

## AUDIT-RELATED COMMUNICATIONS

To the Board of Trustees  
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, 2013. 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 10, 2013. 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 Township's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

### *Internal Controls*

In planning and performing our audit of the financial statements of the Township, we considered the Township's internal control over financial reporting (internal control) to determine the 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 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 November 18, 2013.

Our consideration of internal control was for the limited purpose described in the first paragraph in this section 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*

During 2013, we noted the accruals were recorded, but no listing of what amounts were included within the accruals was maintained. A listing of outstanding accounts payable was not available and could not be printed from the general ledger. We obtained a listing by reviewing the general ledger detail. We recommend the clerk and treasurer maintain listings of all the items within the accruals.

#### *Budget Amendments*

During 2013, we noted the General Fund, Fire Fund, Farmland Preservation Fund and Shoreline Preservation Fund had some function expenditures that exceeded budgeted amounts. The Shoreline Preservation fund adopted a final deficit budget of \$99,832, in violation of P.A. 621 of 1978. We recommend budget amendments be approved in the future, taking into account anticipated receivables and payables at year-end and well as adjusted beginning fund balance. We have reported the budget overages in the financial statement footnotes as required by generally accepted accounting standards.

#### *Bank Reconciliations*

During 2013, we noted the bank reconciliations were not performed timely. This was primarily due to three different individuals in the Clerk position during the year. An outside accountant was hired to assist with bringing the reconciliations up to date and with monthly and year-end journal entries. We recommend bank accounts be reconciled and all cash adjustments be recorded monthly on the general ledger. We believe the outside accountant provides additional internal controls for the Township.

#### *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 purchase funded by contributions and grants. The direct grants and contributions were recorded through audit adjustments. Property purchases should be recorded at the fair market value with related grants and 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. The Township implemented the provisions of Governmental Accounting Standards Board Statement 63, Financial Reporting of Deferred Outflows of Resources, *Deferred Inflows of Resources and Net Position* and Governmental Accounting Standards Board Statement 65, *Items Previously Reported as Assets and Liabilities* for the year ended June 30, 2013. The Statements had no significant effect on the financial statements. 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.

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.

The financial statement disclosures are neutral, consistent and clear.

### ***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 clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Below is a summary of material misstatements corrected by management through audit entries.

*Corrected Adjustments*

- Reverse and correct entry for property taxes for \$16,792
- Record shoreline land project for \$482,855
- Record current year amortization of bond premium of \$7,382
- Record accrued interest payable on bonds of \$7,820
- Reclass reimbursements paid to Grand Traverse County from revenue to expense accounts for \$3,162
- Reclass fixed assets to capital outlay account for \$3,491
- Record Federal grant for farmland property to revenue for \$323,750
- Reclass property purchase for farmland property to capital outlay for \$971,623
- Record depreciation expense for sewer and water fund for \$245,181
- Reclass property taxes to property tax revenue account for \$124,017
- Record property taxes and vendor payments in fire and police fund for \$230,728
- Reclass ambulance payments of \$31,571 from Metro Fire contract expenditure
- Record prepaid expenditures of \$287,000 on the Metro Fire contract.

*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 November 18, 2013.

*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 for Pension Plans*

In June 2012, the Governmental Accounting Standards Board ("GASB") issued Statement No. 68, *Accounting and Reporting for Pensions*, which revises and establishes a new accounting and financial reporting requirements for most governments that provide their employees with pension benefits. Statement No. 68 requires employers report net pension benefits as a liability on the Statement of Net Position. The Standard requires immediate recognition of the pension expense, including annual service cost and interest, and the effect of changes in benefit terms on the net pension liability. The Statement also requires expanded note disclosures and required supplementary information covering the past 10 years for the net pension liability. Statement No. 68 is effective for fiscal years beginning after June 15, 2014.

*Government Combinations and Disposals of Government Operations*

In January 2013, the Governmental Accounting Standards Board ("GASB") issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The Statement requires the use of carrying value to measure assets and liabilities in a government merger; acquisition value in the measurement of assets acquired and liabilities assumed in an acquisition; and carrying value to measure the assets and liabilities in a transfer of operations. The Statement also provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. The requirements of the standard are effective for periods beginning after December 15, 2013, and should be applied on a prospective basis.

*Nonexchange Financial Guarantees*

In April 2013, the Governmental Accounting Standards Board ("GASB") issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. A nonexchange financial guarantee occurs when a government extends a financial guarantee for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximate value in exchange. The statement requires governments that extend these guarantees recognize a liability if quantitative factors and historical data, if any, indicate it is more likely than not that the government will be required to make a payment on the guarantee. The liability is measured at the discounted present value of the best estimate of future outflows expected under the guarantee. The statement requires the government that has issued the obligation guarantee to recognize revenue to the extent of the reduction in its guaranteed liabilities, or when released as an obligor on the obligation. The provision of the Statement are effective for reporting periods beginning after June 15, 2013.

*Governmental Audit Quality Center Auditee Resource Center*

Dennis, Gartland & Niergarth is a member of the American Institute of CPA's ("AICPA") Governmental Audit Quality Center ("GAQC"), which entitles us with access to key information and comprehensive resources that we use to help ensure our compliance with appropriate professional standards and laws and regulations that affect our audits. The GAQC has recently launched a new Auditee Resource Center, which is intended to assist procurers of audit services (i.e., auditees). The Auditee Resource Center includes information, practice aids, tools and other resources such as articles, archived GAQC web events, and access to certain GAQC Alerts, that should be of interest and benefit to auditees. Topics covered include information that will be relevant to auditees that undergo: (1) government or not-for-profit organization ("NPO") financial statement audits; (2) audits performed under *Government Auditing Standards* (referred to as Yellow Book audits); (3) audits of Federal expenditures made by governments and NPOs (referred to as single audits); and (4) other Federally required compliance audits.

All resources available through the Auditee Resource Center are open to the public. You may access the Auditee Resource Center through the GAQC Web site at: [www.aicpa.org/GAQC](http://www.aicpa.org/GAQC). Look for the link to the Auditee Resource Center under the "Quick Links" tab on the left side of the GAQC home page. We appreciate your business and are happy we can share the benefits of our GAQC membership with you.

***Other Matters***

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

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

*Dennis, Gartland & Niergarth*

November 18, 2013