

Township of  
Armada, Michigan



Year Ended  
March 31, 2021

Financial  
Statements

**Rehmann**

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# TOWNSHIP OF ARMADA, MICHIGAN

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## INDEPENDENT AUDITORS' REPORT

September 29, 2021

Board of Trustees  
Township of Armada  
Macomb County, Michigan

### Report on 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** (the "Township"), as of and for the year ended March 31, 2021, 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.

### Independent Auditors' 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 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 auditors' 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.

Rehmann is an independent member of Nexia International.



### ***Opinions***

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, 2021, and the respective changes in financial position and the budgetary comparison for the general fund and the major special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules for the pension plan, as listed in the table of contents, 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2021, 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.

A handwritten signature in black ink that reads "Lehmann Johnson LLC". The signature is written in a cursive, flowing style.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# TOWNSHIP OF ARMADA, MICHIGAN

## Management's Discussion and Analysis

As the Board of Trustees of the Township of Armada, Macomb County, Michigan (the "Township"), we offer readers of the Township's financial statements this narrative overview and analysis as an explanation of the financial activities of the Township for the fiscal year ended March 31, 2021.

### Financial Highlights

• Total net position	\$ 5,274,639
• Change in total net position	412,433
• Fund balances, governmental funds	2,296,111
• Change in fund balances, governmental funds	130,494
• Unassigned fund balance, general fund	1,269,538
• Change in fund balance, general fund	110,347
• Installment debt outstanding	378,523
• Net change in installment debt	(119,583)

### Overview of the 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: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Township's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the Township include general government, public safety, health and welfare, public works, and recreation and culture.



## TOWNSHIP OF ARMADA, MICHIGAN

### ■ Management's Discussion and Analysis

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Township maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and emergency services fund, which are considered to be major funds. The general fund is where the Township funds are held to cover normal budgeted expenditures for the year.

The Township adopts annual appropriated budgets for all governmental funds. Budgetary comparison statements have been provided for all major funds herein to demonstrate compliance with those budgets.

**Custodial Funds.** Custodial funds are used to account for resources held for the benefit of parties outside the government. Custodial funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. The accounting used for custodial funds is much like that used for proprietary funds. Custodial funds are all the monies collected by the Township meant for another agency, for example, school taxes, library taxes, escrow accounts.

**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.

## TOWNSHIP OF ARMADA, MICHIGAN

### Management's Discussion and Analysis

#### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Township, assets and deferred outflows of resources for all activities exceeded liabilities and deferred inflows of resources by \$5,274,639 at the close of the most recent fiscal year.

Of the Township's net position, \$2,940,594 (55.75%) reflects its investment in capital assets (e.g. land, construction in progress, roads and sidewalks, buildings and improvements, furniture and equipment, and vehicles); less any related debt used to acquire those assets that is outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Township's net position of \$1,039,061 (19.70%) represents resources that are subject to external restrictions on how they may be used. The Township may use the remaining balance of *unrestricted net position* of \$1,294,984 (24.55%) to meet its ongoing obligations to citizens and creditors.

At the end of the current year, due to conservative fiscal management, the Township is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental activities.

The government's net position for all activities increased by \$412,433 during the current fiscal year.

	<b>Net Position</b>	
	<b>Governmental Activities</b>	
	<b>2021</b>	<b>2020</b>
Current and other assets	\$ 2,515,579	\$ 2,298,074
Capital assets, net	3,319,117	3,163,118
<b>Total assets</b>	<b>5,834,696</b>	<b>5,461,192</b>
<b>Deferred outflows of resources</b>	<b>22,992</b>	<b>11,475</b>
Current and other liabilities	182,909	104,224
Long-term debt	378,523	498,106
<b>Total liabilities</b>	<b>561,432</b>	<b>602,330</b>
<b>Deferred inflows of resources</b>	<b>21,617</b>	<b>8,131</b>
Net position:		
Net investment in capital assets	2,940,594	2,665,012
Restricted for public safety	1,020,103	999,956
Restricted for pension	18,958	15,102
Unrestricted	1,294,984	1,182,136
<b>Total net position</b>	<b>\$ 5,274,639</b>	<b>\$ 4,862,206</b>

## TOWNSHIP OF ARMADA, MICHIGAN

### Management's Discussion and Analysis

	Change in Net Position	
	Governmental Activities	
	2021	2020
Program revenues:		
Charges for services	\$ 308,711	\$ 457,578
Operating grants	169,465	60,749
General revenues:		
Property taxes	1,504,847	1,430,339
Intergovernmental	339,953	356,488
Other	214,902	155,048
<b>Total revenues</b>	<u>2,537,878</u>	<u>2,460,202</u>
Expenses:		
General government	316,441	326,881
Public safety	881,399	557,646
Health and welfare	701,497	961,246
Public works	102,747	76,047
Recreation and culture	104,491	198,810
Interest on long-term debt	18,870	11,886
<b>Total expenses</b>	<u>2,125,445</u>	<u>2,132,516</u>
Change in net position	412,433	327,686
Net position:		
Beginning of year	<u>4,862,206</u>	<u>4,534,520</u>
<b>End of year</b>	<u>\$ 5,274,639</u>	<u>\$ 4,862,206</u>

**Governmental Activities.** The net position of the governmental activities increased by \$412,433. This is due to highway, streets, and bridges public works expenditures in the general fund being under budget by \$163,371 and total expenditures being under budget for general fund by \$410,196 due to the pandemic.

#### Financial Analysis of the Township's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

## TOWNSHIP OF ARMADA, MICHIGAN

### Management's Discussion and Analysis

**Governmental Funds.** The focus of the Township's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of fiscal year 2021, the Township's governmental funds reported combined ending fund balances of \$2,296,111, an increase of \$130,494 in comparison with the prior year. Approximately 55.30% of this total amount, or \$1,269,538, constitutes unassigned fund balance, which is an adequate amount to keep the Township operating in the case of unforeseen emergencies. The nonspendable portion of the fund balance, \$16,802, represents amounts prepaid for fiscal year 2022 expenditures in fiscal year 2021. The restricted portion of the governmental fund balance, \$1,009,771, is for emergency service activities.

The general fund is the chief operating fund of the Township. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,269,538 while total fund balance was \$1,276,008. The fund balance of the Township's general fund increased by a total \$110,347 during the current fiscal year. The increase is the result of highway, streets, and bridges public works expenditures in the general fund being under budget by \$163,371 and total expenditures being under budget for general fund by \$410,196 due to the pandemic.

#### General Fund Budgetary Highlights

The Township adopts an annual appropriated budget for the general fund and emergency services fund by yearly resolution of the Board of Trustees. The Township budgets conservatively. Revenues are budgeted based on historic trends coupled with knowledge of factors influencing revenue line items. Expenditures are budgeted based on the previous years' actual expense and department recommendations. The Board receives a financial report at their monthly board meetings. Budget amendments are included in the consent calendar and in agenda items, where appropriate. Budget amendments are voted and approved at these regular monthly meetings, if necessary. Budget amendments are offered when administration observes dynamics which may impact the original budget and offers an adjustment accordingly.

#### Capital Asset and Debt Administration

**Capital Assets.** The Township's investment in capital assets for its governmental activities as of March 31, 2021, amounted to \$3,319,117 (net of accumulated depreciation). Capital assets balances for the current year and the previous year ended March 31 were as follows:

	Governmental Activities	
	2021	2020
Land	\$ 285,349	\$ 285,349
Construction in progress	511,418	223,524
Roads and sidewalks	279,491	289,109
Buildings and improvements	1,013,912	1,048,432
Furniture and equipment	1,215,284	1,293,206
Vehicles	13,663	23,498
<b>Total capital assets, net</b>	<b>\$ 3,319,117</b>	<b>\$ 3,163,118</b>

## TOWNSHIP OF ARMADA, MICHIGAN

### Management's Discussion and Analysis

The increase in the Township's investment in capital assets for the current fiscal year of \$155,999 resulted primarily from the addition of the new tanker/pumper truck exceeding depreciation. Additional information on capital assets can be found in the notes to the financial statements.

**Long-term Debt.** At the end of the current fiscal year, the Township has total debt outstanding of \$378,523. The long-term debt of the Township decreased by \$119,583 during fiscal year 2021 as a result of a continued payments on outstanding debt. Outstanding balances for the current year and the previous year ended March 31 were as follows:

	Governmental Activities	
	2021	2020
Installment purchase agreements	\$ 378,523	\$ 498,106

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total assessed valuation. Additional information on long-term debt outstanding can be found in the notes to the financial statements.

### Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the Township's budget for the 2022 fiscal year:

- The uncertainty of State revenue sharing
- Department managers operating with a conservative and fiscally responsible budget approach
- Potential industrial infrastructure development
- The board of trustees has passed a conservative balanced budget for fiscal year 2022

### Requests for Information

This financial report is designed to provide a general overview of the Township's finances to its citizens, customers, investors, and creditors and to demonstrate the Township's accountability for the resources it receives. If you have questions about this report or need additional information, we welcome you to contact the Township Supervisor, Clerk, or Treasurer at the Township Hall.

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## **BASIC FINANCIAL STATEMENTS**

## TOWNSHIP OF ARMADA, MICHIGAN

### Statement of Net Position

March 31, 2021

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 2,262,062
Receivables, net	219,132
Prepaid items	16,802
Net pension asset	17,583
Capital assets not being depreciated	796,767
Capital assets being depreciated, net	<u>2,522,350</u>
<b>Total assets</b>	<u>5,834,696</u>
<b>Deferred outflows of resources</b>	
Deferred pension amounts	<u>22,992</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	182,909
Long-term debt:	
Due within one year	80,030
Due in more than one year	<u>298,493</u>
<b>Total liabilities</b>	<u>561,432</u>
<b>Deferred inflows of resources</b>	
Deferred pension amounts	<u>21,617</u>
<b>Net position</b>	
Net investment in capital assets	2,940,594
Restricted for public safety	1,020,103
Restricted for pension benefits	18,958
Unrestricted	<u>1,294,984</u>
<b>Total net position</b>	<u>\$ 5,274,639</u>

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



## TOWNSHIP OF ARMADA, MICHIGAN

### Statement of Activities

For the Year Ended March 31, 2021

Functions / Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenues
Primary government				
Governmental activities:				
General government	\$ 316,441	\$ 83,217	\$ -	\$ (233,224)
Public safety	881,399	1,291	168,815	(711,293)
Health and welfare	701,497	224,203	-	(477,294)
Public works	102,747	-	650	(102,097)
Recreation and culture	104,491	-	-	(104,491)
Interest on long-term debt	18,870	-	-	(18,870)
Total governmental activities	<u>\$ 2,125,445</u>	<u>\$ 308,711</u>	<u>\$ 169,465</u>	<u>(1,647,269)</u>
General revenues:				
Property taxes				1,504,847
Grants and contributions not restricted to specific programs				339,953
Other unrestricted revenues				211,999
Unrestricted investment earnings				<u>2,903</u>
Total general revenues				<u>2,059,702</u>
Change in net position				412,433
Net position, beginning of year				<u>4,862,206</u>
Net position, end of year				<u>\$ 5,274,639</u>

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

## TOWNSHIP OF ARMADA, MICHIGAN



### Balance Sheet

Governmental Funds

March 31, 2021

	General	Emergency Services	Totals
<b>Assets</b>			
Cash and cash equivalents	\$ 1,231,023	\$ 1,031,039	\$ 2,262,062
Accounts receivable	-	22,289	22,289
Taxes receivable	6,311	39,132	45,443
Due from other governments	85,236	66,164	151,400
Due from other funds	35,893	-	35,893
Prepaid items	6,470	10,332	16,802
<b>Total assets</b>	<u>\$ 1,364,933</u>	<u>\$ 1,168,956</u>	<u>\$ 2,533,889</u>
<b>Liabilities</b>			
Accounts payable	\$ 16,612	\$ 11,974	\$ 28,586
Accrued liabilities	43,783	100,986	144,769
Due to other funds	-	35,893	35,893
<b>Total liabilities</b>	<u>60,395</u>	<u>148,853</u>	<u>209,248</u>
<b>Deferred inflows of resources</b>			
Unavailable revenue	<u>28,530</u>	<u>-</u>	<u>28,530</u>
<b>Fund balances</b>			
Nonspendable	6,470	10,332	16,802
Restricted	-	1,009,771	1,009,771
Unassigned	<u>1,269,538</u>	<u>-</u>	<u>1,269,538</u>
<b>Total fund balances</b>	<u>1,276,008</u>	<u>1,020,103</u>	<u>2,296,111</u>
<b>Total liabilities and fund balances</b>	<u>\$ 1,364,933</u>	<u>\$ 1,168,956</u>	<u>\$ 2,533,889</u>

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

## TOWNSHIP OF ARMADA, MICHIGAN

### ■ Reconciliation

Fund Balances of Governmental Funds  
to Net Position of Governmental Activities  
March 31, 2021

<b>Fund balances - total governmental funds</b>	<b>\$ 2,296,111</b>
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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 not reported in the funds.

Capital assets not being depreciated	796,767
Capital assets being depreciated, net	2,522,350

Certain assets are unavailable to pay for current period expenditures  
and therefore are deferred in the funds.

Unavailable state shared revenues	28,530
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Certain liabilities, such as bonds payable, are not due and payable  
in the current period, and therefore are not reported in the funds.

Installment loans	(378,523)
Accrued interest on long-term debt	(9,554)

Certain pension-related amounts, such as the net pension asset and deferred  
amounts, are not due and payable in the current period or do not represent  
current financial resources, and therefore are not reported in the funds.

Net pension asset	17,583
Deferred outflows related to the net pension asset	22,992
Deferred inflows related to the net pension asset	(21,617)

<b>Net position of governmental activities</b>	<b>\$ 5,274,639</b>
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The accompanying notes are an integral part of these financial statements.

## TOWNSHIP OF ARMADA, MICHIGAN

### Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended March 31, 2021

	General	Emergency Services	Totals
<b>Revenues</b>			
Taxes	\$ 251,344	\$ 1,253,503	\$ 1,504,847
Intergovernmental	336,644	168,815	505,459
Licenses and permits	81,783	-	81,783
Charges for services	1,434	225,494	226,928
Interest	1,694	1,209	2,903
Other	44,634	167,365	211,999
<b>Total revenues</b>	<u>717,533</u>	<u>1,816,386</u>	<u>2,533,919</u>
<b>Expenditures</b>			
Current:			
Legislative	63,527	-	63,527
General government	235,940	-	235,940
Public safety	123,782	358,836	482,618
Health and welfare	-	1,136,313	1,136,313
Public works	94,028	-	94,028
Recreation and culture	33,670	-	33,670
Debt service:			
Principal	-	119,583	119,583
Interest	-	20,756	20,756
Capital outlay	36,239	180,751	216,990
<b>Total expenditures</b>	<u>587,186</u>	<u>1,816,239</u>	<u>2,403,425</u>
Revenues over expenditures	<u>130,347</u>	<u>147</u>	<u>130,494</u>
<b>Other financing sources (uses)</b>			
Transfers (out) in	<u>(20,000)</u>	<u>20,000</u>	<u>-</u>
<b>Net change in fund balances</b>	<u>110,347</u>	<u>20,147</u>	<u>130,494</u>
Fund balances, beginning of year	<u>1,165,661</u>	<u>999,956</u>	<u>2,165,617</u>
<b>Fund balances, end of year</b>	<u>\$ 1,276,008</u>	<u>\$ 1,020,103</u>	<u>\$ 2,296,111</u>

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

## TOWNSHIP OF ARMADA, MICHIGAN

### ■ Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
For the Year Ended March 31, 2021

<b>Net change in fund balances - total governmental funds</b>	<b>\$ 130,494</b>
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Amounts reported for *governmental activities* in the statement of activities are different because:

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 and reported as depreciation expense.

Capital assets purchased	384,038
Depreciation expense	(228,039)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

State shared revenues	3,959
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Proceeds from long-term debt provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal payments on long-term debt	119,583
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in the net pension asset and related deferred amounts	512
Change in accrued interest on long-term debt	1,886

<b>Change in net position of governmental activities</b>	<b><u>\$ 412,433</u></b>
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The accompanying notes are an integral part of these financial statements.

## TOWNSHIP OF ARMADA, MICHIGAN

### Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual - General Fund  
For the Year Ended March 31, 2021

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
<b>Revenues</b>				
Taxes	\$ 250,103	\$ 250,103	\$ 251,344	\$ 1,241
Intergovernmental	352,190	352,190	336,644	(15,546)
Licenses and permits	93,500	93,500	81,783	(11,717)
Charges for services	1,585	1,585	1,434	(151)
Interest	10,000	10,000	1,694	(8,306)
Other	47,951	47,951	44,634	(3,317)
<b>Total revenues</b>	<b>755,329</b>	<b>755,329</b>	<b>717,533</b>	<b>(37,796)</b>
<b>Expenditures</b>				
Current:				
Legislative - Township board	110,296	110,921	63,527	(47,394)
General government:				
Supervisor	34,342	34,342	33,339	(1,003)
Assessor	57,796	57,796	47,041	(10,755)
Elections	18,100	18,700	15,592	(3,108)
Clerk	60,051	60,051	58,137	(1,914)
Board of review	1,661	1,661	1,033	(628)
Treasurer	58,457	58,457	51,669	(6,788)
Buildings and grounds	23,154	23,154	12,749	(10,405)
Professional services	37,500	37,500	16,380	(21,120)
Total general government	291,061	291,661	235,940	(55,721)
Public safety:				
Ordinance enforcement	6,626	6,626	5,198	(1,428)
Inspections	104,179	104,179	93,549	(10,630)
Planning and zoning	53,399	53,399	25,035	(28,364)
Total public safety	164,204	164,204	123,782	(40,422)
Public works:				
Refuse collection	52,334	66,634	65,414	(1,220)
Cemetery	2,500	2,500	2,437	(63)
Highways, streets, and bridges	205,073	189,548	26,177	(163,371)
Total public works	259,907	258,682	94,028	(164,654)

continued...

## TOWNSHIP OF ARMADA, MICHIGAN

### Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended March 31, 2021

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
<b>Expenditures (concluded)</b>				
Recreation and culture -				
Parks and recreation	\$ 79,912	\$ 79,912	\$ 33,670	\$ (46,242)
Capital outlay	92,001	92,001	36,239	(55,762)
<b>Total expenditures</b>	<u>997,382</u>	<u>997,382</u>	<u>587,186</u>	<u>(410,196)</u>
Revenues (under) over expenditures	<u>(242,053)</u>	<u>(242,053)</u>	<u>130,347</u>	<u>372,400</u>
<b>Other financing sources (uses)</b>				
Proceeds from sale of capital assets	1	1	-	(1)
Transfers out	-	-	(20,000)	20,000
<b>Total other financing sources (uses)</b>	<u>1</u>	<u>1</u>	<u>(20,000)</u>	<u>19,999</u>
<b>Net change in fund balance</b>	<u>(242,052)</u>	<u>(242,052)</u>	<u>110,347</u>	<u>392,399</u>
Fund balance, beginning of year	<u>1,165,661</u>	<u>1,165,661</u>	<u>1,165,661</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 923,609</u>	<u>\$ 923,609</u>	<u>\$ 1,276,008</u>	<u>\$ 392,399</u>

concluded.

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

## TOWNSHIP OF ARMADA, MICHIGAN

### Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual - Emergency Services Fund

For the Year Ended March 31, 2021

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
<b>Revenues</b>				
Taxes	\$ 1,254,373	\$ 1,254,373	\$ 1,253,503	\$ (870)
Intergovernmental	88,500	261,643	168,815	(92,828)
Charges for services	262,000	262,000	225,494	(36,506)
Interest	3,000	3,000	1,209	(1,791)
Other	14,862	98,026	167,365	69,339
<b>Total revenues</b>	<u>1,622,735</u>	<u>1,879,042</u>	<u>1,816,386</u>	<u>(62,656)</u>
<b>Expenditures</b>				
Current:				
Public safety	347,393	397,627	358,836	(38,791)
Health and welfare	1,100,077	1,259,151	1,136,313	(122,837)
Debt service:				
Principal	-	57,000	119,583	62,583
Interest	-	-	20,756	20,756
Capital outlay	175,365	194,054	180,751	(13,303)
<b>Total expenditures</b>	<u>1,622,835</u>	<u>1,907,831</u>	<u>1,816,239</u>	<u>(91,592)</u>
Revenues over (under) expenditures	<u>(100)</u>	<u>(28,789)</u>	<u>147</u>	<u>28,936</u>
<b>Other financing sources</b>				
Proceeds from sale of capital assets	100	100	-	(100)
Transfers in	-	-	20,000	20,000
<b>Total other financing sources</b>	<u>100</u>	<u>100</u>	<u>20,000</u>	<u>19,900</u>
<b>Net change in fund balance</b>	<u>-</u>	<u>(28,689)</u>	<u>20,147</u>	<u>48,836</u>
Fund balance, beginning of year	<u>999,956</u>	<u>999,956</u>	<u>999,956</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 999,956</u>	<u>\$ 971,267</u>	<u>\$ 1,020,103</u>	<u>\$ 48,836</u>

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



## TOWNSHIP OF ARMADA, MICHIGAN

### ■ Statement of Fiduciary Net Position Custodial Funds March 31, 2021

#### Assets

Cash and cash equivalents	\$ 1,383
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#### Liabilities and Net Position

Undistributed fees, taxes, and other collections	\$ 1,383
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The accompanying notes are an integral part of these financial statements.

**TOWNSHIP OF ARMADA, MICHIGAN**

**Statement of Changes in Fiduciary Net Position**  
Custodial Fund  
For the Year Ended March 31, 2021

**Additions**

Taxes collected for other governments	\$ 11,456,305
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**Deductions**

Payment of property taxes to other governments	11,456,305
--	------------

**Change in net position**

Net position, beginning of year	
---------------------------------	--

Net position, end of year	\$
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The accompanying notes are an integral part of these financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

# TOWNSHIP OF ARMADA, MICHIGAN

## ■ Notes To Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Reporting Entity**

The Township of Armada, Michigan (the "Township"), is a General Law Township governed by an elected supervisor and a four-member board. The Township has determined that no entities should be consolidated into the financial statements as component units. The criteria for including a component unit include significant operational or financial relationships with the government.

#### ***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 of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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.

#### ***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are 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 revenues in the year for which they are intended to be used to cover current expenditures. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

# TOWNSHIP OF ARMADA, MICHIGAN

## ■ Notes To Financial Statements

Property taxes, intergovernmental revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and as such have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Township reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all the financial resources of the general government, except those accounted for and reported in another fund.

The *emergency services fund* is used to account for two emergency services tax millages levied by the Township for the operation of the fire and ambulance departments.

Additionally, the Township reports the following fund type -

*Custodial funds* are used to account for assets held by the Township in a custodial capacity for other governments and entities. Primarily this includes undistributed collections and withholdings such as property taxes.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided and includes special assessments, and 2) operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Restricted net position, if any, includes assets that are subject to restrictions beyond the Township's control. The restrictions may be externally imposed or imposed by law. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

### **Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity**

#### ***Deposits and Investments***

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes and Township policy authorize the Township to invest in:

Bonds, securities, other obligations, and repurchase agreements of the United States, or an agency or instrumentality of the United States.

Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a qualified financial institution.

Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

# TOWNSHIP OF ARMADA, MICHIGAN

## ■ Notes To Financial Statements

Bankers' acceptances of United States banks.

Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.

Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

### ***Receivables and Payables***

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

### ***Prepaid Items***

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items when purchased in both government-wide and fund financial statements.

### ***Net Pension Asset***

The net pension asset is deemed to be a noncurrent asset and is recognized on the Township's statement of net position. For the purposes of measuring the net pension asset and deferred outflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System of Michigan ("MERS") 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.

### ***Capital Assets***

Capital assets, which include land, construction in progress, roads and sidewalks, buildings and improvements, furniture and equipment, and vehicles, are reported in the applicable governmental activities columns in the government-wide financial statements. The government defines capital assets 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 their estimated acquisition cost as of the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

# TOWNSHIP OF ARMADA, MICHIGAN

## ■ Notes To Financial Statements

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	Years
Infrastructure	40
Buildings and improvements	20-40
Furniture, equipment, and vehicles	3-20

### *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 its pension plan.

### *Long-term Obligations*

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities in the statement of net position.

In the fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

### *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, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds also report unavailable revenues, which arise only under a modified accrual basis of accounting that are reported as deferred inflows of resources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The Township also reports deferred inflows of resources for its pension plan.

# TOWNSHIP OF ARMADA, MICHIGAN

## Notes To Financial Statements

### *Fund Equity*

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 intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance* (if any) is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Trustees (the government's highest level of decision-making authority). A motion by the Board of Trustees is required to establish, modify, or rescind a fund balance commitment. The Township reports *assigned fund balance* (if any) for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Trustees will assign any fund balance amounts. *Unassigned fund balance* is the residual classification for the general fund.

When the government incurs an expenditure for purposes for which various fund balance classifications can be used, it is the government's policy to use restricted fund balance first, then committed fund balance, assigned fund balance (if applicable), and finally unassigned 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates. Additionally, management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

## 2. BUDGETARY INFORMATION

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue funds. All annual appropriations lapse at fiscal year end.

The budgets for the general fund and the special revenue fund are adopted at the department level. The government does not utilize encumbrance accounting.

## 3. EXCESS OF EXPENDITURES OVER BUDGET

State statutes provide that a local unit shall not incur expenditures in excess of the amounts appropriated. The approved budgets of the Township were adopted on a department level basis for the general fund and the special revenue fund. The Township incurred expenditures in excess of amounts appropriated for the year for:

	Final Budget	Actual	Actual over Final Budget
General fund			
Transfer out	\$ -	\$ 20,000	\$ 20,000
Emergency services fund			
Principal	57,000	119,583	62,583
Interest	-	20,756	20,756



## TOWNSHIP OF ARMADA, MICHIGAN

### ■ Notes To Financial Statements

#### 4. CASH AND DEPOSITS

A reconciliation of cash and cash equivalents as shown on the Statement of Net Position and Statement of Fiduciary Net Position to deposits as classified for note disclosure purposes is as follows:

**Statement of Net Position**

Cash and cash equivalents	\$ 2,262,062
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**Statement of Fiduciary Net Position**

Cash and cash equivalents	<u>1,383</u>
---------------------------	--------------

<b>Total</b>	<u><u>\$ 2,263,445</u></u>
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**Deposits**

Bank deposits:

Checking and savings accounts	\$ 2,172,291
-------------------------------	--------------

Certificates of deposit (due within one year)	91,004
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Cash on hand	<u>150</u>
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<b>Total</b>	<u><u>\$ 2,263,445</u></u>
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*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year end, \$1,343,308 of the Township's bank balance of \$2,341,255 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Interest Rate Risk.* The Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designating its investment portfolio with the objective of obtaining a rate of return through the economic cycles considering risk constraints and cash flow characteristics.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the accounting policies. The Township's investment policy does not have specific limits in excess of state law on concentration of credit risk.

## TOWNSHIP OF ARMADA, MICHIGAN

### Notes To Financial Statements

#### 5. RECEIVABLES, NET

Receivables, net are comprised of the following at year-end:

	General Fund	Emergency Services Fund	Total Governmental Activities
Accounts	\$ -	\$ 44,985	\$ 44,985
Allowance for doubtful accounts	-	(22,696)	(22,696)
Taxes	6,311	39,132	45,443
Due from other governments	85,236	66,164	151,400
	<u>\$ 91,547</u>	<u>\$ 127,585</u>	<u>\$ 219,132</u>

#### 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Payables are comprised of the following at year-end:

	General Fund	Emergency Services Fund	Government-wide Statements	Total Governmental Activities
Accounts payable	\$ 16,612	\$ 11,974	\$ -	\$ 28,586
Accrued liabilities	43,783	100,986	-	144,769
Accrued interest	-	-	9,554	9,554
	<u>\$ 60,395</u>	<u>\$ 112,960</u>	<u>\$ 9,554</u>	<u>\$ 182,909</u>

#### 7. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of March 31, 2021, is as follows:

	Due from Other funds	Due to Other funds
<b>Due to and from primary government funds</b>		
General fund	\$ 35,893	\$ -
Emergency services fund	-	35,893
<b>Total</b>	<u>\$ 35,893</u>	<u>\$ 35,893</u>

Interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

## TOWNSHIP OF ARMADA, MICHIGAN

### Notes To Financial Statements

#### 8. CAPITAL ASSETS

Capital asset activity for the Township for the year ended March 31, 2021, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Governmental Activities</b>					
Capital assets not being depreciated:					
Land	\$ 285,349	\$ -	\$ -	\$ -	\$ 285,349
Construction in progress	223,524	287,894	-	-	511,418
	<u>508,873</u>	<u>287,894</u>	<u>-</u>	<u>-</u>	<u>796,767</u>
Capital assets being depreciated:					
Roads and sidewalks	366,516	-	-	-	366,516
Buildings and improvements	2,193,808	30,120	-	-	2,223,928
Furniture and equipment	2,975,341	66,024	-	-	3,041,365
Vehicles	68,518	-	-	-	68,518
	<u>5,604,183</u>	<u>96,144</u>	<u>-</u>	<u>-</u>	<u>5,700,327</u>
Less accumulated depreciation for:					
Roads and sidewalks	(77,407)	(9,618)	-	-	(87,025)
Buildings and improvements	(1,145,376)	(64,640)	-	-	(1,210,016)
Furniture and equipment	(1,682,135)	(143,946)	-	-	(1,826,081)
Vehicles	(45,020)	(9,835)	-	-	(54,855)
	<u>(2,949,938)</u>	<u>(228,039)</u>	<u>-</u>	<u>-</u>	<u>(3,177,977)</u>
Total capital assets being depreciated, net	<u>2,654,245</u>	<u>(131,895)</u>	<u>-</u>	<u>-</u>	<u>2,522,350</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 3,163,118</u>	<u>\$ 155,999</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,319,117</u>

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

#### Depreciation of governmental activities by function

General government	\$ 16,974
Public safety	167,764
Public works	8,719
Recreation and culture	<u>34,582</u>
	<u>\$ 228,039</u>

At March 31, 2021, the Township had outstanding commitments for construction contracts of \$321,428, which will be covered by FEMA grant funds.

## TOWNSHIP OF ARMADA, MICHIGAN

### Notes To Financial Statements

#### 9. LONG-TERM DEBT

Long-term debt activity for the year ended March 31, 2021, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
<b>Note from direct borrowings and direct placements:</b>					
\$300,000 loan payable due in annual installments of \$35,704, including interest, through April 24, 2023, interest at 3.25%	\$ 131,756	\$ -	\$ (28,033)	\$ 103,723	\$ 32,395
 \$476,330 loan payable due in annual principal installments of \$47,635 through August 1, 2027, interest at 3.00%	 366,350	 -	 (91,550)	 274,800	 47,635
	<u>\$ 498,106</u>	<u>\$ -</u>	<u>\$ (119,583)</u>	<u>\$ 378,523</u>	<u>\$ 80,030</u>

Annual debt service requirements to maturity for direct borrowings and direct placements are as follows:

Year Ended March 31,	Governmental Activities	
	Principal	Interest
2022	\$ 80,030	13,003
2023	81,098	10,487
2024	82,183	7,935
2025	47,635	5,362
2026	47,635	3,899
2027 - 2028	<u>39,942</u>	<u>3,451</u>
	<u>\$ 378,523</u>	<u>\$ 44,137</u>

## TOWNSHIP OF ARMADA, MICHIGAN

### ■ Notes To Financial Statements

#### 10. RISK MANAGEMENT

The Township participates in the Michigan Township Participating Plan (the "Plan") with other municipalities for auto, employee benefits, property, public officials, electronic data processing ("EDP"), crime, inland marine, boiler and machinery, and liability losses. The Plan is organized under Public Act 138 of 1982, as amended. The Plan, while it operates under the Michigan Legislation of Public Act 138, does not operate as a risk pool due to the transfer of risk to U.S. Specialty Insurance Company ("USSIC") backing the Plan under a master policy for the period July 1, 2011 to July 1, 2019. Due to this Master Policy purchase, there is no pooling of risk between members but instead it is commercial insurance. Settled claims relating to this insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Township participates in a pool, the Michigan Municipal League Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Township has not been informed of any special assessments being required.

#### 11. PROPERTY TAXES

Property taxes are levied on December 1. The tax levy is due February 28. All taxes not paid by their due date are deemed delinquent. Delinquent real and personal property taxes are turned over to the Macomb County Treasurer on March 1 of the year following the levy. The Macomb County Treasurer remits payment to all taxing units on all delinquent real property taxes. Personal property payments are remitted to the Township when Macomb County collects the delinquent property taxes still outstanding after March 1.

Assessed values as established annually by the government, and subject to acceptance by the Township, are equalized by the State at an estimated 50% of current market value. The Township is permitted to levy up to \$1 per \$1,000 of taxable valuation for general governmental service and additional amounts for fire and advanced life support operations. For the year ended March 31, 2021, the Township levied 0.7235 mills for general governmental services, 3.2500 mills for fire services, and 1.5000 mills for advanced life support services. The total taxable value for the 2020 levy for the property within the Township was \$337,063,387.

#### 12. PENSION PLAN

##### *General Information About the Plan*

**Plan Description.** The Township's defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. The Township participates in the Municipal Employees Retirement System of Michigan ("MERS"). 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 accessing the MERS website at [www.mersofmich.com](http://www.mersofmich.com).

**Benefits Provided.** Pension benefits vary by division/bargaining unit and are calculated as final average compensation (based on a 5 year period) and multipliers at 2.80%. Participants are considered to be fully vested in the plan after 10 years. Normal retirement age is 60 with early retirement at age 50 with 25 years of service, or age 55 with 15 years of service, depending on division/bargaining unit.

## TOWNSHIP OF ARMADA, MICHIGAN

### Notes To Financial Statements

*Employees Covered by Benefit Terms.* At the December 31, 2020 valuation date, plan membership consisted of the following:

Inactive employees entitled to but not yet receiving benefits	4
Active employees	10
<b>Total membership</b>	<b>14</b>

*Contributions.* The employer 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. In addition, the employer may establish contribution rates to be paid by its covered employees.

Employer and employee contribution amounts or rates, by division/bargaining unit, were as follows for the year ended March 31, 2021:

Division/Bargaining Unit	Employer Contribution	Employee Contribution	Status
05 - Fire and Permanent EE	\$2,814/month	6.00%	Open

*Net Pension Asset.* The Township's net pension asset was measured as of December 31, 2020, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date.

*Actuarial Assumptions.* The total pension liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.00% in the long-term
Investment rate of return	7.35%, net of investment and administrative expense including inflation

The mortality table used to project the mortality experience of non-disabled plan members is a 50% male, 50% female blend of the following tables:

- Pre-retirement mortality based on 100% of Pub-2010 Juvenile Mortality Tables for ages 0-17, 100% of PubG-2010 Employee Mortality Tables for Ages 18-80, and 100% of PubG-2010 Healthy Retiree Tables for ages 81-120
- Non-disabled retired plan members and beneficiaries mortality based on 106% of Pub-2010 Juvenile Mortality Tables for ages 0-17, 106% of PubG-2010 Employee Mortality Tables for Ages 18-49, and 106% of PubG-2010 Healthy Retiree Tables for ages 50-120
- Disables retired plan members mortality based on 100% of Pub-2010 Juvenile Mortality Tables for ages 0-17, and 100% of PubNS-2010 Disabled Retiree Tables for ages 18-120

The actuarial assumptions used in the December 31, 2020 valuation were based on the results of the most recent actuarial experience study of 2014-2018.

## TOWNSHIP OF ARMADA, MICHIGAN

### Notes To Financial Statements

*Long-term Expected Rate of Return.* 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global equity	60.0%	5.25%	3.15%
Global fixed income	20.0%	1.25%	0.25%
Private Investments	20.0%	7.25%	1.45%
	<u>100.0%</u>		
Inflation			2.50%
Administrative expenses netted above			<u>0.25%</u>
			<u>7.60%</u>

*Discount Rate.* The discount rate used to measure the total pension liability as of December 31, 2020 was 7.6%. 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.

## TOWNSHIP OF ARMADA, MICHIGAN

### Notes To Financial Statements

#### *Changes in Net Pension Asset*

The components of the change in the net pension asset are summarized as follows:

	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Asset (a) - (b)</b>
Balances at December 31, 2019	\$ 89,408	\$ 104,509	\$ (15,101)
Changes for the year:			
Service cost	58,439	-	58,439
Interest	8,791	-	8,791
Difference between expected and actual experience	(6,128)	-	(6,128)
Changes in assumptions	14,589	-	14,589
Employer contributions	-	28,982	(28,982)
Employee contributions	-	28,756	(28,756)
Net investment income	-	20,687	(20,687)
Benefit payments	(5,907)	(5,907)	-
Administrative expense	-	(252)	252
Net changes	69,784	72,266	(2,482)
<b>Balances at December 31, 2020</b>	<b>\$ 159,192</b>	<b>\$ 176,775</b>	<b>\$ (17,583)</b>

*Changes in assumptions.* A 5-year experience study analyzing historical experience from 2013 through 2018 was completed in February 2020. In addition to changes to the economic assumptions which took effect with the fiscal year 2021 contribution rates, the experience study recommended updated demographic assumptions, including adjustments to the following actuarial assumptions: mortality, retirement, disability, and termination rates.

*Sensitivity of the Net Pension Asset to Changes in the Discount Rate.* The following presents the net pension asset of the Township, calculated using the discount rate of 7.60%, as well as what the Township's net pension liability (asset) would be if it were calculated using a discount rate that is 1% lower (6.60%) or 1% higher (8.60%) than the current rate:

	<b>1% Decrease (6.60%)</b>	<b>Current Discount Rate (7.60%)</b>	<b>1% Increase (8.60%)</b>
Net pension (asset) liability	\$ 15,309	\$ (17,583)	\$ (43,332)

*Pension Plan Fiduciary Net Position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial statements.



## TOWNSHIP OF ARMADA, MICHIGAN

### Notes To Financial Statements

#### *Pension Expense and Deferred Outflows of Resources Related to Pensions*

For the year ended March 31, 2021, the Township recognized pension expense of \$26,939. The Township reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	\$ -	\$ 12,743	\$ (12,743)
Changes in assumptions	13,619	-	13,619
Net difference between projected and actual earnings on pension plan investments	-	8,874	(8,874)
	<u>13,619</u>	<u>21,617</u>	<u>(7,998)</u>
Contributions subsequent to the measurement date	<u>9,373</u>	<u>-</u>	<u>9,373</u>
<b>Total</b>	<u><u>\$ 22,992</u></u>	<u><u>\$ 21,617</u></u>	<u><u>\$ 1,375</u></u>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension asset for the year ending March 31, 2021. Other amounts reported as deferred outflows/inflows of resources related to the pension will be recognized in pension expense as follows:

Year Ended March 31,	Amount
2022	\$ (1,884)
2023	(1,884)
2024	(2,936)
2025	(2,154)
2026	4
2027-2030	<u>856</u>
<b>Total</b>	<u><u>\$ (7,998)</u></u>

*Payable to the Pension Plan.* At March 31, 2021, the Township had no payables for contributions to the pension plan.

## TOWNSHIP OF ARMADA, MICHIGAN

### Notes To Financial Statements

#### 13. DEFINED CONTRIBUTION RETIREMENT PLAN

The Township has a single employer defined contribution pension plan administered by Nationwide. The Township contributes 10% of the annual salary for the Fire Chief. The Township's policy is to fund pension costs on an annual basis. Employer contributions for the year were \$7,552. Benefits attributable to employer contributions are 100% vested. The pension, as established, does not recognize prior service costs as it is based exclusively on current compensation earned by participants.

#### 14. STATE CONSTRUCTION CODE ACT COMPLIANCE

Effective January 1, 2000, Public Act 245 of 1999 amended the State Construction Act to require Michigan municipal governments to establish fees that bear a reasonable relationship to the cost of operating their building departments. The Township has elected to record this activity in the general fund.

Revenues - building fee revenues	\$ 81,783
Expenditures	<u>(93,549)</u>
<b>Current year loss</b>	<b><u>\$ (11,766)</u></b>
<b>Loss absorbed in 2001-2020</b>	<b><u>\$ (20,790)</u></b>

#### 15. FUND BALANCES - GOVERNMENTAL FUNDS

The Township classifies fund balances primarily to the extent of which it is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is as follows:

	<b>General Fund</b>	<b>Emergency Services Fund</b>	<b>Total</b>
Nonspendable - Prepays	\$ 6,470	\$ 10,332	\$ 16,802
Restricted for - Emergency services activities	-	1,009,771	1,009,771
Unassigned	<u>1,269,538</u>	<u>-</u>	<u>1,269,538</u>
<b>Total fund balances, governmental funds</b>	<b><u>\$ 1,276,008</u></b>	<b><u>\$ 1,020,103</u></b>	<b><u>\$ 2,296,111</u></b>

## TOWNSHIP OF ARMADA, MICHIGAN

### ■ Notes To Financial Statements

#### 16. NET INVESTMENT IN CAPITAL ASSETS

The composition of the Township's net investment in capital assets as of year end was as follows:

	<b>Governmental Activities</b>
Capital assets, net	\$ 3,319,117
Related debt:	
Bonds outstanding	<u>378,523</u>
<b>Net investment in capital assets</b>	<u><u>\$ 2,940,594</u></u>

#### 17. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The extent of the ultimate impact of the pandemic on the Township's operational and financial performance will depend on various developments, including the duration and spread of the outbreak and its impact on employees, vendors, and taxpayers, all of which cannot be reasonably predicted at this time. In addition, it may place additional demands on the Township for providing emergency services to its citizens. While management reasonably expects the COVID-19 outbreak to negatively impact the Township's financial position, changes in financial position, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

## TOWNSHIP OF ARMADA, MICHIGAN

### Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Changes in the Township's Net Pension Asset and Related Ratios

	Year Ended March 31,			
	2021	2020	2019	2018
<b>Total pension liability</b>				
Service cost	\$ 58,439	\$ 49,889	\$ 34,095	\$ 30,601
Interest	8,791	5,199	2,028	1,184
Benefit payments, including refunds of employee contributions	(5,907)	(1,974)	-	(1,000)
Difference between expected and actual experience	(6,128)	(9,034)	-	-
Changes in assumptions	14,589	611	-	-
Other changes	-	273	13	(22,477)
<b>Net change in total pension liability</b>	<u>69,784</u>	<u>44,964</u>	<u>36,136</u>	<u>8,308</u>
Total pension liability, beginning of year	<u>89,408</u>	<u>44,444</u>	<u>8,308</u>	<u>-</u>
<b>Total pension liability, end of year</b>	<u>159,192</u>	<u>89,408</u>	<u>44,444</u>	<u>8,308</u>
<b>Plan fiduciary net position</b>				
Employer contributions	28,982	42,671	35,824	10,642
Employee contributions	28,756	-	-	10,648
Net investment income (loss)	20,687	9,591	(2,166)	513
Benefit payments, including refunds of employee contributions	(5,907)	(1,974)	-	(1,000)
Administrative expense	(252)	(166)	(69)	(5)
<b>Net change in plan fiduciary net position</b>	<u>72,266</u>	<u>50,122</u>	<u>33,589</u>	<u>20,798</u>
Plan fiduciary net position, beginning of year	<u>104,509</u>	<u>54,387</u>	<u>20,798</u>	<u>-</u>
<b>Plan fiduciary net position, end of year</b>	<u>176,775</u>	<u>104,509</u>	<u>54,387</u>	<u>20,798</u>
<b>Township's net pension asset</b>	<u>\$ (17,583)</u>	<u>\$ (15,102)</u>	<u>\$ (9,943)</u>	<u>\$ (12,490)</u>
Plan fiduciary net position as a percentage of total pension liability	111.0%	116.9%	122.4%	250.3%
Covered payroll	\$ 518,994	\$ 418,178	\$ 306,606	\$ 275,193
Township's net pension asset as a percentage of covered payroll	-3.4%	-3.6%	-3.2%	-4.5%

In 2021, amounts reported as changes of assumptions related to updated demographic assumptions, including adjustments to the following actuarial assumptions: mortality, retirement, disability, and termination rates.

## TOWNSHIP OF ARMADA, MICHIGAN

### Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan  
Schedule of Contributions

Fiscal Year Ending March 31,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2021	\$ 28,982	\$ 28,982	\$ -	\$ 518,994	5.6%
2020	42,671	42,671	-	418,178	10.2%
2019	35,824	35,824	-	306,606	11.7%
2018	12,445	12,445	-	275,193	4.5%

Note: GASB 68 was implemented in fiscal year 2018 because the Plan was not started until that year. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

#### Notes to Schedule of Contributions

Valuation Date Actuarially determined contribution rates are calculated as of December 31, which is 15 months prior to the beginning of the fiscal year in which contributions are reported.

#### Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, open
Remaining amortization period	15-20 years, depending on division
Asset valuation method	5-year smooth market
Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation
Normal retirement age	Age 60
Mortality	50% Female/50% Male blend of the RP-2014 Healthy Annuitant Mortality Tables with rates multiplied by 105%, the RP-2014 Employee Mortality Tables, and the RP-2014 Juvenile Mortality Tables

## TOWNSHIP OF ARMADA, MICHIGAN

### ■ Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Notes to Required Supplementary Information

#### Pension Plan Information

GASB 68 was implemented in fiscal year 2018 because the Plan was not started until that year. Ultimately, 10 years of data will be presented.

The significant changes in assumptions for each of the fiscal years ended June 30 were as follows:

2021	The amounts reported as changes of assumptions related to updated demographic assumptions, including adjustments to the following actuarial assumptions: mortality, retirement, disability, and termination rates.
2020	The amounts reported as change of assumptions resulted primarily from a decrease in the assumed rate of return from 7.75% to 7.35%, and a decrease in the assumed rate of wage inflation from 3.75% to 3.00%

#### Notes to Schedule of Contributions

Valuation Date	Actuarially determined contribution rates are calculated as of December 31, which is 15 months prior to the beginning of the fiscal year in which contributions are reported.
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#### Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, open
Remaining amortization period	15-20 years, depending on division
Asset valuation method	5-year smooth market
Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation
Normal retirement age	Age 60
Mortality	50% Female/50% Male blend of the RP-2014 Healthy Annuitant Mortality Tables with rates multiplied by 105%, the RP-2014 Employee Mortality Tables, and the RP-2014 Juvenile Mortality Tables



**INDEPENDENT AUDITORS' 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***

September 29, 2021

Board of Trustees  
Township of Armada  
Macomb 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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **Township of Armada, Michigan** (the "Township"), as of and for the year ended March 31, 2021, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements, and have issued our report thereon dated September 29, 2021.

#### **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) as a basis for designing 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2021-001 that we consider to be a significant deficiency.

Rehmann is an independent member of Nexia International.



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### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Township's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

The Township's response to the finding 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 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 Township'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.

A handwritten signature in black ink that reads "Lehmann Lobson LLC". The signature is written in a cursive, flowing style.

## TOWNSHIP OF ARMADA, MICHIGAN

### Schedule of Findings and Responses

For the Year Ended March 31, 2021

#### 2021-001 – Construction Bond and Developer Fee Custodial Accounts (Repeat Comment)

**Finding Type.** Significant Deficiency in Internal Control over Financial Reporting.

**Criteria.** The Township uses separate accounts within the general fund to account for construction bonds and fees paid to the Township. These bonds will then be returned to the developers upon satisfactory completion of inspection activities. Accordingly, the Township is required to keep accurate subsidiary records of the amounts held in these liability accounts. These accounts should be analyzed and reconciled on a regular basis (e.g., monthly or quarterly). Additionally, individual line items in these accounts should be evaluated regularly and either written off to the general fund, escheated to the state, or returned to the parties who originally paid the bond or fees.

**Condition.** We requested detail for the construction bonds payable and the developer's fees payable in the Township's custodial fund. The Township was able to provide current year reconciliations to the general ledger for the changes in these accounts; however, it was unable to provide a detail of what comprises the ending balance for the construction bond and developer's fees accounts due to a variance between what is recorded and what is in the detail for the accounts. For both accounts, we noted several payments (some over ten years old) that were made by individuals and never returned and the Township made note of which projects were still ongoing. This could be because the project was never finished or the result of a recordkeeping error.

**Cause.** The Township does not have a policy to reconcile a complete subsidiary detail to the general ledger.

**Effect.** As a result of the condition, the Township is exposed to an increased risk that misstatements, whether through error or fraud, may occur and not be prevented, or detected and corrected, on a timely basis. Balances in custodial funds are particularly sensitive as this fund type, by its nature, is not subject to the normal budgetary oversight found in other funds. Accordingly, it is especially important that these funds be reconciled regularly to a complete detail. While the related cash balances were reconciled, this only verifies the amounts actually on hand, not the balances that should be on hand.

**Recommendation.** We recommend the Township implement procedures to ensure that a detail is maintained to support the balances being reported and that all accounts are reconciled to the general ledger. Additionally, the Township should reach out to legal counsel to find remedies for those amounts that have been on the Township's books for numerous years.

**View of Responsible Officials.** The building administrator will track the bonds (financial guarantees) and when the job is complete and will request a check from clerk's office within 30 days. The building administrator will verify the amount and give back to the clerk to be mailed. All efforts will be made to get the money back to the payer. Any building permits that are open after five years will be abandoned and deposited into the general fund. The administrator will supply the financials to the clerk quarterly to reconcile against the general ledger for accuracy. We will be drafting a policy that reflects this.

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