

Little Traverse
Township,
Emmet County,
Michigan

Year Ended
March 31, 2014

Financial
Statements

LITTLE TRAVERSE TOWNSHIP

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INDEPENDENT AUDITORS' REPORT

September 17, 2014

Township Board
Little Traverse Township
Harbor Springs, 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 *Little Traverse Township, Emmet County, Michigan*, (the "Township"), 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.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the *Little Traverse Township* as of March 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund, 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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township's basic financial statements. The statement of changes in assets and liabilities - agency fund - tax collection fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The statement of changes in assets and liabilities - agency fund - tax collection fund 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 it.

Rehmann Johnson LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

LITTLE TRAVERSE TOWNSHIP, EMMET COUNTY, MICHIGAN

Management's Discussion and Analysis

As management of *Little Traverse Township, Emmet County, Michigan* (the "Township"), we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2014. The Township is subject to a biannual audit, therefore we presented an analysis for the Township's fiscal year 2014 compared with the previous audited period, fiscal year 2012.

Financial Highlights for the year ended March 31, 2014

- The Township's total net position increased by \$72,691 to \$2,855,719.
- The General Fund operated substantially within its final amended budget for the year ended March 31, 2014.
- The Township repaid \$10,000 of long-term debt during the current fiscal year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$237,650 or 36% percent of total General Fund expenditures.

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 comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The statement of net position presents 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 most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal 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 for services (business-type activities). The governmental activities of the Township include general government, public safety, public works and recreation and culture. The business-type activities of the Township include water utility and sewage disposal utility operations.

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. The funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

LITTLE TRAVERSE TOWNSHIP, EMMET COUNTY, MICHIGAN

Management's Discussion and Analysis

Because the focus of the governmental fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental fund 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 Township's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between the governmental fund and governmental activities.

The Township maintains one governmental fund, which is the General Fund.

The Township adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

Proprietary Funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses enterprise funds to account for its water and sewer operations.

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 Sewage Disposal Utility Fund and Water Utility Fund, both of which are considered to be major funds of the Township.

Fiduciary Fund. The Fiduciary Fund is used to account for resources held for the benefit of parties outside the government. The Fiduciary Fund is 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 accounting used for fiduciary funds is much like that used for proprietary funds.

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

Government-Wide Financial Analysis - Primary Government

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Township, assets exceeded liabilities by approximately \$2,856,000 at the close of fiscal year 2014.

| | Net Position | | | | | |
|----------------------------------|-------------------------|--------------------|--------------------------|--------------------|--------------------|--------------------|
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2014 | 2012 | 2014 | 2012 | 2014 | 2012 |
| Current and other assets | \$ 580,640 | \$ 582,677 | \$ 479,352 | \$ 313,468 | \$1,059,992 | \$ 896,145 |
| Capital assets, net | 964,476 | 908,031 | 833,847 | 962,016 | 1,798,323 | 1,870,047 |
| Total assets | 1,545,116 | 1,490,708 | 1,313,199 | 1,275,484 | 2,858,315 | 2,766,192 |
| Current and other liabilities | 2,207 | 6,837 | 389 | 474 | 2,596 | 7,311 |
| Long-term liabilities | - | 20,000 | - | - | - | 20,000 |
| Total liabilities | 2,207 | 26,837 | 389 | 474 | 2,596 | 27,311 |
| Net position | | | | | | |
| Net investment in capital assets | 964,476 | 888,031 | 833,847 | 962,016 | 1,798,323 | 1,850,047 |
| Restricted | 311,604 | 339,973 | - | - | 311,604 | 339,973 |
| Unrestricted | 266,829 | 235,867 | 478,963 | 312,994 | 745,792 | 548,861 |
| Total net position | \$1,542,909 | \$1,463,871 | \$1,312,810 | \$1,275,010 | \$2,855,719 | \$2,738,881 |

LITTLE TRAVERSE TOWNSHIP, EMMET COUNTY, MICHIGAN

Management's Discussion and Analysis

A significant portion of the Township's net position (63%) reflects its investment in capital assets (e.g., land, buildings, equipment and water system), less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion (11%) of the Township's net position represents the resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (26%) may be used to meet the Township's ongoing obligations to citizens and creditors.

| | Change in Net Position | | | | | |
|----------------------------|-------------------------|--------------------|--------------------------|--------------------|--------------------|--------------------|
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2014 | 2012 | 2014 | 2012 | 2014 | 2012 |
| Program revenues: | | | | | | |
| Charges for services | \$ 7,705 | \$ 7,926 | \$ 524,577 | \$ 519,547 | \$ 532,282 | \$ 527,473 |
| General revenues: | | | | | | |
| Property taxes | 517,071 | 518,105 | - | - | 517,071 | 518,105 |
| State revenue | 181,678 | 174,156 | - | - | 181,678 | 174,156 |
| Interest and rent | 4,514 | 2,801 | 1,013 | 1,508 | 5,527 | 4,309 |
| Miscellaneous | 923 | 7,877 | - | - | 923 | 7,877 |
| Total revenues | <u>711,891</u> | <u>710,865</u> | <u>525,590</u> | <u>521,055</u> | <u>1,237,481</u> | <u>1,231,920</u> |
| Expenses: | | | | | | |
| General government | 231,075 | 239,074 | - | - | 231,075 | 239,074 |
| Public safety | 107,317 | 120,438 | - | - | 107,317 | 120,438 |
| Public works | 273,961 | 287,842 | - | - | 273,961 | 287,842 |
| Recreation and culture | 33,193 | 23,388 | - | - | 33,193 | 23,388 |
| Interest on long-term debt | 476 | 2,328 | - | - | 476 | 2,328 |
| Sewage disposal | - | - | 375,610 | 401,355 | 375,610 | 401,355 |
| Water | - | - | 143,158 | 131,475 | 143,158 | 131,475 |
| Total expenses | <u>646,022</u> | <u>673,070</u> | <u>518,768</u> | <u>532,830</u> | <u>1,164,790</u> | <u>1,205,900</u> |
| Change in net position | 65,869 | 37,795 | 6,822 | (11,775) | 72,691 | 26,020 |
| Net position: | | | | | | |
| Beginning of year | <u>1,477,040</u> | <u>1,426,076</u> | <u>1,305,988</u> | <u>1,286,785</u> | <u>2,783,028</u> | <u>2,712,861</u> |
| End of year | <u>\$1,542,909</u> | <u>\$1,463,871</u> | <u>\$1,312,810</u> | <u>\$1,275,010</u> | <u>\$2,855,719</u> | <u>\$2,738,881</u> |

During the fiscal year ending March 31, 2014, the Township invested \$273,961 or 42% of governmental activities expenses in public works. General government activities, which include general Township operations, were \$231,075 or 36% of governmental activities while public safety, recreation and culture, and interest on long-term debt made up the remaining 22% of governmental activities expenses. Total expenses of the Governmental Activities decreased compared to fiscal year 2012 by approximately \$27,000. The main reason for this decrease is the cost and timing of planned road projects for the Township, which amounted to approximately \$20,000 less in fiscal year 2014 than 2012.

Business-type activities increased the Township's net position by approximately \$37,800 from fiscal year 2012 to 2014. Sewage disposal expenses decreased by approximately \$26,000 due to Bear Creek Township being accepted into the shared contract with the Harbor Springs Area Sewage Disposal Authority during 2012. The Township's portion of costs related to treatment and bond indebtedness were then reduced by Bear Creek Township's addition to the Authority.

Financial Analysis of the Township's Funds

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

LITTLE TRAVERSE TOWNSHIP, EMMET COUNTY, MICHIGAN

Management's Discussion and Analysis

Governmental Fund. The focus of the Township's governmental fund 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 the Township's net resources available for spending at the end of the fiscal year. The information related to the governmental fund's fund balance reflects implementation of GASB 54 which greatly changed how fund balance is classified on the Balance Sheet.

At the end of the current fiscal year, unassigned fund balance of the General Fund was approximately \$238,000. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents approximately 36% percent of fiscal year 2014 total General Fund expenditures.

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

Unrestricted net position of the Sewage Disposal Utility fund at the end of the year amounted to approximately \$313,000. The Sewage Disposal Utility fund had an increase in net position of approximately of \$120,000 from fiscal year 2012 to fiscal year 2014. This was mainly attributable to a reduction in expenses related the addition of Bear Creek Township to the Harbor Springs Area Sewage Authority shared costs.

Unrestricted net position of the Water Utility fund at the end of the year amounted to approximately \$166,000. The Water Utility fund had a decrease in net position of approximately \$82,400 from fiscal year 2012 to fiscal year 2014. This decrease in net position is mainly attributable to excess depreciation over net revenues of the Township.

General Fund Budgetary Highlights

The fund balance of the Township's General Fund increased by approximately \$48,000 during the current fiscal year, compared to a budgeted increase of approximately \$35,000. Many factors contributed to this change during the year, such as an increase in expected interest revenue and decrease in related functional expenditures.

Capital Assets

The Township's capital assets for its governmental and business-type activities as of March 31, 2014, amounted to \$1,798,323 (net of accumulated depreciation). This investment in capital assets includes land and land improvements, buildings and improvements, equipment and the water system. The Township's investment in capital assets had a net decrease of approximately 4% percent from fiscal year 2012 to fiscal year 2014. The most significant asset additions during fiscal year's 2013 and 2014 included a remodel of the Township Hall conference room of approximately \$25,000 and an upgrade to the Warren Street Storm Sewer of approximately \$28,500.

| | Capital Assets (Net of Depreciation) | | | | | |
|----------------------------|--------------------------------------|-------------------|--------------------------|-------------------|---------------------|---------------------|
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2014 | 2012 | 2014 | 2012 | 2014 | 2012 |
| Land | \$ 382,270 | \$ 382,270 | \$ - | \$ - | \$ 382,270 | \$ 382,270 |
| Land improvements | 187,292 | 118,804 | - | - | 187,292 | 118,804 |
| Buildings and improvements | 373,719 | 378,696 | - | - | 373,719 | 378,696 |
| Equipment | 20,479 | 14,243 | - | - | 20,479 | 14,243 |
| Computer equipment | 716 | 14,018 | - | - | 716 | 14,018 |
| Water system | - | - | 833,847 | 962,016 | 833,847 | 962,016 |
| Total | \$ 964,476 | \$ 908,031 | \$ 833,847 | \$ 962,016 | \$ 1,798,323 | \$ 1,870,047 |

Additional information on the Township's capital assets can be found in Note 7.

LITTLE TRAVERSE TOWNSHIP, EMMET COUNTY, MICHIGAN

Management's Discussion and Analysis

Economic Factors and Next Year's Budgets.

The following factors were considered in preparing the Township's budget for the 2014-2015 fiscal year:

The Township considered an increase in property values and a slightly improved economy accounting for approximately \$17,000 in increased anticipated revenues for 2014-2015.

The Township considered its planned capital improvements when preparing the budget for the 2014-2015 fiscal year. Planned improvements include approximately \$10,000 for additional lot markers at the cemetery, \$13,000 for resurfacing and striping the Township Hall parking lot and equipping the new conference room. Sewer system improvements include \$13,000 for replacing frozen grinder pump lines in the resort area. Water system improvements include \$32,000 for a Supervisory Control and Data Acquisition ("SCADA") system.

The Township continues to include significant expenditures for road projects in its annual budgets. Total budgeted amounts for highways for the 2014-2015 fiscal year is approximately \$304,000.

In addition 2014-2015 is an election year with four scheduled elections and the bi-annual audit requiring an additional \$8,100.

The Township started a restricted capital improvement account in 2013-2014 to replace trails over time, and will continue to set aside \$5,000 per year for that purpose.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the Township's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Township Supervisor, 8288 S. Pleasantview Road, Harbor Springs, MI 49740. The Township Supervisor may also be reached at (231) 526-0351.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

LITTLE TRAVERSE TOWNSHIP

Statement of Net Position March 31, 2014

| | Primary Government | | |
|---------------------------------------|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total |
| Assets | | | |
| Cash and cash equivalents | \$ 501,597 | \$ 326,521 | \$ 828,118 |
| Receivables | 79,043 | 152,831 | 231,874 |
| Capital assets not being depreciated | 382,270 | - | 382,270 |
| Capital assets being depreciated, net | 582,206 | 833,847 | 1,416,053 |
| Total assets | <u>1,545,116</u> | <u>1,313,199</u> | <u>2,858,315</u> |
| Liabilities | | | |
| Accrued liabilities | <u>2,207</u> | <u>389</u> | <u>2,596</u> |
| Net position | | | |
| Net investment in capital assets | 964,476 | 833,847 | 1,798,323 |
| Restricted for: | | | |
| Roads | 311,604 | - | 311,604 |
| Unrestricted | <u>266,829</u> | <u>478,963</u> | <u>745,792</u> |
| Total net position | <u>\$ 1,542,909</u> | <u>\$ 1,312,810</u> | <u>\$ 2,855,719</u> |

The accompanying notes are an integral part of these basic financial statements.

LITTLE TRAVERSE TOWNSHIP

Statement of Activities

For The Year Ended March 31, 2014

| Functions / Programs | Expenses | Program Revenues | Net (Expense) Revenue |
|--------------------------------|---------------------|----------------------|-----------------------|
| | | Charges for Services | |
| Primary government | | | |
| Governmental activities: | | | |
| General government | \$ 231,075 | \$ 6,860 | \$ (224,215) |
| Public safety | 107,317 | 845 | (106,472) |
| Public works | 273,961 | - | (273,961) |
| Recreation and culture | 33,193 | - | (33,193) |
| Interest on long-term debt | 476 | - | (476) |
| Total governmental activities | <u>646,022</u> | <u>7,705</u> | <u>(638,317)</u> |
| Business-type activities: | | | |
| Sewage disposal utility | 375,610 | 421,537 | 45,927 |
| Water utility | 143,158 | 103,040 | (40,118) |
| Total business-type activities | <u>518,768</u> | <u>524,577</u> | <u>5,809</u> |
| Total primary government | <u>\$ 1,164,790</u> | <u>\$ 532,282</u> | <u>\$ (632,508)</u> |

Continued...

The accompanying notes are an integral part of these basic financial statements.

LITTLE TRAVERSE TOWNSHIP

Statement of Activities

For The Year Ended March 31, 2014

| | Primary Government | | |
|---------------------------------|-------------------------|--------------------------|--------------|
| | Governmental Activities | Business-type Activities | Total |
| Changes in net position | | | |
| Net revenue (expense) | \$ (638,317) | \$ 5,809 | \$ (632,508) |
| General revenues: | | | |
| Taxes | 517,071 | - | 517,071 |
| State revenue | 181,678 | - | 181,678 |
| Interest and rent | 4,514 | 1,013 | 5,527 |
| Miscellaneous | 923 | - | 923 |
| Total general revenues | 704,186 | 1,013 | 705,199 |
| Change in net position | 65,869 | 6,822 | 72,691 |
| Net position, beginning of year | 1,477,040 | 1,305,988 | 2,783,028 |
| Net position, end of year | \$ 1,542,909 | \$ 1,312,810 | \$ 2,855,719 |

Concluded

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

FUND FINANCIAL STATEMENTS

LITTLE TRAVERSE TOWNSHIP

Balance Sheet

Governmental Fund - General Fund

March 31, 2014

Assets

| | |
|--------------------------------|---------------|
| Cash and cash equivalents | \$ 501,597 |
| Accounts receivable | 278 |
| Due from other governments | 25,751 |
| Special assessments receivable | 24,179 |
| Taxes receivable | <u>28,835</u> |

Total assets

\$ 580,640

Liabilities

| | |
|---------------------|-----------------|
| Accrued liabilities | <u>\$ 2,207</u> |
|---------------------|-----------------|

Deferred inflow of resources

| | |
|---------------------|---------------|
| Unavailable revenue | <u>24,179</u> |
|---------------------|---------------|

Fund balance

| | |
|--------------------|----------------|
| Restricted - roads | 311,604 |
| Assigned - trails | 5,000 |
| Unassigned | <u>237,650</u> |

Total fund balances

554,254

Total liabilities, deferred inflow of resources and fund balances

\$ 580,640

The accompanying notes are an integral part of these basic financial statements.

LITTLE TRAVERSE TOWNSHIP

Reconciliation

Fund Balance of Governmental Fund
to Net Position of Governmental Activities
March 31, 2014

Fund balance - total governmental funds \$ 554,254

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 not reported in the fund statement.

| | |
|---------------------------------------|---------|
| Capital assets not being depreciated | 382,270 |
| Capital assets being depreciated, net | 582,206 |

Revenues in the statement of activities that do not provide current
financial resources are not reported as revenues in the funds,
but rather are deferred to a future fiscal year.

| | |
|---------------------|---------------|
| Special Assessments | <u>24,179</u> |
|---------------------|---------------|

| | |
|---|----------------------------|
| Net position of governmental activities | <u><u>\$ 1,542,909</u></u> |
|---|----------------------------|

The accompanying notes are an integral part of these basic financial statements.

LITTLE TRAVERSE TOWNSHIP

Statement of Revenue, Expenditures and Changes in Fund Balance

Governmental Fund - General Fund
For The Year Ended March 31, 2014

| | |
|---------------------------------|-------------|
| Revenues | |
| Taxes | \$ 517,071 |
| State revenue | 181,678 |
| Charges for services | 7,705 |
| Interest and rent | 4,514 |
| Other revenue | 4,248 |
| | <hr/> |
| Total revenues | 715,216 |
| | <hr/> |
| Expenditures | |
| Current: | |
| General government | 219,110 |
| Public safety | 107,317 |
| Public works | 287,557 |
| Recreation and culture | 42,851 |
| Debt service: | |
| Principal | 10,000 |
| Interest | 476 |
| | <hr/> |
| Total expenditures | 667,311 |
| | <hr/> |
| Net change in fund balance | 47,905 |
| | |
| Fund balance, beginning of year | 506,349 |
| | <hr/> |
| Fund balance, end of year | \$ 554,254 |
| | <hr/> <hr/> |

The accompanying notes are an integral part of these basic financial statements.

LITTLE TRAVERSE TOWNSHIP

Reconciliation

Net Changes in Fund Balance of Governmental Fund
to Change in Net Position of Governmental Activities
For The Year Ended March 31, 2014

Net change in fund balance - total governmental fund \$ 47,905

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

| | |
|----------------------|----------|
| Capital outlay | 53,179 |
| Depreciation expense | (41,890) |

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to a future fiscal year.

| | |
|---|---------|
| Current year collections on special assessments | (3,325) |
|---|---------|

Repayment of installment purchase contract principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

| | |
|---|---------------|
| Principal payments on long-term liabilities | <u>10,000</u> |
|---|---------------|

| | |
|---|-------------------------|
| Change in net position of governmental activities | <u><u>\$ 65,869</u></u> |
|---|-------------------------|

The accompanying notes are an integral part of these basic financial statements.

LITTLE TRAVERSE TOWNSHIP

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund
For The Year Ended March 31, 2014

| | Original Budget | Final Budget | Actual | Actual Over (Under) Final Budget |
|---------------------------------|--------------------|-----------------|----------------|--|
| Revenues | | | | |
| Taxes | \$ 516,800 | \$ 515,600 | \$ 517,071 | \$ 1,471 |
| State revenue | 180,500 | 181,600 | 181,678 | 78 |
| Charges for services | 7,100 | 7,400 | 7,705 | 305 |
| Interest and rent | 1,800 | 1,700 | 4,514 | 2,814 |
| Other revenues | 3,800 | 3,700 | 4,248 | 548 |
| Total revenues | 710,000 | 710,000 | 715,216 | 5,216 |
| General government | | | | |
| Legislative | 2,400 | 2,400 | 2,404 | 4 |
| Trustees | 22,600 | 19,400 | 19,586 | 186 |
| Supervisor | 11,800 | 11,800 | 11,382 | (418) |
| Elections | 1,600 | 1,400 | 1,417 | 17 |
| Assessing | 46,600 | 41,000 | 40,908 | (92) |
| Legal services | 6,000 | 3,800 | 3,746 | (54) |
| Clerk | 12,300 | 12,300 | 11,449 | (851) |
| Board of review | 3,200 | 3,100 | 2,809 | (291) |
| Treasurer | 18,500 | 17,900 | 19,552 | 1,652 |
| Office manager/bookkeeper | 33,800 | 34,200 | 32,799 | (1,401) |
| Building and equipment | 65,200 | 66,700 | 66,577 | (123) |
| Insurance | 6,500 | 6,500 | 6,481 | (19) |
| Total general government | 230,500 | 220,500 | 219,110 | (1,390) |
| Public safety | | | | |
| Fire protection | 79,500 | 78,400 | 78,298 | (102) |
| Planning and zoning | 30,400 | 29,100 | 29,019 | (81) |
| Total public safety | 109,900 | 107,500 | 107,317 | (183) |

Continued...

The accompanying notes are an integral part of these basic financial statements.

LITTLE TRAVERSE TOWNSHIP

Statement of Revenue, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund
For The Year Ended March 31, 2014

| | Original Budget | Final Budget | Actual | Actual Over (Under) Final Budget |
|---------------------------------------|--------------------|-------------------|-------------------|--|
| Public works | | | | |
| Roads | 272,300 | 245,600 | 245,209 | (391) |
| Cemetery | 9,000 | 5,900 | 5,852 | (48) |
| Recycle program | 31,800 | 29,400 | 29,336 | (64) |
| Airport authority | 7,300 | 7,200 | 7,160 | (40) |
| Total public works | 320,400 | 288,100 | 287,557 | (543) |
| Recreation and culture | | | | |
| Parks and recreation | 59,200 | 58,800 | 42,851 | (15,949) |
| Debt service | | | | |
| Principal | 10,000 | - | 10,000 | 10,000 |
| Interest | - | - | 476 | 476 |
| Total debt service | 10,000 | - | 10,476 | 10,476 |
| Total expenditures | 730,000 | 674,900 | 667,311 | (7,589) |
| Revenues over (under) expenditures | (20,000) | 35,100 | 47,905 | 12,805 |
| Fund balance, beginning of year | 506,349 | 506,349 | 506,349 | - |
| Fund balance, end of year | \$ 486,349 | \$ 541,449 | \$ 554,254 | \$ 12,805 |

Concluded

The accompanying notes are an integral part of these basic financial statements.

LITTLE TRAVERSE TOWNSHIP

Statement of Net Position

Proprietary Funds

March 31, 2014

| | Sewage Disposal Utility | Water Utility | Total |
|--|-------------------------------|-------------------|---------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 200,874 | \$ 125,647 | \$ 326,521 |
| Accounts receivable | 112,465 | 25,167 | 137,632 |
| Special assessment receivable | - | 4,000 | 4,000 |
| Total current assets | <u>313,339</u> | <u>154,814</u> | <u>468,153</u> |
| Noncurrent assets: | | | |
| Capital assets being depreciated, net | - | 833,847 | 833,847 |
| Special assessment receivable, net of current portion | - | 11,199 | 11,199 |
| Total noncurrent assets | <u>-</u> | <u>845,046</u> | <u>845,046</u> |
| Total assets | <u>313,339</u> | <u>999,860</u> | <u>1,313,199</u> |
| Liabilities (all current) | | | |
| Accrued liabilities | <u>229</u> | <u>160</u> | <u>389</u> |
| Net position | | | |
| Net investment in capital assets | - | 833,847 | 833,847 |
| Unrestricted | <u>313,110</u> | <u>165,853</u> | <u>478,963</u> |
| Total net position | <u>\$ 313,110</u> | <u>\$ 999,700</u> | <u>\$ 1,312,810</u> |

The accompanying notes are an integral part of these basic financial statements.

LITTLE TRAVERSE TOWNSHIP

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For The Year Ended March 31, 2014

| | Sewage Disposal Utility | Water Utility | Total |
|---------------------------------|-------------------------------|------------------|--------------|
| Operating revenue | | | |
| Charges for services | \$ 421,537 | \$ 103,040 | \$ 524,577 |
| Operating expenses | | | |
| Personnel services | 4,564 | 3,042 | 7,606 |
| Contractual services | 363,378 | 62,040 | 425,418 |
| Depreciation | - | 76,018 | 76,018 |
| Miscellaneous | 7,668 | 2,058 | 9,726 |
| Total operating expenses | 375,610 | 143,158 | 518,768 |
| Operating income (loss) | 45,927 | (40,118) | 5,809 |
| Nonoperating revenues | | | |
| Interest revenue | 101 | 912 | 1,013 |
| Change in net position | 46,028 | (39,206) | 6,822 |
| Net position, beginning of year | 267,082 | 1,038,906 | 1,305,988 |
| Net position, end of year | \$ 313,110 | \$ 999,700 | \$ 1,312,810 |

The accompanying notes are an integral part of these basic financial statements.

LITTLE TRAVERSE TOWNSHIP

Statement of Cash Flows

Proprietary Funds

For The Year Ended March 31, 2014

| | Sewage Disposal Utility | Water Utility | Total |
|---|-------------------------------|-------------------|-------------------|
| Cash flows from operating activities | | | |
| Cash received from customers | \$ 424,627 | \$ 104,305 | \$ 528,932 |
| Cash payments to employees | (4,560) | (3,040) | (7,600) |
| Cash payments to suppliers for goods and services | (371,046) | (64,098) | (435,144) |
| Net cash provided by operating activities | <u>49,021</u> | <u>37,167</u> | <u>86,188</u> |
| Cash flows from capital and related financing activities | | | |
| Purchase of capital assets | - | (6,623) | (6,623) |
| Collection of customer assessments | - | 3,734 | 3,734 |
| Net cash used in capital and related financing activities | <u>-</u> | <u>(2,889)</u> | <u>(2,889)</u> |
| Cash flows from investing activities | | | |
| Investment and other income | 101 | 912 | 1,013 |
| Net increase in cash and cash equivalents | <u>49,122</u> | <u>35,190</u> | <u>84,312</u> |
| Cash and cash equivalents, beginning of year | <u>151,752</u> | <u>90,457</u> | <u>242,209</u> |
| Cash and cash equivalents, end of year | <u>\$ 200,874</u> | <u>\$ 125,647</u> | <u>\$ 326,521</u> |
| Cash flows from operating activities | | | |
| Operating income (loss) | \$ 45,927 | \$ (40,118) | \$ 5,809 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities | | | |
| Depreciation | - | 76,018 | 76,018 |
| Changes in assets and liabilities | | | |
| Accounts receivable | 3,090 | 1,265 | 4,355 |
| Accrued liabilities | 4 | 2 | 6 |
| Net cash provided by operating activities | <u>\$ 49,021</u> | <u>\$ 37,167</u> | <u>\$ 86,188</u> |

The accompanying notes are an integral part of these basic financial statements.

LITTLE TRAVERSE TOWNSHIP

Statement of Fiduciary Assets and Liabilities

Agency Fund - Tax Collection Fund

March 31, 2014

Assets

Cash

\$ 1,675

Liabilities

Due to other governmental units

\$ 1,675

NOTES TO FINANCIAL STATEMENTS

LITTLE TRAVERSE TOWNSHIP

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Little Traverse Township, Emmet County, Michigan (the “Township”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 61 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the Township.

Government-Wide and Fund 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 Township. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues 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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the 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. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

LITTLE TRAVERSE TOWNSHIP

Notes to Financial Statements

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. The Township considers all revenues reported in the governmental fund to be available if they are collected within sixty (60) days of the end of the current fiscal period. Property taxes, state shared revenue and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Township. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenue, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the Township gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized as revenue in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

The *General Fund*, the major governmental fund, is the Township's primary operating fund. It accounts for all financial resources of the general government.

The Township reports the following major proprietary funds:

The *Sewage Disposal Utility Fund* is an Enterprise Fund. The fund is financed and operated in a manner similar to a private enterprise. The intent is that costs (expenses) of providing sewer service to the general public are recovered through user charges.

The *Water Utility Fund* is an Enterprise Fund. The fund is financed and operated in a manner similar to a private enterprise. The intent is that costs (expenses, including depreciation) of providing water service to the general public are recovered through user charges.

The Township's fiduciary fund is used to account for assets held by the Township in a trust or agent capacity. Since, by definition, these assets are being held for the benefit of a third party (other local governments) and cannot be used to fund activities or obligations of the government, this fund is not incorporated into the government-wide statements.

The *Agency Fund* accounts for the collection and payment of property tax levies.

LITTLE TRAVERSE TOWNSHIP

Notes to Financial Statements

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Township's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Restricted net position are assets that are subject to restrictions beyond the government's control. The restrictions may be externally imposed or imposed by law. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities and equity

Deposits and investments

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

State statutes authorize the Township to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Receivables and payables

All receivables and payables are reported at their gross value.

Property Taxes

The Township's property taxes are levied each December 1 on the taxable valuation of property located in the Township as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through February 14; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Emmet County. Assessed values, as established annually by the Township and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value.

Property taxes are recognized in the fiscal year in which they are levied.

Capital assets

Capital assets, which include property, buildings and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, except for land, are recorded by the Township when the initial individual costs are equal to or greater than \$1,000. Land is recorded when the initial cost equals or exceeds \$1.

LITTLE TRAVERSE TOWNSHIP

Notes to Financial Statements

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

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| | Years |
|---------------------------|-------|
| Land improvements | 20 |
| Building and improvements | 40 |
| Equipment | 5 |
| Computer equipment | 3 |
| Water system | 30 |

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, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

Fund balances

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Township's highest level of decision-making authority, the Township Board. A formal resolution of the Township Board is required to establish, modify, or rescind a fund balance commitment. The Township reports assigned fund balance for amounts that are constrained by the Township's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is the residual classification for the General Fund.

When the Township incurs an expenditure for purposes for which various fund balance classifications can be used, it is the Township's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

LITTLE TRAVERSE TOWNSHIP

Notes to Financial Statements

Restricted net position represents assets which are legally restricted by outside parties or enabling legislation.

2. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund. Budgetary control is maintained at the functional level. Budgeted amounts are as originally adopted, or as amended by the Township Board during the year, and lapse at year-end.

3. EXCESS OF EXPENDITURES OVER BUDGET

Expenditures in excess of budgeted amounts at the legal level of control are disclosed in the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual.

4. DEPOSITS AND INVESTMENTS

Cash and cash equivalents as shown on the Statement of Net Position and Statement of Fiduciary Assets and Liabilities are as follows:

| | |
|-------------------------------------|-------------------|
| Statement of Net Position | |
| Cash and cash equivalents | \$ 828,118 |
| Statement of Fiduciary Net Position | |
| Cash | <u>1,675</u> |
| Total | <u>\$ 829,793</u> |

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year-end, \$559,642 of the Township's bank balance of \$841,999 was exposed to custodial credit risk because it was uninsured and uncollateralized.

LITTLE TRAVERSE TOWNSHIP

Notes to Financial Statements

The Township is authorized by statute to invest surplus funds in the following:

1. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
3. 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.
4. Bankers acceptances of United States banks.
5. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
6. Mutual funds registered under the Investment Company Act of 1940, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
7. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

Credit Risk. The Township's investment policy does not have specific limits in excess of state law on investment credit risk. The Township has no investments for which ratings are required.

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the above list of authorized investments. The Township's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The Township Board is authorized to designate depositories for Township funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The Township's deposits are in accordance with statutory authority.

LITTLE TRAVERSE TOWNSHIP

Notes to Financial Statements

5. RECEIVABLES

Receivables are comprised of the following at year-end:

| | Governmental Activities | Business-type Activities |
|---|----------------------------|-----------------------------|
| Accounts receivable | \$ 278 | \$ 137,632 |
| State shared revenue receivable | 25,751 | - |
| Taxes receivable | 28,835 | - |
| Special assessment receivable, due in one year | 3,022 | 4,000 |
| Special assessment receivable, due in more than one year | 21,157 | 11,199 |
| | <u>\$ 79,043</u> | <u>\$ 152,831</u> |

Governmental funds report a deferred inflow in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, unavailable revenue reported in the governmental funds was \$24,179.

6. ACCRUED LIABILITIES

Accrued liabilities are comprised of the following at year-end:

| | Governmental Activities | Business-type Activities |
|-----------------|----------------------------|-----------------------------|
| Accrued payroll | <u>\$ 2,207</u> | <u>\$ 389</u> |

LITTLE TRAVERSE TOWNSHIP

Notes to Financial Statements

7. CAPITAL ASSETS

Capital assets activity was as follows for the year ended March 31, 2014:

| | Beginning Balance | Additions | Disposals | Ending Balance |
|--|----------------------|-------------|-----------|----------------|
| Governmental Activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 382,270 | \$ - | \$ - | \$ 382,270 |
| Capital assets, being depreciated: | | | | |
| Land improvements | 397,087 | 9,743 | - | 406,830 |
| Buildings and improvements | 591,105 | 24,971 | - | 616,076 |
| Equipment | 109,488 | 18,465 | (2,957) | 124,996 |
| Computer equipment | 33,645 | - | (11,037) | 22,608 |
| Total capital assets being depreciated | 1,131,325 | 53,179 | (13,994) | 1,170,510 |
| Less accumulated depreciation for: | | | | |
| Land improvements | (206,355) | (13,183) | - | (219,538) |
| Buildings and improvements | (227,336) | (15,021) | - | (242,357) |
| Equipment | (100,291) | (7,183) | 2,957 | (104,517) |
| Computer equipment | (26,426) | (6,503) | 11,037 | (21,892) |
| Total accumulated depreciation | (560,408) | (41,890) | 13,994 | (588,304) |
| Total capital assets being depreciated, net | 570,917 | 11,289 | - | 582,206 |
| Governmental activities capital assets, net | \$ 953,187 | \$ 11,289 | \$ - | \$ 964,476 |
| Business-type Activities | | | | |
| Capital assets, being depreciated: | | | | |
| Water system | \$ 2,204,158 | \$ 6,623 | \$ - | \$ 2,210,781 |
| Less accumulated depreciation for: | | | | |
| Water system | (1,300,916) | (76,018) | - | (1,376,934) |
| Business-type activities capital assets, net | \$ 903,242 | \$ (69,395) | \$ - | \$ 833,847 |

LITTLE TRAVERSE TOWNSHIP

Notes to Financial Statements

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

| | |
|--------------------------|------------------|
| Governmental activities | |
| General government | <u>\$ 41,890</u> |
| Business-type activities | |
| Water Utility | <u>\$ 76,018</u> |

8. LONG-TERM DEBT

Long-term debt of the Township consists of the following as of March 31, 2014:

| | Beginning Balance | Additions | Deductions | Ending Balance | Due Within One Year |
|--|----------------------|-----------|-------------|----------------|------------------------|
| Governmental Activities | | | | | |
| \$50,000, installment purchase contract, repaid in fiscal year 2014. | \$ 10,000 | \$ - | \$ (10,000) | \$ - | \$ - |

Total interest expense for the Township for the year ended March 31, 2014 was \$476.

9. RISK MANAGEMENT

Primary Government

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which it obtains coverage from commercial insurance companies.

The Township belongs to the Michigan Township Participating Plan, a public entity risk pool currently operating as a common risk management and worker's compensation insurance program for various municipalities throughout the state. The Township pays an annual premium for its worker's compensation insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event.

LITTLE TRAVERSE TOWNSHIP

Notes to Financial Statements

10. COMMITMENTS

Sewer Disposal Utility Fund

The Township is a participant in a joint sewage disposal system administered by the Harbor Springs Area Sewage Disposal Authority (the "Authority") and is committed to share in a portion of all costs, including principal and interest on long-term debt. The Township's portion of long-term debt consists of the following bond issues.

In March 2002, the Township entered into a contract with the Authority for the Township's share of the cost of a new wastewater treatment facility and the closure of the Authority's existing lagoon and spray irrigation system. The full faith and credit of the Township has been pledged to pay its 27.06% share of the related \$5,664,770 of bonds issued by the Authority through the Township's fiscal year 2024.

In June 2011, the Township entered into another contract with the Authority for the Township's share of the cost of various upgrade projects at the wastewater treatment plant. The full faith and credit of the Township has been pledged to pay its 17.27% share of the related \$3,495,000 of bonds issued by the Authority through the Township's fiscal year 2032.

The annual requirements to amortize the Township's portion of these debts outstanding as of March 31, 2014, including interest payments of \$399,093 are as follows:

| Years Ended March 31, | 2002 Series | 2011 Series | Total |
|--------------------------|-------------------|-------------------|---------------------|
| 2015 | \$ 79,307 | \$ 38,032 | \$ 117,339 |
| 2016 | 78,826 | 37,643 | 116,469 |
| 2017 | 79,403 | 41,507 | 120,910 |
| 2018 | 78,840 | 40,989 | 119,829 |
| 2019 | 79,334 | 44,724 | 124,058 |
| 2020-2024 | 393,874 | 229,424 | 623,298 |
| 2025-2029 | - | 281,609 | 281,609 |
| 2030-2032 | - | 184,898 | 184,898 |
| Total | \$ 789,584 | \$ 898,826 | \$ 1,688,410 |

Construction Contracts

The Township has entered into three road construction contracts with the Emmet County Road Commission totaling an amount of approximately \$249,000. The Township has not incurred any expenditures related to these projects as of March 31, 2014.

11. RELATED PARTY TRANSACTIONS

A relative of a Township Board member performs certain maintenance services for the Township. Services from this vendor amounted to approximately \$21,000 during fiscal year 2014.



SUPPLEMENTARY INFORMATION

LITTLE TRAVERSE TOWNSHIP

Statement of Changes in Assets and Liabilities

Agency Fund - Tax Collection Fund
For The Year Ended March 31, 2014

| | Beginning Balance | Additions | Deductions | Ending Balance |
|---------------------------------|----------------------|---------------------|-----------------------|-------------------|
| Assets | | | | |
| Cash | <u>\$ 3,319</u> | <u>\$ 8,025,900</u> | <u>\$ (8,027,544)</u> | <u>\$ 1,675</u> |
| Liabilities | | | | |
| Due to other governmental units | <u>\$ 3,319</u> | <u>\$ 8,025,900</u> | <u>\$ (8,027,544)</u> | <u>\$ 1,675</u> |

INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

September 17, 2014

Township Board
Little Traverse Township
Harbor Springs, MI

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the *Little Traverse Township, Emmet County, Michigan* (the "Township") as of and for the year ended March 31, 2014, and have issued our report thereon dated September 17, 2014. Professional standards require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated March 31, 2014, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Township solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Our findings regarding internal control over financial reporting, compliance, and other matters noted during our audit are included in Attachment A to this letter.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on July 10, 2014.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Township's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Township is included in Note 1 to the financial statements.

The Township adopted Statement of Governmental Accounting Standards (GASB Statement) No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in the current year. The implementation of this standard did not have a significant impact on the Township.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. Management has corrected all such misstatements. The misstatements detected as a result of audit procedures and corrected by management are described in Attachment B to this letter.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Township's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in Attachment D to this letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Township, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Township's auditors.

Upcoming Changes in Accounting Standards

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment C to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

This information is intended solely for the use of the governing body and management of the *Little Traverse Township, Emmet County, Michigan* and is not intended to be and should not be used by anyone other than these specified parties.

Rehmann Lobson LLC

LITTLE TRAVERSE , EMMET COUNTY, MICHIGAN

Attachment A - Consideration of Internal Control Over Financial Reporting

For the March 31, 2014 Audit

We have audited, in accordance with the auditing standards generally accepted in the United States of America the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the *Little Traverse Township, Emmet County, Michigan* (the "Township"), 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, and have issued our report thereon dated September 17, 2014.

In planning and performing our audit of the financial statements, we considered the Township's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

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 over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Material Weakness

We consider the following deficiency in internal control over financial reporting to be a material weakness:

2013-FS-01 - Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America. (repeat finding from March 31, 2012 audit)

Criteria. All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a 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 the related footnotes (i.e., external financial reporting.)

Condition. As is the case with many smaller and medium-sized entities, the Township has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Township's ability to prepare general purpose external 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 Township's internal controls.

Cause. This condition was caused by the Township's decision that it is more cost effective to outsource the preparation of its annual 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 Township lacks appropriate internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation. We recommend that management of the Township continue to evaluate whether it is cost effective for the Township to hire or train current staff to prepare the Township's financial statements in accordance with GAAP.

View of Responsible Officials. It is more cost effective to outsource the preparation of the financial statements than to incur the time and expense of obtaining the necessary training and expertise required to draft the financial statements internally.

2013-FS-02 - Material Audit Adjustments.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. During our audit, we identified and proposed several material adjustments (which were approved and posted by management) to adjust the Township's general ledger to the appropriate balances.

Cause. This condition was the result of dependence on external auditors, who by definition cannot be a part of the Township's internal control, to make adjustments to the general ledger and reconcile certain balance sheet accounts to their underlying detail.

Effect. As a result of this condition, the Township's accounting records were initially misstated by amounts material to the financial statements.

Recommendation. The Township should record all journal entries necessary to arrive at a reasonably adjusted trial balance prior to generating trial balances to be used for preparation of year-end financial statements.

View of Responsible Officials. The Township will continue its efforts to record all known adjustments in order to provide a reasonably adjusted trial balance for the purposes of the audit.

Significant Deficiency

We consider the following deficiency in internal control over financial reporting to be a significant deficiency:

2013-FS-03 - Lack of segregation of duties in the accounting function
(repeat finding from March 31, 2012 audit)

Criteria. Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Township's assets, and to prevent or detect misstatements to the financial statements. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the Township's unique circumstances.

Condition. Certain key financial duties of the Township are being performed by the same individual. Specifically, we noted that the following incompatible functions are being performed by one individual: the individual responsible for recording certain cash receipts also has cash disbursement, check signing, and bank reconciliation responsibilities. Additionally, the same individual is responsible for recording certain accounting transactions in the Township's financial accounting system.

Cause. As is the case with many organizations of similar size, the Township lacks a sufficient number of accounting personnel involved in the financial reporting process, in order to ensure a complete segregation of duties within the accounting function.

Effect. As a result of this condition, the Township's current system of internal control has limited safeguards in place to ensure that fraud or abuse is being prevented. Ideally, no single individual should be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Recommendation. While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal controls as much as possible by requiring as much independent review, reconciliation, and approval of accounting transactions by qualified members of the Township Board when possible. We further recommend, that the Township assigns someone the responsibility of reviewing all bank reconciliations and initialing them as reviewed to retain evidence of review.

View of Responsible Officials: It is not cost effective to employ additional staff necessary to provide for adequate segregation of duties within the accounting function. Rather, the Township will continue to identify areas in the cash receipts and disbursements cycle where appropriate monitoring and oversight are required and will strengthen review and approval procedures to be performed by those most removed from management, custody of assets and accounting functions related to the transactions.



LITTLE TRAVERSE TOWNSHIP, EMMET COUNTY, MICHIGAN

Attachment B - Adjusting Journal Entries

March 31, 2014

| Account Number | Account Description | Debit | Credit |
|--|-----------------------------|-----------|--------|
| Government-wide Adjusting Entries - FY 2014 | | | |
| 1. 934-934-800.000 | Ga General Govt Expenses | \$ 41,890 | \$ - |
| 934-000-133.000 | Ga Accumulated Depreciation | - | 41,890 |
| <i>To record current year depreciation expense of fixed assets.</i> | | | |
| 2. 934-000-133.000 | Ga Accumulated Depreciation | 13,994 | - |
| 934-000-131.000 | Ga Capital Assets | - | 13,994 |
| <i>To record current year disposals of fixed assets.</i> | | | |
| 3. 934-000-131.000 | Ga Capital Assets | 53,179 | - |
| 934-934-804.000 | Ga Capital Outlay Expenses | - | 53,179 |
| <i>To reclass general government capital outlay to fixed assets for government wide reporting.</i> | | | |
| 4. 934-934-805.000 | Ga Parks & Rec Expenses | 1,388 | - |
| 934-934-804.000 | Ga Capital Outlay Expenses | - | 1,388 |
| <i>To reclass remaining capital outlay expense that did not get capitalized.</i> | | | |
| 5. 934-934-804.000 | Ga Capital Outlay Expenses | 7,744 | - |
| 934-934-803.000 | Ga Public Works Expenses | - | 7,744 |
| <i>To reclass expenses to capital outlay expenses for public works assets.</i> | | | |
| 6. 934-000-339.000 | Ga Recreation | 3,325 | - |
| 934-000-298.000 | Ga Deferred Revenue | - | 3,325 |
| <i>To record deferred revenue related to Northview Trail Special Assessment realized in FY 2014.</i> | | | |
| 7. 934-000-301.000 | Ga Current Portion Of Ltd | 10,000 | - |
| 934-934-905.991 | Ga Principal Expenses | - | 10,000 |
| <i>To record principal payment on Offenhauser land debt.</i> | | | |
| 8. 934-934-800.000 | Ga General Govt Expenses | 3,218 | - |
| 934-934-804.000 | Ga Capital Outlay Expenses | - | 3,218 |
| <i>To reclass remaining capital outlay expense not capitalized.</i> | | | |
| 9. 934-934-804.000 | Ga Capital Outlay Expenses | 714 | - |
| 934-934-805.000 | Ga Parks & Rec Expenses | - | 714 |
| <i>To reclass expenses to capital outlay expenses for recreation assets.</i> | | | |

LITTLE TRAVERSE TOWNSHIP, EMMET COUNTY, MICHIGAN

Attachment B - Adjusting Journal Entries

March 31, 2014

| Account Number | Account Description | Debit | Credit |
|------------------------------------|--|-----------|--------|
| Adjusting Entries - FY 2014 | | | |
| 10. | 101-000-574.000 State Sales Tax | \$ 26,689 | \$ - |
| | 101-000-041.000 Due From State | - | 26,689 |
| | <i>To reverse adjusting entry made in FY 2013.</i> | | |
| 11. | 101-000-041.000 Due From State | 25,751 | - |
| | 101-000-574.000 State Sales Tax | - | 25,751 |
| | <i>To record state shared revenue receivable for FY 2014.</i> | | |
| 12. | 101-299-995.000 Principal And Interest Expense | 10,000 | - |
| | 101-299-995.001 Interest Expense | 476 | - |
| | 101-751-970.000 Capital Outlay | - | 10,476 |
| | <i>To split interest and principal payment on Offenhauser debt.</i> | | |
| 13. | 101-000-045.000 Special Assessments Receivable | 151 | - |
| | 101-000-664.010 Interest Income - Northview Trail | - | 151 |
| | <i>To reclassify interest collected on special assessments.</i> | | |
| 14. | 101-000-339.000 Deferred Revenue | 3,325 | - |
| | 101-000-535.000 North View Trail | - | 3,325 |
| | <i>To record revenue related to special assessment.</i> | | |
| 15. | 591-537-961.000 Depreciation | 76,018 | - |
| | 591-000-153.000 Accumulated Depreciation-Water Sys. | - | 76,018 |
| | <i>To record water fund depreciation expense.</i> | | |
| 16. | 591-000-041.000 Special Assessment Receivable | 11 | - |
| | 591-000-445.000 Penalties And Interest | - | 11 |
| | <i>To reclassify interest collected on special assessments.</i> | | |
| 17. | 591-000-152.000 Water Systems | 6,623 | - |
| | 591-537-803.000 Engineering Services | - | 2,323 |
| | 591-537-970.000 Capital Outlay | - | 4,300 |
| | <i>To reclassify capitalized assets.</i> | | |
| 18. | 701-000-202.000 Accounts Payable | 1,461 | - |
| | 701-000-001.000 Cash | - | 1,461 |
| | <i>To correct posting of voided check which did not occur until April 2014, but posted to February 2014.</i> | | |

LITTLE TRAVERSE TOWNSHIP, EMMET COUNTY, MICHIGAN

Attachment B - Adjusting Journal Entries

March 31, 2014

| Account Number | Account Description | Debit | Credit |
|------------------------------------|--|-------------|-----------------|
| Adjusting Entries - FY 2013 | | | |
| 19. | 101-000-202.000 Accounts Payable | \$ 4,350 | \$ - |
| | 101-000-390.000 Fund Balance | - | 4,350 |
| | <i>To reverse AJE made in 2012.</i> | | |
| 20. | 101-000-339.000 Deferred Revenue | 2,720 | - |
| | 101-000-390.000 Fund Balance | - | 2,720 |
| | <i>To record revenue related to special assessment.</i> | | |
| 21. | 101-000-390.000 Fund Balance | 1,264 | - |
| | 101-000-214.000 Due To Other Funds | - | 1,264 |
| | <i>To correct incorrect posting of revenue for funds which were later paid to County Treasurer per County audit.</i> | | |
| 22. | 101-000-045.000 Special Assessments Receivable | 1,360 | - |
| | 101-000-390.000 Fund Balance | - | 1,360 |
| | <i>To reclassify interest collected on special assessments.</i> | | |
| 23. | 101-000-041.000 Due From State | 26,689 | - |
| | 101-000-390.000 Fund Balance | - | 26,689 |
| | <i>To record state shared revenue receivable for FY 2013.</i> | | |
| 24. | 590-000-040.000 Accounts Receivable | 5,170 | - |
| | 590-000-394.000 Retained Earnings | - | 5,170 |
| | <i>To correct accounts receivable entries which were recorded twice through tax collection.</i> | | |
| 25. | 591-000-394.000 Retained Earnings | 73,844 | - |
| | 591-000-153.000 Accumulated Depreciation-Water Sys. | - | 73,844 |
| | <i>To record FY 2013 depreciation.</i> | | |
| 26. | 591-000-152.000 Water Systems | 15,070 | - |
| | 591-000-394.000 Retained Earnings | - | 15,070 |
| | <i>To record FY 2013 purchase of capital assets.</i> | | |
| 27. | 591-000-040.000 Accounts Receivable | 3,380 | - |
| | 591-000-041.000 Special Assessment Receivable | - | 3,380 |
| | <i>To reclassify receivables which were actually special assessments.</i> | | |

LITTLE TRAVERSE TOWNSHIP, EMMET COUNTY, MICHIGAN

Attachment B - Adjusting Journal Entries

March 31, 2014

| | Account Number | Account Description | Debit | Credit |
|-----|-----------------|--|----------|--------|
| 28. | 591-000-041.000 | Special Assessment Receivable | \$ 1,011 | \$ - |
| | 591-000-394.000 | Retained Earnings | - | 1,011 |
| | | <i>To reclassify interest collected on special assessments.</i> | | |
| 29. | 934-000-381.000 | Ga Net Assets | 38,777 | - |
| | 934-000-133.000 | Ga Accumulated Depreciation | - | 38,777 |
| | | <i>To record FY 2013 depreciation.</i> | | |
| 30. | 934-000-300.000 | Ga Long Term Debt | 10,000 | - |
| | 934-000-381.000 | Ga Net Assets | - | 10,000 |
| | | <i>To reclass principal payment.</i> | | |
| 31. | 934-000-131.000 | Ga Capital Assets | 85,933 | - |
| | 934-000-381.000 | Ga Net Assets | - | 85,933 |
| | | <i>To record purchase of capital assets in FY 2013.</i> | | |
| 32. | 934-000-381.000 | Ga Net Assets | 2,000 | - |
| | 934-000-133.000 | Ga Accumulated Depreciation | - | 2,000 |
| | | <i>To record depreciation on Penn Ave. Storm Sewer addition in 2010 added to schedule to roll into 2013.</i> | | |
| 33. | 934-000-381.000 | Ga Net Assets | 2,720 | - |
| | 934-000-298.000 | Ga Deferred Revenue | - | 2,720 |
| | | <i>To record deferred revenue related to Northview Trail Special Assessment realized in FY 2013.</i> | | |

LITTLE TRAVERSE TOWNSHIP

Attachment C - Upcoming Changes in Accounting Standards

For the March 31, 2014 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the Township in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the Township. For the complete text of these and other GASB standards, visit www.gasb.org and click on the “pronouncements” tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

GASB 66 ■ 2012 Technical Corrections (an Amendment to GASB 10 and GASB 62)

Effective 12/15/2013 (your FY 2014)

This standard was issued to eliminate conflicting guidance that resulted from the issuance of GASB 54 and GASB 62, which are both already effective. GASB 10 was amended to allow for risk financing activities to be accounted for in whichever fund type is most applicable (no longer limited to the general fund or an internal service fund). GASB 62 was amended to modify specific guidance related to (1) operating leases with scheduled rent increases, (2) purchase of loans at an amount other than the principal amount, and (3) service fees related to mortgages that are sold when the service rate varies significantly from the current (normal) service fees.

We do not expect GASB 66 to have any significant impact on the Township at this time.

GASB 67 ■ Financial Reporting for Pension Plans

Effective 06/15/2014 (your FY 2015)

This standard establishes the requirements for pension plans administered by trusts to report on their operations, including setting new uniform requirements for actuarial valuations of the total pension liability, and reporting various 10-year trend data as required supplementary information. The financial statements of pension plans will not change substantially as a result of GASB 67, though the additional note disclosures and required supplementary information will be significant. Additionally, actuarial valuations conducted in accordance with GASB 67 will have to match the government’s fiscal year, or be rolled forward to that date by the actuary.

Because the Township does not maintain its own pension trust fund, we do not expect GASB 67 to have any significant impact on the Township at this time.

GASB 68 ■ Accounting and Financial Reporting for Pensions

Effective 06/15/2015 (your FY 2016)

This standard establishes new requirements for governments to report a “net pension liability” for the unfunded portion of its pension plan. Governments that maintain their own pension plans (either single employer or agent multiple-employer) will report a liability for the difference between the total pension liability calculated in accordance with GASB 67 and the amount held in the pension trust fund. Governments that participate in a cost sharing plan will report a liability for their “proportionate share” of the net pension liability of the entire system.

LITTLE TRAVERSE TOWNSHIP

Attachment C - Upcoming Changes in Accounting Standards

For the March 31, 2014 Audit

Historically, governments have only been required to report a net pension obligation to the extent that they have not met the annual required contribution (ARC) in any given year. Upon implementation of this standard, governments will be required to report a net pension liability based on the current funded status of their pension plans. This liability would be limited to the government-wide financial statements and proprietary funds. Changes in this liability from year to year will largely be reflected on the income statement, though certain amounts will be deferred and amortized over varying periods.

GASB 68 also requires more extensive note disclosures and required supplementary information, including 10 years of historical information. The methods used to determine the discount rate (the assumed rate of return on plan assets held in trust) are mandated and must be disclosed, along with what the impact would be on the net pension liability if that rate changed by 1% in either direction. Other new disclosure requirements include details of the changes in the components of the net pension liability, comparisons of actual employer contributions to actuarially determined contributions, and ratios to put the net pension liability in context. For single-employer and agent multiple-employer plans, the information for these statements will come from the annual actuarial valuation. For cost sharing plans, this information will be derived from the financial reports of the plan itself, multiplied by the government's proportionate share of plan.

GASB 67 and 68 are only applicable to pension plans. However, the GASB has announced its intent to issue similar standards for other postemployment benefits (e.g., retiree healthcare) on a two year delay from these standards.

GASB 69 ■ Government Combinations and Disposals of Government Operations

Effective 12/15/2014 (your FY 2015)

This standard provides detailed requirements for the accounting and disclosure of various types of government combinations, such as mergers, acquisitions, and transfers of operations. The guidance available previously was limited to nongovernmental entities, and therefore did not provide practical examples for situations common in government-specific combinations and disposals. The accounting and disclosure requirements for these events vary based on whether a significant payment is made, the continuation or termination of services, and the legal structure of the new or continuing entity.

Given the infrequent nature of these types of events, we do not expect this standard to have any impact on the Township at this time.

LITTLE TRAVERSE TOWNSHIP

Attachment C - Upcoming Changes in Accounting Standards

For the March 31, 2014 Audit

GASB 70 ■ Nonexchange Financial Guarantees

Effective 06/15/2014 (your FY 2015)

This standard addresses the accounting and disclosure of situations in which one government offers a financial guarantee on behalf of another government, not-for-profit organization, private entity, or individual without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). A government that extends a nonexchange financial guarantee will be required to recognize a liability when qualitative factors and/or historical data indicate that it is “more likely than not” that the government will be required to make a payment on the guarantee. It further requires governments to disclose any outstanding financial guarantees in the notes to the financial statements.

We do not expect GASB 70 to have any significant impact on the Township at this time.

GASB 71 ■ Pension Transition for Contributions Made Subsequent to the Measurement Date

Effective with the Implementation of GASB 68

This standard is an amendment to GASB 68, and seeks to clarify certain implementation issues related to amounts that are deferred and amortized at the time GASB 68 is first adopted. It applies to situations in which the measurement date of an actuarial valuation differs from the government's fiscal year.

2 CFR 200 ■ Uniform Guidance for Federal Awards

Cost Principles Effective 12/26/2014; Single Audit Requirements Effective 12/26/2015 (your FY 2016)

The Office of Management and Budget (OMB) has consolidated seven separate circulars (including administrative requirements, cost principles, and audit requirements) into a single federal regulation. The new Uniform Guidance covers all aspects of federal grants from pre-award through the single audit. While much of the guidance was simply reorganized and recodified, there were also several substantive changes to the single audit thresholds. A single audit will now only be required if total expenditures of federal awards exceed \$750,000 (up from \$500,000). The OMB has indicated that further changes to the single audit will be announced in 2015.

In addition, the Uniform Guidance now explicitly requires grant recipients to have sound internal controls that are consistent with the COSO framework and documented procedures for grant administration. Rehmann is available to assist grant recipients in developing/documenting these policies and procedures in compliance with the new requirements.

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LITTLE TRAVERSE TOWNSHIP

Attachment D - Management Representations

For the March 31, 2014 Audit

Following are the written representations that we requested from management.



8288 S. Pleasantview Road
Harbor Springs, Michigan 49740

Ph: 231-526-0351
Fax: 231-347-6991
e-mail: dohm@freeway.net

September 17, 2014

Rehmann Robson
PO Box 250
Cheboygan, MI 49721

This representation letter is provided in connection with your audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of *Little Traverse Township, Emmet County, Michigan* (the "Township"), as of and for the year ended March 31, 2014, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, and the respective budgetary comparison for the General Fund of the Township in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of September 17, 2014:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated March 31, 2014, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
 2. We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statements.
 3. We acknowledge our responsibility for 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.
 4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
 5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
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6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
8. All funds and activities are properly classified.
9. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
10. All components of net position and fund balance classifications have been properly reported.
11. All revenues within the statement of activities have been properly classified as program revenues or general revenues.
12. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
13. All interfund and intra-entity transactions and balances have been properly classified and reported.
14. Deposit and investment risks have been properly and fully disclosed.
15. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
16. All required supplementary information is measured and presented within the prescribed guidelines.

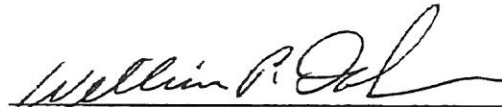
Information Provided

17. We have provided you with:
 - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
18. All transactions have been recorded in the accounting records and are reflected in the financial statements.
19. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
20. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others where the fraud could have a material effect on the financial statements.
21. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the Township's financial statements communicated by employees, former employees, vendors, regulators, or others.

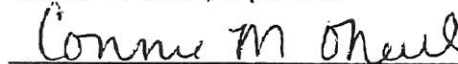
22. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
23. We have disclosed to you the identity of the Township's related parties and all the related party relationships and transactions of which we are aware.
24. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
25. The Township has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
26. We have disclosed to you all guarantees, whether written or oral, under which the Township is contingently liable.
27. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
28. There are no:
 - a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
29. The Township has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
30. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
31. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB-62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

Required Supplementary Information

32. With respect to the required supplementary information accompanying the financial statements:
- a. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America.
 - b. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
 - d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.



William P. Dohm, Supervisor



Connie O'Neill, Treasurer

LITTLE TRAVERSE TOWNSHIP

Schedule of Adjustments Passed (SOAP)

For the March 31, 2014 Audit

In accordance with generally accepted auditing standards, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. We are providing this schedule to both management and those charged with governance to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be

| | Effect of Passed Adjustment - Over(Under)Statement | | | | |
|--|--|-------------|------------------|----------|------------------------|
| | Assets | Liabilities | Beginning Equity | Revenues | Expenses/ Expenditures |
| Sewer fund | | | | | |
| Difference between general ledger receivable balance and Utility Billing Detail Register | \$ (660) | \$ - | \$ - | \$ (660) | \$ - |
| Water fund | | | | | |
| Difference between general ledger receivable balance and Utility Billing Detail Register | \$ (702) | \$ - | \$ - | \$ (702) | \$ - |