

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Torch Lake Township	County Houghton
Fiscal Year End March 31, 2007	Opinion Date August 17, 2007	Date Audit Report Submitted to State September 17, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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**Check each applicable box below.** (See instructions for further detail.)

1.   All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.   There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.   The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.   The local unit has adopted a budget for all required funds.
5.   A public hearing on the budget was held in accordance with State statute.
6.   The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.   The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.   The local unit only holds deposits/investments that comply with statutory requirements.
9.   The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10.   There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.   The local unit is free of repeated comments from previous years.
12.   The audit opinion is UNQUALIFIED.
13.   The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.   The board or council approves all invoices prior to payment as required by charter or statute.
15.   To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Jackie A. Aalto, CPA		Telephone Number (906) 337-2727	
Street Address 200 Fifth Street, Suite 104		City Calumet	State MI
		Zip 49913	
Authorizing CPA Signature <i>Jackie A. Aalto</i>		Printed Name Jackie A. Aalto	License Number 1101022394

**TORCH LAKE TOWNSHIP, MICHIGAN**  
**Houghton County**

**FINANCIAL REPORT**

**Year ended March 31, 2007**

**TORCH LAKE TOWNSHP, MICHIGAN**  
**FINANCIAL REPORT**  
**Year ended March 31, 2007**

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**TABLE OF CONTENTS**

	<b>Page</b>
<b>Independent Auditor's Report</b>	3
<b>Basic Financial Statements</b>	
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet - Modified Cash Basis	5
Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis	6
Fiduciary Fund:	
Statement of Net Assets – Modified Cash Basis	7
Notes to Financial Statements	8
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule – Modified Cash Basis - General Fund	18
<b>Other Supplementary Information</b>	
Nonmajor Governmental Funds	
Combining Balance Sheet – Modified Cash Basis	20
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis	21

## INDEPENDENT AUDITOR'S REPORT

### Board Members

Torch Lake Township, Michigan

I have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Torch Lake Township, Michigan as of and for the year ended March 31, 2007, as listed in the table of contents, which collectively comprise a portion of the Township's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Torch Lake Township, Michigan's management. My responsibility is to express opinions on these financial statements based on my audit.

Except as discussed in the following paragraph, I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

The procedures used to collect cash receipts from donations at fund raising events and the lack of evidential matter with respect to those cash receipts, do not permit me to apply auditing procedures to satisfy myself as to the reasonableness of such cash receipts stated in the accompanying financial statements.

As discussed in Note I-C, Torch Lake Township, Michigan prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Management has not presented government-wide financial statements to display the financial position and changes in financial position – modified cash basis of its governmental activities. Accounting principles generally accepted in the United States of America, as applied to the Township's modified cash basis of accounting, require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements resulting from modified cash basis transactions for the Township's governmental activities are not reasonably determinable.

In my opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not presently fairly, in conformity with the basis of accounting described in Note I-C, the modified cash basis financial position of Torch Lake Township, Michigan, as of March 31, 2007, or the changes in its modified cash basis financial position for the year then ended.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year, that accounting principles generally accepted in the United States of America, as applied to the Township's modified cash basis of accounting, has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The budgetary comparison information, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America, as applied to the Township's modified cash basis of accounting. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Torch Lake Township, Michigan's basic financial statements. The accompanying other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. For reasons stated in the fifth paragraph above, the financial statements referred to above do not present fairly in conformity with the basis of accounting described in Note I-C, the modified cash basis financial position of the governmental activity and the changes in its modified cash basis financial position. Therefore, I do not express an opinion on the accompanying other supplementary information.

*Jackie A. Aalto*

Jackie A. Aalto, CPA

Calumet, Michigan  
August 17, 2007

**TORCH LAKE TOWNSHIP, MICHIGAN**

**Balance Sheet – Modified Cash Basis  
Governmental Funds**

**March 31, 2007**

	<u>General</u>	<u>Hubbell Fire</u>	<u>Water</u>	<u>Garbage</u>	<u>Schoolcraft/ Torch Lake Garbage &amp; Refuse Collection</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>							
Cash	\$ 199,098	\$ 66,797	\$ 36,495	\$ 171,033	\$ 9,807	\$ 87,641	\$ 570,871
Investments			<u>56,787</u>	<u>18,268</u>		<u>6,532</u>	<u>81,587</u>
Total Assets	<u>\$ 199,098</u>	<u>\$ 66,797</u>	<u>\$ 93,282</u>	<u>\$ 189,301</u>	<u>\$ 9,807</u>	<u>\$ 94,173</u>	<u>\$ 652,458</u>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities</b>							
Due to other governments	\$ 754	\$	\$	\$	\$ 679	\$	\$ 1,433
Total Liabilities	<u>754</u>				<u>679</u>		<u>1,433</u>
<b>Fund Balances</b>							
Reserved for:							
Roads	28,000						28,000
Reassessment	10,226						10,226
Building maintenance	4,574						4,574
Fire apparatus		66,797					66,797
Debt service						204	204
Unreserved (major funds)	155,544		93,282	189,301	9,128		447,255
Unreserved (nonmajor funds)							
Special revenue funds						<u>93,969</u>	<u>93,969</u>
Total Fund Balances	<u>198,344</u>	<u>66,797</u>	<u>93,282</u>	<u>189,301</u>	<u>9,128</u>	<u>94,173</u>	<u>651,025</u>
Total Liabilities and Fund Balances	<u>\$ 199,098</u>	<u>\$ 66,797</u>	<u>\$ 93,282</u>	<u>\$ 189,301</u>	<u>\$ 9,807</u>	<u>\$ 94,173</u>	<u>\$ 652,458</u>

The notes to the financial statements are an integral part of this statement.

**TORCH LAKE TOWNSHIP, MICHIGAN**

**Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis  
Governmental Funds**

**Year ended March 31, 2007**

	<u>General</u>	<u>Hubbell Fire</u>	<u>Water</u>	<u>Garbage</u>	<u>Schoolcraft/ Torch Lake Garbage &amp; Refuse Collection</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>							
Taxes	\$ 105,202	\$ 16,130	\$	\$	\$	\$ 42,579	\$ 163,911
Licenses & permits	444						444
Intergovernmental revenues							
Federal	4,636						4,636
State	135,132						135,132
Charges for services	8,607		6,702	151,590	19,023		185,922
Interest & rents	8,666	1,020	3,028	4,045		1,596	18,355
Other revenue	<u>11,153</u>					<u>38,123</u>	<u>49,276</u>
<b>Total Revenues</b>	<u>273,840</u>	<u>17,150</u>	<u>9,730</u>	<u>155,635</u>	<u>19,023</u>	<u>82,298</u>	<u>557,676</u>
<b>Expenditures</b>							
Current							
General government	106,395						106,395
Public safety	26,150	4,167				33,323	63,640
Public works	53,629			2,637		1,166	57,432
Sanitation					180,122		180,122
Recreation & culture	2,702					1,000	3,702
Other	32,273						32,273
Debt service							
Principal	7,689					37,214	44,903
Interest	848					7,027	7,875
Capital outlay	<u>205,855</u>				<u>113,164</u>	<u>27,753</u>	<u>346,772</u>
<b>Total Expenditures</b>	<u>435,541</u>	<u>4,167</u>		<u>2,637</u>	<u>293,286</u>	<u>107,483</u>	<u>843,114</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(161,701)</u>	<u>12,983</u>	<u>9,730</u>	<u>152,998</u>	<u>(274,263)</u>	<u>(25,185)</u>	<u>(285,438)</u>
<b>Other Financing Sources (Uses)</b>							
Transfers in	26,068				199,563	14,800	240,431
Transfers out	(800)	(14,000)		(199,563)		(26,068)	(240,431)
Other government transfers in					77,608		77,608
Loan proceeds	29,105			81,289			110,394
Sale of capital assets	<u>17,390</u>				<u>800</u>	<u>1,977</u>	<u>20,167</u>
<b>Total Other Financing Sources (Uses)</b>	<u>71,763</u>	<u>(14,000)</u>		<u>(118,274)</u>	<u>277,971</u>	<u>(9,291)</u>	<u>208,169</u>
<b>Net Change in Fund Balances</b>	(89,938)	(1,017)	9,730	34,724	3,708	(34,476)	(77,269)
<b>Fund Balances – Beginning</b>	<u>288,282</u>	<u>67,814</u>	<u>83,552</u>	<u>154,577</u>	<u>5,420</u>	<u>128,649</u>	<u>728,294</u>
<b>Fund Balances – Ending</b>	<u>\$ 198,344</u>	<u>\$ 66,797</u>	<u>\$ 93,282</u>	<u>\$ 189,301</u>	<u>\$ 9,128</u>	<u>\$ 94,173</u>	<u>\$ 651,025</u>

The notes to the financial statements are an integral part of this statement.

**TORCH LAKE TOWNSHIP, MICHIGAN**

**Statement of Net Assets – Modified Cash Basis  
Fiduciary Fund**

**March 31, 2007**

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	<u>Agency Funds</u>
<b>Assets</b>	
Cash	<u>\$ 24,431</u>
<b>Liabilities</b>	
Due to other governmental units	<u>\$ 24,431</u>

The notes to the financial statements are an integral part of this statement.

# TORCH LAKE TOWNSHIP, MICHIGAN

## Notes to Financial Statements

March 31, 2007

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### I. Summary of Significant Accounting Policies

#### A. Reporting Entity

Torch Lake Township, Michigan (“the Township”) was organized on July 19, 1886 and is located in Houghton County, Michigan. The Township operates under an elected board of trustees consisting of five members including a supervisor, clerk, treasurer and two trustees. Services provided to the residents include fire protection, sanitation, recreation and community enrichment. Except for the use of a modified cash basis of accounting as described in Note I-C, the accounting policies of Torch Lake Township, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

In determining the financial reporting entity, the Township complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*. Management has addressed the potential component units (traditionally separate reporting entities) that the Township may be financially accountable and, as such, should be included within the Township’s financial statements. The Township (the primary government) is financially accountable if it appoints a voting majority of the organization’s governing board and 1) it is able to impose its will on the organization or 2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Township. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. There are no organizations that meet these criteria.

#### B. Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues and expenditures/expenses. The Township’s funds are organized into two major categories: governmental and fiduciary. The Township presently has no proprietary funds. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the Township or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise funds are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

# TORCH LAKE TOWNSHIP, MICHIGAN

## Notes to Financial Statements

March 31, 2007

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### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The fund financial statements are reported using the current financial resources measurement focus within the limitations of the modified cash basis of accounting, and a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues and expenditures/expenses when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the Township utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for the fiduciary fund type would use the accrual basis of accounting.

The Township reports the following major governmental fund:

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

The *Hubbell Fire Fund* accounts for property tax revenue that is restricted for the cost of new hydrant lines, modifications to the fire station and the purchase of new fire equipment for Precinct No. 1.

The *Water Fund* accounts for the leasing of the Township's water mains.

The *Garbage Fund* accounts for the fees charged to customers for refuse removal and the transfers to the Schoolcraft/Torch Lake Garbage & Refuse Collection Fund.

The *Schoolcraft/Torch Lake Garbage & Refuse Collection Fund* accounts for the activities of the Township's garbage removal operations.

Additionally, the Township reports the following nonmajor governmental funds: Bootjack Fire, Park, Grosse Pointe Shores, Volunteer Firemen, Little Traverse and Osceola Fire Truck.

# TORCH LAKE TOWNSHIP, MICHIGAN

## Notes to Financial Statements

March 31, 2007

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### **D. Assets, Liabilities and Net Assets or Equity**

#### **1. Deposits and Investments**

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition. The Township has no short-term investments. Investments classified in the financial statements consist entirely of certificates of deposit whose original term exceeds three months. Investments are carried at cost, which approximates fair value.

#### **2. Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e. the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

When applicable, advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles. Property taxes are levied on December 1<sup>st</sup> and are due and payable on or before February 14<sup>th</sup> of the following calendar year. The Township bills and collects its own taxes. Unpaid delinquent real property taxes are collected by the County. Unpaid personal property taxes are collected by the Township.

The 2006 taxable valuation of the Township totaled \$64,018,083. Taxes levied consisted of 1.2355 mills for operating purposes. The Township also levied a fire tax for those properties located in Precincts #1, #2 and #3 of 2.0000, 1.0000 and .5100, respectively.

#### **3. Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are generally defined by the Township as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

# TORCH LAKE TOWNSHIP, MICHIGAN

## Notes to Financial Statements

March 31, 2007

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20 to 50 years
Land improvements	20 to 40 years
Vehicles and equipment	3 to 25 years

### 4. Long-term Obligations

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

### 5. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### 6. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain 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.

## II. Stewardship, Compliance, and Accountability

### A. Budgetary Information

The Township is required to follow the budget system provided by Michigan Public Act 621 – Uniform Budgeting and Accounting Act. The budget basis of accounting does not differ significantly from the financial statement presentation used to reflect actual revenues and expenditures. All annual appropriations lapse at fiscal year end. Encumbrance accounting is not employed in governmental funds.

# TORCH LAKE TOWNSHIP, MICHIGAN

## Notes to Financial Statements

March 31, 2007

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### B. Excess of Expenditures over Appropriations

For the year ended March 31, 2007, expenditures exceeded appropriations in the General Fund by \$204,231. This over expenditure was mainly caused by capital outlays which were funded by grant/loan monies.

### C. Budgets not Adopted

For the year ended March 31, 2007, the Township did not adopt budgets for all of its Special Revenue Funds as required by State Law.

### D. Official Order of the State Tax Commission – Reappraisal

The State Tax Commission ordered Torch Lake Township to conduct a full reappraisal of all of the Township's properties. This is a result of the Township failing to enact a plan to correct deficiencies noted in their 14-point review by the State Tax Commission. As of April 1, 2007, the Township has contracted with DPM Assessing Services LLC to conduct the reappraisal.

## III Detailed Notes on All Funds

### A. Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classification which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Township's deposits are in accordance with statutory authority. The Township has designated three banks for the deposit of Township funds.

As of March 31, 2007, the Township had the following cash and investments:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash	\$ 570,871	\$ 24,431	\$ 595,302
Investments - Certificates of deposit only	<u>81,587</u>	<u>          </u>	<u>81,587</u>
	<u>\$ 652,458</u>	<u>\$ 24,431</u>	<u>\$ 676,889</u>

**TORCH LAKE TOWNSHIP, MICHIGAN**

**Notes to Financial Statements**

**March 31, 2007**

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the Township’s deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. As of March 31, 2007, \$244,125 of the Township’s bank balance of \$712,728 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**B. Interfund Transfers**

The composition of interfund balances as of March 31, 2007 was as follows:

	Transfers (Out)				Total
	General	Hubbell Fire	Garbage	Nonmajor Governmental	
Transfers In:					
Governmental Funds					
General Fund	\$	\$	\$	\$ 26,068	\$ 26,068
Schoolcraft/Torch Lake Garbage & Refuse Collection Fund			199,563		199,563
Nonmajor Governmental Funds	800	14,000			14,800
Total	\$ 800	\$ 14,000	\$ 199,563	\$ 26,068	\$ 240,431

Transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, 2) move restricted amounts from borrowings to the debt service fund to establish mandatory reserve accounts, 3) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

**C. Long-Term Debt**

The Township issues general obligation bonds to provide funds for the acquisition and construction of infrastructure or major equipment purchases. General obligation bonds and loans are direct obligations and pledge the full faith and credit of the Township. Contractual agreements and installment purchase agreements are also general obligations of the Township.

**TORCH LAKE TOWNSHIP, MICHIGAN**

**Notes to Financial Statements**

**March 31, 2007**

Bond and contractual activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities							
General Obligations Bonds							
2003 General Obligation							
Limited Tax Bonds	1.50% to 2.50%	5-1-2007	\$ 60,000	\$	\$ (15,000)	\$ 45,000	\$ 45,000
Installment Purchase Agreement							
Bootjack Emergency							
Rescue Unit	5.65%	9-1-2007	13,883		(7,101)	6,782	6,782
Bootjack fire truck	4.20%	3-20-2012	145,507		(22,214)	123,293	22,744
Garbage truck	4.70%	8-24-2010		81,289		81,289	18,944
Pickup truck	4.50%	10-31-2011		25,260		25,260	4,617
Copier	5.40%	8-1-2010	<u>          </u>	<u>3,845</u>	<u>(588)</u>	<u>3,257</u>	<u>914</u>
Total Governmental Activities			<u>\$ 219,390</u>	<u>\$ 110,394</u>	<u>\$ (44,903)</u>	<u>\$ 284,881</u>	<u>\$ 99,001</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End March 31,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 99,001	\$ 11,167
2009	49,327	8,201
2010	51,525	6,003
2011	53,096	3,718
2012	<u>31,932</u>	<u>1,374</u>
Total	<u>\$ 284,881</u>	<u>\$ 30,463</u>

During the current fiscal year the Township paid \$7,875 in interest expense. The entire amount was expensed.

**IV Other Information**

**A. Risk Management**

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and employee injuries (workers' compensation). All risk of loss is covered by commercial insurance. Settled claims resulting from these risks have not exceeded the amount of insurance coverage in the past three fiscal years.

# TORCH LAKE TOWNSHIP, MICHIGAN

## Notes to Financial Statements

March 31, 2007

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### **B. Lease Agreement**

The water line lease and operating agreement between Torch Lake Township, Michigan and Michigan-American Water Company is dated August 15, 1972. Annual rental is based on 10% of the net revenue generated by Michigan-American Water Company from Township residents. This rental income is recorded in the Water Fund and amounts to \$6,702 for the year ended March 31, 2007.

### **C. Jointly Governed Organizations**

Torch Lake Area Sewage Authority – The Township in conjunction with the Village of Lake Linden, Osceola Township, Schoolcraft Township, and the County of Houghton created the Torch Lake Area Sewage Authority (TLASA). The Authority board has control over its budgeting and financing obligations. The Authority was formed to acquire, own, improve, enlarge, extend and operate a sewage disposal system. The TLASA has a contract payable due to Houghton County (general obligator) for payment of principal and interest on the bonds used to finance the system. Residents within the Authority’s boundaries are charged user fees which are collected by a third party (independent water company) and remitted to the Authority. In addition, Torch Lake Township assesses the users within its designated areas, additional fees to help pay for debt service cost of TLASA. The financial information related to TLASA is available at the Sewer Authority building in Lake Linden, Michigan.

Torch Lake Area Fire Protection Authority – The Village of Lake Linden, Osceola Township, Schoolcraft Township and Torch Lake Township created the Torch Lake Area Fire Protection Authority (TLAFPA). The Authority board has control over its budgeting and financing obligations. The Authority was formed to acquire, own, improve, enlarge, extend and operate a water supply system for fire protection. Each municipality is obligated to pay an equal share of the expenses. The amount of the installments is determined by the Board. The financial information related to TLAFPA is available at the office of the Clerk in the Village of Lake Linden, Michigan. During the spring of 2007, the Village of Lake Linden and Schoolcraft Township withdrew from the Authority. The Authority now consists of Osceola and Torch Lake Townships.

### **D. Retirement**

Torch Lake Township, Michigan contributes to the Municipal Retirement Systems, Inc. Pension Plan for elected government officials, which is a defined contribution pension plan.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual account are to be determined instead of specifying the amount of benefits the

# TORCH LAKE TOWNSHIP, MICHIGAN

## Notes to Financial Statements

March 31, 2007

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individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. As established by the Township, all elected officials are eligible upon reaching 18 years of age. Contributions vest 100% immediately. An employee that leaves the employment of the Township is entitled to his or her accrued benefit under the given annuity contract. The Township annually contributes 10% of the elected officials' gross earnings. Covered wages for calendar year ended December 31, 2006 amounted to \$32,304. The corresponding 10% pension cost amounts to \$3,230.

No pension provision changes occurred during the year that affected the required contribution to be made by the Township or its employees.

The Municipal Retirement Systems, Inc. Pension Plan held no securities of Torch Lake Township of other related parties during or as of the close of the fiscal year.

### **E. Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

## **Required Supplementary Information**

**TORCH LAKE TOWNSHIP, MICHIGAN**

**Budgetary Comparison Schedule – Modified Cash Basis  
General Fund  
Year ended March 31, 2007**

	<u>Budgeted Amounts</u>	<u>Actual</u>
	<u>Original &amp; Final</u>	
Beginning Budgetary Fund Balance	\$ 288,282	\$ 288,282
Resources (Inflows):		
Taxes	98,900	105,202
Licenses & permits	450	444
Intergovernmental revenues		
Federal		4,636
State	132,010	135,132
Charges for services	8,300	8,607
Interest & rents	1,200	8,666
Other	1,000	11,153
Transfers in		26,068
Loan proceeds		29,105
Sale of capital assets		17,390
Amounts Available for Appropriation	530,142	634,685
Charges to Appropriations (Outflows):		
General government	109,350	106,395
Public safety	21,560	26,150
Public works	45,500	53,629
Recreation & culture	2,000	2,702
Other	43,700	32,273
Debt service		8,537
Capital outlay	10,000	205,855
Transfers to other funds		800
Total Charges to Appropriations	232,110	436,341
Ending Budgetary Fund Balance	\$ 298,032	\$ 198,344

## **Other Supplementary Information**

**TORCH LAKE TOWNSHIP, MICHIGAN**

**Combining Balance Sheet – Modified Cash Basis  
Nonmajor Governmental Funds  
March 31, 2007**

	Special Revenue Funds					Total Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
	Bootjack Fire	Park	Grosse Pointe Shores	Volunteer Firemen	Little Traverse		Osceola Fire Truck	
<b>Assets</b>								
Cash	\$ 46,226	\$ 805	\$ 22,725	\$ 14,454	\$ 3,227	\$ 87,437	\$ 204	\$ 87,641
Investments				6,532		6,532		6,532
Total Assets	<u>\$ 46,226</u>	<u>\$ 805</u>	<u>\$ 22,725</u>	<u>\$ 20,986</u>	<u>\$ 3,227</u>	<u>\$ 93,969</u>	<u>\$ 204</u>	<u>\$ 94,173</u>
<b>Liabilities and Fund Balances</b>								
<b>Liabilities</b>	\$	\$	\$	\$	\$	\$	\$	\$
<b>Fund Balances</b>								
Reserved for debt service							204	204
Unreserved	<u>46,226</u>	<u>805</u>	<u>22,725</u>	<u>20,986</u>	<u>3,227</u>	<u>93,969</u>		<u>93,969</u>
Total Fund Balances	<u>46,226</u>	<u>805</u>	<u>22,725</u>	<u>20,986</u>	<u>3,227</u>	<u>93,969</u>	<u>204</u>	<u>94,173</u>
Total Liabilities and Fund Balances	<u>\$ 46,226</u>	<u>\$ 805</u>	<u>\$ 22,725</u>	<u>\$ 20,986</u>	<u>\$ 3,227</u>	<u>\$ 93,969</u>	<u>\$ 204</u>	<u>\$ 94,173</u>

**TORCH LAKE TOWNSHIP, MICHIGAN**

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis  
Nonmajor Governmental Funds  
Year Ended March 31, 2007**

	Special Revenue Funds					Total Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
	Bootjack Fire	Park	Grosse Pointe Shores	Volunteer Firemen	Little Traverse		Osceola Fire Truck	
<b>Revenues</b>								
Taxes	\$ 34,757	\$	\$	\$	\$	\$ 34,757	\$ 7,822	\$ 42,579
Interest & rents	974		192	387	27	1,580	16	1,596
Other	<u>          </u>	<u>1,000</u>	<u>16,311</u>	<u>19,733</u>	<u>1,079</u>	<u>38,123</u>	<u>          </u>	<u>38,123</u>
Total Revenues	<u>35,731</u>	<u>1,000</u>	<u>16,503</u>	<u>20,120</u>	<u>1,106</u>	<u>74,460</u>	<u>7,838</u>	<u>82,298</u>
<b>Expenditures</b>								
Current								
Public safety	6,705			11,506		18,211	15,112	33,323
Public works					1,166	1,166		1,166
Recreation & culture		1,000				1,000		1,000
Debt service								
Principal	22,214		15,000			37,214		37,214
Interest	5,724		1,303			7,027		7,027
Capital outlay	<u>          </u>	<u>          </u>	<u>          </u>	<u>27,753</u>	<u>          </u>	<u>27,753</u>	<u>          </u>	<u>27,753</u>
Total Expenditures	<u>34,643</u>	<u>1,000</u>	<u>16,303</u>	<u>39,259</u>	<u>1,166</u>	<u>92,371</u>	<u>15,112</u>	<u>107,483</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>1,088</u>	<u>          </u>	<u>200</u>	<u>(19,139)</u>	<u>(60)</u>	<u>(17,911)</u>	<u>(7,274)</u>	<u>(25,185)</u>
<b>Other Financing Sources (Uses)</b>								
Transfers in				14,800		14,800		14,800
Transfers out	(26,068)					(26,068)		(26,068)
Sale of capital assets	<u>          </u>	<u>          </u>	<u>          </u>	<u>1,977</u>	<u>          </u>	<u>1,977</u>	<u>          </u>	<u>1,977</u>
Total Other Financing Sources (Uses)	<u>(26,068)</u>	<u>          </u>	<u>          </u>	<u>16,777</u>	<u>          </u>	<u>(9,291)</u>	<u>          </u>	<u>(9,291)</u>
<b>Net Change in Fund Balances</b>	(24,980)		200	(2,362)	(60)	(27,202)	(7,274)	(34,476)
<b>Fund Balances – Beginning</b>	<u>71,206</u>	<u>805</u>	<u>22,525</u>	<u>23,348</u>	<u>3,287</u>	<u>121,171</u>	<u>7,478</u>	<u>128,649</u>
<b>Fund Balances – Ending</b>	<u>\$ 46,226</u>	<u>\$ 805</u>	<u>\$ 22,725</u>	<u>\$ 20,986</u>	<u>\$ 3,227</u>	<u>\$ 93,969</u>	<u>\$ 204</u>	<u>\$ 94,173</u>

Board Members  
Torch Lake Township, Michigan

In planning and performing my audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Torch Lake Township, Michigan as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, I considered Torch Lake Township, Michigan's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, I do not express an opinion on the effectiveness of the Township's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control that I consider to be significant deficiencies and one deficiency that I consider to be a material weakness.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider the following deficiencies to be significant deficiencies in internal control.

1. The Township does not have procedures in place to prepare financial statements in accordance with accounting principles generally accepted in the United States of America, including procedures to record accruals for revenues and expenditures, to track changes in capital assets, and to present required financial statement disclosures. Due principally to the small size of the Township and the limited funds available to the Township, the hiring of accounting personnel capable of writing the Township's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.
2. Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel. As noted above, due to the small size of the Township and the limited funds of the Township, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the Township's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. I recommend that the Township Board assume a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.
3. As noted in the financial statements the Township did not adopt budgets for its Special Revenue Funds and the General Fund's expenditures exceeded the amounts appropriated. Michigan Public Act 621 of 1978, as amended, provides that the Township adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated.

Also, the Public Act requires amendments to be approved prior to incurring additional expenditures. The Township is currently in the process of adopting all of the required budgets. I recommend that the Township Board monitor expenditures against adopted budgets throughout the year and make appropriate budget amendments as needed.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. I believe that item number 1 above constitutes a material weakness.

Certain other matters related to operational or administrative efficiencies and improvements to internal controls are following.

4. The financial statements and the governmental fund financial statements of the Township are prepared on the modified cash basis of accounting. I recommend that the Township prepare the government-wide financial statements on an accrual basis of accounting and the governmental fund financial statements on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.
5. The Township did not issue government-wide financial statements and a management discussion and analysis as required by Governmental Accounting Standards Board Statement No. 34 (GASBS No. 34). GASBS No. 34 also requires the Township to record all capital assets, calculate depreciation, record long-term debt, and report information regarding the net value of assets on the government-wide financial statements. I recommend the Township adopt all of the provisions of GASBS No. 34 in order to conform with accounting principles generally accepted in the United States of America.
6. The Schoolcraft/Torch Lake Joint Garbage and Refuse Commission is currently operating without a signed contract between the two participating Townships. I recommend that an agreement be finalized as soon as possible to comply with State requirements.
7. The Township should research the formation of the Hubbell Volunteer Fire Department (HVFD). During the course of my audit it was noted that the HVFD's bank accounts are registered under a different employer identification number than the Township. However, consistent with prior years, all of the activity of the HVFD has been reported by the Township. I recommend that the Township research documentation related to the organization and update bank account information, including authorized signers, as deemed necessary.
8. As a result of my audit of the property tax activity for the year I noted that collections were not all paid over in a timely manner. I recommend that all collections for other entities be disbursed in accordance with Michigan Compiled Laws.
9. Currently, the Township does not annually authorize check signers. A current listing of authorized check signers, which is approved annually by the Township Board, should be maintained to ensure proper authorization of all disbursements. I recommend the listing be periodically reviewed and updated each time a change in check signers occurs and that the bank be promptly and formally notified of any change.
10. The Township Board does not annually authorize the use of specific financial institutions for its deposits. For purposes of risk management, I recommend the Township Board consider the number and location of financial institutions to be used by the Township with the goal of minimizing the risks associated with uninsured cash while maintaining the convenience of holding accounts in the local geographic area. In addition, I recommend the Township Board annually authorize the financial institutions to be used for Township cash management. In addition, at March 31, 2007, the

Township's bank balance was \$712,728; \$244,125 of this amount was uninsured. I recommend that the Township review its investment policy and procedures to determine if there could be alternative investment strategies that would yield higher investment returns and also allow for FDIC protection.

11. During 2006, the federal courts deemed the federal excise tax on phone bills to be unconstitutional. They passed a ruling that all entities that paid the excise tax would be eligible for a refund of taxes paid between 2003 and 2006. The Township Board should assess the amount of tax paid to determine if filing for a refund is warranted.
12. In order to keep the Township's management informed regarding State of Michigan regulations, below is a list of examples of illegal or unauthorized expenditures as defined in the Bulletin for Audits of Local Units of Government in Michigan as revised (Appendix H). I recommend that the Township Board familiarize themselves with this list in order to prevent the potential for illegal or unauthorized expenditures.
  - Contributions to churches, veterans, nonprofit organizations.
  - Payment of funeral expense for a person injured on government property.
  - Donations to a private ambulance or EMS service not under contract with the governmental unit.
  - Donations, including use of property or equipment to Little League, Scouts, Big Brothers/Sisters.
  - Donations to community organizations.
  - Expenses for private road constructions or maintenance.
  - Office refreshments, picnics.
  - Presents to officials and employees or retirement recognitions events.
  - Flowers to the sick or departed.
  - Mileage of officials and employees to and from their residences to the Township.
  - Extra compensation unless for part of the initial salary resolution or authorized under statutory procedures for an increase in salary.

This communication is intended solely for the information and use of the board membership, management, federal and state awarding agencies, and if applicable, pass-through entities, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to thank the Township personnel for their courtesy and assistance during the audit. I appreciate the opportunity to serve as your auditor. If there are any questions about your financial report or the above comments and recommendations, I would be happy to discuss them at your convenience.

  
Jackie A. Aalto, CPA

Calumet, Michigan  
August 17, 2007