

Township of Armada

Macomb County, Michigan

Audited Financial Report

March 31, 2014

KING & KING CPAS LLC

Marlette - Imlay City - North Branch
Michigan

Township of Armada
 Annual Financial Report
 For The Fiscal Year Ended March 31, 2014

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Independent Auditor's Report

Members of the Township Board
Township of Armada
Macomb County, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the **Township of Armada**, Michigan as of and for the fiscal year ended March 31, 2014 and the related notes to the financial statement, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the **Township of Armada**, Michigan as of March 31, 2014, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and major fund budgetary comparison schedule, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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 supplemental 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 of Armada**, Michigan's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relates 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 information is fairly stated in all material aspects in relation to the basic financial statements as a whole.

Lehn King

Lehn L. King, C.P.A.
KING & KING CPAs LLC

June 27, 2014

Township of Armada

Armada, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS LETTER

Our discussion and analysis of the Township of Armada, Michigan's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2014. Please read it in conjunction with the Township's financial statements.

Using this Report

This annual report consists of a series of 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 long-term view of the Township's finances. This long-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside the government.

Condensed Financial Information

The following table shows in a condensed format, the net position as of the current date and compared to the most recently audited year's net position.

	Governmental Activities	
	3/31/2014	3/31/2013
Current Assets	\$ 1,602,841	\$ 1,855,337
Noncurrent Assets	2,284,207	1,761,978
Total Assets	<u>3,887,048</u>	<u>3,617,315</u>
Current Liabilities	71,066	28,618
Noncurrent Liabilities	274,181	-
Total Liabilities	<u>345,247</u>	<u>28,618</u>
Net Position:		
Invested in Capital Assets - Net of Related Debt	2,284,207	1,761,978
Restricted	324,775	682,647
Unrestricted	932,820	1,144,072
Total Net Position	<u>\$ 3,541,802</u>	<u>\$ 3,588,697</u>

Township of Armada

Armada, Michigan

Condensed Financial Information – Continued

The following table shows the changes of the net position during the current fiscal year:

	Governmental Activities	
	3/31/2014	3/31/2013
Revenues		
Program Revenues:		
Charges for Services	\$ 310,160	\$ 324,414
Grants & Contrib's	227,424	241,669
General Revenues:		
Property Taxes	434,796	416,637
State-Shared Revenues	275,020	271,132
Interest	13,475	8,290
Other Revenues	34,983	46,365
Total Revenues	1,295,856	1,308,507
Program Expenses		
General Government	\$ 250,106	\$ 258,588
Public Safety	1,052,100	918,730
Public Works	31,885	31,955
Recreation & Culture	46,789	41,911
Total Program Expenses	1,380,880	1,251,184
Change in Net Position	\$ (85,024)	\$ 57,323

The Township as a Whole

- The Township's Governmental Activities net position decreased by \$85,024 this year. This compares to a net increase of \$57,323 in the previous year.
- The Township's primary source of revenue is from property taxes and charges for services, which represent 57% of total revenue.

Township of Armada

Armada, Michigan

The Township's Funds

Our analysis of the Township's major funds begins on page 5, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township's major funds for the fiscal year ending March 31, 2014, include the General Fund and Fire Fund.

General Fund Budgetary Highlights

The Township made amendments to the budget throughout the year to cover the expenditures incurred.

Capital Asset and Debt Administration

During the fiscal year ended March 31, 2014, the Township Fire Fund purchased a new fire truck for \$400,831 (\$300,000 of which came from a loan at Capac State Bank), an ambulance for \$111,998, Monitors for \$32,535, Exhaust System for \$50,611, miscellaneous fire equipment for \$17,155, and installed curbs/cement at the fire hall for \$7,500. The Fire Fund received multiple grants and reimbursements for these purchases. The General Fund purchased computers and technology for \$15,758, purchased and repaired sirens for \$18,860, conducted renovations at the park for \$16,700, and poured cement at the Senior Center for \$3,750.

Additional information regarding the Township's capital assets can be found in Note 4 to the financial statements.

The Township incurred \$300,000 of new Long-Term Debt in the fiscal year ended March 31, 2014, for the purchase of the new fire truck. This loan will be paid back over 10 years at an interest rate of 3.25%.

Additional information regarding the Township's long-term debt can be found in Note 6 to the financial statements.

Economic Factors and Next Year's Budget and Rates

The Township's tax base remained relatively constant. The Township will need to continue to watch the budget very closely in all categories.

Contacting the Township

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact the Township Office in Armada, Michigan by telephone at (586) 784-5200.

Township of Armada

Statement of Net Position

March 31, 2014

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
<u>Assets</u>	
Cash & Cash Equivalents	\$ 1,464,299.24
Accounts Receivable	108,251.35
Grant Receivable	13,213.23
Prepaid Expenses	9,046.25
Due From Other Funds (Net)	8,030.85
Capital Assets	
Nondepreciable Capital Assets	285,349.00
Net Depreciable Capital Assets	<u>1,998,858.49</u>
<u>Total Assets</u>	<u>3,887,048.41</u>
<u>Liabilities</u>	
Accounts Payable	24,425.00
Accrued Wages & Taxes	10,936.20
Accrued Interest Payable	9,885.42
Current Portion of Long-Term Debt	25,819.03
Noncurrent Liabilities:	
Long-Term Debt	<u>274,180.97</u>
<u>Total Liabilities</u>	<u>345,246.62</u>
<u>Net Position</u>	
Invested in Capital Assets - Net of Related Debt	2,284,207.49
Restricted:	
Restricted - Public Safety	324,774.57
Unrestricted	<u>932,819.73</u>
<u>Total Net Position</u>	<u>\$ 3,541,801.79</u>

The notes are an integral part of the statements.

Township of Armada
Statement of Activities
For the Fiscal Year Ended March 31, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue & Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	<u>Capital Grants & Contributions</u>	<u>Primary Government Governmental Activities</u>
Primary Government:					
Governmental Activities:					
General Government	\$ 250,105.64	\$ -	\$ -	\$ -	\$ (250,105.64)
Public Safety	1,052,100.43	310,159.51	126,338.77	75,260.00	(540,342.15)
Public Works	31,885.04	-	-	-	(31,885.04)
Recreation & Culture	46,789.28	-	25,825.20	-	(20,964.08)
<u>Total Governmental Activities</u>	<u>1,380,880.39</u>	<u>310,159.51</u>	<u>152,163.97</u>	<u>75,260.00</u>	<u>(843,296.91)</u>
General Revenues:					
Property Taxes					\$ 434,795.86
Intergovernmental Revenues					275,019.80
Interest					13,474.58
Other Revenues					34,982.73
Transfers					-
Total General Revenues, Special Items & Transfers					<u>758,272.97</u>
Change in Net Position					(85,023.94)
Net Position - Beginning of Year					<u>3,626,825.73</u>
Net Position - End of Year					<u>\$ 3,541,801.79</u>

The notes are an integral part of the statements.

Township of Armada

Governmental Funds
Balance Sheet
March 31, 2014

	General Fund	Fire Fund	Total Governmental Funds
<u>Assets</u>			
Cash & Cash Equivalents	\$ 997,524.46	\$ 466,774.78	\$ 1,464,299.24
Accounts Receivable	39,481.00	49,391.34	88,872.34
Property Taxes Receivable	6,305.44	13,073.57	19,379.01
Grant Receivable	-	13,213.23	13,213.23
Prepaid Expenses	3,902.14	5,144.11	9,046.25
Due From Other Funds	217,085.80	-	217,085.80
 <u>Total Assets</u>	 \$ 1,264,298.84	 \$ 547,597.03	 \$ 1,811,895.87
<u>Liabilities & Fund Equity</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 10,657.49	\$ 13,767.51	\$ 24,425.00
Accrued Wages & Payroll Taxes	10,936.20	-	10,936.20
Due To Other Funds	-	209,054.95	209,054.95
 <u>Total Liabilities</u>	 21,593.69	 222,822.46	 244,416.15
<u>Fund Equity</u>			
Fund Balances:			
Nonspendable - Prepays	3,902.14	5,144.11	9,046.25
Restricted For:			
Public Safety	-	319,630.46	319,630.46
Committed For:			
Township Hall Improvement	251,339.30	-	251,339.30
Unassigned	987,463.71	-	987,463.71
 <u>Total Fund Equity</u>	 1,242,705.15	 324,774.57	 1,567,479.72
 <u>Total Liabilities & Fund Equity</u>	 \$ 1,264,298.84	 \$ 547,597.03	 \$ 1,811,895.87

The notes are an integral part of the statements.

Township of Armada
Governmental Funds
Reconciliation of Fund Balances to the
Statement of Net Position
For The Fiscal Year Ended March 31, 2014

Total Fund Balances for Governmental Funds \$ 1,567,479.72

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 are not reported in the Funds 2,284,207.49

Long-Term Bonds Payable are not due and payable in the current period and are not reported in the Funds (300,000.00)

Accrued Interest Payable is not reported in the Funds (9,885.42)

Net Position of Governmental Activities \$ 3,541,801.79

Township of Armada
Governmental Funds
Statement of Revenues, Expenditures
and Changes in Fund Balances
For The Fiscal Year Ended March 31, 2014

	General Fund	Fire Fund	Total Governmental Funds
<u>Revenues</u>			
Property Taxes	\$ 169,054.89	\$ 265,740.97	\$ 434,795.86
Intergovernmental Revenues	275,019.80	-	275,019.80
Charges for Services	24,387.15	285,772.36	310,159.51
Grant Proceeds	33,735.20	193,688.77	227,423.97
Interest Earnings	11,389.05	2,085.53	13,474.58
Other Revenues	9,912.76	25,069.97	34,982.73
<u>Total Revenues</u>	<u>523,498.85</u>	<u>772,357.60</u>	<u>1,295,856.45</u>
<u>Expenditures</u>			
General Government	241,812.75	-	241,812.75
Public Safety	108,345.55	806,808.43	915,153.98
Public Works	19,560.00	-	19,560.00
Recreation & Culture	40,999.11	-	40,999.11
Capital Outlay	55,067.50	620,631.05	675,698.55
<u>Total Expenditures</u>	<u>465,784.91</u>	<u>1,427,439.48</u>	<u>1,893,224.39</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	57,713.94	(655,081.88)	(597,367.94)
<u>Other Financing Sources (Uses)</u>			
Loans Proceeds	-	300,000.00	300,000.00
Transfers In (Out)	-	-	-
<u>Net Change in Fund Balances</u>	57,713.94	(355,081.88)	(297,367.94)
<u>Fund Balances - Beginning of Year</u>	<u>1,184,991.21</u>	<u>679,856.45</u>	<u>1,864,847.66</u>
<u>Fund Balances - End of Year</u>	<u>\$ 1,242,705.15</u>	<u>\$ 324,774.57</u>	<u>\$ 1,567,479.72</u>

The notes are an integral part of the statements.

Township of Armada
 Governmental Funds
 Reconciliation of Statement of Revenues, Expenditures
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 For The Fiscal Year Ended March 31, 2014

Net Change in Fund Balances - Total Governmental Funds \$ (297,367.94)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental Funds report Capital Outlays as Expenditures; in the Statement of Activities, these costs are capitalized and allocated over their estimated useful lives as Depreciation 675,698.55

Loan proceeds are not reported as financing sources on the Statement of Activities (300,000.00)

Interest Expense is reported in the Statement of Activities when a Liability is incurred; they are reported in the Governmental Funds only when payment is due (9,885.42)

Depreciation is an Expenditure for the Statement of Activities, but is not reported in the Governmental Funds (153,469.13)

Change in Net Position of Governmental Activities \$ (85,023.94)

Township of Armada

Fiduciary Funds
Statement of Net Position
March 31, 2014

	Fiduciary Fund Types		Totals March 31, 2014
	Agency Funds		
	Trust & Agency Fund	Current Tax Collection Fund	
<u>Assets</u>			
Cash - Savings & Certificates	\$ 72,289.38	\$ 78.32	\$ 72,367.70
Due From General Fund	-	-	-
Due From Others	-	-	-
	<u>\$ 72,289.38</u>	<u>\$ 78.32</u>	<u>\$ 72,367.70</u>
<u>Liabilities & Fund Balance</u>			
<u>Liabilities</u>			
Due To Other Funds	\$ 7,952.53	\$ 78.32	\$ 8,030.85
Due To Other Governmental Units	-	-	-
Due To Others	64,336.85	-	64,336.85
	<u>72,289.38</u>	<u>78.32</u>	<u>72,367.70</u>
<u>Fund Balances</u>			
Unreserved & Undesignated	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total Liabilities & Fund Balances</u>	<u>\$ 72,289.38</u>	<u>\$ 78.32</u>	<u>\$ 72,367.70</u>

The notes are an integral part of the statements.

Township of Armada
Notes to the Financial Statements
For The Year Ended March 31, 2014

The accounting methods and procedures adopted by the Township of Armada, Macomb County, Michigan, conform to generally accepted accounting principles as applied to governmental entities. The following notes to the financial statements are an integral part of the Township's Comprehensive Annual Financial Report.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

The Township of Armada was incorporated under the laws of the State of Michigan and operates as a General Law Township, with a Township Board form of government. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Township of Armada (the primary government) and its component units. There are no component units to be included in these financial statements as defined by generally accepted accounting principles.

Government-wide and Fund Financial Statements

The Government-wide Financial Statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all the nonfiduciary activities of the Township (the primary government). The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other revenue items properly excluded from program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the Government-wide Financial Statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Township reports the following major governmental funds:

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

Fire Fund - The Fire Fund accounts for the Township's fire operating activity.

Additionally, the Township reports the following fund types:

Trust & Agency Fund - The Trust & Agency Funds account for assets held by the Township in a trustee capacity or as an agent for individuals, organizations, or other governments.

Measurement Focus and Basis of Accounting

The Government-wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Township of Armada
Notes to the Financial Statements
For The Year Ended March 31, 2014

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, generally collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental revenues, special assessments, licenses, charges for services, and interest. All other revenue items are considered to be available only when cash is received by the Township. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, and claims and judgments are recorded only when payment is due.

Cash - The Township does not pool cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the Township's investments.

Investments - Debt securities are valued at cost since it is generally the policy of the Township to hold such investments until they mature.

Due to and Due From Other Funds - Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property Tax Revenues - Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2013 tax is levied and collectible on July 1, 2013 and is recognized as revenue in the year ended March 31, 2014 when the proceeds of the levy are budgeted and available for the financing of operations.

The 2013 taxable valuation of the Township totaled about \$231 million, on which taxes levied consisted of .7235 mills for operating purposes and 1.5000 mills for fire protection. This resulted in approximately \$167,000 for operating and \$266,000 for fire protection. These amounts are recognized in the General Fund and Fire Fund financial statements as tax revenue.

Vacation, Sick Leave, & Other Compensated Absences - The Township fire department has employment contracts which include paid holidays, vacation time, personal days, sick days, and bereavement days for the full time employees. Each employee is allowed five paid holidays, three personal days, three sick days, and three to five bereavement days per fiscal year (bereavement days are a minimum of three, but can be up to five days depending on distance to travel for services). Vacation time is awarded after one year of full time service. If the period of employment is between one and two years, they receive three vacation days; two to four years receive five vacation days, and five or more years receive seven days. All Compensated Absences are not cumulative and are forfeited if unused.

Capital Assets - Capital assets, which include buildings and equipment, are reported in the applicable governmental column in the Government-wide Financial Statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$3,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Infrastructure	40 years
Buildings & Building Improvements	20 to 40 years
Machinery & Equipment	3 to 20 years

Township of Armada
Notes to the Financial Statements
For The Year Ended March 31, 2014

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, business-type activities, or proprietary fund statement of net position. Bond premiums and discounts, issuance costs, and the deferred amount on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Balance Classification - In the fund financial statements, governmental funds report nonspendable fund balance for amounts of assets that will not be converted to cash soon enough to affect the current period; restrictions of fund balance for amounts that are legally restricted by outside parties or enabling legislation for use for a specific purpose; committed fund balance for constraints placed on resources by a formal action of the board; and assigned fund balance for constraints placed on resources by the Township's intent to be used for specific purposes.

- For *committed* fund balances, the Township's highest level of decision-making authority is the Board and it takes a Board's resolution to establish a fund balance commitment.
- For *assigned* fund balances, the Board can authorize to assign amounts to a specific purpose through a motion.
- The Township's policy is that the restricted amounts are considered to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.
- The Township's policy is if it has *committed*, *assigned*, or *unassigned* fund balance available when it incurs an expenditure it will use up the fund balance in the order of committed, assigned, and then unassigned.
- The Township does not have a policy with respect to a minimum fund balance.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Township of Armada
Notes to the Financial Statements
For The Year Ended March 31, 2014

2. Stewardship, Compliance, and Accountability

Budgetary Information

The Township is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following statements represent a brief synopsis of the major provisions of this Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
3. The budgets must be amended when necessary.
4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

In the body of the financial statements, the Township actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The budget is used by the Township Board as a management tool during the year for all budgetary funds. The budgets are adopted on an accrual basis, which is consistent with generally accepted accounting principles. Budgetary control is exercised at the departmental level. Budgets for the General Fund and the Special Revenue Funds are presented in the required supplemental information.

During the fiscal year ended March 31, 2014, the Township incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Total</u> <u>Appropriations</u>	<u>Amount of</u> <u>Expenditures</u>	<u>Budget</u> <u>Variance</u>
NONE			

State Construction Code Act – The Township tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999, the Township is required to maintain an accounting system that separately accumulated revenues and expenditures related to the building department function. As required under the provision of the Act, the Township adopted this accounting treatment effective January 1, 2000. The results of building department operations for the fiscal year ended March 31, 2014, are as follows:

Accumulated Expenditures over Revenues - April 1, 2013		\$ (150,874)
Current Year Building Permit Revenue	\$ 20,165	
Current Year Expenditures	46,851	
Current Year Excess of Expenditures over Revenue		(26,686)
Accumulated Expenditures over Revenues - March 31, 2014		\$ (177,560)

Township of Armada
Notes to the Financial Statements
For The Year Ended March 31, 2014

3. Cash and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Township Board has designated six banks for the deposit of Township funds. The investment policy adopted by the Board is in accordance with Public Act 196 of 1997. The Board has authorized investment in bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Township's deposits are in accordance with statutory authority. All cash deposits and investments of the Township are held by the Township in the Township's name.

At the fiscal year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash & Cash Equivalents	\$ 1,464,299	\$ 72,368	\$ 1,536,667

The breakdown between deposits and investments is as follows:

	Primary Government
Bank Deposits (Checking & Savings Accounts, CDs)	\$ 1,536,667

The bank balance of the primary government's deposits is \$1,536,667, of which \$1,177,148 is covered by depository insurance and \$-0- is collateralized with U.S. Treasury securities held by the pledging financial institution's trust department in the Township's name. Of the insured deposits, \$798,710 is insured by the FDIC and \$378,438 is insured by NCUA.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At the fiscal year end, the Township had approximately \$359,519 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC and NCUA insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township's investment policy does not further limit its investment choices.

At the fiscal year end, there were no investments reported in the basic financial statements.

Township of Armada
Notes to the Financial Statements
For The Year Ended March 31, 2014

4. Capital Assets

Capital assets activity of the Township's governmental activities was as follows:

	<u>Balance</u> <u>April 1, 2013</u>	<u>Additions</u>	<u>Disposals &</u> <u>Adjustments</u>	<u>Balance</u> <u>March 31, 2014</u>
Governmental Activities:				
Capital Assets Not Being Depreciated				
Land	\$ 285,349	\$ -	\$ -	\$ 285,349
Capital Assets Being Depreciated:				
Infrastructure	\$ 300,685	\$ 3,750	\$ -	\$ 304,435
Buildings & Improvements	1,665,658	24,200	-	1,689,858
Machinery & Equipment	1,681,711	647,749	-	2,329,460
Office Furnishings	13,560	-	-	13,560
Subtotal	<u>4,402,822</u>	<u>675,699</u>	<u>-</u>	<u>4,337,313</u>
Accumulated Depreciation:				
Infrastructure	14,031	7,495	-	21,526
Buildings & Improvements	818,595	40,910	-	859,505
Machinery & Equipment	1,339,821	104,849	-	1,444,670
Office Furnishings	12,539	215	-	12,754
Subtotal	<u>2,859,586</u>	<u>153,469</u>	<u>-</u>	<u>2,338,455</u>
Net Capital Assets Being Depreciated	<u>\$ 1,543,236</u>	<u>\$ 522,229</u>	<u>\$ -</u>	<u>\$ 1,998,857</u>
Net Capital Assets	<u><u>\$ 1,828,585</u></u>	<u><u>\$ 522,229</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,284,206</u></u>

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

Governmental Activities:	
General Government	\$ 8,293
Public Safety	127,061
Public Works	12,325
Recreation & Culture	5,790
Total Governmental Activities	<u><u>\$ 153,469</u></u>

Township of Armada
Notes to the Financial Statements
For The Year Ended March 31, 2014

5. Interfund Receivables, Payables, & Transfers

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “Due from other funds” or “Due to other funds” on the balance sheet. The amounts of interfund receivables and payables are as follows:

	Due From Other Funds		Due To Other Funds
General Fund	\$ 78	Current Tax Fund	\$ 78
General Fund	209,055	Fire Fund	209,055
General Fund	7,953	Trust & Agency Fund	7,953
Total	\$ 217,086		\$ 217,086

The General Fund increased its Due From Fire Fund by \$112,000 in the fiscal year ended March 31, 2014. The Fire Fund used the money it received to purchase an Ambulance (Chevy G-4500 Trauma).

6. Long -Term Debt

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Installment Loan - 2014 Fire Truck Original Issue - \$300,000 Maturing through 4/24/2023	3.25%	\$25,819 - \$34,566	\$ -	\$ 300,000	\$ 300,000	\$ 25,819
Total Governmental Activities			\$ -	\$ 300,000	\$ 300,000	\$ 25,819

Annual debt service requirements to maturity for the above governmental bond and contract obligations are as follows:

Years Ending March 31,	Governmental Activities		
	Principal	Interest	Total
2015	\$ 25,819	\$ 9,885	\$ 35,704
2016	26,670	9,035	35,705
2017	27,526	8,178	35,704
2018	28,456	7,249	35,705
2019	29,393	6,311	35,704
2020-2023	162,136	16,387	178,523
Total	\$ 300,000	\$ 57,045	\$ 357,045

7. Deficit Fund Balance or Retained Earnings Balances of Individual Funds

None

Township of Armada
Notes to the Financial Statements
For The Year Ended March 31, 2014

8. Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and workman's compensation benefits provided to employees. The Township has purchased commercial insurance for the various risks of loss stated above.

Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage's obtained through commercial insurance during the past year.

9. New Accounting Standards

For the year ended March 31, 2014 the Township implemented the following new pronouncements:

GASB Statement 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB 65 – *Items previously reported as Assets and Liabilities*.

Summary:

These statements provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The implementation of these standards did not require a restatement of the Township's beginning year net position

Required Supplemental Information

Township of Armada
 Required Supplemental Information
 Budgetary Comparison Schedule
 General Fund
 For The Fiscal Year Ended March 31, 2014

	General Fund			Variance with Amended Budget
	Original Budget	Amended Budget	Actual	
Revenues				
Property Taxes	\$ 158,000.00	\$ 158,000.00	\$ 169,054.89	\$ 11,054.89
State Shared Revenues	274,095.00	274,095.00	275,019.80	924.80
Charges for Services	23,750.00	23,750.00	24,387.15	637.15
Grant Proceeds	28,990.00	28,990.00	33,735.20	4,745.20
Interest Earnings	1,200.00	1,200.00	11,389.05	10,189.05
Other Revenues	3,100.00	3,100.00	9,912.76	6,812.76
Total Revenues	489,135.00	489,135.00	523,498.85	34,363.85
Expenditures				
General Government				
Township Board	81,828.08	74,568.08	56,569.82	17,998.26
Supervisor	29,636.48	29,636.48	28,877.07	759.41
Elections	14,415.00	14,415.00	4,216.62	10,198.38
Assessor	41,800.00	42,150.00	40,608.10	1,541.90
Professional Services	8,500.00	11,600.00	10,935.00	665.00
Clerk	50,134.00	50,134.00	45,981.93	4,152.07
Board of Review	1,751.50	1,751.50	1,181.02	570.48
Treasurer	36,696.48	38,316.48	38,021.35	295.13
Township Hall Expense	24,142.00	25,042.00	14,029.84	11,012.16
Cemetery Maintenance	2,500.00	2,500.00	1,392.00	1,108.00
Total General Government	291,403.54	290,113.54	241,812.75	48,300.79
Public Safety				
Code Enforcement	4,215.00	4,215.00	2,217.40	1,997.60
Protective Inspections	46,177.22	48,577.22	46,851.18	1,726.04
Planning & Zoning	23,256.50	23,256.50	10,381.78	12,874.72
Refuse Collection	50,867.48	51,167.48	48,895.19	2,272.29
Total Public Safety	124,516.20	127,216.20	108,345.55	18,870.65
Public Works				
Road Maintenance	23,000.00	21,617.00	19,560.00	2,057.00
Engineering	21,000.00	16,800.00	-	16,800.00
Total Public Works	44,000.00	38,417.00	19,560.00	18,857.00
Recreation & Culture	45,015.00	49,188.00	40,999.11	8,188.89
Capital Outlay	152,938.30	264,938.30	55,067.50	209,870.80
Total Expenditures	657,873.04	769,873.04	465,784.91	304,088.13
Excess of Revenues Over (Under) Expenditures	(168,738.04)	(280,738.04)	57,713.94	338,451.98
Other Financing Sources (Uses)				
Operating Transfers In (Out)	-	-	-	-
Excess of Revenues & Operating Transfers In Over (Under) Expenditures & Operating Transfers Out	(168,738.04)	(280,738.04)	57,713.94	338,451.98
Fund Balance - Beginning of Year	1,144,072.21	1,144,072.21	1,184,991.21	40,919.00
Fund Balance - End of Year	\$ 975,334.17	\$ 863,334.17	\$ 1,242,705.15	\$ 379,370.98

Township of Armada
 Required Supplemental Information
 Budgetary Comparison Schedule
 Major Special Revenue Fund - Fire Fund
 For The Fiscal Year Ended March 31, 2014

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
<u>Revenues</u>				
Property Taxes	\$ 280,000.00	\$ 280,000.00	\$ 265,740.97	\$ (14,259.03)
Charges For Services	337,500.00	337,500.00	285,772.36	(51,727.64)
Grant Proceeds	174,000.00	174,000.00	193,688.77	19,688.77
Interest Earnings	2,000.00	2,000.00	2,085.53	85.53
Other Revenues	12,250.00	12,250.00	25,069.97	12,819.97
<u>Total Revenues</u>	<u>805,750.00</u>	<u>805,750.00</u>	<u>772,357.60</u>	<u>(33,392.40)</u>
<u>Expenditures</u>				
Public Safety - Fire Department	816,725.10	815,225.10	748,464.81	66,760.29
Public Safety - Ambulance Services	60,500.00	63,000.00	58,343.62	4,656.38
Capital Outlay	16,800.00	622,800.00	620,631.05	2,168.95
<u>Total Expenditures</u>	<u>894,025.10</u>	<u>1,501,025.10</u>	<u>1,427,439.48</u>	<u>73,585.62</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	(88,275.10)	(695,275.10)	(655,081.88)	40,193.22
<u>Other Financing Sources</u>				
Loan Proceeds	-	300,000.00	300,000.00	-
Operating Transfers In (Out)	-	-	-	-
<u>Excess of Revenues & Other Sources Over (Under) Expenditures & Other Uses</u>	(88,275.10)	(395,275.10)	(355,081.88)	40,193.22
<u>Fund Balance - Beginning of Year</u>	<u>682,646.92</u>	<u>682,646.92</u>	<u>679,856.45</u>	<u>(2,790.47)</u>
<u>Fund Balance - End of Year</u>	<u>\$ 594,371.82</u>	<u>\$ 287,371.82</u>	<u>\$ 324,774.57</u>	<u>\$ 37,402.75</u>

Other Supplemental Information

Township of Armada
 Other Supplemental Information
 Schedule of Indebtedness
 March 31, 2014

Governmental Activities:

**Capac State Bank - Fire Truck
 Installment Contract**

Dated: April 24, 2013
 Original Issue: \$300,000

<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Principal Outstanding March 31,</u>		<u>Remaining Annual Interest Payable</u>
		<u>2014</u>	<u>2013</u>	
3.25%	4/24/2014	\$ 25,819	\$ -	\$ 9,885
3.25%	4/24/2015	26,670	-	9,035
3.25%	4/24/2016	27,526	-	8,178
3.25%	4/24/2017	28,456	-	7,249
3.25%	4/24/2018	29,393	-	6,311
3.25%	4/24/2019	30,362	-	5,343
3.25%	4/24/2020	31,350	-	4,354
3.25%	4/24/2021	32,395	-	3,309
3.25%	4/24/2022	33,463	-	2,242
3.25%	4/24/2023	34,566	-	1,139
<u>Total General Obligation Bond</u>		<u>\$ 300,000</u>	<u>\$ -</u>	<u>\$ 57,045</u>

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Lehn L. King, C.P.A.

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Phone 810-724-1120
Fax 810-519-1332

June 27, 2014

Township of Armada
PO Box 578
Armada, Michigan 48005

To the Members of the Board:

In planning and performing our audit of the financial statements, as of and for the fiscal year ended March 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the **Township of Armada's** internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit'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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses; however, material weaknesses may exist that we have not identified.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the **Township of Armada's** internal control to be a significant deficiency:

Segregation of Duties – Due to the limited number of people, many critical duties are combined and given to the available employees/board members. To the extent possible, duties should be segregated to serve as a check and balance to maintain the best control possible. We recommend the Township segregate duties whenever possible.

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

Sincerely,

Lehn King

Lehn L. King, C.P.A.
KING & KING CPAs LLC

KING & KING CPAs LLC

Lehn L. King, C.P.A.

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June 27, 2014

Township of Armada

PO Box 578
Armada, Michigan 48005

To the Members of the Board:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the **Township of Armada** for the fiscal year ended March 31, 2014, and have issued our report thereon dated June 27, 2014. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 5, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the **Township of Armada** are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ending March 31, 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

KING & KING CPAs LLC

Lehn L. King, C.P.A.

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Audit Adjustments (Corrected and Uncorrected Misstatements)

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 27, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. There were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the information and use of management, the Board of the **Township of Armada** and Federal and State agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Lehn King

Lehn L. King, C.P.A.
KING & KING CPAs LLC