

LAKE TOWNSHIP, ROSCOMMON COUNTY

HOUGHTON LAKE, MICHIGAN

MARCH 31, 2017



Baird, Cotter & Bishop, P.C.
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LAKE TOWNSHIP, ROSCOMMON COUNTY
HOUGHTON LAKE, MICHIGAN

MARCH 31, 2017

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July 7, 2017

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, 2017, 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, 2017, 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 20-21 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, 2017

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, 2017. 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 the Township exceeded its liabilities at the close of the most recent fiscal year by \$1,859,405 (*net position*). Of this amount, \$1,043,967 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 \$1,561,783, an increase of \$116,838 in comparison with the prior year. Approximately 34% of this amount (\$537,301) 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 \$537,301.

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.

LAKE TOWNSHIP, ROSCOMMON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2017

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 Equipment 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 funds. A budgetary comparison has been provided for the General Fund and all major special revenue 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 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.

LAKE TOWNSHIP, ROSCOMMON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2017

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 \$1,859,405, at the close of the most recent fiscal year.

Lake Township
Net Position as of March 31, 2017

	Governmental Activities
Assets	
Current Assets	\$ 1,641,539
Non Current Assets	
Capital Assets	1,263,527
Less: Accumulated Depreciation	(1,034,806)
Total Non Current Assets	228,721
Total Assets	1,870,260
Liabilities	
Current Liabilities	10,855
Net Position	
Net Investment in Capital Assets	228,721
Restricted for Specific Purposes	586,717
Unrestricted	1,043,967
Total Net Position	\$ 1,859,405

A portion of the Township's net position (12%) 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 (32%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,043,967 is unrestricted and 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, 2017

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 \$111,558 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, 2017

	Governmental Activities
<u>Revenues</u>	
Program Revenues	
Charges for Services	\$ 11,170
Operating Grants and Contributions	146,354
General Revenues	
Property Taxes	439,817
State Grants	97,513
Interest Earnings	6,423
Other	6,788
Total Revenues	708,065
<u>Expenses</u>	
General Government	176,333
Public Safety	133,784
Public Works	217,392
Community and Economic Development	18,207
Other Functions	50,791
Total Expenses	596,507
Changes in Net Position	111,558
<u>NET POSITION</u> - Beginning of Year	1,747,847
<u>NET POSITION</u> - End of Year	\$ 1,859,405

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 fire department operations, fire department equipment, and roads, in addition to the operating millage, this fiscal year. The Township levied 0.9194 mills for operating purposes, 0.9666 mills for fire department operations, 0.7500 mills for fire department equipment and 0.7500 mills for roads. 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, 2017

The Township's governmental activities expenses are dominated by Public Works expenses that total \$217,392. General Government represented the next largest expense at \$176,333.

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 the 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, 2017, the Township's governmental funds reported combined fund balances of \$1,561,783, an increase of \$116,838 in comparison with the prior year. Approximately 34% of this amount (\$537,301) 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 (\$600), 2) legally required to be maintained intact, 3) restricted for particular purposes (\$586,717), 4) committed for particular purposes, or 5) assigned for particular purposes (\$437,165).

General Fund – The General Fund increased its fund balance by \$12,796 which brings the fund balance to \$537,301. There was a transfer of \$38,000 made to the Road Fund. Of the General Fund's fund balance, all of it is unassigned.

Fire Equipment Fund - The Fire Equipment Fund increased its fund balance by \$88,478 which brings the fund balance to \$124,331. This balance is restricted and must be used for fire equipment. The Township levied a millage on the 2016 tax roll but did not spend any during the fiscal year.

Fire Operating Fund - The Fire Operating Fund decreased its fund balance by \$34,816 which brings the fund balance to \$218,664. This balance is restricted and must be used for fire protection.

The Township levied a fire millage on the 2016 tax roll. This resulted in \$114,048 in tax related revenues during the current fiscal year.

Trash Collection Fund - The Trash Collection Fund increased its fund balance by \$1,621 which brings the fund balance to \$85,393. This balance is restricted and must be used for trash collection.

The Township levied a special assessment for trash collection on the 2016 tax roll. This resulted in \$140,276 in revenues during the current fiscal year.

Sewer Capital Projects Fund - The Sewer Capital Projects Fund increased its fund balance by \$398 which brings the fund balance to \$437,165. The fund balance is assigned for capital improvements. The Township is evaluating what specific capital improvements will be completed in the future.

LAKE TOWNSHIP, ROSCOMMON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2017

Road Fund – The Road Fund increased its fund balance by \$78,425 which brings the fund balance to \$113,905. This balance is restricted and must be used for road improvements.

General Fund Budgetary Highlights

During the year, there was a \$13,652 increase in appropriations between the original budget and final amended budget. The increase was due mostly to Township Board, Elections and Assessor appropriations.

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	\$ 264,462	\$ 264,462	\$ 292,076
Total Expenditures	\$ 270,156	\$ 283,808	\$ 241,280

The actual revenues received were higher than anticipated, especially related to other revenues. The most significant difference in expenditures was related to employee benefits which are included in Other Functions.

Capital Assets and Debt Administration

Capital Assets. The Township's investment in capital assets for its governmental activities as of March 31, 2017, amounts to \$228,721 (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, 2017

	Governmental Activities
Land	\$ 15,938
Buildings and Improvements	446,689
Fire Department Equipment	529,866
Vehicles	236,942
Equipment, Furniture and Fixtures	34,092
	1,263,527
Less Accumulated Depreciation	(1,034,806)
Net Capital Assets	\$ 228,721

LAKE TOWNSHIP, ROSCOMMON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2017

Major capital asset events during the fiscal year included fire department equipment in the amount of \$45,657 purchased from the Fire Operations Fund. The Township is saving the Fire Equipment funds for a large vehicle purchase.

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 2017-2018 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, 2017

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 1,505,402
Receivables	
Taxes	29,467
Special Assessments	31,402
External Party (Fiduciary Fund)	1,346
Land Contract	51,857
Prepaid Expenditures	600
Due from Other Governments	21,465
	<hr/>
Total Current Assets	1,641,539
	<hr/>
<u>CAPITAL ASSETS</u>	
Land	15,938
Buildings and Improvements	446,689
Fire Department Equipment	529,866
Vehicles	236,942
Equipment, Furniture and Fixtures	34,092
	<hr/>
	1,263,527
Less Accumulated Depreciation	1,034,806
Net Capital Assets	228,721
	<hr/>
	1,870,260
	<hr/>
<u>LIABILITIES</u>	
Accounts Payable	10,855
	<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, 2017

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	228,721
Restricted	
Fire Protection	218,064
Trash Collection	85,393
Fire Equipment	124,331
Liquor Law Enforcement	449
Cemetery	26,800
Street Lighting	17,775
Road Improvements	113,905
Unrestricted	<u>1,043,967</u>
 TOTAL NET POSITION	 <u>\$ 1,859,405</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, 2017

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES
<u>GOVERNMENTAL ACTIVITIES</u>					
General Government	\$ 176,333	\$ 10,190	\$ 0	\$ 0	\$ (166,143)
Public Safety	133,784	980	4,148	0	(128,656)
Public Works	217,392	0	142,206	0	(75,186)
Community and Economic Development	18,207	0	0	0	(18,207)
Other Functions	50,791	0	0	0	(50,791)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 596,507	\$ 11,170	\$ 146,354	\$ 0	(438,983)
<u>GENERAL REVENUES</u>					
Property Taxes					439,817
State Grants					97,513
Interest Earnings					6,423
Other					6,788
Total General Revenues					550,541
Change in Net Position					111,558
<u>NET POSITION</u> - Beginning of Year					1,747,847
<u>NET POSITION</u> - End of Year					\$ 1,859,405

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

LAKE TOWNSHIP, ROSCOMMON COUNTY
HOUGHTON LAKE, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
MARCH 31, 2017

	GENERAL FUND	FIRE EQUIPMENT FUND	FIRE OPERATING FUND	TRASH COLLECTION FUND	SEWER CAPITAL PROJECTS FUND	ROAD FUND	NONMAJOR FUNDS	TOTALS
<u>ASSETS</u>								
Cash	\$ 504,478	\$ 118,342	\$ 210,346	\$ 82,130	\$ 437,165	\$ 107,917	\$ 45,024	\$ 1,505,402
Taxes Receivable	9,772	5,989	7,718	0	0	5,988	0	29,467
Special Assessment Receivable	17,284	0	0	14,118	0	0	0	31,402
Prepaid Expense	0	0	600	0	0	0	0	600
Land Contract Receivable	51,857	0	0	0	0	0	0	51,857
Due from Other Governments	21,465	0	0	0	0	0	0	21,465
Due from Other Funds	1,346	0	0	0	0	0	0	1,346
TOTAL ASSETS	\$ 606,202	\$ 124,331	\$ 218,664	\$ 96,248	\$ 437,165	\$ 113,905	\$ 45,024	\$ 1,641,539
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</u>								
<u>LIABILITIES</u>								
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 10,855	\$ 0	\$ 0	\$ 0	\$ 10,855
<u>DEFERRED INFLOWS OF RESOURCES</u>								
Unavailable Revenue	68,901	0	0	0	0	0	0	68,901
<u>FUND BALANCE</u>								
Nonspendable								
Prepaid Expense	0	0	600	0	0	0	0	600
Restricted for:								
Fire Protection	0	0	218,064	0	0	0	0	218,064
Trash Collection	0	0	0	85,393	0	0	0	85,393
Fire Equipment	0	124,331	0	0	0	0	0	124,331
Liquor Law Enforcement	0	0	0	0	0	0	449	449
Cemetery	0	0	0	0	0	0	26,800	26,800
Street Lighting	0	0	0	0	0	0	17,775	17,775
Road Improvements	0	0	0	0	0	113,905	0	113,905
Unrestricted								
Assigned for Capital Projects	0	0	0	0	437,165	0	0	437,165
Unassigned	537,301	0	0	0	0	0	0	537,301
Total Fund Balance	537,301	124,331	218,664	85,393	437,165	113,905	45,024	1,561,783
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 606,202	\$ 124,331	\$ 218,664	\$ 96,248	\$ 437,165	\$ 113,905	\$ 45,024	\$ 1,641,539

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, 2017

Total Fund Balances for Governmental Funds \$ 1,561,783

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	446,689	
Fire Department Equipment	529,866	
Vehicles	236,942	
Equipment, Furniture and Fixtures	34,092	
Accumulated Depreciation	<u>(1,034,806)</u>	228,721

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

Unavailable Revenue		<u>68,901</u>
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NET POSITION OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 1,859,405</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, 2017

	GENERAL FUND	FIRE EQUIPMENT FUND	FIRE OPERATING FUND	TRASH COLLECTION FUND	SEWER CAPITAL PROJECTS FUND	ROAD FUND	NONMAJOR FUNDS	TOTALS
<u>REVENUES</u>								
Taxes	\$ 148,814	\$ 88,478	\$ 114,048	\$ 0	\$ 0	\$ 88,477	\$ 0	\$ 439,817
State Grants	97,513	0	0	0	0	0	6,078	103,591
Charges for Services	10,190	0	0	0	0	0	980	11,170
Interest and Rents	6,025	0	0	0	398	0	0	6,423
Other Revenues	29,534	0	0	140,276	0	0	0	169,810
Total Revenues	292,076	88,478	114,048	140,276	398	88,477	7,058	730,811
<u>EXPENDITURES</u>								
General Government	172,282	0	0	0	0	0	2,149	174,431
Public Safety	0	0	148,864	0	0	0	4,288	153,152
Public Works	0	0	0	138,655	0	48,052	30,685	217,392
Community and Economic Development	18,207	0	0	0	0	0	0	18,207
Other Functions	50,791	0	0	0	0	0	0	50,791
Total Expenditures	241,280	0	148,864	138,655	0	48,052	37,122	613,973
Excess (Deficiency) of Revenues Over Expenditures	50,796	88,478	(34,816)	1,621	398	40,425	(30,064)	116,838
<u>OTHER FINANCING SOURCES (USES)</u>								
Transfers In (Out)	(38,000)	0	0	0	0	38,000	0	0
Net Change in Fund Balance	12,796	88,478	(34,816)	1,621	398	78,425	(30,064)	116,838
<u>FUND BALANCE</u> - Beginning of Year	524,505	35,853	253,480	83,772	436,767	35,480	75,088	1,444,945
<u>FUND BALANCE</u> - End of Year	\$ 537,301	\$ 124,331	\$ 218,664	\$ 85,393	\$ 437,165	\$ 113,905	\$ 45,024	\$ 1,561,783

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, 2017

Net Change in Fund Balance - Total Governmental Funds	\$ 116,838
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the Statement of Activities. These costs are allocated over their estimated useful lives as depreciation.	
Capital Outlay	45,657
Depreciation Expense	(28,191)
Repayments of loan receivables are revenues in the governmental funds, but not in the Statement of Activities (where they are a reduction of assets).	<u>(22,746)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 111,558</u></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, 2017

	<u>AGENCY FUND TAX COLLECTION FUND</u>
<u>ASSETS</u>	
Cash	\$ 1,346
<u>LIABILITIES</u>	
Due to Other Funds	<u> 1,346</u>
<u>NET POSITION</u>	<u><u> \$ 0</u></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, 2017

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 governmental 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, 2017

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

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 fiduciary fund:

The *Agency Fund* accounts for property taxes collected by the Township on behalf of other governmental units as well as the Township's funds.

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 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.

LAKE TOWNSHIP, ROSCOMMON COUNTY
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017

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.

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

F. Budgetary Information

1. Budgetary Basis of Accounting

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 29, 2016, or as amended by the Township Board from time to time throughout the year.

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

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

LAKE TOWNSHIP, ROSCOMMON COUNTY
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017

2. Excess of Expenditures Over Appropriations

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
Township Board	\$ 24,698	\$ 29,101
Trash Collection Fund		
Public Works	134,470	138,655
Road Fund		
Public Works	10,000	48,052
Liquor Enforcement Fund		
Public Safety	4,185	4,288
Cemetery Fund		
General Government	1,500	2,149

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.

2. Investments

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.

3. Inventories and Prepaid Items

Inventories are not significant and are expensed as acquired.

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

4. Capital Assets

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

LAKE TOWNSHIP, ROSCOMMON COUNTY
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017

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

5. *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 have deferred inflows of resources related to special assessments and a land contract.

6. *Net Position Flow Assumption*

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

7. *Fund Balance Flow Assumptions*

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in

LAKE TOWNSHIP, ROSCOMMON COUNTY
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017

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.

8. *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.

9. *Use of Estimates*

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

H. Revenues and Expenditures/Expenses

1. *Program Revenues*

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

LAKE TOWNSHIP, ROSCOMMON COUNTY
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017

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 2016 taxable valuation of the Lake Township totaled \$113,617,006, on which ad valorem taxes levied consisted of 0.9194 mills for the Lake Township operating purposes, 0.9666 mills for Lake Township fire department operations, 0.7500 mills for Lake Township fire department equipment, and 0.7500 mills for Lake Township roads. These levies raised approximately \$108,427 for operating purposes, \$113,994 for fire operations, and \$82,440 for each fire equipment and roads. These amounts are recognized in the respective 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, 2017.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

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, 2017, \$753,545 of the \$1,503,545 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.

Interest rate risk. The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSOs).

LAKE TOWNSHIP, ROSCOMMON COUNTY
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017

Concentration of credit risk. The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

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.

Fair Market Value Disclosure - The Township is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. These may include quoted prices from similar activities, interest rates, prepayment speeds, credit risk, and others. Debt securities are valued in accordance with evaluated bid price supplied by the pricing service and generally categorized as Level 2 in the hierarchy. Securities that are categorized as Level 2 in the hierarchy include, but are not limited to, repurchase agreements, U.S. government agency securities, corporate securities, and commercial paper.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the reporting entity's own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There are two types of valuation techniques most commonly used and vary depending on the level of investment. These two techniques are the market approach and income approach. The market approach uses prices and other relevant information generated by the market transactions involving identical or similar assets and liabilities. The income approach discounts future amounts to a single current amount and the discount rate used in the process should reflect current market expectations about risks associated with those future cash flows.

LAKE TOWNSHIP, ROSCOMMON COUNTY
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017

B. Receivables

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

	General Fund	Fire Equipment Fund	Fire Operating Fund	Trash Fund	Road Fund	Total
Receivables						
Taxes	\$ 9,772	\$ 5,989	\$ 7,718	\$ 0	\$ 5,988	\$ 29,467
Special Assessments	17,284	0	0	14,118	0	31,402
Land Contract	51,857	0	0	0	0	51,857
Due from Other Governments	21,465	0	0	0	0	21,465
	<u>\$ 100,378</u>	<u>\$ 5,989</u>	<u>\$ 7,718</u>	<u>\$ 14,118</u>	<u>\$ 5,988</u>	<u>\$ 134,191</u>

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

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	446,689	0	0	446,689
Fire Department Equipment	484,209	45,657	0	529,866
Vehicles	236,942	0	0	236,942
Equipment, Furniture and Fixtures	34,092	0	0	34,092
Total capital assets, being depreciated	<u>1,201,932</u>	<u>45,657</u>	<u>0</u>	<u>1,247,589</u>
Less accumulated depreciation for:				
Buildings and Improvements	313,360	6,891	0	320,251
Fire Department Equipment	432,638	13,487	0	446,125
Vehicles	226,525	7,813	0	234,338
Equipment, Furniture and Fixtures	34,092	0	0	34,092
Total accumulated depreciation	<u>1,006,615</u>	<u>28,191</u>	<u>0</u>	<u>1,034,806</u>
Total capital assets, being depreciated, net	<u>195,317</u>	<u>17,466</u>	<u>0</u>	<u>212,783</u>
Governmental activities capital assets, net	<u>\$ 211,255</u>	<u>\$ 17,466</u>	<u>\$ 0</u>	<u>\$ 228,721</u>

LAKE TOWNSHIP, ROSCOMMON COUNTY
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017

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

Governmental Activities:

General Government	\$ 1,902
Public Safety	26,289
	\$ 28,191
Total Depreciation Expense	\$ 28,191

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at March 31, 2017, were:

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 1,346	\$ 0
Fiduciary Fund		
Tax Fund	0	1,346
	\$ 1,346	\$ 1,346
	\$ 1,346	\$ 1,346

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, 2017 were:

<u>Primary Government</u>	<u>TRANSFERS</u>	
	<u>IN</u>	<u>OUT</u>
General Fund	\$ 0	\$ 38,000
Road Fund	38,000	0
	\$ 38,000	\$ 38,000
	\$ 38,000	\$ 38,000

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 property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees.

The Township continues to carry commercial insurance for various risks of loss, including general liability, property and casualty, employee health and accident insurance, and self-insuring workers' disability compensation. The Township has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

LAKE TOWNSHIP, ROSCOMMON COUNTY
HOUGHTON LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017

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. The Township has the authority to amend the plan. Township contributions to the plan for 2016-2017, amounted to \$5,920. For the 2016-2017 year, total covered payroll amounted to approximately \$39,469 and total wages including non-covered payroll was \$127,086. Administration fees amounted to \$180. There were no employee contributions.

G. Land Contract

The Township signed a land contract on December 11, 2015, to sell a parcel of land for \$55,550. Payments are to be received of \$500 monthly to include interest at a rate of 6%. The balance will be received January 11, 2019. 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, 2017, including interest payments of \$5,445.

<u>Year Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,955	\$ 3,045	\$ 6,000
2019	48,902	2,400	51,302
	<u>\$ 51,857</u>	<u>\$ 5,445</u>	<u>\$ 57,302</u>

H. GASB Statement No. 77

Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, was issued by the GASB in August 2015 and is effective for the Township's 2017 year-end. The Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements in the footnotes of the financial statements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
- The gross dollar amount of taxes abated during the period.
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

This statement is intended to enhance the user's ability on how tax abatements affect the reporting unit's financial positions and results of operations, including their ability to raise resources in the future. The Township has evaluated the effects of this statement and has determined that there are no disclosures required related to this statement, either due to the information being clearly immaterial or not applicable.

LAKE TOWNSHIP, ROSCOMMON COUNTY
HOUGHTON LAKE, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

MAJOR GOVERNMENTAL FUNDS

MARCH 31, 2017

	GENERAL FUND			FIRE EQUIPMENT FUND			FIRE OPERATING FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>									
Taxes	\$ 154,713	\$ 154,713	\$ 148,814	\$ 0	\$ 0	\$ 88,478	\$ 116,458	\$ 116,458	\$ 114,048
State Grants	94,249	94,249	97,513	0	0	0	0	0	0
Charges for Services	8,900	8,900	10,190	0	0	0	0	0	0
Interest and Rents	3,600	3,600	6,025	0	0	0	300	300	0
Other Revenues	3,000	3,000	29,534	0	0	0	0	0	0
Total Revenues	264,462	264,462	292,076	0	0	88,478	116,758	116,758	114,048
<u>EXPENDITURES</u>									
General Government									
Township Board	22,153	24,698	29,101	0	0	0	0	0	0
Supervisor	21,409	21,409	21,301	0	0	0	0	0	0
Election	4,100	6,287	4,679	0	0	0	0	0	0
Assessor	34,376	37,202	35,496	0	0	0	0	0	0
Clerk	52,686	53,742	51,648	0	0	0	0	0	0
Board of Review	2,400	2,400	455	0	0	0	0	0	0
Treasurer	21,932	22,847	22,749	0	0	0	0	0	0
Building and Grounds	5,650	8,435	6,853	0	0	0	0	0	0
Public Safety	0	0	0	35,000	35,000	0	132,004	194,917	148,864
Public Works	0	0	0	0	0	0	0	0	0
Community and Economic Development									
Planning and Zoning	20,450	21,788	18,207	0	0	0	0	0	0
Other Functions	85,000	85,000	50,791	0	0	0	0	0	0
Total Expenditures	270,156	283,808	241,280	35,000	35,000	0	132,004	194,917	148,864
Excess (Deficiency) of Revenues Over Expenditures	(5,694)	(19,346)	50,796	(35,000)	(35,000)	88,478	(15,246)	(78,159)	(34,816)
<u>OTHER FINANCING SOURCES (USES)</u>									
Transfers In (Out)	20,000	20,000	(38,000)	0	0	0	0	0	0
Net Change in Fund Balance	14,306	654	12,796	(35,000)	(35,000)	88,478	(15,246)	(78,159)	(34,816)
<u>FUND BALANCE</u> - Beginning of Year	0	13,653	524,505	35,000	35,000	35,853	16,000	78,913	253,480
<u>FUND BALANCE</u> - End of Year	\$ 14,306	\$ 14,307	\$ 537,301	\$ 0	\$ 0	\$ 124,331	\$ 754	\$ 754	\$ 218,664

LAKE TOWNSHIP, ROSCOMMON COUNTY
HOUGHTON LAKE, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

MAJOR GOVERNMENTAL FUNDS

MARCH 31, 2017

	<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>REVENUES</u>						
Taxes	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 88,477
State Grants	0	0	0	0	0	0
Charges for Services	0	0	0	0	0	0
Interest and Rents	0	0	0	0	0	0
Other Revenues	134,385	134,385	140,276	0	0	0
Total Revenues	<u>134,385</u>	<u>134,385</u>	<u>140,276</u>	<u>0</u>	<u>0</u>	<u>88,477</u>
<u>EXPENDITURES</u>						
General Government						
Township Board	0	0	0	0	0	0
Supervisor	0	0	0	0	0	0
Election	0	0	0	0	0	0
Assessor	0	0	0	0	0	0
Clerk	0	0	0	0	0	0
Board of Review	0	0	0	0	0	0
Treasurer	0	0	0	0	0	0
Building and Grounds	0	0	0	0	0	0
Public Safety	0	0	0	0	0	0
Public Works	134,385	134,470	138,655	10,000	10,000	48,052
Community and Economic Development						
Planning and Zoning	0	0	0	0	0	0
Other Functions	0	0	0	0	0	0
Total Expenditures	<u>134,385</u>	<u>134,470</u>	<u>138,655</u>	<u>10,000</u>	<u>10,000</u>	<u>48,052</u>
Excess (Deficiency) of Revenues Over Expenditures	0	(85)	1,621	(10,000)	(10,000)	40,425
<u>OTHER FINANCING SOURCES (USES)</u>						
Transfers In (Out)	0	0	0	0	0	38,000
Net Change in Fund Balance	0	(85)	1,621	(10,000)	(10,000)	78,425
<u>FUND BALANCE - Beginning of Year</u>	<u>0</u>	<u>85</u>	<u>83,772</u>	<u>10,000</u>	<u>10,000</u>	<u>35,480</u>
<u>FUND BALANCE - End of Year</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 85,393</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 113,905</u>

LAKE TOWNSHIP, ROSCOMMON COUNTY
HOUGHTON LAKE, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET
MARCH 31, 2017

	<u>LIQUOR LAW ENFORCEMENT FUND</u>	<u>CEMETERY FUND</u>	<u>STREET LIGHT FUND</u>	<u>TOTALS</u>
<u>ASSETS</u>				
Cash	\$ 449	\$ 26,800	\$ 17,775	\$ 45,024
<hr/>				
<u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 0
<u>FUND BALANCE</u>				
Restricted	449	26,800	17,775	45,024
<hr/>				
TOTAL LIABILITIES AND FUND BALANCE	\$ 449	\$ 26,800	\$ 17,775	\$ 45,024
<hr/>				

LAKE TOWNSHIP, ROSCOMMON COUNTY
HOUGHTON LAKE, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED MARCH 31, 2017

	LIQUOR LAW ENFORCEMENT FUND	CEMETERY FUND	STREET LIGHT FUND	TOTALS
<u>REVENUES</u>				
State Grants	\$ 4,148	\$ 0	\$ 1,930	\$ 6,078
Charges for Services	0	980	0	980
Total Revenues	4,148	980	1,930	7,058
<u>EXPENDITURES</u>				
General Government	0	2,149	0	2,149
Public Safety	4,288	0	0	4,288
Public Works	0	0	30,685	30,685
Total Expenditures	4,288	2,149	30,685	37,122
Net Change in Fund Balance	(140)	(1,169)	(28,755)	(30,064)
<u>FUND BALANCES</u> - Beginning of Year	589	27,969	46,530	75,088
<u>FUND BALANCES</u> - End of Year	\$ 449	\$ 26,800	\$ 17,775	\$ 45,024



Baird, Cotter & Bishop, P.C.

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CERTIFIED PUBLIC ACCOUNTANTS

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www.bcbcpa.com

July 7, 2017

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, 2017. 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 24, 2017. 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 2016-2017. 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 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.

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 July 7, 2017.

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, 2017, we noted the following items which we feel deserve comment:

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.

Payroll

The Township has received notices regarding late filings and penalties. There have been some prior year filings that are not available. We are able to assist with this if needed.

Mileage Reimbursement

During the audit it was found that some mileage was reimbursed at a rate higher than allowable by the Internal Revenue Service. The Township should adjust when necessary.

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.

We were engaged to report on the combining nonmajor fund financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, 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.

Restriction on Use

This information is intended solely for the information and 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.

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July 7, 2017

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, 2017, 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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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 an appropriate balance between sound internal controls and fiscal prudence.

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

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

BAIRD, COTTER AND BISHOP, P.C.

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