

**LAKE TOWNSHIP, ROSCOMMON COUNTY**

**HOUGHTON LAKE, MICHIGAN**

**MARCH 31, 2013**



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

CERTIFIED PUBLIC ACCOUNTANTS

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LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

MARCH 31, 2013

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June 21, 2013

## INDEPENDENT AUDITOR'S REPORT

To the Township Board  
Lake Township  
Roscommon County  
Houghton Lake, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lake Township, Roscommon County, Houghton Lake, Michigan, as of and for the year ended March 31, 2013, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lake Township, Roscommon County, Houghton Lake, Michigan as of March 31, 2013, and the respective changes in financial position 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 on pages iii through ix and budgetary comparison information on page 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lake Township, Roscommon County, Houghton Lake, Michigan's basic financial statements. The Other Information section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

BAIRD, COTTER AND BISHOP, P.C.

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

LAKE TOWNSHIP, ROSCOMMON COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2013

As management of Lake Township (“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, 2013. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

**Financial Highlights**

- ❖ The assets of Lake Township exceeded its liabilities at the close of the most recent fiscal year by \$2,014,078 (*net position*). Of this amount, \$1,072,349 represents unrestricted net position, which may be used to meet the government’s ongoing obligations to citizens and creditors.
- ❖ At the close of the current fiscal year, the Township’s governmental funds reported combined fund balances of \$1,660,094, an increase of \$64,556 in comparison with the prior year. Approximately 34% of this amount (\$566,117) is available for spending at the government’s discretion (*unassigned fund balance*).
- ❖ At the end of the current fiscal year, unrestricted fund balance (the total of *committed, assigned, and unassigned* components of fund balance) for the general fund was \$566,117.

**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 consist of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional details to support 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 financial information on all of the Township’s assets, liabilities, and deferred inflows/outflows of resources, with the difference 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 for some items that will only result in cash flows in future periods.

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Township include general government, public safety, public works, community and economic development, and other functions.

LAKE TOWNSHIP, ROSCOMMON COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2013

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

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

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

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

The Township maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Fire Operating Fund, Trash Collection Fund, Sewer Capital Projects Fund, and Road Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the report.

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

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

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

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

**Notes to Financial Statements.** The notes provide additional information that is necessary to acquire a full understanding of the data provided in the governmental-wide and fund financial statements. The notes can be found on pages 8-18 of this report.

LAKE TOWNSHIP, ROSCOMMON COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2013

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

**Government-Wide Overall Financial Analysis**

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of Lake Township, assets exceeded liabilities by \$2,014,078, at the close of the most recent fiscal year.

**Lake Township**  
**Net Position as of March 31, 2013**

	<b>Governmental Activities</b>
<b>Assets</b>	
Current Assets	\$ 1,737,721
Non Current Assts	
Capital Assets	1,453,415
Less: Accumulated Depreciation	(1,174,188)
Total Non Current Assets	279,227
<b>Total Assets</b>	<b>2,016,948</b>
<b>Liabilities</b>	
Current Liabilities	2,870
<b>Net Position</b>	
Net Investment in Capital Assets	279,227
Restricted for Specific Purposes	662,502
Unrestricted	1,072,349
<b>Total Net Position</b>	<b>\$ 2,014,078</b>

A large portion of the Township's net position (14%) reflects its net investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related outstanding debt that was used to acquire those assets. The Township uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the Township's net investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Township's net position (33%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,072,349 is unrestricted may be used to meet the government's ongoing obligations to its citizens and creditors.

LAKE TOWNSHIP, ROSCOMMON COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2013

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net position. The same situation held true for the prior fiscal year.

Lake Township's overall net position increased by \$1,353 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for the governmental activities.

**Lake Township**  
**Change in Net Position**  
**for the Fiscal Year Ended March 31, 2013**

	<b>Governmental Activities</b>
<b><u>Revenues</u></b>	
Program Revenues	
Charges for Services	\$ 13,019
Operating Grants and Contributions	119,509
General Revenues	
Property Taxes and Special Assessments	481,530
State Grants	88,204
Interest Earnings	10,313
Other	20,256
Total Revenues	732,831
<b><u>Expenses</u></b>	
General Government	180,219
Public Safety	166,189
Public Works	316,958
Community and Economic Development	9,150
Other Functions	58,962
Total Expenses	731,478
Changes in Net Position	1,353
<b><u>NET POSITION</u></b> - Beginning of Year	2,012,725
<b><u>NET POSITION</u></b> - End of Year	\$ 2,014,078

**Governmental Activities.** The most significant part of the revenue for all governmental activities of Lake Township comes from taxes and special assessments. The Township levied millages for road improvements and fire protection, in addition to the operating millage, this fiscal year. The Township levied 0.9248 mills for operating purposes, 0.9722 mills for fire operating, 0.50 mills for fire equipment, 1.0 mill for road improvements, and 0.2916 mills for street lights. State shared revenues are also a significant portion of the revenues for Lake Township. State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax.



LAKE TOWNSHIP, ROSCOMMON COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2013

The Township's governmental activities expenses are dominated by Public Works expenses that total \$316,958. General Government represented the next largest expense at \$180,219.

**Financial Analysis of the Governmental Funds**

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

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

At March 31, 2013, Lake Township's governmental funds reported combined fund balances of \$1,660,094, an increase of \$64,556 in comparison with the prior year. Approximately 34% of this amount (\$566,117) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable, restricted, committed, or assigned* to indicate that it is 1) not in spendable form, 2) legally required to be maintained intact, 3) restricted for particular purposes (\$662,502), 4) committed for particular purposes, or 5) assigned for particular purposes (\$431,475).

**General Fund** – The General Fund increased its fund balance by \$60,663 which brings the fund balance to \$566,117. Of the General Fund's fund balance, all of it is unassigned.

**Fire Operating Fund** - The Fire Operating Fund increased its fund balance by \$21,641 which brings the fund balance to \$237,378. This balance is restricted and must be used for fire protection.

The Township levied a fire millage on the 2012 tax roll. This resulted in \$111,734 in tax related revenues during the current fiscal year.

**Trash Collection Fund** - The Trash Collection Fund increased its fund balance by \$7,078 which brings the fund balance to \$103,579. This balance is restricted and must be used for trash collection.

The Township levied a special assessment for trash collection on the 2012 tax roll. This resulted in \$113,760 in revenues during the current fiscal year.

**Sewer Capital Projects Fund** - The Sewer Capital Projects Fund increased its fund balance by \$2,703 which brings the fund balance to \$431,475. The fund balance is assigned for capital improvements.

**Road Fund** – The Road Fund decreased its fund balance by \$51,917 which brings the fund balance to \$157,102. This balance is restricted and must be used for road improvements.

The Township levied a road millage on the 2012 tax roll. This resulted in \$114,835 in tax related revenues during the current fiscal year.

LAKE TOWNSHIP, ROSCOMMON COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2013

*Proprietary Fund* The Township does not maintain any proprietary funds.

**General Fund Budgetary Highlights**

During the year, there was a \$30,100 increase in appropriations between the original budget and final amended budget. Following is the significant reason for the increase:

- \$30,100 increase in Township Board expenditures.

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

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Total Revenues	\$ 247,554	\$ 247,554	\$ 292,200
Total Expenditures	\$ 237,425	\$ 267,525	\$ 231,537

**Capital Assets and Debt Administration**

**Capital Assets.** The Township's investment in capital assets for its governmental activities as of March 31, 2013, amounts to \$279,227 (net of accumulated depreciation). Capital assets summarized below include any items purchased with a cost greater than \$1,000 individually and that have a useful life greater than one year. The investment in capital assets includes land, buildings and improvements, equipment, vehicles, and furniture and fixtures. A summary of capital assets categories is illustrated below.

**Lake Township**  
**Capital Assets as of March 31, 2013**

	<b>Governmental Activities</b>
Land	\$ 15,938
Buildings and Improvements	490,247
Cemetery Equipment	1,864
Fire Department Equipment	526,863
Vehicles	374,150
Equipment, Furniture and Fixtures	44,353
	1,453,415
Less Accumulated Depreciation	(1,174,188)
<b>Net Capital Assets</b>	<b>\$ 279,227</b>

There were no major capital asset events during fiscal year 2013.

LAKE TOWNSHIP, ROSCOMMON COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2013

**Economic Condition and Outlook**

It appears that state-shared revenues have stabilized. The Township continues to look for ways to improve the services it provides to its residents in a manner that is financially responsible.

This factor was considered in preparing the Township's budgets for the 2013-14 fiscal year.

**Request for Information**

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Lake Township at P.O. Box 536, Houghton Lake, MI 48629.

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

STATEMENT OF NET POSITION  
MARCH 31, 2013

	<u>ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 1,595,303
Receivables	
Special Assessments	26,106
External Party (Fiduciary Fund)	1,061
Taxes	34,641
Land Contract	59,955
Due from Other Governments	20,655
	1,737,721
 <u>CAPITAL ASSETS</u>	
Land	15,938
Buildings and Improvements	490,247
Cemetery Equipment	1,864
Fire Department Equipment	526,863
Vehicles	374,150
Equipment, Furniture and Fixtures	44,353
	1,453,415
Less Accumulated Depreciation	1,174,188
Net Capital Assets	279,227
 TOTAL ASSETS	 2,016,948
 <u>CURRENT LIABILITIES</u>	
Accounts Payable	1,403
Accrued Payroll Taxes	1,467
	2,870
 <u>NET POSITION</u>	
Net Investment in Capital Assets	279,227
Restricted	
Fire Protection	237,378
Trash Collection	103,579
Fire Equipment	81,861
Liquor Law Enforcement	977
Cemetery	41,098
Street Lighting	40,507
Road Improvements	157,102
Unrestricted	1,072,349
	1,072,349
 TOTAL NET POSITION	 \$ 2,014,078

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

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2013

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE)</u> <u>REVENUE AND CHANGES</u> <u>IN NET POSITION</u>
		<u>CHARGES FOR</u> <u>SERVICES</u>	<u>OPERATING</u> <u>GRANTS AND</u> <u>CONTRIBUTIONS</u>	<u>CAPITAL</u> <u>GRANTS AND</u> <u>CONTRIBUTIONS</u>	<u>GOVERNMENTAL</u> <u>ACTIVITIES</u>
<u>GOVERNMENTAL ACTIVITIES</u>					
General Government	\$ 180,219	\$ 13,019	\$ 3,929	\$ 0	\$ (163,271)
Public Safety	166,189	0	0	0	(166,189)
Public Works	316,958	0	115,580	0	(201,378)
Community and Economic Development	9,150	0	0	0	(9,150)
Other Functions	58,962	0	0	0	(58,962)
Total Governmental Activities	\$ 731,478	\$ 13,019	\$ 119,509	\$ 0	(598,950)
<u>GENERAL REVENUES</u>					
Property Taxes and Special Assessments					481,530
State Grants					88,204
Interest Earnings					10,313
Other					20,256
Total General Revenues					600,303
Change in Net Position					1,353
<u>NET POSITION</u> - Beginning of Year					2,012,725
<u>NET POSITION</u> - End of Year					\$ 2,014,078

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

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET  
MARCH 31, 2013

	GENERAL FUND	FIRE OPERATING FUND	TRASH COLLECTION FUND	SEWER CAPITAL PROJECTS FUND	ROAD FUND	NONMAJOR FUNDS	TOTALS
<u>ASSETS</u>							
Cash	\$ 530,412	\$ 229,700	\$ 92,422	\$ 437,392	\$ 148,612	\$ 156,765	\$ 1,595,303
Taxes Receivable	10,454	8,508	0	0	8,752	6,927	34,641
Special Assessment Receivable	14,802	0	11,304	0	0	0	26,106
Land Contract Receivable	59,955	0	0	0	0	0	59,955
Due from Other Governments	20,655	0	0	0	0	0	20,655
Due from Other Funds	7,605	0	0	628	0	1,918	10,151
<b>TOTAL ASSETS</b>	<b>\$ 643,883</b>	<b>\$ 238,208</b>	<b>\$ 103,726</b>	<b>\$ 438,020</b>	<b>\$ 157,364</b>	<b>\$ 165,610</b>	<b>\$ 1,746,811</b>
<u>LIABILITIES</u>							
Accounts Payable	\$ 0	\$ 567	\$ 0	\$ 0	\$ 0	\$ 836	\$ 1,403
Accrued Payroll Taxes	1,412	55	0	0	0	0	1,467
Due to Other Funds	1,597	208	147	6,545	262	331	9,090
<b>Total Liabilities</b>	<b>3,009</b>	<b>830</b>	<b>147</b>	<b>6,545</b>	<b>262</b>	<b>1,167</b>	<b>11,960</b>
<u>DEFERRED INFLOWS OF RESOURCES</u>							
Unavailable Revenue	74,757	0	0	0	0	0	74,757
<u>FUND BALANCE</u>							
Restricted for:							
Fire Protection	0	237,378	0	0	0	0	237,378
Trash Collection	0	0	103,579	0	0	0	103,579
Fire Equipment	0	0	0	0	0	81,861	81,861
Liquor Law Enforcement	0	0	0	0	0	977	977
Cemetery	0	0	0	0	0	41,098	41,098
Street Lighting	0	0	0	0	0	40,507	40,507
Road Improvements	0	0	0	0	157,102	0	157,102
Unrestricted							
Assigned for Capital Projects	0	0	0	431,475	0	0	431,475
Unassigned	566,117	0	0	0	0	0	566,117
<b>Total Fund Balance</b>	<b>566,117</b>	<b>237,378</b>	<b>103,579</b>	<b>431,475</b>	<b>157,102</b>	<b>164,443</b>	<b>1,660,094</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>	<b>\$ 643,883</b>	<b>\$ 238,208</b>	<b>\$ 103,726</b>	<b>\$ 438,020</b>	<b>\$ 157,364</b>	<b>\$ 165,610</b>	<b>\$ 1,746,811</b>

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

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION  
MARCH 31, 2013

Total Fund Balances for Governmental Funds \$ 1,660,094

Amounts reported for governmental activities in the  
Statement of Net Position are different because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported in the funds.

Land	\$ 15,938	
Buildings and Improvements	490,247	
Cemetery Equipment	1,864	
Fire Department Equipment	526,863	
Vehicles	374,150	
Equipment, Furniture and Fixtures	44,353	
Accumulated Depreciation	<u>(1,174,188)</u>	279,227

Other long-term assets are not available to pay for current period  
expenditures and therefore are not reported in the funds.

Land Contract Receivable		59,955
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Receivables not expected to be collected within sixty days are  
treated as unavailable revenue in the governmental funds.

Special Assessments		<u>14,802</u>
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NET POSITION OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 2,014,078</u></u>
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The accompanying notes are an integral part of the financial statements.

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
YEAR ENDED MARCH 31, 2013

	GENERAL FUND	FIRE OPERATING FUND	TRASH COLLECTION FUND	SEWER CAPITAL PROJECTS FUND	ROAD FUND	NONMAJOR FUNDS	TOTALS
<u>REVENUES</u>							
Taxes	\$ 151,984	\$ 115,935	\$ 0	\$ 0	\$ 119,211	\$ 94,400	\$ 481,530
State Grants	88,204	0	0	0	0	5,593	93,797
Charges for Services	11,494	0	0	0	0	1,150	12,644
Interest and Rents	6,578	505	168	2,703	431	303	10,688
Other Revenues	33,940	2,486	113,916	0	0	0	150,342
Total Revenues	292,200	118,926	114,084	2,703	119,642	101,446	749,001
<u>EXPENDITURES</u>							
General Government	163,425	0	0	0	0	4,971	168,396
Public Safety	0	97,285	0	0	0	33,694	130,979
Public Works	0	0	107,006	0	171,559	38,393	316,958
Community and Economic Development	9,150	0	0	0	0	0	9,150
Other Functions	58,962	0	0	0	0	0	58,962
Total Expenditures	231,537	97,285	107,006	0	171,559	77,058	684,445
Excess (Deficiency) of Revenues Over Expenditures	60,663	21,641	7,078	2,703	(51,917)	24,388	64,556
<u>FUND BALANCE</u> - Beginning of Year	505,454	215,737	96,501	428,772	209,019	140,055	1,595,538
<u>FUND BALANCE</u> - End of Year	\$ 566,117	\$ 237,378	\$ 103,579	\$ 431,475	\$ 157,102	\$ 164,443	\$ 1,660,094

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



LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2013

Net Change in Fund Balance - Total Governmental Funds	\$ 64,556
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the Statement of Activities. These costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(47,033)
Under modified accrual basis of accounting, revenue is recognized when measurable and certain. The entity-wide statements recognize revenue when earned.	
Land Contract - Beginning of Year	(62,281)
Land Contract - End of Year	59,955
Revenue is recorded on the accrual method in the Statement of Activities; in the governmental funds it is recorded on the modified accrual method and not considered available:	
Unavailable Revenue - Beginning of Year	(28,646)
Unavailable Revenue - End of Year	14,802
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,353</u>

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

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

FIDUCIARY FUND

STATEMENT OF FIDUCIARY NET POSITION  
MARCH 31, 2013

ASSETS

Cash	\$ 11,593
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LIABILITIES

Due to Other Funds	1,061
Due to Other Governments	<u>10,532</u>

TOTAL LIABILITIES	<u>11,593</u>
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NET POSITION

	<u><u>\$ 0</u></u>
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The notes to the financial statements are an integral part of this statement.

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**B. Reporting Entity**

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

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

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

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

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

Lake Township reports the following major governmental funds:

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

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013

The *Fire Operating Fund* accounts for revenue sources that are legally restricted to expenditures for fire department operations.

The *Trash Collection Fund* accounts for revenue sources that are legally restricted to expenditures for trash collection.

The *Sewer Capital Projects Fund* accounts for revenue sources that are assigned for capital projects.

The *Road Fund* accounts for revenue sources that are legally restricted to expenditures for road maintenance.

Additionally Lake Township reports the following fund types:

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

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

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

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013

and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

**F. Budgetary Information**

***1. Budgetary Basis of Accounting***

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on March 13, 2012, or as amended by the Township Board from time to time throughout the year.

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

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013

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

**2. *Excess of Expenditures over Appropriations***

	<u>APPROPRIATIONS</u>		<u>EXPENDITURES</u>
General Fund			
Board of Review	\$ 2,525	\$	2,993
Road Fund			
Public Works	116,000		171,559

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

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

**1. *Cash and Cash Equivalents***

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

Investments – The Township's investment policy is in compliance with state law and authorizes the Township to invest in passbook savings accounts, certificates of deposit, and money market funds.

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

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. There are no prepaid items this year.

**3. *Capital Assets***

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

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

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

<u>ASSETS</u>	<u>YEARS</u>
Buildings and Improvements	20-40
Equipment	3-12
Vehicles	5-7

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

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Township has one item that fits this criterion, unavailable revenue related to special assessments and land contract.

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

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

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013

**6. *Fund Balance Flow Assumptions***

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

**7. *Fund Balance Policies***

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

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

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

**8. *Use of Estimates***

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



LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013

**H. Revenues and Expenditures/Expenses**

***1. Program Revenues***

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

***2. Property Taxes***

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

The 2012 taxable valuation of the Lake Township totaled \$115,806,134, on which ad valorem taxes levied consisted of 0.9248 mills for the Lake Township operating purposes, 0.9722 mills for Lake Township fire department operations, 0.50 mills for Lake Township fire equipment, 1 mill for Lake Township road improvements, and 0.2916 mills for Lake Township street lights. These levies raised approximately \$106,286 for operating purposes, \$111,734 for fire operations, \$57,465 for fire equipment, \$114,835 for road improvements, and \$33,505 for street lights. These amounts are recognized in the respective General Fund, Fire Funds, Road Fund, and Street Light Fund financial statements as tax revenue.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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

Note I.F.2, on the Excess of Expenditures over Appropriations, describes a budgetary violation that occurred for the year ended March 31, 2013.

**III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS**

**A. Cash Deposits with Financial Institutions**

The Township's deposits are on deposit with Chemical Bank, Northwestern Bank, Chase Bank, Primevest Financial Services, and Independent Bank.

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. As of March 31, 2013, \$846,006 of the \$1,609,081 was exposed to custodial credit risk. Although the Township’s investment policy does not directly address custodial credit risk, it typically limits its exposure by controlling who holds the Township’s deposits.

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

**B. Receivables**

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

	General Fund	Fire Operating Fund	Trash Collection Fund	Sewer Capital Projects Fund	Road Fund	Nonmajor Funds	Total
Receivables							
Taxes	\$ 10,454	\$ 8,508	\$ 0	\$ 0	\$ 8,752	\$ 6,927	\$ 34,641
Special Assessments	14,802	0	11,304	0	0	0	26,106
Land Contract	59,955	0	0	0	0	0	59,955
Due from Other							
Governments	20,655	0	0	0	0	0	20,655
Due from Other Funds	7,605	0	0	628	0	1,918	10,151
	<u>\$ 113,471</u>	<u>\$ 8,508</u>	<u>\$ 11,304</u>	<u>\$ 628</u>	<u>\$ 8,752</u>	<u>\$ 8,845</u>	<u>\$ 151,508</u>

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

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013

**C. Capital Assets**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>				
Capital assets, not being depreciated				
Land	\$ 15,938	\$ 0	\$ 0	\$ 15,938
Capital assets, being depreciated				
Buildings and Improvements	490,247	0	0	490,247
Cemetery Equipment	1,864	0	0	1,864
Fire Department Equipment	526,863	0	0	526,863
Vehicles	374,150	0	0	374,150
Equipment, Furniture and Fixtures	44,353	0	0	44,353
Total capital assets, being depreciated	<u>1,437,477</u>	<u>0</u>	<u>0</u>	<u>1,437,477</u>
Less accumulated depreciation for:				
Buildings and Improvements	311,038	11,823	0	322,861
Cemetery Equipment	1,864	0	0	1,864
Fire Department Equipment	452,637	12,177	0	464,814
Vehicles	317,263	23,033		340,296
Equipment, Furniture and Fixtures	44,353	0	0	44,353
Total accumulated depreciation	<u>1,127,155</u>	<u>47,033</u>	<u>0</u>	<u>1,174,188</u>
Total capital assets, being depreciated, net	<u>310,322</u>	<u>(47,033)</u>	<u>0</u>	<u>263,289</u>
Governmental activities capital assets, net	<u>\$ 326,260</u>	<u>\$ (47,033)</u>	<u>\$ 0</u>	<u>\$ 279,227</u>

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

Governmental Activities:

General Government	\$ 11,823
Public Works	<u>35,210</u>
Total Depreciation Expense	<u>\$ 47,033</u>

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013

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

Individual fund interfund receivable and payable balances at March 31, 2013, were:

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 7,605	\$ 1,597
Special Revenue Funds		
Fire Operating Fund	0	208
Trash Collection Fund	0	147
Fire Equipment Fund	0	275
Sewer Capital Projects Fund	628	6,545
Liquor Law Enforcement Fund	278	0
Cemetery Fund	0	56
Street Light Fund	1,640	0
Road Fund	0	262
Fiduciary Fund		
Tax Fund	0	1,061
	<u>\$ 10,151</u>	<u>\$ 10,151</u>

Interfund receivables and payables result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

There were no interfund transfers during the fiscal year March 31, 2013.

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**E. Risk Management**

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, errors and omissions insurance and workers' compensation. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2013

assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

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

**F. Retirement Plan**

The Township has defined contribution pension plan with John Hancock Life Insurance Company which covers Township officers which elect to be covered. Township contributions to the plan for 2012-2013, amounted to \$10,251. For the 2012-2013 year, total covered payroll amounted to approximately \$62,839 and total wages including non-covered payroll was \$140,184.

**G. Land Contract**

The Township signed a land contract on December 30, 2010, to sell a parcel of land for \$69,000. Payments are to be received of \$500 monthly to include interest at a rate of 6%. The balance will be received January 15, 2016. Title to the property will remain with the Township until the balance is paid in full. The following is a schedule, by year, of the total minimum payments receivable as of March 31, 2013.

<u>Year Ending March 31,</u>	
2014	\$ 2,470
2015	2,622
2016	<u>54,863</u>
Total Land Contract Receivable	<u><u>\$ 59,955</u></u>

**IV. OTHER INFORMATION**

**A. New GASB Standards**

Effective April 1, 2012 the Township adopted GASB Statement 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position" and GASB Statement 65, "Items Previously Recognized as Assets and Liabilities". These statements establish and clarify new components of the statement of position, "Deferred Inflows of Resources" and "Deferred Outflows of Resources". At March 31, 2013, the Township did not have items that fit the criteria for a deferred outflow of resources or a deferred inflow of resources. GASB 63 also changes the term "net assets", which was previously made up of assets less liabilities, to "net position", which is now made up of assets, deferred outflows of resources, liabilities and deferred inflows of resources. Accordingly any reference to "net assets" has been changed to "net position".

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS  
MARCH 31, 2013

	GENERAL FUND			FIRE OPERATING FUND			TRASH COLLECTION FUND			ROAD FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<b>REVENUES</b>												
Taxes	\$ 113,276	\$ 113,276	\$ 151,984	\$ 114,675	\$ 114,675	\$ 115,935	\$ 0	\$ 0	\$ 0	\$ 116,000	\$ 116,000	\$ 119,211
State Grants	87,694	87,694	88,204	0	0	0	0	0	0	0	0	0
Charges for Services	44,884	44,884	11,494	0	0	0	0	0	0	0	0	0
Interest and Rents	1,100	1,100	6,578	300	300	505	100	100	168	200	200	431
Other Revenues	600	600	33,940	0	0	2,486	104,808	104,808	113,916	0	0	0
<b>Total Revenues</b>	<b>247,554</b>	<b>247,554</b>	<b>292,200</b>	<b>114,975</b>	<b>114,975</b>	<b>118,926</b>	<b>104,908</b>	<b>104,908</b>	<b>114,084</b>	<b>116,200</b>	<b>116,200</b>	<b>119,642</b>
<b>EXPENDITURES</b>												
General Government												
Township Board	36,353	66,453	46,344	0	0	0	0	0	0	0	0	0
Supervisor	18,909	18,909	18,631	0	0	0	0	0	0	0	0	0
Election	5,600	5,600	4,288	0	0	0	0	0	0	0	0	0
Assessor	35,215	35,215	34,969	0	0	0	0	0	0	0	0	0
Clerk	28,786	28,786	27,790	0	0	0	0	0	0	0	0	0
Board of Review	2,525	2,525	2,993	0	0	0	0	0	0	0	0	0
Treasurer	23,497	23,497	21,772	0	0	0	0	0	0	0	0	0
Building and Grounds	7,140	7,140	6,638	0	0	0	0	0	0	0	0	0
Public Safety	0	0	0	112,764	112,764	97,285	0	0	0	0	0	0
Public Works	0	0	0	0	0	0	110,800	110,800	107,006	116,000	116,000	171,559
Community and Economic Development												
Planning and Zoning	13,900	13,900	9,150	0	0	0	0	0	0	0	0	0
Other Functions	65,500	65,500	58,962	0	0	0	0	0	0	0	0	0
<b>Total Expenditures</b>	<b>237,425</b>	<b>267,525</b>	<b>231,537</b>	<b>112,764</b>	<b>112,764</b>	<b>97,285</b>	<b>110,800</b>	<b>110,800</b>	<b>107,006</b>	<b>116,000</b>	<b>116,000</b>	<b>171,559</b>
Net Change in Fund Balance	10,129	(19,971)	60,663	2,211	2,211	21,641	(5,892)	(5,892)	7,078	200	200	(51,917)
<b>FUND BALANCE - Beginning of Year</b>	<b>505,454</b>	<b>505,454</b>	<b>505,454</b>	<b>215,945</b>	<b>215,945</b>	<b>215,737</b>	<b>96,501</b>	<b>96,501</b>	<b>96,501</b>	<b>493,954</b>	<b>493,954</b>	<b>209,019</b>
<b>FUND BALANCE - End of Year</b>	<b>\$ 515,583</b>	<b>\$ 485,483</b>	<b>\$ 566,117</b>	<b>\$ 218,156</b>	<b>\$ 218,156</b>	<b>\$ 237,378</b>	<b>\$ 90,609</b>	<b>\$ 90,609</b>	<b>\$ 103,579</b>	<b>\$ 494,154</b>	<b>\$ 494,154</b>	<b>\$ 157,102</b>

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET  
MARCH 31, 2013

	LIQUOR LAW ENFORCEMENT FUND	CEMETERY FUND	STREET LIGHT FUND	FIRE EQUIPMENT FUND	TOTALS
<u>ASSETS</u>					
Cash	\$ 699	\$ 41,154	\$ 36,316	\$ 78,596	\$ 156,765
Taxes Receivable	0	0	2,551	4,376	6,927
Due from Other Funds	278	0	1,640	0	1,918
<b>TOTAL ASSETS</b>	<b>\$ 977</b>	<b>\$ 41,154</b>	<b>\$ 40,507</b>	<b>\$ 82,972</b>	<b>\$ 165,610</b>
<u>LIABILITIES AND FUND BALANCE</u>					
<u>LIABILITIES</u>					
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 836	\$ 836
Due to Other Funds	0	56	0	275	331
<b>Total Liabilities</b>	<b>0</b>	<b>56</b>	<b>0</b>	<b>1,111</b>	<b>1,167</b>
<u>FUND BALANCE</u>					
Restricted	977	41,098	40,507	81,861	164,443
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 977</b>	<b>\$ 41,154</b>	<b>\$ 40,507</b>	<b>\$ 82,972</b>	<b>\$ 165,610</b>

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
YEAR ENDED MARCH 31, 2013

	LIQUOR LAW ENFORCEMENT FUND	CEMETERY FUND	STREET LIGHT FUND	FIRE EQUIPMENT FUND	TOTALS
<u>REVENUES</u>					
Taxes	\$ 0	\$ 9	\$ 34,765	\$ 59,626	\$ 94,400
State Grants	3,929	0	1,664	0	5,593
Charges for Services	0	1,150	0	0	1,150
Interest and Rents	0	109	75	119	303
Total Revenues	3,929	1,268	36,504	59,745	101,446
<u>EXPENDITURES</u>					
General Government	0	4,971	0	0	4,971
Public Safety	4,171	0	0	29,523	33,694
Public Works	0	0	38,393	0	38,393
Total Expenditures	4,171	4,971	38,393	29,523	77,058
Net Change in Fund Balance	(242)	(3,703)	(1,889)	30,222	24,388
<u>FUND BALANCES</u> - Beginning of Year	1,219	44,801	42,396	51,639	140,055
<u>FUND BALANCES</u> - End of Year	\$ 977	\$ 41,098	\$ 40,507	\$ 81,861	\$ 164,443





# Baird, Cotter & Bishop, P.C.

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CERTIFIED PUBLIC ACCOUNTANTS

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June 21, 2013

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

To the Township Board  
Lake Township  
Roscommon County  
Houghton Lake, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lake Township for the year ended March 31, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 23, 2013. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Lake Township are described in Note I to the financial statements. Starting in 2012-2013, the Township has implemented GASB 63 and GASB 65, new standards that rename, redefine, and clarify components of net position. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

The financial statement disclosures are neutral, consistent and clear.

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

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

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated June 21, 2013.

### *Management Consultations with Other Independent Accountants*

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

### *Other Audit Findings or Issues*

During the course of our audit of the basic financial statements of Lake Township for the year ended March 31, 2013, we noted the following items which we feel deserve comment:

#### Capitalization Policy

During the previous audit we were unable to locate a copy of the Township's capitalization policy. The Township should officially adopt and record in the minutes its Capitalization Policy of \$1,000. We have provided an appropriate sample policy for the Board to consider for adoption. This is a repeat comment from the prior year.

#### Balancing Between Clerk and Treasurer

We have provided adjustments to balance the records between the clerk and treasurer as of March 31, 2013. Starting in April the clerk and treasurer should be able to provide a reconciliation to the board on a monthly basis.

#### Bank Accounts

Currently the structure of the combined bank accounts for each fund is creating difficulties for the treasurer and clerk to timely reconcile the accounts. Due to the setup of the bank accounts and the treasurer's software program it is very difficult to complete this reconciliation which should be a streamlined process. We suggest that alternative bank accounts be considered. We have proposed a few options.

## Budgeting

Expenditures in the several funds exceeded appropriated amounts. The Township should continue to monitor its budgets on an ongoing basis and make budget amendments prior to incurring expenditures in excess of budgeted amounts.

## *Other Matters*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

BAIRD, COTTER AND BISHOP, P.C.

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



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June 21, 2013

## COMMUNICATION OF MATERIAL WEAKNESSES

To the Township Board  
Lake Township  
Roscommon County  
Houghton Lake, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund information, and the aggregate remaining fund information of Lake Township as of and for the year ended March 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered Lake Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lake Township's internal control. Accordingly, we do not express an opinion on the effectiveness of Lake Township's internal control.

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

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

*1) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements*

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

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditor to assist in the preparation of the

government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

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

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

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

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

## 2) *Segregation of Incompatible Duties and Documented Independent Review of Cash Receipts*

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

Condition: The government has several accounting functions that are performed by the same individual and are not subject to a documented independent review and approval.

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

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

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

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

We noted certain matters that we reported to management of Lake Township in a separate letter dated June 21, 2013.

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

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

BAIRD, COTTER AND BISHOP, P.C.

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