

**LAKE TOWNSHIP, ROSCOMMON COUNTY**

**HOUGHTON LAKE, MICHIGAN**

**MARCH 31, 2015**



**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, 2015

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September 15, 2015

## 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, 2015, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of, Lake Township, Roscommon County, Houghton Lake, Michigan as of March 31, 2015, 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 and budgetary comparison information on pages iii-ix and 20 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 Lake Township's basic financial statements. The Other Information section is presented for purposes of additional analysis and is not a required part of the 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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, 2015

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, 2015. 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.

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

**Financial Highlights**

- ❖ The assets of Lake Township exceeded its liabilities at the close of the most recent fiscal year by \$1,729,978 (*net position*). Of this amount, \$1,019,937 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 \$1,420,790, a decrease of \$170,792 in comparison with the prior year. Approximately 38% of this amount (\$534,075) 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 \$534,075.

**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

LAKE TOWNSHIP, ROSCOMMON COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2015

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.

The government-wide financial statements can be found on pages 1-3 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 nine 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 4-7 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

LAKE TOWNSHIP, ROSCOMMON COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2015

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 8 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 9-19 of this report.

**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 \$1,729,978, at the close of the most recent fiscal year.

**Lake Township**  
**Net Position as of March 31, 2015**

	<b>Governmental Activities</b>
<b>Assets</b>	
Current Assets	\$ 1,482,677
Non Current Assets	
Capital Assets	1,497,437
Less: Accumulated Depreciation	(1,243,112)
Total Non Current Assets	254,325
<b>Total Assets</b>	<b>1,737,002</b>
<b>Liabilities</b>	
Current Liabilities	7,024
<b>Net Position</b>	
Net Investment in Capital Assets	254,325
Restricted for Specific Purposes	455,716
Unrestricted	1,019,937
<b>Total Net Position</b>	<b>\$ 1,729,978</b>

A large portion of the Township's net position (15%) 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.

LAKE TOWNSHIP, ROSCOMMON COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2015

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 (26%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,019,937 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

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 decreased by \$206,115 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, 2015**

	<b>Governmental Activities</b>
<b><u>Revenues</u></b>	
Program Revenues	
Charges for Services	\$ 12,187
Operating Grants and Contributions	130,836
General Revenues	
Property Taxes	256,977
State Grants	93,484
Interest Earnings	3,546
Other	20,407
	517,437
<b><u>Expenses</u></b>	
General Government	181,134
Public Safety	179,598
Public Works	282,736
Community and Economic Development	3,233
Other Functions	76,851
	723,552
Changes in Net Position	(206,115)
<b><u>NET POSITION</u></b> - Beginning of Year	1,936,093
<b><u>NET POSITION</u></b> - End of Year	\$ 1,729,978

LAKE TOWNSHIP, ROSCOMMON COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2015

**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 and 0.9722 mills for fire operating. 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.

The Township's governmental activities expenses are dominated by Public Works expenses that total \$282,736. General Government represented the next largest expense at \$181,134.

**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, 2015, Lake Township's governmental funds reported combined fund balances of \$1,420,790, a decrease of \$170,792 in comparison with the prior year. Approximately 38% of this amount (\$534,075) 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 (\$455,716), 4) committed for particular purposes, or 5) assigned for particular purposes (\$430,999).

**General Fund** – The General Fund decreased its fund balance by \$59,872 which brings the fund balance to \$534,075. This decrease was due to a transfer to the Street Lighting Fund of \$80,000. Of the General Fund's fund balance, all of it is unassigned.

**Fire Operating Fund** - The Fire Operating Fund decreased its fund balance by \$16,796 which brings the fund balance to \$202,762. This balance is restricted and must be used for fire protection.

The Township levied a fire millage on the 2014 tax roll. This resulted in \$111,192 in tax related revenues during the current fiscal year.

**Trash Collection Fund** - The Trash Collection Fund decreased its fund balance by \$6,627 which brings the fund balance to \$98,017. This balance is restricted and must be used for trash collection.

LAKE TOWNSHIP, ROSCOMMON COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2015

The Township levied a special assessment for trash collection on the 2014 tax roll. This resulted in \$124,899 in revenues during the current fiscal year.

**Sewer Capital Projects Fund** - The Sewer Capital Projects Fund increased its fund balance by \$133 which brings the fund balance to \$430,099. The fund balance is assigned for capital improvements.

**Road Fund** – The Road Fund decreased its fund balance by \$112,261 which brings the fund balance to \$34,427. This balance is restricted and must be used for road improvements.

**General Fund Budgetary Highlights**

During the year, there was a \$10,262 increase in appropriations between the original budget and final amended budget. Following are the significant reasons for the increase:

- \$5,481 increase in Township Board expenditures.
- \$1,002 increase in Elections expenditures.
- \$1,387 increase in Other Functions.

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	\$ 250,095	\$ 250,095	\$ 267,863
Total Expenditures	\$ 240,310	\$ 250,572	\$ 247,735

The actual revenues received were higher than anticipated, especially related to interest, rents, charges for services, and other revenues.

LAKE TOWNSHIP, ROSCOMMON COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED MARCH 31, 2015

**Capital Assets and Debt Administration**

**Capital Assets.** The Township's investment in capital assets for its governmental activities as of March 31, 2015, amounts to \$254,325 (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, 2015**

	<b>Governmental Activities</b>
Land	\$ 15,938
Buildings and Improvements	490,247
Cemetery Equipment	1,864
Fire Department Equipment	570,885
Vehicles	374,150
Equipment, Furniture and Fixtures	44,353
	1,497,437
Less Accumulated Depreciation	(1,243,112)
 <b>Net Capital Assets</b>	 <b>\$ 254,325</b>

**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 2015-16 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, 2015

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 1,374,774
Receivables	
Accounts	2,651
Special Assessments	10,775
External Party (Fiduciary Fund)	2,418
Taxes	15,848
Land Contract	54,863
Due from Other Governments	21,348
	<hr/>
Total Current Assets	1,482,677
	<hr/>
<u>CAPITAL ASSETS</u>	
Land	15,938
Buildings and Improvements	490,247
Cemetery Equipment	1,864
Fire Department Equipment	570,885
Vehicles	374,150
Equipment, Furniture and Fixtures	44,353
	<hr/>
	1,497,437
Less Accumulated Depreciation	1,243,112
Net Capital Assets	254,325
	<hr/>
	1,737,002
	<hr/>
<u>LIABILITIES</u>	
Accounts Payable	1,021
Accrued Payroll Taxes	6,003
	<hr/>
	7,024
	<hr/>

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

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

STATEMENT OF NET POSITION  
MARCH 31, 2015

<u>NET POSITION</u>	<u>GOVERNMENTAL ACTIVITIES</u>
Net Investment in Capital Assets	254,325
Restricted	
Fire Protection	202,762
Trash Collection	98,017
Fire Equipment	41,196
Liquor Law Enforcement	1,187
Cemetery	31,515
Street Lighting	46,612
Road Improvements	34,427
Unrestricted	<u>1,019,937</u>
 TOTAL NET POSITION	 <u><u>\$ 1,729,978</u></u>

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, 2015

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE)
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	REVENUE AND CHANGES IN NET POSITION
					GOVERNMENTAL ACTIVITIES
<u>GOVERNMENTAL ACTIVITIES</u>					
General Government	\$ 181,134	\$ 12,187	\$ 4,351	\$ 0	\$ (164,596)
Public Safety	179,598	0	0	0	(179,598)
Public Works	282,736	0	126,485	0	(156,251)
Community and Economic Development	3,233	0	0	0	(3,233)
Other Functions	76,851	0	0	0	(76,851)
Total Governmental Activities	\$ 723,552	\$ 12,187	\$ 130,836	\$ 0	(580,529)
<u>GENERAL REVENUES</u>					
					256,977
Property Taxes					93,484
State Grants					3,546
Interest Earnings					20,407
Other					
Total General Revenues					374,414
Change in Net Position					(206,115)
<u>NET POSITION</u> - Beginning of Year					1,936,093
<u>NET POSITION</u> - End of Year					\$ 1,729,978

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

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET

MARCH 31, 2015

	GENERAL FUND	FIRE OPERATING FUND	TRASH COLLECTION FUND	SEWER CAPITAL PROJECTS FUND	ROAD FUND	NONMAJOR FUNDS	TOTALS
<u>ASSETS</u>							
Cash	\$ 494,973	\$ 215,558	\$ 87,389	\$ 436,916	\$ 34,689	\$ 105,249	\$ 1,374,774
Taxes Receivable	7,726	8,122	0	0	0	0	15,848
Accounts Receivable	0	2,651	0	0	0	0	2,651
Special Assessment Receivable	0	0	10,775	0	0	0	10,775
Land Contract Receivable	54,863	0	0	0	0	0	54,863
Due from Other Governments	21,348	0	0	0	0	0	21,348
Due from Other Funds	16,031	0	0	0	0	16,613	32,644
<b>TOTAL ASSETS</b>	<b>\$ 594,941</b>	<b>\$ 226,331</b>	<b>\$ 98,164</b>	<b>\$ 436,916</b>	<b>\$ 34,689</b>	<b>\$ 121,862</b>	<b>\$ 1,512,903</b>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES,</u>							
<u>AND FUND BALANCE</u>							
<u>LIABILITIES</u>							
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,021	\$ 1,021
Accrued Payroll Taxes	6,003	0	0	0	0	0	6,003
Due to Other Funds	0	23,569	147	5,917	262	331	30,226
<b>Total Liabilities</b>	<b>6,003</b>	<b>23,569</b>	<b>147</b>	<b>5,917</b>	<b>262</b>	<b>1,352</b>	<b>37,250</b>
<u>DEFERRED INFLOWS OF RESOURCES</u>							
Unavailable Revenue	54,863	0	0	0	0	0	54,863
<u>FUND BALANCE</u>							
Restricted for:							
Fire Protection	0	202,762	0	0	0	0	202,762
Trash Collection	0	0	98,017	0	0	0	98,017
Fire Equipment	0	0	0	0	0	41,196	41,196
Liquor Law Enforcement	0	0	0	0	0	1,187	1,187
Cemetery	0	0	0	0	0	31,515	31,515
Street Lighting	0	0	0	0	0	46,612	46,612
Road Improvements	0	0	0	0	34,427	0	34,427
Unrestricted							
Assigned for Capital Projects	0	0	0	430,999	0	0	430,999
Unassigned	534,075	0	0	0	0	0	534,075
<b>Total Fund Balance</b>	<b>534,075</b>	<b>202,762</b>	<b>98,017</b>	<b>430,999</b>	<b>34,427</b>	<b>120,510</b>	<b>1,420,790</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>	<b>\$ 594,941</b>	<b>\$ 226,331</b>	<b>\$ 98,164</b>	<b>\$ 436,916</b>	<b>\$ 34,689</b>	<b>\$ 121,862</b>	<b>\$ 1,512,903</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, 2015

Total Fund Balances for Governmental Funds \$ 1,420,790

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	570,885	
Vehicles	374,150	
Equipment, Furniture and Fixtures	44,353	
Accumulated Depreciation	<u>(1,243,112)</u>	254,325

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

Land Contract Receivable		<u>54,863</u>
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NET POSITION OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 1,729,978</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, 2015

	GENERAL FUND	FIRE OPERATING FUND	TRASH COLLECTION FUND	SEWER CAPITAL PROJECTS FUND	ROAD FUND	NONMAJOR FUNDS	TOTALS
<b><u>REVENUES</u></b>							
Taxes	\$ 143,043	\$ 111,192	\$ 0	\$ 0	\$ 46	\$ 40	\$ 254,321
State Grants	93,484	0	0	0	0	5,937	99,421
Charges for Services	10,627	0	0	0	0	1,010	11,637
Interest and Rents	6,619	0	0	133	0	0	6,752
Other Revenues	14,090	8,939	124,899	0	0	0	147,928
Total Revenues	267,863	120,131	124,899	133	46	6,987	520,059
<b><u>EXPENDITURES</u></b>							
General Government	167,651	0	0	0	0	5,658	173,309
Public Safety	0	136,927	0	0	0	17,795	154,722
Public Works	0	0	131,526	0	112,307	38,903	282,736
Community and Economic Development	3,233	0	0	0	0	0	3,233
Other Functions	76,851	0	0	0	0	0	76,851
Total Expenditures	247,735	136,927	131,526	0	112,307	62,356	690,851
Excess (Deficiency) of Revenues Over Expenditures	20,128	(16,796)	(6,627)	133	(112,261)	(55,369)	(170,792)
<b><u>OTHER FINANCING SOURCES (USES)</u></b>							
Transfers In (Out)	(80,000)	0	0	0	0	80,000	0
Net Change in Fund Balance	(59,872)	(16,796)	(6,627)	133	(112,261)	24,631	(170,792)
<b><u>FUND BALANCE</u></b> - Beginning of Year	593,947	219,558	104,644	430,866	146,688	95,879	1,591,582
<b><u>FUND BALANCE</u></b> - End of Year	\$ 534,075	\$ 202,762	\$ 98,017	\$ 430,999	\$ 34,427	\$ 120,510	\$ 1,420,790

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, 2015

Net Change in Fund Balance - Total Governmental Funds \$ (170,792)

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 (32,701)

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 (57,485)

Land Contract - End of Year 54,863

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (206,115)

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, 2015

	<u>AGENCY FUND</u> <u>TAX COLLECTION</u> <u>FUND</u>
<u>ASSETS</u>	
Cash	\$ 2,418
<u>LIABILITIES</u>	
Due to Other Funds	<u>2,418</u>
<u>NET POSITION</u>	<u>\$ 0</u>

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, 2015

**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, 2015

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 type:

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

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities 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, 2015

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 22, 2014, 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, 2015

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		
Township Board	\$ 36,534	\$ 42,873
Board of Review	2,404	2,631
Other Functions	73,387	76,851
Fire Fund		
Public Safety	123,834	136,927
Trash Collection Fund		
Public Works	124,242	131,526
Road Fund		
Public Works	0	112,307

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.

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2015

**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.

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 does not have any deferred inflows of resources.

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2015

**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.

**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.

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2015

**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.

**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 2014 taxable valuation of the Lake Township totaled \$110,484,573, on which ad valorem taxes levied consisted of 0.9248 mills for the Lake Township operating purposes and 0.9722 mills for Lake Township fire department operations. These levies raised approximately \$106,065 for operating purposes and \$111,502 for fire operations. These amounts are recognized in the respective General Fund and Fire Operating 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, 2015.

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2015

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

**A. Cash Deposits with Financial Institutions**

The Township's deposits are on deposit with Chemical Bank and Chase Bank.

*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, 2015, \$649,205 of the \$1,381,333 was exposed to custodial credit risk. There are uninsured portions in each fund as there is pooled cash. 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	Total
Receivables				
Taxes	\$ 7,726	\$ 8,122	\$ 0	\$ 15,848
Special Assessments	0	0	10,775	10,775
Land Contract	54,863	0	0	54,863
Due from Other Governments	21,348	0	0	21,348
	\$ 83,937	\$ 8,122	\$ 10,775	\$ 102,834

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, 2015

**C. Capital Assets**

	Beginning Balance	Increases	Decreases	Ending Balance
<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	570,885	0	0	570,885
Vehicles	374,150	0	0	374,150
Equipment, Furniture and Fixtures	44,353	0	0	44,353
Total capital assets, being depreciated	1,481,499	0	0	1,481,499
Less accumulated depreciation for:				
Buildings and Improvements	331,256	7,825	0	339,081
Cemetery Equipment	1,864	0	0	1,864
Fire Department Equipment	484,830	17,063	0	501,893
Vehicles	348,108	7,813	0	355,921
Equipment, Furniture and Fixtures	44,353	0	0	44,353
Total accumulated depreciation	1,210,411	32,701	0	1,243,112
Total capital assets, being depreciated, net	271,088	(32,701)	0	238,387
Governmental activities capital assets, net	\$ 287,026	\$ (32,701)	\$ 0	\$ 254,325

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

Governmental Activities:

General Government	\$ 7,825
Public Works	24,876
Total Depreciation Expense	<u>\$ 32,701</u>

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2015

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

Individual fund interfund receivable and payable balances at March 31, 2015, were:

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 16,031	\$ 0
Special Revenue Funds		
Fire Operating Fund	0	23,569
Trash Collection Fund	0	147
Sewer Capital Projects Fund	0	5,917
Road Fund	0	262
Liquor Law Enforcement Fund	278	0
Cemetery Fund	0	56
Street Light Fund	1,640	0
Fire Equipment Fund	14,695	275
Fiduciary Fund		
Tax Fund	0	2,418
	<u>\$ 32,644</u>	<u>\$ 32,644</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 interfund transfers during the fiscal year March 31, 2015 were:

<u>Primary Government</u>	<u>TRANSFERS</u>	
	<u>IN</u>	<u>OUT</u>
General Fund	\$ 0	\$ 80,000
Street Light Fund	80,000	0
	<u>\$ 80,000</u>	<u>\$ 80,000</u>

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.

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2015

**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 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 2014-2015, amounted to \$11,170. For the 2014-2015 year, total covered payroll amounted to approximately \$59,810 and total wages including non-covered payroll was \$168,452.

**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, 2015.

<u>Year Ending March 31,</u> 2016	<u>\$ 54,863</u>
Total Land Contract Receivable	<u><u>\$ 54,863</u></u>

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS  
MARCH 31, 2015

	<u>GENERAL FUND</u>			<u>FIRE OPERATING FUND</u>			<u>TRASH COLLECTION FUND</u>			<u>ROAD FUND</u>		
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>												
Taxes	\$ 143,277	\$ 143,277	\$ 143,043	\$ 113,272	\$ 113,272	\$ 111,192	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 46
State Grants	91,938	91,938	93,484	0	0	0	0	0	0	0	0	0
Charges for Services	7,380	7,380	10,627	0	0	0	0	0	0	0	0	0
Interest and Rents	1,500	1,500	6,619	300	300	0	100	100	0	115	115	0
Other Revenues	6,000	6,000	14,090	0	0	8,939	124,899	124,899	124,899	0	0	0
Total Revenues	250,095	250,095	267,863	113,572	113,572	120,131	124,999	124,999	124,899	115	115	46
<u>EXPENDITURES</u>												
General Government												
Township Board	31,053	36,534	42,873	0	0	0	0	0	0	0	0	0
Supervisor	21,709	21,709	19,887	0	0	0	0	0	0	0	0	0
Election	3,300	4,012	3,607	0	0	0	0	0	0	0	0	0
Assessor	36,565	36,677	34,284	0	0	0	0	0	0	0	0	0
Clerk	30,136	30,820	29,629	0	0	0	0	0	0	0	0	0
Board of Review	2,375	2,404	2,631	0	0	0	0	0	0	0	0	0
Treasurer	28,622	29,624	28,952	0	0	0	0	0	0	0	0	0
Building and Grounds	6,050	6,905	5,788	0	0	0	0	0	0	0	0	0
Public Safety	0	0	0	105,664	123,834	136,927	0	0	0	0	0	0
Public Works	0	0	0	0	0	0	124,242	124,242	131,526	0	0	112,307
Community and Economic Development												
Planning and Zoning	8,500	8,500	3,233	0	0	0	0	0	0	0	0	0
Other Functions	72,000	73,387	76,851	0	0	0	0	0	0	0	0	0
Total Expenditures	240,310	250,572	247,735	105,664	123,834	136,927	124,242	124,242	131,526	0	0	112,307
Excess (Deficiency) of Revenues Over Expenditures	9,785	(477)	20,128	7,908	(10,262)	(16,796)	757	757	(6,627)	115	115	(112,261)
<u>OTHER FINANCING SOURCES (USES)</u>												
Transfers Out	0	0	(80,000)	0	0	0	0	0	0	0	0	0
Net Change in Fund Balance	9,785	(477)	(59,872)	7,908	(10,262)	(16,796)	757	757	(6,627)	115	115	(112,261)
<u>FUND BALANCE - Beginning of Year</u>	615,404	615,404	593,947	215,945	215,945	219,558	101,896	101,896	104,644	493,954	493,954	146,688
<u>FUND BALANCE - End of Year</u>	\$ 625,189	\$ 614,927	\$ 534,075	\$ 223,853	\$ 205,683	\$ 202,762	\$ 102,653	\$ 102,653	\$ 98,017	\$ 494,069	\$ 494,069	\$ 34,427

LAKE TOWNSHIP, ROSCOMMON COUNTY  
HOUGHTON LAKE, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET  
MARCH 31, 2015

	LIQUOR LAW ENFORCEMENT FUND	CEMETERY FUND	STREET LIGHT FUND	FIRE EQUIPMENT FUND	TOTALS
<u>ASSETS</u>					
Cash	\$ 909	\$ 31,571	\$ 44,972	\$ 27,797	\$ 105,249
Due from Other Funds	278	0	1,640	14,695	16,613
<b>TOTAL ASSETS</b>	<b>\$ 1,187</b>	<b>\$ 31,571</b>	<b>\$ 46,612</b>	<b>\$ 42,492</b>	<b>\$ 121,862</b>
<u>LIABILITIES AND FUND BALANCE</u>					
<u>LIABILITIES</u>					
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 1,021	\$ 1,021
Due to Other Funds	0	56	0	275	331
<b>Total Liabilities</b>	<b>0</b>	<b>56</b>	<b>0</b>	<b>1,296</b>	<b>1,352</b>
<u>FUND BALANCE</u>					
Restricted	1,187	31,515	46,612	41,196	120,510
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 1,187</b>	<b>\$ 31,571</b>	<b>\$ 46,612</b>	<b>\$ 42,492</b>	<b>\$ 121,862</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, 2015

	LIQUOR LAW ENFORCEMENT FUND	CEMETERY FUND	STREET LIGHT FUND	FIRE EQUIPMENT FUND	TOTALS
<u>REVENUES</u>					
Taxes	\$ 0	\$ 1	\$ 14	\$ 25	\$ 40
State Grants	4,351	0	1,586	0	5,937
Charges for Services	0	1,010	0	0	1,010
Total Revenues	4,351	1,011	1,600	25	6,987
<u>EXPENDITURES</u>					
General Government	0	5,658	0	0	5,658
Public Safety	3,838	0	0	13,957	17,795
Public Works	0	0	38,903	0	38,903
Total Expenditures	3,838	5,658	38,903	13,957	62,356
Excess (Deficiency) of Revenues Over Expenditures	513	(4,647)	(37,303)	(13,932)	(55,369)
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers In	0	0	80,000	0	80,000
Net Change in Fund Balance	513	(4,647)	42,697	(13,932)	24,631
<u>FUND BALANCES</u> - Beginning of Year	674	36,162	3,915	55,128	95,879
<u>FUND BALANCES</u> - End of Year	\$ 1,187	\$ 31,515	\$ 46,612	\$ 41,196	\$ 120,510



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

SERVING YOUR PAST, PRESENT & FUTURE

CERTIFIED PUBLIC ACCOUNTANTS

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

www.bcbcpa.com

September 15, 2015

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, 2015. 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 March 31, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Lake Township are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014-2015. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.

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

We encountered no significant 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 clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The material misstatements detected as a result of audit procedures were corrected by management and were related to adjusting financial records from cash basis to the modified accrual basis of accounting. There were also material misstatements detected in cash due to clerk's balances not in agreement with the treasurer's balances.

#### *Disagreements with Management*

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

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 15, 2015.

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

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

#### *Other Audit Findings or Issues*

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

During the course of our audit of the basic financial statements of Lake Township for the year ended March 31, 2015, we noted the following items which we feel deserve comment:

##### Bank Accounts

The treasurer has completed the reconciliations to the bank statements timely throughout the year. The State Accounting Manual requires that the clerk and treasurer reconcile balances on a monthly basis. We noted during the year that the balances on clerk's general ledger did not agree with the

treasurer's balances. Adjustments have been made and therefore reconciliations should be able to be completed this going forward.

#### Budgeting

While there were amendments made to the budget there were some expenditures which 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.

#### Supporting Documentation, Policies and Forms

It was noted that the Township has made improvements during the year relative to supporting documentation, forms and policies. We commend the Township for making these improvements and correcting issues from prior audits.

#### Fire Auxiliary Expenses

The Township has paid for expenses related to the annual Ox Roast Festival for the Fire Auxiliary account. While the 2014 amounts were paid back during the year we were not able to locate the deposit for the 2013 expenses which amounted to \$2,326.01. It is our understanding that the Township has received a partial payment during 2015-2016.

#### Payroll

The quarterly returns did not agree with the W2s issued at the end of the year. The Township has received notices regarding late filings and penalties. We are able to assist with this if needed.

#### Capital Improvement Account

The Township has a capital improvement account where monies are set aside for future building improvements. If the Township would like to set up a separate fund for this purpose there would be a resolution required.

#### Board Minutes

We recommend that an official complete book be kept of all minutes to include check registers, resolutions, etc. We also recommend that beginning and ending check numbers are noted in the minutes when approving bills.

#### Other Matters

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

#### Restriction on Use

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

BAIRD, COTTER AND BISHOP, P.C.

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



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September 15, 2015

## 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, and the aggregate remaining fund information of Lake Township as of and for the year ended March 31, 2015, 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 auditing 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 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*

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

Condition: The government has several accounting functions that are performed by the same individual 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 and appropriate balance between sound internal controls and fiscal prudence.

3) *Material Audit Adjustments*

Criteria: The Township 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. These entries were necessary to adjust cash, taxes, taxes receivable, accounts payable, due to and from other funds, transfers, and amounts due to other governments.

Cause: Balance Sheet accounts were not reconciled at the end of the year. The clerk and treasurer were not balancing each month.

Effect: This resulted in significant efforts to reconcile and correct balances at the end of the year.

Recommendation: We recommend that the Township implement procedures to ensure that all general ledger accounts are reconciled to the subsidiary detail on a monthly basis in order to ensure accurate financial records.

View of Responsible Officials: During the 2015-16 fiscal year there was a recall election where a new clerk and treasurer were elected.

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

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

BAIRD, COTTER AND BISHOP, P.C.

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