	22,731	0	0	0
Conservation Activities	14,500	14,500	11,777	0	0	0
Public Safety						
Ordinance Enforcement	2,500	2,500	2,165	0	0	0
Fire Protection	21,000	21,000	1,235	65,000	65,000	64,364
Public Works						
Highways, Streets and Bridges	75,000	57,000	47,839	0	0	0
Street Lighting	18,000	25,000	23,482	0	0	0
Culture and Recreation						
Parks and Recreation	9,200	9,200	6,668	0	0	0
Other Functions	25,000	25,000	17,747	0	0	0
Contingency	15,000	3,500	0	0	0	0
Total Expenditures	374,200	374,200	280,511	65,000	65,000	64,364
Excess (Deficiency) of Revenues Over Expenditures	41,200	41,200	133,987	0	0	(6,744)
<u>OTHER FINANCING SOURCES (USES)</u>						
Transfers In	0	0	0	0	0	0
Transfers Out	(10,000)	(10,000)	(200,000)	0	0	0
Total Other Financing Sources (Uses)	(10,000)	(10,000)	(200,000)	0	0	0
Net Change in Fund Balance	31,200	31,200	(66,013)	0	0	(6,744)
<u>FUND BALANCE</u> - Beginning of Year	400,000	500,000	583,787	65,000	65,000	8,564
<u>FUND BALANCE</u> - End of Year	\$ 431,200	\$ 531,200	\$ 517,774	\$ 65,000	\$ 65,000	\$ 1,820

LAKE TOWNSHIP, MISSAUKEE COUNTY

LAKE CITY, MICHIGAN

STATEMENT OF 2009 BONDS PAYABLE

MARCH 31, 2014

<u>TITLE</u>	Limited Tax Drain Assessment Refunding Bonds, Series 2009	
<u>PURPOSE</u>	The bonds were issued under to provisions of Chapter 20, of Act No. 40 Public Acts of Michigan, 1956, as amended. The bonds were issued to pay the principal and interest on the Bonds from revenues received from the collection of special assessments and debt service charges levied by the Township on customers of the sanitary sewer system constructed by the Drainage District from the proceeds of the Bonds to be Refunded to serve portions of the Township.	
<u>DATE OF ISSUE</u>	March 18, 2009	
<u>AMOUNT OF ISSUE</u>	\$ 420,000	
<u>INTEREST RATE</u>	4.00%	
<u>BALANCE OUTSTANDING</u> - April 1, 2013	\$	75,000
Amount Redeemed During Current Year		<u>75,000</u>
<u>BALANCE OUTSTANDING</u> - March 31, 2014	\$	<u>0</u>

PRIOR REDEMPTION

Bonds in multiples of \$1,000 of this issue maturing in the years 2010 to 2014, inclusive, shall be subject to redemption prior to maturity at the option of the District in such order as the District shall determine, on any interest payment date on or after October 1, 2009, at par plus accrued interest to the date fixed for redemption, without premium.

In case less than the full amount of an outstanding bond is presented for redemption, the Bond Registrar, upon presentation of the bond called for redemption, shall register, authenticate and deliver to the registered owner of record new bonds in the principle amount of the original bond not called for redemption.

The Bonds are transferable only upon the books of the District kept for that purpose at the office of the Bond Registrar by the Registered Owner thereof in person, or by, his attorney duly authorized in writing, upon the surrender of such Bond together with a written instrument of transfer satisfactory to the Bond Registrar duly executed by the Registered Owner or his attorney duly authorized in writing, and thereupon a new registered Bond or Bonds in the same aggregate principal amount and of the same interest rate and maturity shall be issued to the transferee in exchange therefore as provided in the resolution authorizing the Bonds, and upon payment of the charges, if any, therein prescribed.



# Baird, Cotter & Bishop, P.C.

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CERTIFIED PUBLIC ACCOUNTANTS

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

May 8, 2014

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

To the Township Board  
Lake Township  
Missaukee County  
Lake City, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lake 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, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 12, 2014. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Lake Township are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013-2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

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

### *Difficulties Encountered in Performing the Audit*

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

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### *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 May 8, 2014.

### *Management Consultations with Other Independent Accountants*

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

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Lake Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

#### Description of Receipts

We recommend that receipts issued include as much detail as possible as to the nature of the transaction. This will facilitate easier recordkeeping within the Township, and improve efficiency and accuracy.



### Sewer Fund Payments Received Reports

During the audit process it came to our attention that not all of the reports had been printed and included in the binder for the payments received from the sewer users. As receipts are entered into the Manatron software, reports should be printed for that day's receipts.

### Bank Reconciliation Review

We recommend that a board member review and initial the bank statement each month. This control helps to mitigate the risk associated with the limited number of personnel involved in the accounting process.

### Other Matters

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

We were not engaged to report on the Other Information section, which accompanies the financial statements but is not the RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

### Restriction on Use

This information is intended solely for the use of the Township Board and management of Lake Township and is not intended to be and should not be used by anyone other than these specific parties.

BAIRD, COTTER AND BISHOP, P.C.

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



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May 8, 2014

**COMMUNICATION OF SIGNIFICANT DEFICIENCIES  
AND MATERIAL WEAKNESSES**

To the Township Board  
Lake Township  
Missaukee County  
Lake City, Michigan

In planning and performing our audit of the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Lake 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 Lake Township's internal control over financial reporting (internal control) as a basis for designing our auditing 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 Lake Township's internal control. Accordingly, we do not express an opinion on the effectiveness of Lake Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

We noted certain matters that we reported to management of the Lake Township in a separate letter dated May 8, 2014.

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

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

BAIRD, COTTER AND BISHOP, P.C.

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