

TUSCARORA TOWNSHIP  
CHEBOYGAN COUNTY, MICHIGAN  
FINANCIAL STATEMENTS  
  
FOR THE FISCAL YEAR ENDED  
  
JUNE 30, 2015

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## INDEPENDENT AUDITOR'S REPORT

Supervisor and Members Of  
The Township Board of Trustees  
Tuscarora Township  
Cheboygan County, Michigan 49721

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Tuscarora Township, Michigan, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 government activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the Township as of June 30, 2015, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally 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 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 Township's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining fund financial statements and the schedule of expenditures of federal awards 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 fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2015, on our consideration of the Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.

*Nieland & Kosanke, P.C.*

Certified Public Accountants

December 15, 2015

Cheboygan, Michigan 49721

## MANAGEMENT'S DISCUSSION AND ANALYSIS

TUSCARORA TOWNSHIP  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDING JUNE 30, 2015

As management of Tuscarora Township, Cheboygan County, Michigan (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 June 30, 2015. We encourage readers to consider information presented here in conjunction with additional information that is furnished in the financial statements and the notes to the financial statements.

Within the financial statements, the Statement of Net Position and the Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

Financial Highlights

The Township implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. In addition to expanded disclosure requirements, the Township is now required to report its net pension liability on the Statement of Net Position. This implementation has resulted in a decrease in beginning net position for governmental activities of \$830,008.

The assets and deferred outflows of resources of the Township exceeded its liabilities by, \$6,096,838 (Net Position).

The Township's total net position increased 92% from \$3,166,889 to \$6,096,838 at June 30, 2015. This increase is primarily related to the \$2,345,000 received in USDA grant funds for the sewer project.

Overall revenue from governmental activities was \$4,682,897, an increase of approximately \$2,808,000 from the previous year. This increase was primarily due to approximately \$521,000 in State of Michigan grant revenue and \$2,345,000 in USDA grant proceeds.

We incurred additional debt of \$1,793,000, related to the sewer project loan. We made approximately \$167,000 in principal payments on all debt. The result was a net increase in debt of approximately \$1,626,000. Additional debt information is available in the notes to the financial statements.

Net pension liability increased \$88,977 from the beginning balance of \$830,008 to \$918,985.

Overview of 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 are comprised of three components: Government-wide Financial Statements, Fund Financial Statements, and Notes to

TUSCARORA TOWNSHIP  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDING JUNE 30, 2015

the Financial Statements. This report also contains Other Supplementary Information in addition to the financial statements.

The Government-wide Financial Statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

Government-Wide Financial Statements

The government-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net position includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net position and how they have changed. Net position is the difference between the Township's assets and liabilities and this is one method to measure the Township's financial health or position.

Over time, increases/decreases in the Township's net position is an indicator of whether financial position is improving or deteriorating.

To assess overall health of the Township, you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

Most of the activities of the Township are reported as governmental activities, and there are no business type activities. Governmental activities include the General Fund, Special Revenue - Police Fund, Debt Service Funds – 2011 Special Assessment Bonds Debt Retirement Fund, 2012 Special Assessment Bonds Debt Retirement Fund, 2014 Special Assessment Bond Debt Retirement Fund and Capital Projects Fund.

The entity-wide financial statements include not only the Township itself; but also the Downtown Development Authority and the Indian River Library, which are considered discretely presented component units. These two component units are legally separate entities for which the Township is financially accountable. Financial information for these component units is reported separately from the financial information presented for the Township itself.

TUSCARORA TOWNSHIP  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDING JUNE 30, 2015

Fund Financial Statements

The fund financial statements provide more detailed information about the Township's funds, focusing on significant funds and not the Township as a whole. In the section for other supplementary information, the General Fund revenue and expenditures are shown on the line item basis. Funds are used to account for specific activities or funding sources. Laws or bond covenants require some funds. The Township Board may also create them. Funds are established to account for funding and spending financial resources and to show proper expenditures of those resources.

The Township has the following funds:

**Governmental Funds:** All of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental funds include the General Fund, Special Revenue - Police Fund, Debt Service Fund – 2011 Special Assessment Bonds Debt Retirement Fund, 2012 Special Assessment Bonds Debt Retirement Fund, 2014 Special Assessment Bond Debt Retirement Fund and Capital Projects Fund.

**Fiduciary Fund:** The Township acts as a trustee or fiduciary and is responsible for ensuring that the assets of these activities are collected and disbursed to the respective entities to which the funds belong. The Township maintains these funds and is responsible for ensuring that the assets of these activities are spent for their intended purpose and at the direction of those individuals/organizations to which the funds belong. These activities do not appear in the Township's government-wide financial statements since the assets do not belong to the Township. The Township maintains a Tax Collection Fund in this category.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Township's pension. This is limited to this management's discussion and analysis and the schedules of MERS pension immediately following the notes to the financial statements. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

TUSCARORA TOWNSHIP  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDING JUNE 30, 2015

Government-wide Financial Analysis

In a condensed format, the table below for governmental activities shows a comparison of net position as of the current date to the prior year:

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
<b>Assets</b>		
Current and Other Assets	\$ 1,407,530	\$ 3,481,575
Capital Assets (net)	4,090,947	8,830,618
<b>Total Assets</b>	<u>5,498,477</u>	<u>12,312,193</u>
<b>Deferred Outflows of Resources</b>		
Deferred pension amounts	<u>-</u>	<u>19,359</u>
<b>Liabilities</b>		
Current Liabilities	713,394	668,069
Long-Term Liabilities	788,186	2,426,014
Net Pension Liability	-	918,985
<b>Total Liabilities</b>	<u>1,501,580</u>	<u>4,013,068</u>
<b>Deferred Inflows of Resources</b>	<u>-</u>	<u>2,221,646</u>
<b>Net Position</b>		
Net Investment in Capital Assets	3,138,613	6,236,944
Restricted	-	158,851
Unrestricted	858,284	(298,957)
<b>Total Net Position</b>	<u>\$ 3,996,897</u>	<u>\$ 6,096,838</u>

Cash balances are being maintained while making timely payments on increased debt and capital assets are being acquired for the benefit of the Township, its residents and visitors.

TUSCARORA TOWNSHIP  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDING JUNE 30, 2015

The Township's net position increased \$2,099,941 from the previous fiscal year.

	<b>Change in Net Position</b>	
	<b>June 30, 2014</b>	<b>June 30, 2015</b>
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$ 35,723	\$ 44,104
Operating Grants	186,564	34,841
Capital Grants and Contributions	-	2,869,277
General Revenues:		
Property Taxes	1,345,308	1,382,726
State Shared Revenue	229,431	237,637
Interest Earnings	7,100	92,284
Other	71,005	22,028
<b>Total Revenues</b>	<b>1,875,131</b>	<b>4,682,897</b>
<b>Expenses</b>		
Legislative	130,917	106,243
General Government	204,243	282,443
Public Safety	952,963	1,021,812
Public Works	50,156	69,469
Airport	5,327	8,393
Parks and Recreation	271,228	264,588
<b>Total Expenses</b>	<b>1,614,834</b>	<b>1,752,948</b>
<b>Change in Net Position</b>	<b>260,297</b>	<b>2,929,949</b>
Net Position, Beginning of Year	3,736,600	3,996,897
Restatement for GASB 68	-	(830,008)
Net Position, End of Year	<b>\$ 3,996,897</b>	<b>\$ 6,096,838</b>

TUSCARORA TOWNSHIP  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDING JUNE 30, 2015

Financial Analysis of the Township's Funds

Individual fund balances remain solid, as indicated by year-end balances. The net change is also reflected below:

<b>Change in Net Position</b>	260,297	2,929,949
Net Position, Beginning of Year	3,736,600	3,996,897
Restatement for GASB 68	-	(830,008)
Net Position, End of Year	<u>\$ 3,996,897</u>	<u>\$ 6,096,838</u>

	<u>June 30, 2014</u>	<u>June 30, 2015</u>	<u>Increase (Decrease)</u>
General Fund	\$ 750,009	\$ 553,245	\$ (196,764)
Police Fund	283,421	318,799	35,378
Sewer Fund	(337,633)	(195,483)	142,150
Debt Service Fund - 2011 Bonds Fund	8,177	3,528	(4,649)
Debt Service Fund - 2012 Bonds Fund	25,890	498	(25,392)
Capital Projects Fund	138,977	104,825	(34,152)
Total Fund Balances	<u>\$ 868,841</u>	<u>\$ 785,412</u>	<u>\$ (83,429)</u>

The general fund's fund balance decreased approximately \$197,000 due to State of Michigan grant funds not yet being received but expenditures were incurred. The police fund balance increase slightly by approximately \$35,000 due to savings in capital outlay expenditures. The sewer fund's fund deficit improved by approximately \$142,150 due to the majority of grant and bond proceeds being received in the current year. The 2011 and 2012 bond fund's fund balances decreased due to making annual payments. The capital project fund's fund balance decreased by approximately \$34,000 due to the construction and completion of the pavilion project.

General Fund Budgetary Highlights

In 2014/2015 Tuscarora Township began one project (Trailhead) and completed another (Veterans Pier) that were 70% funded with reimbursing grants from the Michigan Department of Natural Resources (MDNR). Reimbursements from the MDNR were outstanding at year end.

Capital Assets and Long-Term Debt Activity

As of June 30, 2015, the Township had \$8,830,618 invested in a broad range of assets, including land, buildings, office equipment, police equipment and vehicles and park equipment. Additions for the year were approximately \$4,890,000 consisting primarily of a \$4,038,913 investment in infrastructure for the sewer project. Additional capital was invested in the Veterans Pier Project (approximately \$580,000), Trailhead (approximately \$270,000), the Pavilion (approximately \$34,000), and Pathways (approximately 262,000) by the DDA.

TUSCARORA TOWNSHIP  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDING JUNE 30, 2015

As of June 30, 2015, the Township had total long-term installment and bond debt of \$2,593,674, and incurred an additional \$1,793,000 in debt related to the sewer project. Principal payments on installment and bond debt were \$166,860 for the fiscal year ended June 30, 2015. Additional information on the long term debt is discussed above and also available in the footnotes.

Significant Events – Past Fiscal Year

- Construction on the sewer project continued throughout the year and at year end was approximately 90% complete.
- Construction of Veterans Pier was completed in May of 2015, the dedication ceremony was held Memorial Day weekend.
- Trailhead construction and a small portion of the streetscape construction began spring of 2015. Completion of the streetscape portion was complete and 70% of the Trailhead project was complete by fiscal year end.
- The DDA Pathway construction was complete and a ribbon cutting ceremony was held in the fall of 2014.

Economic Factors Affecting Future Operations

Continued recovery of the Michigan economy is reflected locally with increased property sales resulting in an upturn of State Equalized Values and an increase in the State Revenue Sharing contributions.

Hook-ups to the sewer as part of the Special Assessment District will begin in the fall of 2015 and additional connections to the sewer are anticipated with change of use and/or creation of new businesses within the district.

Next Year's Budget

The following factors were considered in preparing the Township's budget for the 2015-2016 fiscal year:

- Grant reimbursements from MDNR
- Final construction of sewer
- Parks Recreation Plan update
- Presidential election year expenditures
- Contributions to road special assessment districts

Contacting the Township's Management

This financial report is designed to provide our citizens, taxpayers and other interested parties with a general overview of Tuscarora Township's finances and also to show the accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Township Clerk, Mrs. Susan Fisher at 231-238-0970.

## BASIC FINANCIAL STATEMENTS

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

TUSCARORA TOWNSHIP  
STATEMENT OF NET POSITION  
JUNE 30, 2015

	<b>Primary Government</b>	<b>Total Component Units</b>
	<b>Governmental Activities</b>	<b>Units</b>
<b>ASSETS:</b>		
Cash and Cash Equivalents	\$ 927,435	\$ 555,628
Investments	-	54,281
Investments - Restricted	-	5,325
Deposit	5,640	-
Receivables		
Accounts	268,379	14,819
Special Assessments	2,221,646	-
Due from Component Units	58,475	-
Capital Assets - Not Being Depreciated	1,383,282	-
Capital Assets Being Depreciated, Net	7,447,336	744,390
<b>TOTAL ASSETS</b>	<b>12,312,193</b>	<b>1,374,443</b>
 <b>DEFERRED OUTFLOW OF RESOURCES</b>		
Deferred outflow of investment earnings	19,359	-
 <b>LIABILITIES:</b>		
Accounts Payable	390,606	47,146
Accrued Liabilities	95,163	-
Unearned Revenue	-	-
Due to Other Governmental Units	14,640	58,475
Net Pension Liability	918,985	-
Long-term Liabilities:		
Due Within One Year	167,660	-
Due in More Than One Year	2,426,014	6,166
<b>TOTAL LIABILITIES</b>	<b>4,013,068</b>	<b>111,787</b>
 <b>DEFERRED INFLOW OF RESOURCES</b>		
Unavailable Revenue	2,221,646	-
 <b>NET POSITION:</b>		
Net Investment in Capital Assets	6,236,944	744,390
Restricted for:		
Debt Service	54,026	-
Capital Improvements	104,825	-
Investments	-	5,325
Unrestricted	(298,957)	512,941
<b>TOTAL NET POSITION</b>	<b>\$ 6,096,838</b>	<b>\$ 1,262,656</b>

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

TUSCARORA TOWNSHIP  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Program Revenues				Net Expense (Revenue)
	Expenses	Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	
<b>GOVERNMENTAL ACTIVITIES:</b>					
Legislative	\$ 106,243	\$ -	\$ -	\$ -	\$ 106,243
General Government	282,443	-	-	-	282,443
Public Safety	1,021,812	14,154	-	-	1,007,658
Public Works	69,469	-	-	2,869,277	(2,799,808)
Airport	8,393	-	-	-	8,393
Parks and Recreation	264,588	29,950	34,841	-	199,797
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$1,752,948</b>	<b>\$ 44,104</b>	<b>\$ 34,841</b>	<b>\$ 2,869,277</b>	<b>\$(1,195,274)</b>
<b>COMPONENT UNITS:</b>					
Downtown					
Development Authority	\$ 4,011	\$ -	\$ 327,859	\$ -	\$ (323,848)
Indian River Library	122,483	5,760	37,767	-	78,956
<b>TOTAL COMPONENT UNITS</b>	<b>\$ 126,494</b>	<b>\$ 5,760</b>	<b>\$ 365,626</b>	<b>\$ -</b>	<b>\$ (244,892)</b>

Continued...

TUSCARORA TOWNSHIP  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Primary Government	Component Units	
	Governmental Activities	Downtown Development Authority	Indian River Library
NET CHANGES IN NET POSITION BEFORE GENERAL REVENUES	\$ (1,195,274)	\$ (323,848)	\$ 78,956
GENERAL REVENUES:			
Property Taxes	1,382,726	73,587	63,785
State Shared Revenue	237,637	-	1,887
Interest Earnings	92,284	244	1,541
Other	22,028	-	17,592
TOTAL GENERAL REVENUES	1,734,675	73,831	84,805
CHANGE IN NET POSITION	2,929,949	397,679	5,849
NET POSITION - BEGINNING, AS RESTATED	3,166,889	489,758	369,370
NET POSITION - ENDING	\$ 6,096,838	\$ 887,437	\$ 375,219

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

## FUND FINANCIAL STATEMENTS

TUSCARORA TOWNSHIP  
BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2015

	General Fund	Police Fund	Sewer Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>					
Cash and Cash Equivalents	\$ 324,569	\$ 429,676	\$ 140,628	\$ 32,562	\$ 927,435
Deposit	-	-	-	5,640	5,640
Accounts Receivable	268,379	-	-	-	268,379
Due from Other Funds	46,345	-	-	70,649	116,994
Due from Component Units	58,475	-	-	-	58,475
Special Assessments Receivable	-	-	2,180,093	41,553	2,221,646
<b>TOTAL ASSETS</b>	<b>\$ 697,768</b>	<b>\$ 429,676</b>	<b>\$ 2,320,721</b>	<b>\$ 150,404</b>	<b>\$ 3,598,569</b>
<b>LIABILITIES:</b>					
Accounts Payable	\$ 98,765	\$ 572	\$ 291,269	\$ -	\$ 390,606
Accrued Liabilities	10,469	58,802	-	-	69,271
Due to Other Funds	20,649	51,503	44,842	-	116,994
Due to Other Government	14,640	-	-	-	14,640
<b>TOTAL LIABILITIES</b>	<b>144,523</b>	<b>110,877</b>	<b>336,111</b>	<b>-</b>	<b>591,511</b>
<b>DEFERRED INFLOW OF RESOURCES:</b>					
Unavailable Revenue	-	-	2,180,093	41,553	2,221,646
<b>FUND BALANCES:</b>					
Assigned for:					
Debt Service	-	50,000	-	4,026	54,026
Lights	3,671	-	-	-	3,671
Fire Protection	2,042	-	-	-	2,042
METRO Act	49,275	-	-	-	49,275
Parks	34,729	-	-	-	34,729
Boat Launch	32,125	-	-	-	32,125
Veterans Pier	(32,484)	-	-	-	(32,484)
Veterans Pier - Bricks	14,895	-	-	-	14,895
Marina Park	49,606	-	-	-	49,606
Capital Projects	-	-	-	104,825	104,825
Unassigned	399,386	268,799	(195,483)	-	472,702
<b>TOTAL FUND BALANCES</b>	<b>553,245</b>	<b>318,799</b>	<b>(195,483)</b>	<b>108,851</b>	<b>785,412</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCES</b>	<b>\$ 697,768</b>	<b>\$ 429,676</b>	<b>\$ 2,320,721</b>	<b>\$ 150,404</b>	<b>\$ 3,598,569</b>

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

TUSCARORA TOWNSHIP  
RECONCILIATION OF FUND BALANCE OF GOVERNMENTAL FUNDS TO NET  
POSITION OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2015

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS \$ 785,412

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

Add - Capital Assets, Not Being Depreciated	1,383,282
Add - Capital Assets, Net of Depreciation	7,447,336

Certain assets and liabilities such as bonds payable are not due  
in the current period and therefore are not reported in the funds

Deduct - bonds and notes payable	(2,593,674)
Deduct - net pension liability	(918,985)
Add - deferred outflow pension	19,359
Deduct - accrued interest on long-term liabilities	(25,892)
	(2,508,190)

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 6,096,838

TUSCARORA TOWNSHIP  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	Police Fund	Sewer Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUE:</b>					
Property Taxes	\$ 403,858	\$ 828,775	\$ -	\$ -	\$ 1,232,633
Special Assessments	-	-	55,010	21,575	76,585
State Sources	237,637	-	-	-	237,637
Charges for Services	29,950	14,154	-	-	44,104
Property Tax					
Administration Fees	73,508	-	-	-	73,508
Interest Earnings	1,319	316	87,942	2,707	92,284
Grants	520,735	3,455	2,345,087	-	2,869,277
Donations	34,841	-	-	-	34,841
Other	15,570	6,459	-	-	22,029
<b>TOTAL REVENUES:</b>	<b>1,317,418</b>	<b>853,159</b>	<b>2,488,039</b>	<b>24,282</b>	<b>4,682,898</b>
<b>EXPENDITURES:</b>					
Current:					
Legislative	106,243	-	-	-	106,243
General Government	195,334	-	-	-	195,334
Public Safety	155,602	813,441	-	-	969,043
Public Works	53,934	-	-	-	53,934
Airport	8,393	-	-	-	8,393
Parks and recreation	170,333	-	-	-	170,333
Capital Outlay	762,569	3,576	4,038,913	34,205	4,839,263
Debt Service					
Principal	41,662	198	63,000	62,000	166,860
Interest	8,562	566	36,976	3,820	49,924
<b>TOTAL EXPENDITURES</b>	<b>1,502,632</b>	<b>817,781</b>	<b>4,138,889</b>	<b>100,025</b>	<b>6,559,327</b>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(185,214)	35,378	(1,650,850)	(75,743)	(1,876,429)
OTHER FINANCING SOURCES (USES):					
Transfers In	-	-	-	11,550	11,550
Transfers (Out)	(11,550)	-	-	-	(11,550)
Proceeds From Debt	-	-	1,793,000	-	1,793,000
Total Other Financing Sources (Uses)	(11,550)	-	1,793,000	11,550	1,793,000
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES	(196,764)	35,378	142,150	(64,193)	(83,429)
FUND BALANCE - BEGINNING	750,009	283,421	(337,633)	173,044	868,841
FUND BALANCE - ENDING	<u>\$ 553,245</u>	<u>\$ 318,799</u>	<u>\$ (195,483)</u>	<u>\$ 108,851</u>	<u>\$ 785,412</u>

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



FIDUCIARY FUND FINANCIAL STATEMENT

TUSCARORA TOWNSHIP  
 FIDUCIARY FUND  
 STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
 JUNE 30, 2015

	Property Tax Collection Fund
ASSETS:	
Cash	\$ <u>14,693</u>
TOTAL ASSETS	<u><u>\$ 14,693</u></u>
LIABILITIES:	
Due to Other Government	\$ 14,640
Due Other Funds	<u>53</u>
TOTAL LIABILITIES	<u><u>\$ 14,693</u></u>

DISCRETELY PRESENTED COMPONENT UNITS

TUSCARORA TOWNSHIP  
DISCRETELY PRESENTED COMPONENT UNITS  
BALANCE SHEET  
JUNE 30, 2015

	<b>Downtown Development Authority</b>	<b>Indian River Library</b>	<b>Total Component Units</b>
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 349,283	\$ 206,345	\$ 555,628
Investments	-	54,281	54,281
Investments - Restricted	-	5,325	5,325
Accounts Receivable	-	14,819	14,819
<b>TOTAL ASSETS</b>	<b>\$ 349,283</b>	<b>\$ 280,770</b>	<b>\$ 630,053</b>
<b>LIABILITIES:</b>			
Accounts Payable	\$ 44,662	\$ 2,484	\$ 47,146
Due to Primary Government	54,394	4,081	58,475
<b>TOTAL LIABILITIES</b>	<b>99,056</b>	<b>6,565</b>	<b>105,621</b>
<b>FUND BALANCE:</b>			
Nonspendable	-	5,325	5,325
Restricted	-	-	-
Assigned	44,662	-	44,662
Unassigned	205,565	268,880	474,445
<b>TOTAL FUND BALANCE</b>	<b>250,227</b>	<b>274,205</b>	<b>524,432</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 349,283</b>	<b>\$ 280,770</b>	<b>\$ 630,053</b>

**Reconciliation of Fund Balances on the Balance Sheet for Component Units  
to the Statement of Net Position**

Fund balances - component units	\$ 250,227	\$ 274,205	\$ 524,432
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Amounts reported for governmental activities in the  
Statement of Net Position are different because:

Certain liabilities, such as special assessments payable, are not due in  
the current period, and therefore not reported in funds.

Deduct - Long-term debt payable	\$ (6,166)
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Capital assets used in governmental activities are not financial  
resources and therefore are not reported in the funds.

Add - Capital Assets, net of accumulated depreciation	637,210	107,180	744,390
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Net position of component units	<u>\$ 887,437</u>	<u>\$ 375,219</u>	<u>\$ 1,268,822</u>
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The accompanying notes are an integral  
part of these financial statements.

TUSCARORA TOWNSHIP  
 COMPONENT UNITS  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<b>Downtown Development Authority</b>	<b>Indian River Library</b>	<b>Total Component Units</b>
<b>REVENUES:</b>			
Property Taxes	\$ 73,587	\$ 63,785	\$ 137,372
Grants	327,859	10,000	337,859
Charges for Services	-	5,760	5,760
Interest	244	1,541	1,785
Donations	-	27,767	27,767
State Aid	-	1,887	1,887
Other	-	17,592	17,592
<b>Total Revenues</b>	<b>401,690</b>	<b>128,332</b>	<b>530,022</b>
<b>EXPENDITURES:</b>			
General Government	2,068	103,900	105,968
Capital Outlay	343,423	13,176	356,599
Debt Service	-	10,000	10,000
<b>Total Expenditures</b>	<b>345,491</b>	<b>127,076</b>	<b>472,567</b>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	56,199	1,256	57,455
FUND BALANCE – JULY 1, 2014	194,028	272,949	466,977
FUND BALANCE – JUNE 30, 2015	<u>\$ 250,227</u>	<u>\$ 274,205</u>	<u>\$ 524,432</u>
 <b>Reconciliation of the statement of revenues, expenditures and changes in fund balance of component units to the statement of activities</b>			
Net change in fund balances - component units	\$ 56,199	\$ 1,256	\$ 57,455
 Repayment of debt principal is an expenditure at the fund level, but the repayment reduces long-term liabilities in the statement of net position.			
Add principle payments on long-term debt		9,434	
 Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.			
Add - Capital Outlay	343,423	13,176	356,599
Deduct - Depreciation Expense	(1,943)	(18,017)	(19,960)
Change in net position of component units	<u>\$ 397,679</u>	<u>\$ 5,849</u>	<u>\$ 394,094</u>

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

NOTES TO FINANCIAL STATEMENTS

TUSCARORA TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Tuscarora Township, Cheboygan County, Michigan (the “Township”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township’s accounting policies are described below.

**(1) REPORTING ENTITY**

Tuscarora Township is an unincorporated Township, which operates under a Supervisor Board form of government. The Township provides the following services: public safety, highways and streets, public improvements and general administrative services.

The Township has considered all potential component units in evaluating how to define the Township for financial reporting purposes. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Statement 61 of the Government Accounting Standards Board (GASB), *The Financial Reporting Entity*. The basic criteria includes the appointment of a voting majority of the governing board of the unit; legal separation of the Township and the component unit, fiscal independence of the unit, whether exclusion of the unit would make the Township’s financial statements misleading, and whether there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Township. There are two component units to be included in these statements.

INDIAN RIVER LIBRARY – The Township Library, which was established pursuant to the provisions of Public Act 164 of 1877, as amended, is governed by a six person Board of Directors elected through general elections. The Library may issue debt subject to the limitations set forth in the Act and is funded by an annual property tax levy and state penalty fines.

DOWNTOWN DEVELOPMENT AUTHORITY – The Downtown Development Authority, which was established pursuant to the provisions of Act 197 of 1975, as amended, is governed by the Township Supervisor and an eight-member board. The Authority may issue debt subject to the limitations set forth in the Act and is funded by a specified annual property tax capture of a portion of the Township and County levies which may only be used for activities within the downtown district.

**(2) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Tuscarora Township’s basic financial statements include both government-wide (reporting

TUSCARORA TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

the Township as a whole) and fund financial statements (reporting the Township's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Township's legislative, public works, public safety, community and economic development, recreation and culture and general services and administration are classified as governmental activities. Tuscarora Township does not have any activity that is classified as business-type activities.

In the government-wide Statement of Net Position, the governmental activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Township's net position is reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The Township first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of Tuscarora Township's functions. The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating – specific and discretionary (either operating or capital) grants while the capital grants column reflects capital – specific grants. The net costs (by function or business-type activity) are normally covered by general revenue.

The government-wide focus is more on the sustainability of Tuscarora Township as an entity and the change in net position resulting from the current year's activities. For the most part, the effect of inter-fund activity has been removed from these statements.

**(3) BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS**

The financial transactions of the Township are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

TUSCARORA TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

The following fund types are used by the Township:

Governmental Funds

The focus of the governmental fund's measurement (in the fund statements) is upon determination of financial position (sources, uses and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Township:

- General Fund – General Fund is the general operating fund and, accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.
- Special Revenue – Police Fund – This fund accounts for revenues and expenditures directly attributable to police operations. Revenue is primarily by property taxes and state shared revenues.
- 
- Debt Service Fund – 2011 Special Assessment Bonds Debt Retirement Fund –This fund was created to monitor the pay back of funds used for the road improvements done to East Fisher Woods and Hemlock Street.
- Debt Service Fund – 2012 Special Assessment Bonds Debt Retirement Fund –This fund was created to monitor the pay back of funds used for the road improvements done to Apple Blossom Street and Ellinger Road.
- Debt Service Fund – 2014 Special Assessment Bond Debt Retirement Fund – This fund was created to service the debt incurred on the Township's USDA loan and related project costs. This loan was obtained to fund the downtown sewer project.
- Capital Projects Fund – This fund was created to account for the new Marina and the Green Docks Project that the Township has started and continues to make progress on towards completion.

Fiduciary Funds

The Township's fiduciary funds are presented in the fiduciary fund financial statements by type (agency). Since by definition, these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the Township; these funds are not incorporated into the government-wide statements.

TUSCARORA TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(4) BASIS OF ACCOUNTING**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the 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 has been met.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recorded when they are both measurable and available. “Available” means collectible within the current period or within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt service expenditures, compensated absences, and claims and judgments are recorded only when payment is due.

**(5) ASSETS, LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES,  
DEFERRED INFLOWS OF RESOURCES, AND EQUITY**

Deposits and Investments

The Township’s cash and cash equivalents are considered to be cash on hand and demand deposits. State statutes authorize the Township to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers’ acceptances, and mutual funds composed of otherwise legal investments.

Investments consist of the Township’s share in an external investment pool and are reported at fair value. This investment pool operates in a manner consistent with the Securities and Exchange Commission’s Rule 2a(7) of the Investment Company Act of 1940.

TUSCARORA TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Deferred Outflows 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 represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Township reports deferred outflows of resources for change in expected and actual investment returns, assumptions, and benefits provided to its pension plan.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of five years. All capital assets are valued historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their fair value on the date donated. Depreciation on all exhaustible capital assets is charged as an expense against their operations in government-wide statements and proprietary financial statements.

Accumulated depreciation is reported on Government-Wide and Proprietary Statement of Net position. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Land Improvements	15 years
Building, Structures and Improvements	10 - 40 years
Equipment and Vehicles	5 - 10 years

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues and expenditures. Actual results may differ from estimated amounts.

Property Taxes

Property taxes are levied as of December 1 of each year and are due by February 15 of the following calendar year. Any amounts not received by February 28 are added to the County tax rolls. The Township receives 100% payment for the delinquent taxes by June 30. The Township bills and collects its own property taxes and also taxes for other governmental units. Collections of the other governmental units' taxes and remittance of them to the units are accounted for in the Fiduciary – Tax Collection Fund.

TUSCARORA TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

The taxable value of the Township totaled \$215,586,831, on which ad valorem taxes consisted of .9886 mills for the Township's operating purposes, .1668 mills for lights, .7415 mills for the fire protection, 3.952 mills for police protection, and .2965 mills for the component unit library operations.

Inter-fund Activity

All inter-fund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements. Inter-fund receivables and payables arise from inter-fund transactions and are recorded by all funds affected in the period in which transactions are executed. All receivables are recorded at their gross values.

Vacation and Sick Leave

Accrued vacation and sick pay to police employees of \$36,109 has been accounted for in the Police Fund as a current liability under accrued expenses. This amount includes approximately \$17,000 for accrued sick and leisure time as of June 30, 2015. Sick and leisure pay does not accumulate but is paid out on an employee's anniversary date if not used.

Pension

For purposes of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This 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 governmental funds report unavailable revenues, which arises only under a modified accrual basis of accounting, from special assessments and other long-term receivables from other governmental units. These amounts are deferred and recognized as an inflow of resources in the period that the amount becomes available.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. In the fund financial statements, governmental fund types recognize the face amount of debt

TUSCARORA TOWNSHIP  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

issued as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balances

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained. Restricted fund balance is reported when externally imposed constraints are imposed by creditors, grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes when imposed by formal action of the Township’s Board. A formal resolution is required to establish, modify, or rescind a fund balance commitment. The Township reports assigned fund balance for amounts constrained by the Township’s intent to be used for a specific purpose, but are neither restricted nor committed. Unassigned fund balance is the residual classification for the General Fund.

Budgets

All governmental funds are under formal budgetary control. Budgets shown in the financial statements as “GAAP Basis” are adopted on a basis consistent with generally accepted accounting principles (GAAP) and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget approved and amended by the Township Board. Budgets are adopted on the departmental level and control is exercised on that level.

**NOTE B – CASH AND CASH EQUIVALENTS**

**Primary Government**

Cash and cash equivalents in the bank accounts of the Township as utilized by the various funds is as follows:

	Cash and Cash <u>Equivalents</u>
General Fund	\$ 324,569
Police Fund	429,677
Debt Service Funds	144,653
Capital Projects Fund	<u>28,536</u>
	<u>\$ 927,435</u>

TUSCARORA TOWNSHIP  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE B – CASH AND CASH EQUIVALENTS** (continued)

At year end, the insured and uninsured amounts of the primary government’s demand depository bank account balances at June 30, 2015 is as follows:

<u>Deposits</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 435,327
Uninsured	<u>675,884</u>
Total Bank Balance	<u><u>\$ 1,111,211</u></u>

These deposits and interest payment accounts are with local financial institutions. All accounts are in the name of the Township. Interest is recorded when deposits mature or is credited to the applicable account.

**Component Units**

Cash and cash equivalents in the bank accounts of the Township’s Component Units as utilized by those Component Units is as follows:

	<u>Cash and Cash Equivalents</u>
Downtown Development Authority	\$ 349,283
Indian River Library	<u>206,345</u>
	<u><u>\$ 555,628</u></u>

At June 30, 2015 the fair market value of the Indian River Library’s share of an investment pool was as follows:

Investments	\$ 54,281
Restricted Investments	<u>5,325</u>
	<u><u>\$ 59,606</u></u>

TUSCARORA TOWNSHIP  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE B – CASH AND CASH EQUIVALENTS** (continued)

At year end, the insured and uninsured amounts of the component unit’s demand depository bank account balances at June 30, 2015 is as follows:

<u>Deposits</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 457,918
Uninsured - DDA	<u>99,495</u>
Total Bank Balance	<u>\$ 557,413</u>

Michigan Compiled Laws Section 129.91, authorizes the Township to deposit and invest in the accounts of Federally insured banks, credit unions and savings and loan associations; bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities or guaranteed by the Government National Mortgage Association; United States government or Federal Agency obligation repurchase agreements: banker’s acceptance of United States banks; mutual funds composed of investment vehicles which are legal or direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which mature no more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General’s Opinion Number 6168 states that public funds may not be deposited in the financial institutions located in states other than Michigan.

The Township deposits and investments are in accordance with statutory authority.

The Governmental Account Standards Board (GASB) Statement Number 3 risk disclosures for the Township cash deposit are as follows:

1. Insured or Registered, or Securities held by the Township or the Township’s agent in the Township’s name.
2. Uninsured and unregistered, with Securities held by the Counterparty’s Trust Department or its agent in the Township’s name.
3. Uninsured and unregistered, with Securities held by the Counterparty or the Counterparty’s Trust Department or Agent, but not in the Township’s name.

TUSCARORA TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE C – RECEIVABLES AND UNEARNED REVENUES**

The composition of receivables as of June 30, 2015, is as follows:

Grants Receivable	\$ 211,522
State Shared Revenue	38,243
Due from Component Units	58,475
Due from Tax Account	14,640
Other	3,975
Special Assessments	<u>2,221,647</u>
	<u>\$2,548,502</u>

Government funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, unearned revenue reported in the governmental funds was as follows:

Special Assessments	\$2,221,647
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TUSCARORA TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE D – CAPITAL ASSETS**

A summary of the capital assets of the Governmental Activities is as follows:

	Balance at July 1, <u>2014</u>	<u>Additions</u>	<u>Disposals</u>	Balance at June 30, <u>2015</u>
<b>GOVERNMENTAL ACTIVITIES:</b>				
Land	\$ 1,383,282	\$ -	\$ -	\$ 1,383,282
 Total Capital Assets, Not Being Depreciated	 <u>1,383,282</u>	 -	 -	 <u>1,383,282</u>
 Infrastructure	 1,219,455	 4,038,913	 -	 5,258,368
Land Improvements	1,583,302	846,300	-	2,429,602
Buildings and Improvements	1,237,527	-	-	1,237,527
Furniture and Equipment	421,399	3,576	-	424,975
Vehicles	<u>173,269</u>	<u>-</u>	<u>-</u>	<u>173,269</u>
 Total Capital Assets Being Depreciated	 <u>4,634,952</u>	 <u>4,888,789</u>	 -	 <u>9,523,741</u>
 Less Accumulated Depreciation:				
Land Improvements	(825,770)	(81,937)	-	(907,707)
Buildings and Improvements	(690,431)	(30,345)	-	(720,776)
Furniture and Equipment	(332,256)	(17,318)	-	(349,574)
Vehicles	<u>(82,283)</u>	<u>(16,065)</u>	<u>-</u>	<u>(98,348)</u>
 Total Accumulated Depreciation	 <u>(1,930,740)</u>	 <u>(145,665)</u>	 -	 <u>(2,076,405)</u>
 <b>GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET</b>	 <u>\$ 4,087,494</u>	 <u>\$ 4,743,124</u>	 <u>\$ -</u>	 <u>\$ 8,830,618</u>

A depreciation expense for the governmental activities was charged to the following functions and activities of the primary government:

General Government	\$ 32,345
Public Safety	19,065
Recreation and Culture	<u>94,255</u>
	<u>\$ 145,665</u>

TUSCARORA TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE D – CAPITAL ASSETS** (continued)

Capital asset activity of the Component Unit (Library) governmental activities for the year ended June 30, 2015 was as follows:

	Balance at July 1, <u>2014</u>	<u>Additions</u>	<u>Disposals</u>	Balance at June 30, <u>2015</u>
Equipment	\$ 129,028	\$ -	\$ -	\$ 129,028
Land Improvements	15,600	-		15,600
Books	<u>199,740</u>	<u>13,176</u>	<u>-</u>	<u>212,916</u>
Total Capital Assets Being Depreciated	<u>344,368</u>	<u>13,176</u>	<u>-</u>	<u>357,544</u>
Less Accumulated Depreciation	<u>(232,347)</u>	<u>(18,017)</u>	<u>-</u>	<u>(250,364)</u>
Capital Assets, Net	<u>\$ 112,021</u>	<u>\$ (4,841)</u>	<u>\$ -</u>	<u>\$ 107,180</u>

Capital asset activity of the Component Unit (DDA) governmental activities for the year ended June 30, 2015 was as follows:

	Balance at July 1, <u>2014</u>	<u>Additions</u>	<u>Disposals</u>	Balance at June 30, <u>2015</u>
Construction in Progress	\$ 202,449	\$ 429,491	\$ -	\$ 631,940
Improvements	<u>9,415</u>	<u>-</u>	<u>-</u>	<u>9,415</u>
Total Capital Assets Being Depreciated	<u>\$ 211,864</u>	<u>\$ 429,491</u>	<u>\$ -</u>	<u>\$ 641,355</u>
Less Accumulated Depreciation	<u>(2,202)</u>	<u>(1,943)</u>	<u>-</u>	<u>(4,145)</u>
Capital Assets, Net	<u>\$ 209,662</u>	<u>\$ 427,548</u>	<u>\$ -</u>	<u>\$ 637,210</u>

TUSCARORA TOWNSHIP  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE E – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The Township makes all payments out of a general checking account held by the General Fund. Interfund Receivables within the General Fund represent amounts owed by other funds due to timing differences between the disbursement of funds and reimbursement by the other funds to the General Fund’s checking account.

At June 30, 2015 the Police Fund owed the Construction Fund \$50,000 for a loan. The composition of inter-fund balances at June 30, 2015 is as follows:

	Interfund Receivable	Interfund Payable
Primary Government:		
General Fund	\$ 104,820	\$ 20,649
Construction Fund	70,649	-
Police Fund	-	51,503
Sewer Fund	-	44,842
Component Units:		
DDA	-	54,394
Library	-	4,081
	\$ 175,469	\$ 175,469

The General Fund funds the 2011 and 2012 special assessment bond payments for shortages not in the bank account at the time the payment is due. For the fiscal year ended June 30, 2015 the general fund financed \$11,550 of the payments. The following transfers were made between funds:

	Transfers In	Transfers Out
General Fund	\$ -	\$ 11,550
Debt Service Funds	11,550	-
Total	\$ 11,550	\$ 11,550

TUSCARORA TOWNSHIP  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE F – PENSION PLAN**

**Plan Description.** The Township’s defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing the MERS website at [www.mersofmichigan.com](http://www.mersofmichigan.com).

**Benefits Provided.**

	<b>2014 Valuation</b>
Benefit Multiplier:	2.5% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 years
Early Retirement (Unreduced):	50/25 55/15
Early Retirement (Reduced):	-
Final Average Compensation:	5 years
COLA for Furture Retirees:	2.50% (Non-Compound)
Employee Contributions:	3.50%
Act 88:	No

**Employees covered by benefit terms.** At the December 31, 2014 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	-
Active employees	8
	12

**Contributions.** The Township is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Township may establish contribution rates to be paid by its covered employees. Employer contributions are 21% of covered payroll based on annual payroll for open divisions.

TUSCARORA TOWNSHIP  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE F – PENSION PLAN** (continued)

**Net Pension Liability.** The Township’s Net Pension Liability was measured as of December 31, 2014, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

**Actuarial assumptions.** The total pension liability in the December 31, 2014 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

*Inflation:* 3%-4%

*Salary Increases:* 4.5% in the long-term (1%, 2% and 3% for calendar years 2014, 2015 and 2016, respectively)

*Investment rate of return:* 8.0%, net of investment expense, including inflation

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2008. (MERS Retirement Board is currently conducting an actuarial experience study covering the period from January 1, 2009, through December 31, 2013.)

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

TUSCARORA TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE F – PENSION PLAN** (continued)

**Discount rate.** The discount rate used to measure the total pension liability is 8.25% for 2014. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

<b>Changes in Net Pension Liability.</b>	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability</b>
	<b>(a)</b>	<b>(b)</b>	<b>(a) - (b)</b>
<b>Balances at 12/31/13</b>	\$2,092,814	\$1,226,892	\$865,922
<b>Changes for the Year</b>			
Service Cost (entered as a positive number)	64,795	-	64,795
Interest on Total Pension Liability	172,980	-	172,980
Employer Contributions	-	93,992	(93,992)
Employee Contributions	-	14,615	(14,615)
Net investment income	-	79,029	(79,029)
Benefit payments, including employee refunds	(56,969)	(56,969)	-
Administrative expense	-	(2,925)	2,925
Other changes	-	-	-
<b>Net changes</b>	180,806	127,742	53,064
<b>Balances as of 12/31/14</b>	<b>\$2,273,620</b>	<b>\$1,354,634</b>	<b>\$918,986</b>

TUSCARORA TOWNSHIP  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE F – PENSION PLAN** (continued)

**Sensitivity of the Net Pension Liability to changes in the discount rate.** The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8.25%, as well as what the employer’s Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.25%) or 1% higher (9.25%) than the current rate.

	<b>1% Decrease 7.25%</b>	<b>Current Discount Rate</b>	<b>1% Increase 9.25%</b>
Net Pension Liability at 12/31/14		\$918,986	
Change in Net Pension Liability (NPL)	\$337,947		(\$280,057)
Calculated NPL	\$1,256,933	\$918,986	\$638,929

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** For the year ended June 30, 2015 the employer recognized pension expense of \$127,696. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>
Differences in experience	\$ -
Differences in assumptions	-
Excess (Deficit) Investment Returns	19,359
Total	\$19,359

Amounts reported as deferred outflows and/or inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended</b>	
2015	4,840
2016	4,840
2017	4,840
2018	4,840
	19,360

TUSCARORA TOWNSHIP  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE G – DEFERRED COMPENSATION PLAN**

The Township offers participation to certain employees in a deferred compensation plan created in accordance with Internal Revenue Code Section 457, which is administered by Prudential Financial. In accordance with the provision of GASB Statement 32, plan balances and activities are not reflected in Tuscarora Township’s financial statements.

**NOTE H – DEBT**

A summary of general long-term debt as of June 30, 2015, and related transactions for the primary government for the year then ended are as follows:

<b>Primary Government</b>	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2015</u>
<b>Installment Debt Payable</b>				
\$22,500 Land Contract for purchase of a parcel of land in October, 2007. Payments of \$1,250 are due on the first of January and July of each year, beginning in 2009. Interest accrued at 6% but will be waived if payments are made timely.	\$ 8,750	\$ -	\$ (2,500)	\$ 6,250
\$10,893 Installment Note to Awakon Federal Credit Union for the purchase of a tractor. Monthly payments of \$300 are due with interest at 2.99% through December 2016. The note was secured by the tractor and was paid off during the year.	8,423	-	(3,407)	5,016
\$417,763 1999 Promissory Note for contracted services performed on proposed sewer project. Payments of \$37,055 are due annually with interest at 5% through July, 2017.	100,911	-	(32,010)	68,901
\$13,300 Note issued in 2012 to Awakon Federal Credit Union for the purchase of a tractor. Monthly payments of \$239 are due with interest at 2.99% through July 2017.	<u>8,650</u>	<u>-</u>	<u>(2,660)</u>	<u>5,990</u>
<b>Total Installment Debt</b>	<u>126,734</u>	<u>-</u>	<u>(40,577)</u>	<u>86,157</u>

Continued ...



TUSCARORA TOWNSHIP  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE H – DEBT** (continued)

The annual principal and interest requirements for the years ending June 30, 2015, and thereafter are as follows:

Year Ended	<u>Principal</u>	<u>Interest</u>
<u>June 30,</u>		
2016	167,660	68,460
2017	107,185	62,314
2018	65,959	60,442
2019	64,291	58,729
2020	64,300	54,844
2021-2025	322,000	199,617
2026-2030	325,000	194,929
2031-2035	327,000	182,789
2036-2040	330,000	159,731
2041-2045	340,000	106,229
2046-2050	336,062	66,859
2051-2053	<u>144,217</u>	<u>10,005</u>
Total	<u>\$ 2,593,674</u>	<u>\$1,224,948</u>

Interest expense for the year ended June 30, 2015 was approximately \$50,000.

**NOTE I – FUND BALANCE CLASSIFICATION**

Lights – The General Fund has \$3,671 assigned from a special millage for street lighting within the Township.

Fire Protection – The General Fund has \$2,042 assigned from a special millage for fire protection within the Township.

METRO Act – The General Fund has \$49,275 assigned from the State of Michigan to be used for road right-of-way maintenance within the Township.

Parks – The General Fund has \$34,729 assigned for park operations.

TUSCARORA TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE I – FUND BALANCE CLASSIFICATION** (continued)

Marina Park – The General Fund has \$49,606 assigned for development of the Marina Park within the Township.

Boat Launch – The General Fund has \$32,125 assigned for maintenance of boat launch.

Veterans Pier - The General Fund has a \$32,484 deficit assigned to complete the construction of the Veterans Pier within the Township. This deficit will be alleviated when grant money is received from the State.

Veterans Pier - Bricks – The General Fund has \$14,606 assigned for brick memorials for Veterans Pier.

The Police Fund has \$50,000 assigned for debt service for a cash loan it obtained from the Capital Projects Fund. This loan was repaid in fiscal 2015/2016 to Capital Projects Fund.

2011 and 2012 Bond Funds have their fund balances reserved for fiscal 2015/2016 debt service payments.

The Capital Project fund balance is reserved from future capital outlay for capital projects.

**NOTE J – CONTINGENT LIABILITIES**

In the normal course of operations, the Township receives grant funds from State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement, which may arise as the result of these audits, is not believed to be material.

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; injuries to employees; and natural disasters. The Township obtains insurance coverage for these risks through participation in the Michigan Township Participating Plan. This plan is a self-insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. This plan, through its risk manager, secures insurance policies or reinsurance treaties to cover the risks undertaken on behalf of the Township. The Township pays an annual premium to the Michigan Participating Plan for its general insurance coverage and has no additional liability beyond the premiums made to this plan. Additionally, the Township has purchased commercial insurance for workman's compensation benefits. Claims for commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

TUSCARORA TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE K – COMMITMENTS AND CONTINGENCIES**

**Township** – The Township is currently handling two legal matters in which parties have asserted claims or may be asserting claims against the Township. The total potential liability for the two matters could range from \$0 to \$20,000.

**Marina Park** – In fiscal 2014/2015 the Township entered into an agreement with a contractor to build a pavilion at Marina Park. The estimated cost for the contract was \$36,363. At June 30, 2015 the Township had paid \$16,363 towards the cost of construction and owed an additional \$10,000 upon completion. The pavilion was completed on July 7, 2015. Upon completion, the Township paid the remaining \$10,000 in July 2015.

On June 30, 2015 the Township entered into an agreement with another contractor to perform \$9,500 in irrigation improvements to Marina Park. These improvements were made in July 2015, and the Township paid the contractor in full in August 2015.

**Veterans Pier** - The Township entered into an agreement with an engineering firm to design and build the proposed Veterans Pier in fiscal 2013/2014. The project had an anticipated total cost of \$549,900 and was funded by \$384,900 from a reimbursement grant from the Michigan Natural Resources Trust Fund and private donations. As of June 30, 2015, the Township has remitted payment for \$531,100 of the project costs, which included \$158,958 of private donations. Reimbursement requests outstanding with the Michigan Natural Resources Trust Fund at June 30, 2015 were \$62,347. This project was completed in June 2015 and the Township owed \$21,287.

**Trailhead** – The Township entered into an agreement in March 2015 for the Indian River Trailhead project. This project is 100% funded through reimbursement grants from the State of Michigan. \$107,600 from the Michigan Natural Resources Trust Fund and \$250,900 from the Michigan Department of Natural Resources. The contract amount for the project is \$358,847, of which \$92,200 is DDA Streetscape. Work on the project began in May 2015. At June 30, 2015, the Township had been invoiced and had paid \$144,275 by the contractor and engineer. The Township has requested \$100,992.19 as reimbursement from the State of Michigan as of June 30, 2015.

**Sewer** – On March 2, 2014, the Township approved the sewer project. The total cost of the project is \$5,888,250 and is being financed through a \$2,411,000 loan and a \$3,231,250 grant from the United States Department of Agriculture. The loan is secured by \$2,411,000 in Special Assessment Sewer Bonds. Details of this long-term debt are detailed in the long-term debt footnote.

In September 2014, the Township approved a three-year agreement with Gourdie Frasier for the operation and maintenance of the wastewater treatment facility. The cost to the Township for this contract is \$91,000 in year one, \$121,039 in year two, and \$122,083 in year three.

TUSCARORA TOWNSHIP  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE K – COMMITMENTS AND CONTINGENCIES** (continued)

**Kings Point Road** – In September 2014, the Township entered into an agreement to finance improvements to Kings Point Road, a private road, through a 100% resident funded special assessment. Total estimated costs for the road improvements will not exceed \$51,000. These improvements were made in August 2015. The Township agreed to finance the cost and will receive reimbursement from residents over 5 years, with 5% interest.

**DDA –**

**Indian River Pathway** - The DDA along with three State of Michigan entities is working towards completion of the Indian River Pathway Project. The total project costs are estimated at \$858,955 with the DDA's portion of approximately \$131,100 included in that total.

**NOTE L – SUBSEQUENT EVENTS**

In September 2015, Wade Trim agreed to reduce the Township's final debt payment from \$37,055 to \$20,230, or by \$16,825. Essentially waiving the last year's interest portion of the payment and refunding the interest from the three prior years.

**Property Deposit** - The Township paid a \$5,000 deposit for a parcel of land in which they intend to utilize for the sewer project. As of June 30, 2015, the sale of the land had not been completed. The total price for the parcel will be \$8,850 and the remainder will be paid upon closing.

**Eagles Nest Road** – In September 2015, the Township began the Special Assessment hearing process to resurface South Eagles Nest Road. Total estimated cost for the road improvements is \$227,000.00. The Township will contribute 10% of the construction cost and sell bonds for the balance. Residents will have the option to pay their assessment over 5 years.

TUSCARORA TOWNSHIP  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE M – BUDGET VARIANCES**

Budgets are adopted on the departmental level. The budgets shown in the section for other supplemental information are shown by line item for information only. Therefore, negative variance is significant on the departmental basis. Unfavorable variances are as follows:

	Final Amended Budget	Actual	Unfavorable Variance
<u>General Fund</u>			
Operating Transfers out to Debt Service	\$ -	\$ 11,550	\$ (11,550)
Debt Service - Interest	\$ 43,762	\$ 50,224	\$ (6,462)
 <u>Sewer Fund</u>			
Debt Service - Principal	\$ -	\$ 36,976	\$ (36,976)

**NOTE N – RESTATEMENT**

The Township adopted the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, in the current year. As a result of this change, beginning net position of governmental activities was decreased by \$830,008.

REQUIRED SUPPLEMENTARY INFORMATION

TUSCARORA TOWNSHIP  
 SCHEDULE OF CHANGES IN EMPLOYER'S NET PENSION LIABILITY AND RELATED  
 RATIOS

	<b>Year Ended December 31, 2014</b>
<b>Total Pension Liability</b>	
Service Cost	\$ 64,795
Interest	172,980
Changes of Benefit Terms	-
Difference between expected and actual experience	-
Changes of assumptions	-
Benefit payments including employee refunds	(56,969)
Other	
<b>Net Change in Total Pension Liability</b>	<b>180,806</b>
<b>Total Pension Liability beginning</b>	<b>2,092,814</b>
<b>Total Pension Liability ending</b>	<b>\$ 2,273,620</b>
 <b>Plan Fiduciary Net Position</b>	
Contributions-employer	93,992
Contributions-employee	14,615
Net Investment income	79,029
Benefit payments including employee refunds	(56,969)
Administrative expense	(2,925)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>127,742</b>
<b>Plan Fiduciary Net Position beginning</b>	<b>1,226,892</b>
<b>Plan Fiduciary Net Position ending</b>	<b>\$ 1,354,634</b>
 <b>Employer Net Pension Liability</b>	<b>\$ 918,986</b>
 <b>Plan Fiduciary Net Position as a percentage of the Total Pension Liability</b>	<b>60%</b>
 <b>Covered Employee Payroll</b>	<b>441,383</b>
 <b>Employer's Net Pension Liability as a percentage of covered employee payroll</b>	<b>208%</b>

Note: This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

TUSCARORA TOWNSHIP  
 SCHEDULE OF EMPLOYER'S CONTRIBUTIONS  
 MERS DEFINED BENEFIT PENSION PLAN

		<b>2014</b>
Actuarial Determined Contributions <sup>(1)</sup>	\$	93,992
Contributions in relation to the actuarially determined contribution		93,992
Contribution deficiency (excess)	\$	-
Covered Employee Payroll <sup>(2)</sup>		441,383
Contributions as a percentage of covered employee payroll		21%

**Notes to Schedule**

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	10 year smoothed
Inflation	3.5%
Salary Increases	4.5%
Investment rate of return	8.0%
Retirement age	Experience-based table rates, typically 60
Mortality	50% Female/50% Male 1994 Group Annuity Mortality Table

<sup>(1)</sup> The actuarially determined employer contribution was calculated based on projected covered payroll. Employer contributions were made in full based on actual covered payroll. Accordingly, the actuarially-determined contribution has been expressed above as a percentage of actual payroll.

<sup>(2)</sup> Based on covered payroll for the previous calendar year.

TUSCARORA TOWNSHIP  
 SCHEDULE OF FUNDING PROGRESS  
 MERS DEFINED BENEFIT PENSION PLAN

		<b>Fiscal year ended December 31</b>		
		<b>2012</b>	<b>2013</b>	<b>2014</b>
Actuarial Value of Assets	<b>(a)</b>	\$ 1,167,561	\$ 1,302,763	\$ 1,435,827
Actuarial Accrued Liability (AAL)	<b>(b)</b>	\$ 1,803,116	\$ 1,940,199	\$ 2,352,129
Unfunded AAL (UAAL)	<b>(b-a)</b>	\$ 635,555	\$ 637,436	\$ 916,302
Funded Ratio	<b>(a/b)</b>	65%	67%	61%
Covered Payroll	<b>(c)</b>	\$ 416,829	\$ 414,006	\$ 441,383
UAAL as a Percentage of Covered Payroll	<b>((b-a) / c)</b>	152%	154%	208%

TUSCARORA TOWNSHIP  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2015

	<b>Original Budget</b>	<b>Final Amended Budget</b>	<b>Actual</b>	<b>Variance with Final Amended Budget Favorable (Unfavorable)</b>
<b>REVENUES:</b>				
Property Taxes	\$ 403,202	\$ 403,202	\$ 403,858	\$ 656
State Sources	228,600	228,600	237,637	9,037
Grant	749,600	749,600	520,735	(228,865)
Charges for Services	27,570	27,570	29,950	2,380
Property Tax Administration Fees	68,000	68,000	73,508	5,508
Interest Earnings	3,515	3,515	1,319	(2,196)
Donations - Veterans Pier	-	-	30,150	30,150
Donations - Other	4,500	4,500	4,691	191
Other	<u>27,400</u>	<u>27,400</u>	<u>15,570</u>	<u>(11,830)</u>
<b>TOTAL REVENUES</b>	<b><u>\$ 1,512,387</u></b>	<b><u>\$ 1,512,387</u></b>	<b><u>\$ 1,317,418</u></b>	<b><u>\$ (194,969)</u></b>
<b>EXPENDITURES:</b>				
<b>GENERAL GOVERNMENT</b>				
<b>Legislative:</b>				
Township Board	\$ 98,529	\$ 107,510	\$ 106,243	\$ 1,267
<b>General Government:</b>				
Supervisor	24,628	24,628	24,225	403
Elections	6,344	7,544	6,820	724
Professional Services	31,850	28,230	25,051	3,179
Assessor	31,892	32,042	31,534	508
Clerk	28,778	30,178	29,507	671
Board of Review	1,475	1,575	1,534	41
Treasurer	33,220	33,220	30,703	2,517
Township Property	20,200	20,200	19,270	930
Cemetery	8,675	8,675	15,630	(6,955)
Other Expenses	<u>11,279</u>	<u>9,109</u>	<u>11,060</u>	<u>(1,951)</u>
<b>Total General Government</b>	<b>198,341</b>	<b>195,401</b>	<b>195,334</b>	<b>67</b>
<b>Public Safety:</b>				
Fire Protection	<u>155,602</u>	<u>155,602</u>	<u>155,602</u>	<u>-</u>
<b>Total Public Safety</b>	<b>155,602</b>	<b>155,602</b>	<b>155,602</b>	<b>-</b>
<b>Public Works:</b>				
Road Repair and Maintenance	56,500	56,500	16,741	39,759
Planning Commission	3,900	1,900	200	1,700
Sanitation	1,000	1,000	360	640
Street Lighting	<u>38,000</u>	<u>38,000</u>	<u>36,633</u>	<u>1,367</u>
<b>Total Public Works</b>	<b>99,400</b>	<b>97,400</b>	<b>53,934</b>	<b>43,466</b>

TUSCARORA TOWNSHIP  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<b>Variance with Final Amended Budget Favorable (Unfavorable)</b>
Airport	\$ 7,200	\$ 9,700	\$ 8,393	\$ 1,307
Parks and Recreation	167,042	171,675	170,333	1,342
Capital Outlay				
General Government	883,152	924,171	762,569	161,602
Parks and Recreation	<u>6,500</u>	<u>6,500</u>	<u>-</u>	<u>6,500</u>
Total Capital Outlay	889,652	930,671	762,569	127,083
Debt Service:				
Principal	41,755	41,555	41,662	(107)
Interest	<u>-</u>	<u>2,207</u>	<u>8,562</u>	<u>(6,355)</u>
Total Debt Service	41,755	43,762	50,224	(6,462)
TOTAL EXPENDITURES	<u>1,657,521</u>	<u>1,711,721</u>	<u>1,502,632</u>	<u>168,070</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(145,134)</u>	<u>(199,334)</u>	<u>(185,214)</u>	<u>14,120</u>
OTHER FINANCING SOURCES:				
Transfers Out	<u>-</u>	<u>-</u>	<u>(11,550)</u>	<u>(11,550)</u>
TOTAL OTHER FINANCING SOURCES	-	-	(11,550)	(11,550)
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES	<u>\$ (145,134)</u>	<u>\$ (199,334)</u>	(196,764)	<u>\$ 2,570</u>
FUND BALANCE JULY 1, 2014			<u>750,009</u>	
FUND BALANCE JUNE 30, 2015			<u>\$ 553,245</u>	

TUSCARORA TOWNSHIP  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL  
SPECIAL REVENUE FUND - POLICE FUND

	<b>Original Budget</b>	<b>Final Amended Budget</b>	<b>Actual</b>	<b>Variance with Final Amended Budget Favorable (Unfavorable)</b>
<b>REVENUES:</b>				
Property Taxes	\$ 828,974	\$ 828,974	\$ 828,775	\$ (199)
Charges for Services	10,000	10,000	14,154	4,154
Interest	1,000	1,000	316	(684)
Grant	6,000	6,000	3,455	(2,545)
Other	<u>-</u>	<u>-</u>	<u>6,459</u>	<u>6,459</u>
 Total Revenues	 <u>845,974</u>	 <u>845,974</u>	 <u>853,159</u>	 <u>7,185</u>
 <b>EXPENDITURES:</b>				
Public Safety	873,295	883,280	813,441	69,839
Capital Outlay	22,000	11,445	3,576	7,869
Debt Service	<u>661</u>	<u>1,231</u>	<u>764</u>	<u>467</u>
 Total Expenditures	 <u>895,956</u>	 <u>895,956</u>	 <u>817,781</u>	 <u>78,175</u>
 EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	 <u>(49,982)</u>	 <u>(49,982)</u>	 <u>35,378</u>	 <u>85,360</u>
 EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES	 <u>\$ (49,982)</u>	 <u>\$ (49,982)</u>	 35,378	 <u>\$ 85,360</u>
 FUND BALANCE – JULY 1, 2014			 <u>283,421</u>	
 FUND BALANCE – JUNE 30, 2015			 <u>\$ 318,799</u>	

TUSCARORA TOWNSHIP  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL  
SPECIAL REVENUE FUND - SEWER FUND

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance with Final Amended Budget Favorable (Unfavorable)</u>
REVENUES:				
Special Assessment	\$ 32,000	\$ 32,000	\$ 55,010	\$ 23,010
Grant	3,231,250	3,231,250	2,345,087	(886,163)
Interest	<u>91,000</u>	<u>91,000</u>	<u>87,942</u>	<u>(3,058)</u>
Total Revenues	<u>3,354,250</u>	<u>3,354,250</u>	<u>2,488,039</u>	<u>(866,211)</u>
EXPENDITURES:				
Capital Outlay	5,000,000	5,000,000	4,038,913	961,087
Debt Service				
Principal	63,000	63,000	63,000	-
Interest	<u>-</u>	<u>-</u>	<u>36,976</u>	<u>(36,976)</u>
Total Expenditures	<u>5,063,000</u>	<u>5,063,000</u>	<u>4,138,889</u>	<u>924,111</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(1,708,750)</u>	<u>(1,708,750)</u>	<u>(1,650,850)</u>	<u>57,900</u>
OTHER FINANCING SOURCES:				
Proceeds From Debt	<u>2,039,000</u>	<u>2,039,000</u>	<u>1,793,000</u>	<u>(246,000)</u>
TOTAL OTHER FINANCING SOURCES	2,039,000	2,039,000	1,793,000	(246,000)
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES	<u>\$ 330,250</u>	<u>\$ 330,250</u>	142,150	<u>\$ (188,100)</u>
FUND BALANCE – JULY 1, 2014			(337,633)	
FUND BALANCE – JUNE 30, 2015			<u>\$ (195,483)</u>	

**COMBINING FUND FINANCIAL STATEMENTS**

TUSCARORA TOWNSHIP  
 COMBINING BALANCE SHEET – DEBT SERVICE FUNDS  
 JUNE 30, 2015

	2011 Special Assessment Bonds Debt Retirement Fund	2012 Special Assessment Bonds Debt Retirement Fund	Construction Fund	Total Nonmajor Governmental Funds
ASSETS:				
Cash	\$ 3,528	\$ 498	\$ 28,536	\$ 32,562
Deposit - Property	-	-	5,640	5,640
Due from Other Funds	-	-	70,649	70,649
Special Assessments Receivable	<u>17,880</u>	<u>23,673</u>	-	<u>41,553</u>
TOTAL ASSETS	<u>\$ 21,408</u>	<u>\$ 24,171</u>	<u>\$ 104,825</u>	<u>\$ 150,404</u>
DEFERRED INFLOW OF RESOURCES				
Unavailable Revenue	\$ 17,880	\$ 23,673	-	\$ 41,553
TOTAL DEFERRED INFLOWS	<u>17,880</u>	<u>23,673</u>	-	<u>41,553</u>
FUND BALANCE:				
Assigned for Debt Service	3,528	498	-	4,026
Unassigned	<u>-</u>	<u>-</u>	<u>104,825</u>	<u>104,825</u>
TOTAL FUND BALANCE	<u>3,528</u>	<u>498</u>	<u>104,825</u>	<u>108,851</u>
TOTAL DEFERRED INFLOW OF RESOURCES AND FUND BALANCE	<u>\$ 21,408</u>	<u>\$ 24,171</u>	<u>\$ 104,825</u>	<u>\$ 150,404</u>

TUSCARORA TOWNSHIP  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 DEBT SERVICE FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	2011 Special Assessment Bonds Debt Retirement Fund	2012 Special Assessment Bonds Debt Retirement Fund	Construction Fund	Total Nonmajor Governmental Funds
<b>REVENUE:</b>				
Special Assessments	\$ 8,978	\$ 12,597	\$ -	\$ 21,575
Interest Earnings	<u>1,343</u>	<u>1,311</u>	<u>53</u>	<u>2,707</u>
Total Revenue	10,321	13,908	53	24,282
<b>EXPENDITURES:</b>				
Capital Outlay	-	-	34,205	34,205
Debt Service				
Principal	24,000	38,000	-	62,000
Interest	<u>1,920</u>	<u>1,900</u>	<u>-</u>	<u>3,820</u>
Total Expenditures	<u>25,920</u>	<u>39,900</u>	<u>34,205</u>	<u>100,025</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(15,599)	(25,992)	(34,152)	(75,743)
<b>OTHER FINANCING SOURCES:</b>				
Transfers In	<u>10,950</u>	<u>600</u>	<u>-</u>	<u>11,550</u>
Total Other Financing Sources	10,950	600	-	11,550
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES	(4,649)	(25,392)	(34,152)	(64,193)
FUND BALANCE - BEGINNING	<u>8,177</u>	<u>25,890</u>	<u>138,977</u>	<u>173,044</u>
FUND BALANCE - ENDING	<u><u>\$ 3,528</u></u>	<u><u>\$ 498</u></u>	<u><u>\$ 104,825</u></u>	<u><u>\$ 108,851</u></u>

## INTERNAL CONTROL AND COMPLIANCE

# NIELAND & KOSANKE, P.C.

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MEMBER  
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AND  
MICHIGAN ASSOCIATION OF CERTIFIED  
PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Supervisor and Members Of  
The Township Board of Trustees  
Tuscarora Township  
Cheboygan County, Michigan 49721

### **Report on Compliance for Each Major Federal Program**

We have audited Tuscarora Township, Michigan's (the "Township") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Township's major federal program for the year ended June 30, 2015. The Township's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Township's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Township's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Township's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Township, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2015.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items [2015-SA-001 and 2015-SA-002]. Our opinion on each major federal program is not modified with respect to these matters.

The Township's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Township's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

Management of the Township, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Township's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Nieland & Kosanke, P.C.*

Certified Public Accountants

Cheboygan, Michigan  
December 15, 2015

TUSCARORA TOWNSHIP  
 SCHEDULE OF FEDERAL EXPENDITURES  
 FOR THE YEAR ENDED JUNE 30, 2015

<u>Federal Grantor</u>	<u>CFDA Number</u>	<u>Passed Through</u>	<u>Grantor Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Agriculture</b>				
Water and Waste Disposal Systems for Rural Communities	10.760	Direct	N/A	<u>\$ 4,038,913</u>
<b>Total U.S. Department of Agriculture</b>				<u>\$ 4,038,913</u>
<b>Total Expenditures of Federal Awards</b>				<u><u>\$ 4,038,913</u></u>

See notes to the schedule of federal expenditures.

TUSCARORA TOWNSHIP  
NOTES TO SCHEDULE OF FEDERAL EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2015

**Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Tuscarora Township, Michigan (the “Township”) under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the schedule presents only a selected portion of the operations of the Township, it is not intended to and does not present the financial position, changes in net position or cash flows of the Township.

The Township’s reporting entity is defined in Note 1 in the Township’s Financial Statements.

**Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 of the Township’s financial statements such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

# NIELAND & KOSANKE, P.C.

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DANIEL R. NIELAND, C.P.A.  
JOSEPH D. KOSANKE, C.P.A.

## INDEPENDENT AUDITOR'S 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*

To The Supervisor and Township Board of Trustees  
Tuscarora Township  
Cheboygan County, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, discretely presented component units, each major fund, and the aggregate remaining fund information of Tuscarora Township, Michigan (the "Township"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements and have issued our report thereon dated December 15, 2015.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, 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.

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 described in the accompanying schedule of findings and questioned costs, we identified 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 *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.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. [2015-FS-001, 2015-FS-002, 2015-FS-003, 2015-FS-004, 2015-FS-005, 2015-FS-006]

### Compliance and Other Matters

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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as items [2015-SA-001, 2015-SA-002].

### **Township's Response to Findings**

The Township's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Township's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Nieland & Kosanke, P.C.*  
Certified Public Accountants

Cheboygan, Michigan 49721  
December 15, 2015

TUSCARORA TOWNSHIP  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2015

**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

**Financial Statements**

Type of auditors' report issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	<u>    X    </u> Yes	<u>          </u> No
Significant deficiency(ies) identified?	<u>          </u> Yes	<u>    X    </u> No
Noncompliance material to the financial statements noted?	<u>          </u> Yes	<u>    X    </u> No

**Federal Awards**

Internal control over major programs:		
Material weakness(es) identified?	<u>          </u> Yes	<u>    X    </u> No
Significant deficiency(ies) identified?	<u>    X    </u> Yes	<u>          </u> No
Type of auditors' report issued on compliance for each major program:	<u>Unmodified</u>	
Audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	<u>    X    </u> Yes	<u>          </u> No

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**2015-FS-001 –**

**Due to staff size, there is limited segregation of duties over cash receipts/disbursements and the recording of these transactions. (Repeat Finding)**

**Finding Type.** Material Weakness in Internal Control Over Financial Reporting

**Criteria.** All governments are required to establish an internal control structure with segregation of responsibilities necessary to prevent a misappropriation of assets or fraudulent financial reporting. This is a responsibility of the Township's management. Adequate segregation of duties as it relates to the cash cycle of a municipality requires separation of the management function, the custody of assets function and the accounting function.

**Condition.** The small size of the Township's accounting staff does not allow for adequate separation of duties. Certain members of the accounting department are responsible for the custody of assets as well as for the accounting for those assets in the area of cash receipts and cash disbursements.

TUSCARORA TOWNSHIP  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE PREVIOUS YEAR ENDED JUNE 30, 2015

**Cause.** As is the case with many organizations of similar size, the Township lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within the accounting function.

**Effect.** As a result of this condition, the Township's current system of internal control has no safeguards in place to ensure that fraud or abuse is being prevented, specifically in the transactions of the cash cycle. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

**Recommendation.** While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal controls as much as possible by requiring as much independent review, reconciliation, and approval of accounting transactions by qualified members of management or the Township Council.

**Management's Response.** To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the Township Council assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

**2015-FS-002 –**

**The Township relies on its external auditors to prepare the financial statements, the schedule of federal expenditures and related notes, which are the responsibility of management. (Repeat Finding)**

**Finding Type.** Material Weakness in Internal Control Over Financial Reporting

**Criteria.** All governmental units are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the Township'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 the related footnotes (i.e., external financial reporting).

**Condition.** As is the case with many smaller and medium-sized entities, the Township has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Township'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 Township's internal controls.

**Cause.** This condition was caused by the Township's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Township to perform this task internally.

**Effect.** As a result of this condition, the Township lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

TUSCARORA TOWNSHIP  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE PREVIOUS YEAR ENDED JUNE 30, 2015

**Recommendation.** The Township's decision to rely, in part, on its auditors, for the preparation of external financial statements is allowable provided the Township accepts responsibility for the financial statements and that it is disclosed as part of the report on internal control and compliance in accordance with *Government Auditing Standards*. Therefore, no specific corrective action is required at this time.

**Management's Response.** The Township 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 Township 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.

**2015-FS-003 –**

**Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP). During our audit, we identified and proposed material audit adjustments to adjust the general ledger to the appropriate balances. By definition, the external auditors cannot be part of the Township's internal control to reconcile the general ledger to the underlying detail. (Repeat Finding)**

**Finding Type.** Material Weakness in Internal Control Over Financial Reporting

**Criteria.** All governmental units are required to have in place internal controls over recording, processing, and summarizing accounting data (i.e., maintaining internal books and records).

**Condition.** As is the case with many smaller and medium-sized entities, the Township has historically relied on its independent external auditors to assist in the recording, processing and summarizing of certain accounting data as part of its external financial reporting process. Accordingly, the Township has placed reliance on its external auditors, who cannot by definition be considered a part of the Township's internal controls.

**Cause.** This condition was caused by the Township's decision that it is more cost effective to have the external auditors recommend the necessary adjusting journal entries to its general ledger than to incur the time and expense of obtaining the necessary training and expertise required for the Township to perform this task internally.

**Effect.** As a result of this condition, the Township lacks internal controls over the recording, processing, and summarizing of accounting data, and instead relies, in part, on its external auditors for assistance with this task.

**Recommendation.** The Township should record all journal entries necessary to arrive at a reasonably adjusted trial balance prior to generating trial balances to be used for preparation of year-end financial statements.

**Management's Response.** The Township will continue its efforts to record all known adjustments in order to provide a reasonably adjusted trial balance for the purposes of audit.

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**2015-FS-004 – Sewer project’s debt service activity and construction activity are combined into a single fund. (Repeat Finding)**

**Finding Type.** Material Weakness in Internal Control Over Financial Reporting

**Criteria.** The 2014 Special Assessment Sewer Bond resolution sets forth the Township should establish two separate funds to account for amounts received to finance the sewer project and the related project costs (Construction Fund) and the collection of special assessments and payment of principal and interest on the bonds (Debt Retirement Fund).

**Condition.** Currently, the Township accounts for all sewer related transactions within a single fund.

**Cause.** When the project commenced, management was not aware of this condition and all activity began being recorded within a single fund and was not separated.

**Effect.** The debt service activity and construction activity are comingled into a single fund in the general ledger.

**Recommendation.** As construction activity on the project ends in early 2015/2016, management should create a new enterprise fund for the sewer service charges, and leave the debt service fund to account for special assessment collections and debt service payments. They should also open a new fund for enterprise fund related transactions.

**Management’s Response.** As construction activity on the project ends in early 2015/2016, management will create a new enterprise fund for the sewer service charges, and leave this fund as the debt service.

**2015-FS-005 –**

**Indian River Library is a component unit of the Township and is not completing bank account reconciliations for cash accounts. (New)**

**Finding Type.** Material Weakness in Internal Control Over Financial Reporting

**Criteria.** Michigan Department of Treasury requires all governmental units to complete bank reconciliations and have them independently reviewed within six weeks of month end.

**Condition.** The Library Treasurer has not been performing bank reconciliations.

**Cause.** There is no known cause for the lack of reconciliation aside from the fact they are simply not being done.

**Effect.** As a result of this condition, regardless of the complexity or the simplicity, cash reconciliations are a necessary accounting procedure to maintain accurate and timely financial reporting. Due to the Township's lack of internal controls over cash and cash management, the Indian River Library had no initial ‘book’ balance for cash.

**Recommendation.** We recommend that the Township put controls in place to reconcile their cash in a timely manner and require an independent review of the reconciliations. The individual responsible for

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the preparation and reviewing of the reconciliations should be agreeing the reconciled balances to the general ledger each month to ensure that the reconciled balances are proper.

**Management's Response.** The Treasurer for the Indian River Library will reconcile all of the Library's cash accounts in proper form, each month, and the reconciliations will be reviewed by an individual independent of the preparer.

**2015-FS-006 –**

**Indian River Library is a component unit of the Township and does not maintain an auditable general ledger system. (New)**

**Finding Type.** Material Weakness in Internal Control Over Financial Reporting

**Criteria.** All governmental units are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the Library's management. The preparation of the 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 the related footnotes (i.e., external financial reporting).

**Condition.** The Library Treasurer maintains a pen and paper tracking system for the Library's accounting data, however, it does not provide enough detail to easily nor efficiently extract transaction level detail from monthly or annual totals.

**Cause.** The Library began using QuickBooks in fiscal 2014/2015 but felt it was not fitting their management reporting needs, so they reverted back to pen and paper.

**Effect.** The Library does not maintain accurate and timely financial reporting. The Library lacks internal controls over financial reporting.

**Recommendation.** We recommend that the Library use QuickBooks or a similar accounting software package as their general ledger system. It will fit all of their GAAP and not-for-profit reporting needs.

**Management's Response.** The Library will research accounting software that will best fit their needs and implement before the fiscal 2015/2016 audit.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**2015-SA-001 – Sewer project's debt service revenue and expenses and construction expenses are combined into a single bank account. (New)**

**Finding Type.** Immaterial Noncompliance/Significant Deficiency in Internal Control over Compliance (Reporting).

**Criteria.** The 2014 Special Assessment Sewer Bond resolution sets forth the Township should establish two separate funds to account for amounts received to finance the sewer project and the related project

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costs (Construction Fund) and the collection of special assessments and payment of principal and interest on the bonds (Debt Retirement Fund).

**Condition.** Currently, the Township accounts for all sewer related transactions within a single fund.

**Cause.** When the project commenced, management was not aware of this condition and all activity began being recorded within a single fund and was not separated.

**Effect.** The debt service activity and construction activity are comingled into a single fund in the general ledger.

**Recommendation.** As construction activity on the project ends in early 2015/2016, management should create a new enterprise fund for the sewer service charges, and leave the debt service fund to account for special assessment collections and debt service payments. They should also open a new fund for enterprise fund related transactions.

**Management's Response.** As construction activity on the project ends in early 2015/2016, management will create a new enterprise fund for the sewer service charges, and leave this fund as the debt service.

**2015-SA-002** – Repair, Replacement and Improvement (RRI) Reserve Account was not opened and funded. (New)

**Finding Type.** Significant Deficiency in Internal Control over Compliance (Reporting).

**Criteria.** Amendment No. 1 of the Loan/Grant Agreement with the USDA for the Sewer project stipulates the Township will contribute \$10,693 per year to a Repair, Replacement and Improvement (RRI) Reserve Account for the life of the loan. The full loan was maximized in fiscal 14/15, but this RRI account was not opened and funded.

**Condition.** The full amount of loan proceeds were received in fiscal 14/15 and the first year of loan payments were made in fiscal 14/15. As such, this account should have been opened and funded at that time.

**Cause.** The account was not opened and funded in the period in which the first payment of the loan was due.

**Effect.** This account remains unfunded for year one of the 40 year loan.

**Recommendation.** The Township should open this account and fund the account for \$10,693 for fiscal 14/15.

**Management's Response.** The Township will open the RRI account and ensure it is fully funded for fiscal 14/15 and 15/16 for a total of \$21,386 by June 30, 2016.

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**SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**2014-FS-001** Due to staff size, there is limited segregation of duties over cash receipts/disbursements and the recording of these transactions. Due to staffing size and budget constraints, this condition has been repeated as item 2015-FS-01.

**2014-FS-002** The Township relies on its external auditors to prepare the financial statements, the schedule of federal expenditures and related notes, which are the responsibility of management. Due to staffing size and budget constraints, this condition has been repeated as item 2015-FS-02.

**2014-FS-003** Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP). During our audit, we identified and proposed material audit adjustments to adjust the general ledger to the appropriate balances. By definition, the external auditors cannot be part of the Township's internal control to reconcile the general ledger to the underlying detail. Due to staffing size and budget constraints, this condition has been repeated as item 2015-FS-03.

**2014-FS-004** The 2014 Special Assessment Sewer Bond resolution sets forth the Township should establish two separate funds to account for bond proceeds received (Construction Fund) and the payment of principal and interest on the bonds (Debt Retirement Fund). Currently, the Township accounts for all transactions within a single fund. This fund was not split out in the current year, as such, this condition has been repeated as item 2015-FS-04.