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## AUDIT-RELATED COMMUNICATIONS

To the Board of Directors  
Acme Township

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Acme Township (the "Township") for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government 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 July 17, 2012. Professional standards also require that we communicate to you the following information related to our audit.

### *Compliance*

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### *Internal Controls*

In planning and performing our audit of the financial statements of the Township, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

We have issued our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* thereon dated September 27, 2012.

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. 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 a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Township's financial statements will not be prevented, or detected and corrected on a timely basis.

Please see our separate report on internal control for our findings.

The following additional matters are not considered to be material weaknesses or significant deficiencies in internal control, but are opportunities to strengthen internal controls, reporting and operating efficiency:

#### Accruals

The clerk and treasurer provided us with accrual items to be adjusted. We posted audit entries to accrue accounts receivable for State shared revenue for May and June 2012, cable TV fees for April through June 2012, and June Sewer receiving fund collections from Grand Traverse County. We posted an audit entry to accrue the wages for the pay period ended June 29, 2012 that were paid in July 2012, and recorded prepaid fire expenses for the second half of 2012. We recommend the clerk, treasurer and administrator review these balances after year-end to adjust activity for the year ended June 30, 2012.

#### Interbank Transactions

We noted the Township applied procedures in the current year in response to a prior year recommendation to record banking transfers between funds through obtaining separate fund checking accounts and recording the entries into the general ledger as they occurred. We noted some transactions recorded in the general ledger were using interfund transfer accounts rather than due to/from accounts. We recommend the Township use the due to/from accounts when the intention is for temporary fund borrowings, and the interfund transfer accounts when funds are not intended to be repaid.

#### Other Payroll Deductions

The other payroll deductions account should act as a clearing account. This account held a balance at the end of the year. Through review and inquiry, it was noted the account was not clearing out on a monthly basis and the balance continued to increase each month. We recommend contacting the software provider to discuss updating to the automatic entries posting from the payroll module in the software.

#### Budget Amendments

During 2012, we noted the General Fund, Farmland Preservation Fund and Shoreline Preservation Fund had some function expenditures that exceeded budgeted amounts. We recommend budget amendments be approved in the future, taking into account anticipated receivables and payables at year-end.

*Shoreline Preservation Property and Farmland Property Development Right Purchase*

The Township purchased property and property development rights during the year with a portion of the value donated by the landowners. The donated portions were recorded through audit adjustments. Property purchases should be recorded at the fair market value with related donations recognized as revenue.

***Qualitative Aspects of Accounting Practices***

Management is responsible for selection and use of appropriate accounting policies. The significant accounting policies used by the Township are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the Township 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. However, none of the estimates contained in the financial statements are considered to be particularly sensitive.

The disclosures in the financial statements are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the long-term debt of the Township.

***No 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 trivial, and communicate them to the appropriate level of management. There were two unposted adjustments for the vacation and sick accrual of \$3,235 and bond issuance costs of \$3,388. Management has determined that the effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following material misstatements were corrected by management through audit entries: State revenue sharing receivable for May and June 2012, cable TV fees from April through June 2012, June Sewer receiving fund collections from the County, accrued wages, depreciation expense, interfund transfers, County bond refunding activity, contributions from landowners for the Shoreline and Farmland Preservation funds, and prepaid fire expenses for the second half of the 2012 calendar year.

***No Disagreements with Management***

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

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated September 27, 2012.

***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 the Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the 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.

***Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position***

In June 2011, the Governmental Accounting Standards Board ("GASB") issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, effective for periods beginning after December 15, 2011. Deferred outflows are defined as a consumption of net assets by the government that is applicable to future reporting periods, and deferred inflows are defined by the acquisition of net assets by the government that are applicable to future reporting periods; however, both elements are considered distinct from assets and liabilities, and generally do not include prepaid expenditures or deferred revenues.

The statement also redefines the residual amount of all other elements presented in the statement of net assets as *net position*, and no longer net assets. The resulting effect of these statements is that the previously presented statement of net assets becomes the *statement of net position*, and is composed of assets and deferred outflows equaling liabilities, deferred inflows and net position.

*Auditor Independence*

Government Auditing Standards, commonly referred to as the Yellow Book, have been updated for periods ending after December 15, 2012 for auditor independence and documentation requirements. Auditors will be required to evaluate and document whether management of the Township has the skills, knowledge and experience to oversee nonaudit services, such as the preparation of the financial statements, in order for the auditor to remain independent in providing the nonaudit services. Auditors must be independent for the entire fiscal year under audit. Should we retain the audit for 2013, we will discuss this with management of the Township during the planning for the audit of the year ending June 30, 2013.

*Other Matters*

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

This information is intended solely for the use of Board of Directors, management of Acme Township, and the Michigan Department of Treasury, and is not intended to be and should not be used by anyone other than these specified parties.

*Dennis, Gartland & Niergarth*

September 27, 2012