

TOWNSHIP OF
ARMADA,
MICHIGAN



Year Ended
March 31, 2022

Financial
Statements

Rehmann

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TOWNSHIP OF ARMADA, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

September 15, 2022

Board of Trustees
Township of Armada
Macomb County, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the remaining fund information of the **Township of Armada, Michigan** (the "Township"), as of and for the year ended March 31, 2022, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the remaining fund information of the Township, as of March 31, 2022, and the respective changes in financial position, and the budgetary comparisons 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Independent Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Township and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.



In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Township's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Independent Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Township's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Township's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the schedules of the pension plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 15, 2022, 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 solely 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 the effectiveness of the Township's 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 dark ink that reads "Rehmann Loborn LLC". The signature is written in a cursive, flowing style.

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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, 2022.

Financial Highlights

· Total net position	\$ 5,799,801
· Change in total net position	525,162
· Fund balances, governmental funds	2,623,090
· Change in fund balances, governmental funds	326,979
· Unassigned fund balance, general fund	1,444,888
· Change in fund balance, general fund	174,061
· Installment debt outstanding	246,519
· Net change in installment debt	(132,004)

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.

Fiduciary Funds. The fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary 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 fiduciary funds is much like that used for proprietary funds. Fiduciary 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 \$5,799,801 at the close of the most recent fiscal year.

Of the Township's net position, \$3,140,048 (54.14%) 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 \$1,185,467 (20.44%) represents resources that are subject to external restrictions on how they may be used and restricted for pension. The Township may use the remaining balance of *unrestricted net position* of \$1,486,732 (25.42%) 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 \$525,162 during the current fiscal year.

	Net Position	
	Governmental Activities	
	2022	2021
Current and other assets	\$ 3,029,217	\$ 2,515,579
Capital assets, net	3,386,567	3,319,117
Total assets	6,415,784	5,834,696
Deferred outflows of resources	45,800	22,992
Current and other liabilities	384,487	182,909
Long-term debt	246,519	378,523
Total liabilities	631,006	561,432
Deferred inflows of resources	30,777	21,617
Net position:		
Net investment in capital assets	3,140,048	2,940,594
Restricted for public safety	1,173,021	1,020,103
Restricted for pension	12,446	18,958
Unrestricted	1,474,286	1,294,984
Total net position	\$ 5,799,801	\$ 5,274,639

TOWNSHIP OF ARMADA, MICHIGAN

Management's Discussion and Analysis

	Change in Net Position	
	Governmental Activities	
	2022	2021
Program revenues:		
Charges for services	\$ 371,800	\$ 308,711
Operating grants	361,965	169,465
General revenues:		
Property taxes	1,560,896	1,504,847
Intergovernmental	482,324	339,953
Other	89,922	214,902
Total revenues	<u>2,866,907</u>	<u>2,537,878</u>
Expenses:		
General government	402,987	316,441
Public safety	896,525	881,399
Health and welfare	784,911	701,497
Public works	107,326	102,747
Recreation and culture	139,333	104,491
Interest on long-term debt	10,663	18,870
Total expenses	<u>2,341,745</u>	<u>2,125,445</u>
Change in net position	525,162	412,433
Net position:		
Beginning of year	5,274,639	4,862,206
End of year	<u>\$ 5,799,801</u>	<u>\$ 5,274,639</u>

Governmental Activities. The net position of the governmental activities increased by \$525,162. This is due to increases in tax and state revenue sharing received during the year.

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 2022, the Township's governmental funds reported combined ending fund balances of \$2,623,090, an increase of \$326,979 in comparison with the prior year. Approximately 55.08% of this total amount, or \$1,444,888, 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, \$5,181, represents amounts prepaid for fiscal year 2023 expenditures in fiscal year 2022. The restricted portion of the governmental fund balance, \$1,173,021, 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 \$1,444,888 while total fund balance was \$1,450,069. The fund balance of the Township's general fund increased by a total \$174,061 during the current fiscal year. The increase is the result of increases in tax related to increases in the taxable value and total expenditures being under budget for general fund by \$106,935 from overall cost savings at the Township.

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 expenditures 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, 2022, amounted to \$3,386,567 (net of accumulated depreciation). Capital assets balances for the current year and the previous year ended March 31 were as follows:

	Governmental Activities	
	2022	2021
Land	\$ 285,349	\$ 285,349
Construction in progress	223,524	511,418
Roads and sidewalks	269,873	279,491
Buildings and improvements	975,862	1,013,912
Furniture and equipment	1,630,059	1,215,284
Vehicles	1,900	13,663
Total capital assets, net	\$ 3,386,567	\$ 3,319,117

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 \$67,450 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 \$246,519. The long-term debt of the Township decreased by \$132,004 during fiscal year 2022 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	
	2022	2021
Installment purchase agreements	<u>\$ 246,519</u>	<u>\$ 378,523</u>

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 2023 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 2023

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, 2022

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 2,849,326
Receivables, net	174,710
Prepaid items	5,181
Capital assets not being depreciated	508,873
Capital assets being depreciated, net	<u>2,877,694</u>
Total assets	<u>6,415,784</u>
Deferred outflows of resources	
Deferred pension amounts	<u>45,800</u>
Liabilities	
Accounts payable and accrued liabilities	181,346
Unearned revenues	200,564
Long-term debt:	
Due within one year	80,074
Due in more than one year	166,445
Net pension liability	<u>2,577</u>
Total liabilities	<u>631,006</u>
Deferred inflows of resources	
Deferred pension amounts	<u>30,777</u>
Net position	
Net investment in capital assets	3,140,048
Restricted for public safety	1,173,021
Restricted for pension	12,446
Unrestricted	<u>1,474,286</u>
Total net position	<u>\$ 5,799,801</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, 2022

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenues
		Charges for Services	Operating Grants and Contributions	
Primary government				
Governmental activities:				
General government	\$ 402,987	\$ 97,523	\$ 7,285	\$ (298,179)
Public safety	896,525	805	338,526	(557,194)
Health and welfare	784,911	273,472	-	(511,439)
Public works	107,326	-	16,154	(91,172)
Recreation and culture	139,333	-	-	(139,333)
Interest on long-term debt	10,663	-	-	(10,663)
Total governmental activities	<u>\$ 2,341,745</u>	<u>\$ 371,800</u>	<u>\$ 361,965</u>	<u>(1,607,980)</u>
General revenues:				
Property taxes				1,560,896
Grants and contributions not restricted to specific programs				482,324
Other unrestricted revenues				81,042
Unrestricted investment earnings				2,165
Gain on sale of capital assets				6,715
Total general revenues				<u>2,133,142</u>
Change in net position				525,162
Net position, beginning of year				<u>5,274,639</u>
Net position, end of year				\$ 5,799,801

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

TOWNSHIP OF ARMADA, MICHIGAN

Balance Sheet

Governmental Funds

March 31, 2022

	General	Emergency Services	Totals
Assets			
Cash and cash equivalents	\$ 1,598,713	\$ 1,250,613	\$ 2,849,326
Accounts receivable, net	-	29,565	29,565
Taxes receivable	6,854	45,488	52,342
Due from other governments	92,803	-	92,803
Due from other funds	35,893	-	35,893
Prepaid items	5,181	-	5,181
Total assets	<u>\$ 1,739,444</u>	<u>\$ 1,325,666</u>	<u>\$ 3,065,110</u>
Liabilities			
Accounts payable	\$ 13,850	\$ 6,665	\$ 20,515
Accrued liabilities	43,153	110,087	153,240
Due to other funds	-	35,893	35,893
Unearned revenues	200,564	-	200,564
Total liabilities	<u>257,567</u>	<u>152,645</u>	<u>410,212</u>
Deferred inflows of resources			
Unavailable revenue	31,808	-	31,808
Fund balances			
Nonspendable	5,181	-	5,181
Restricted	-	1,173,021	1,173,021
Unassigned	1,444,888	-	1,444,888
Total fund balances	<u>1,450,069</u>	<u>1,173,021</u>	<u>2,623,090</u>
Total liabilities and fund balances	<u>\$ 1,739,444</u>	<u>\$ 1,325,666</u>	<u>\$ 3,065,110</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, 2022

Fund balances - total governmental funds	\$ 2,623,090
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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	508,873
Capital assets being depreciated, net	2,877,694

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

Unavailable state shared revenues	31,808
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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	(246,519)
Accrued interest on long-term debt	(7,591)

Certain pension-related amounts, such as the net pension liability 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 liability	(2,577)
Deferred outflows related to the net pension liability	45,800
Deferred inflows related to the net pension liability	(30,777)

Net position of governmental activities	<u>\$ 5,799,801</u>
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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, 2022

	General	Emergency Services	Totals
Revenues			
Taxes	\$ 264,249	\$ 1,296,647	\$ 1,560,896
Intergovernmental	502,485	338,526	841,011
Licenses and permits	96,089	-	96,089
Charges for services	1,434	274,277	275,711
Interest	1,622	543	2,165
Other	13,641	67,401	81,042
Total revenues	<u>879,520</u>	<u>1,977,394</u>	<u>2,856,914</u>
Expenditures			
Current:			
Legislative	74,282	-	74,282
General government	308,617	-	308,617
Public safety	120,950	400,657	521,607
Health and welfare	-	1,268,746	1,268,746
Public works	98,607	-	98,607
Recreation and culture	80,643	-	80,643
Debt service:			
Principal	-	132,004	132,004
Interest	-	12,626	12,626
Capital outlay	22,360	28,183	50,543
Total expenditures	<u>705,459</u>	<u>1,842,216</u>	<u>2,547,675</u>
Revenues over expenditures	<u>174,061</u>	<u>135,178</u>	<u>309,239</u>
Other financing sources			
Sale of capital assets	-	17,740	17,740
Net change in fund balances	<u>174,061</u>	<u>152,918</u>	<u>326,979</u>
Fund balances, beginning of year	<u>1,276,008</u>	<u>1,020,103</u>	<u>2,296,111</u>
Fund balances, end of year	<u>\$ 1,450,069</u>	<u>\$ 1,173,021</u>	<u>\$ 2,623,090</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, 2022

Net change in fund balances - total governmental funds	\$ 326,979
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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	351,077
Depreciation expense	(272,602)
Proceeds from sale of capital assets	(17,740)
Gain on sale of capital assets	6,715

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

State shared revenues	3,278
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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	132,004
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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 liability and related deferred amounts	(6,512)
Change in accrued interest on long-term debt	1,963

Change in net position of governmental activities	<u>\$ 525,162</u>
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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, 2022

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenues				
Taxes	\$ 257,807	\$ 257,807	\$ 264,249	\$ 6,442
Intergovernmental	343,317	543,077	502,485	(40,592)
Licenses and permits	84,000	84,000	96,089	12,089
Charges for services	1,535	1,535	1,434	(101)
Interest	1,100	1,100	1,622	522
Other	34,402	34,402	13,641	(20,761)
Total revenues	722,161	921,921	879,520	(42,401)
Expenditures				
Current:				
Legislative - Township board	73,129	85,009	74,282	(10,727)
General government:				
Supervisor	35,621	38,121	35,093	(3,028)
Assessor	47,469	47,469	45,077	(2,392)
Elections	19,350	19,350	9,798	(9,552)
Clerk	60,256	60,256	58,789	(1,467)
Board of review	1,661	1,786	1,432	(354)
Treasurer	55,741	55,741	48,497	(7,244)
Buildings and grounds	15,154	97,409	91,721	(5,688)
Professional services	22,500	22,500	18,210	(4,290)
Total general government	257,752	342,632	308,617	(34,015)
Public safety:				
Ordinance enforcement	6,476	6,476	2,275	(4,201)
Inspections	106,029	108,579	101,430	(7,149)
Planning and zoning	35,339	30,269	17,245	(13,024)
Total public safety	147,844	145,324	120,950	(24,374)
Public works:				
Refuse collection	70,514	70,514	67,945	(2,569)
Cemetery	3,500	3,500	2,902	(598)
Highways, streets, and bridges	132,179	35,029	27,760	(7,269)
Total public works	206,193	109,043	98,607	(10,436)

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, 2022

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Expenditures (concluded)				
Recreation and culture - Parks and recreation	\$ 87,975	\$ 95,195	\$ 80,643	\$ (14,552)
Capital outlay	37,001	35,191	22,360	(12,831)
Total expenditures	<u>809,894</u>	<u>812,394</u>	<u>705,459</u>	<u>(106,935)</u>
Revenues (under) over expenditures	(87,734)	109,526	174,061	64,535
Other financing sources				
Proceeds from sale of capital assets	<u>1</u>	<u>1</u>	<u>-</u>	<u>(1)</u>
Net change in fund balance	(87,733)	109,527	174,061	64,534
Fund balance, beginning of year	<u>1,276,008</u>	<u>1,276,008</u>	<u>1,276,008</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,188,275</u>	<u>\$ 1,385,535</u>	<u>\$ 1,450,069</u>	<u>\$ 64,534</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, 2022

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenues				
Taxes	\$ 1,307,602	\$ 1,307,602	\$ 1,296,647	\$ (10,955)
Intergovernmental	397,428	397,428	338,526	(58,902)
Charges for services	232,001	232,001	274,277	42,276
Interest	1,500	1,500	543	(957)
Other	9,253	9,253	67,401	58,148
Total revenues	<u>1,947,784</u>	<u>1,947,784</u>	<u>1,977,394</u>	<u>29,610</u>
Expenditures				
Current:				
Public safety	431,932	414,821	400,657	(14,165)
Health and welfare	1,367,786	1,365,541	1,268,746	(96,794)
Debt service:				
Principal	80,878	132,004	132,004	-
Interest	14,800	12,626	12,626	-
Capital outlay	62,389	36,078	28,183	(7,895)
Total expenditures	<u>1,957,785</u>	<u>1,961,070</u>	<u>1,842,216</u>	<u>(118,854)</u>
Revenues over (under) expenditures	<u>(10,001)</u>	<u>(13,286)</u>	<u>135,178</u>	<u>148,464</u>
Other financing sources				
Proceeds from sale of capital assets	<u>10,000</u>	<u>10,000</u>	<u>17,740</u>	<u>7,740</u>
Net change in fund balance	<u>(1)</u>	<u>(3,286)</u>	<u>152,918</u>	<u>156,204</u>
Fund balance, beginning of year	<u>1,020,103</u>	<u>1,020,103</u>	<u>1,020,103</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,020,102</u>	<u>\$ 1,016,817</u>	<u>\$ 1,173,021</u>	<u>\$ 156,204</u>

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

TOWNSHIP OF ARMADA, MICHIGAN

Statement of Fiduciary Net Position

Custodial Fund

March 31, 2022

Assets

Cash and cash equivalents	\$ 5,552
Due from other governments	<u>9,970</u>

Total assets

15,522

Liabilities

Undistributed taxes	<u>15,522</u>
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Net position

Restricted for individuals, organizations, and other governments	<u><u>\$ -</u></u>
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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, 2022

Additions

Taxes collected for other governments	\$ 13,262,383
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Deductions

Payment of property taxes to other governments	<u>13,262,383</u>
--	-------------------

Change in net position

-

Net position, beginning of year

-

Net position, end of year

\$ -

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 of 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 Liability

The net pension liability is deemed to be a noncurrent liability and is recognized on the Township's statement of net position. For the purposes of measuring the net pension liability and deferred inflows and 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.

Unearned Revenues

The Township reports unearned revenues in connection with assets received or receivable that are not considered to have yet been earned.

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 the special revenue fund. 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 had no expenditures in excess of amounts appropriated for the year.

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	\$ 2,849,326
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Statement of Fiduciary Net Position

Cash and cash equivalents	<u>5,552</u>
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Total	<u><u>\$ 2,854,878</u></u>
--------------	----------------------------

Deposits

Bank deposits:

Checking and savings accounts	\$ 2,763,450
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Certificates of deposit (due within one year)	91,278
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Cash on hand	<u>150</u>
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Total	<u><u>\$ 2,854,878</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, \$1,932,649 of the Township's bank balance of \$2,932,211 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	\$ -	\$ 72,916	\$ 72,916
Allowance for doubtful accounts	-	(43,351)	(43,351)
Taxes	6,854	45,488	52,342
Due from other governments	92,803	-	92,803
	<u>\$ 99,657</u>	<u>\$ 75,053</u>	<u>\$ 174,710</u>

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Payables are comprised of the following at year-end:

	General Fund	Emergency Services Fund	Governmental Activities	Total Governmental Activities
Accounts payable	\$ 13,850	\$ 6,665	\$ -	\$ 20,515
Accrued liabilities	43,153	110,087	-	153,240
Accrued interest	-	-	7,591	7,591
	<u>\$ 57,003</u>	<u>\$ 116,752</u>	<u>\$ 7,591</u>	<u>\$ 181,346</u>

7. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of March 31, 2022, is as follows:

	Due from Other funds	Due to Other funds
General fund	\$ 35,893	\$ -
Emergency services fund	-	35,893
Total	<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, 2022, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 285,349	\$ -	\$ -	\$ -	\$ 285,349
Construction in progress	511,418	-	-	(287,894)	223,524
	<u>796,767</u>	<u>-</u>	<u>-</u>	<u>(287,894)</u>	<u>508,873</u>
Capital assets being depreciated:					
Roads and sidewalks	366,516	-	-	-	366,516
Buildings and improvements	2,223,928	29,648	-	-	2,253,576
Furniture and equipment	3,041,365	321,429	(127,571)	287,894	3,523,117
Vehicles	68,518	-	-	-	68,518
	<u>5,700,327</u>	<u>351,077</u>	<u>(127,571)</u>	<u>287,894</u>	<u>6,211,727</u>
Less accumulated depreciation for:					
Roads and sidewalks	(87,025)	(9,618)	-	-	(96,643)
Buildings and improvements	(1,210,016)	(67,698)	-	-	(1,277,714)
Furniture and equipment	(1,826,081)	(183,523)	116,546	-	(1,893,058)
Vehicles	(54,855)	(11,763)	-	-	(66,618)
	<u>(3,177,977)</u>	<u>(272,602)</u>	<u>116,546</u>	<u>-</u>	<u>(3,334,033)</u>
Total capital assets being depreciated, net	<u>2,522,350</u>	<u>78,475</u>	<u>(11,025)</u>	<u>287,894</u>	<u>2,877,694</u>
Governmental activities capital assets, net	<u>\$ 3,319,117</u>	<u>\$ 78,475</u>	<u>\$ (11,025)</u>	<u>\$ -</u>	<u>\$ 3,386,567</u>

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

Depreciation of governmental activities by function

General government	\$ 20,088
Public safety	207,465
Public works	8,719
Recreation and culture	<u>36,330</u>
	<u>\$ 272,602</u>

At March 31, 2022, the Township had no outstanding commitments for construction contracts.

TOWNSHIP OF ARMADA, MICHIGAN

Notes To Financial Statements

9. LONG-TERM DEBT

Long-term debt activity for the year ended March 31, 2022, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Note from direct borrowings and direct placements:					
\$300,000 loan payable due in annual installments of \$35,704, including interest, through April 24, 2022, interest at 3.25%	\$ 103,723	\$ -	\$ (71,284)	\$ 32,439	\$ 32,439
 \$476,330 loan payable due in annual principal installments of \$47,635 through August 1, 2026, interest at 3.00%	 274,800	 -	 (60,720)	 214,080	 47,635
	<u>\$ 378,523</u>	<u>\$ -</u>	<u>\$ (132,004)</u>	<u>\$ 246,519</u>	<u>\$ 80,074</u>

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

Year Ended March 31,	Governmental Activities	
	Principal	Interest
2023	\$ 80,074	10,487
2024	64,384	7,935
2025	47,635	5,362
2026	29,836	3,899
2027	24,590	3,451
	<u>\$ 246,519</u>	<u>\$ 31,134</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, 2022, 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 2021 levy for the property within the Township was \$345,890,837.

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.

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, 2021 valuation date, plan membership consisted of the following:

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

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, 2022:

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

Net Pension Liability. The Township's net pension liability was measured as of December 31, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2021 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	7.00%, net of investment and administrative expense including inflation

The base mortality tables used are constructed as described below and are based on amount weighted sex distinct rates:

- 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, 2021 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%	4.50%	2.70%
Global fixed income	20.0%	2.00%	0.40%
Private Investments	20.0%	7.00%	1.40%
	<u>100.0%</u>		
Inflation			2.50%
Administrative expenses netted above			<u>0.25%</u>
			<u>7.25%</u>

Discount Rate. The discount rate used to measure the total pension liability as of December 31, 2021 was 7.25% (down from 7.60% at December 31, 2020). 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 Liability

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) - (b)
Balances at December 31, 2020	\$ 159,192	\$ 176,775	\$ (17,583)
Changes for the year:			
Service cost	70,914	-	70,914
Interest	14,793	-	14,793
Differences between expected and actual experience	(2,742)	-	(2,742)
Changes in assumptions	27,536	-	27,536
Employer contributions	-	30,220	(30,220)
Employee contributions	-	32,039	(32,039)
Net investment income	-	28,408	(28,408)
Administrative expense	-	(326)	326
Net changes	110,501	90,341	20,160
Balances at December 31, 2021	\$ 269,693	\$ 267,116	\$ 2,577

Changes in assumptions. In 2022, amounts reported as changes of assumptions resulted from a decrease in the assumed rate of return from 7.35% to 7.00%.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the Township, calculated using the discount rate of 7.25%, as well as what the Township's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net pension (asset) liability	\$ 62,189	\$ 2,577	\$ (43,640)

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, 2022, the Township recognized pension expense of \$36,278. The Township reported deferred outflows/inflows 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	\$ -	\$ 13,695	\$ (13,695)
Changes in assumptions	36,881	-	36,881
Net difference between projected and actual earnings on pension plan investments	-	17,082	(17,082)
	<u>36,881</u>	<u>30,777</u>	<u>6,104</u>
Contributions subsequent to the measurement date	8,919	-	8,919
Total	<u>\$ 45,800</u>	<u>\$ 30,777</u>	<u>\$ 15,023</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 liability for the year ending March 31, 2023. 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
2023	\$ (1,928)
2024	(2,980)
2025	(2,198)
2026	(41)
2027	2,484
2028-2031	<u>10,767</u>
Total	<u>\$ 6,104</u>

Payable to the Pension Plan. At March 31, 2022, 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 \$7,200. 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	\$ 96,089
Expenditures	<u>(101,430)</u>
Current year loss	<u><u>\$ (5,341)</u></u>
Loss absorbed in 2001-2021	<u><u>\$ (17,107)</u></u>

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:

	General Fund	Emergency Services Fund	Total
Nonspendable - Prepays	\$ 5,181	\$ -	\$ 5,181
Restricted for - Emergency services activities	-	1,173,021	1,173,021
Unassigned	<u>1,444,888</u>	<u>-</u>	<u>1,444,888</u>
Total fund balances, governmental funds	<u><u>\$ 1,450,069</u></u>	<u><u>\$ 1,173,021</u></u>	<u><u>\$ 2,623,090</u></u>

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:

	Governmental Activities
Capital assets, net	\$ 3,386,567
Related debt -	
Notes payable outstanding	<u>246,519</u>
Net investment in capital assets	<u>\$ 3,140,048</u>

17. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. While the pandemic has resulted in an increase in the demands on the Township for providing emergency services to its citizens, the Federal Government has also provided significant resources to help mitigate the impacts of COVID-19. The Township directly received over \$200,000 during 2022 from various funding sources to be used to respond to the impacts of the COVID-19 pandemic through the CARES Act and other funding sources. This funding will be used to support the Township's emergency services provided for residents.

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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,		
	2022	2021	2020
Total pension liability			
Service cost	\$ 70,914	\$ 58,439	\$ 49,889
Interest	14,793	8,791	5,199
Difference between expected and actual experience	(2,742)	(6,128)	(9,034)
Changes in assumptions	27,536	14,589	611
Benefit payments, including refunds of employee contributions	-	(5,907)	(1,974)
Other changes	-	-	273
Net change in total pension liability	<u>110,501</u>	<u>69,784</u>	<u>44,964</u>
Total pension liability, beginning of year	<u>159,192</u>	<u>89,408</u>	<u>44,444</u>
Total pension liability, end of year	<u>269,693</u>	<u>159,192</u>	<u>89,408</u>
Plan fiduciary net position			
Employer contributions	30,220	28,982	42,671
Employee contributions	32,039	28,756	-
Net investment income (loss)	28,408	20,687	9,591
Benefit payments, including refunds of employee contributions	-	(5,907)	(1,974)
Administrative expense	(326)	(252)	(166)
Net change in plan fiduciary net position	<u>90,341</u>	<u>72,266</u>	<u>50,122</u>
Plan fiduciary net position, beginning of year	<u>176,775</u>	<u>104,509</u>	<u>54,387</u>
Plan fiduciary net position, end of year	<u>267,116</u>	<u>176,775</u>	<u>104,509</u>
Township's net pension liability (asset)	<u>\$ 2,577</u>	<u>\$ (17,583)</u>	<u>\$ (15,102)</u>
Plan fiduciary net position as a percentage of total pension liability	99.0%	111.0%	116.9%
Covered payroll	\$ 533,989	\$ 518,994	\$ 418,178
Township's net pension liability (asset) as a percentage of covered payroll	0.5%	-3.4%	-3.6%

See notes to required supplementary information.

Year Ended March 31,	
2019	2018

\$	34,095	\$	30,601
	2,028		1,184

-	-
-	-

-	(1,000)
13	(22,477)
<u>36,136</u>	<u>8,308</u>

<u>8,308</u>	<u>-</u>
--------------	----------

<u>44,444</u>	<u>8,308</u>
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35,824	10,642
-	10,648
(2,166)	513

-	(1,000)
(69)	(5)
<u>33,589</u>	<u>20,798</u>

<u>20,798</u>	<u>-</u>
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<u>54,387</u>	<u>20,798</u>
---------------	---------------

<u>\$ (9,943)</u>	<u>\$ (12,490)</u>
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122.4%	250.3%
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\$ 306,606	\$ 275,193
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-3.2%	-4.5%
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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
2022	\$ 30,220	\$ 30,220	\$ -	\$ 533,989	5.7%
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%

See notes to required supplementary information.

TOWNSHIP OF ARMADA, MICHIGAN

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Notes to Required Supplementary Information

Notes to the Schedule of Changes in the Township's Net Pension Liability and Related Ratios

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

GASB 68 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Changes in Assumptions. In 2020, amounts reported as changes in 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%.

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

In 2022, amounts reported as changes of assumptions resulted from a decrease in the assumed rate of return from 7.35% to 7.00%.

TOWNSHIP OF ARMADA, MICHIGAN

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan
Notes to Required Supplementary Information

Notes to Schedule of Contributions

GASB 68 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

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 (2022, based on the 12/31/2019 actuarial valuation):

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	3.00% in the long-term
Investment rate of return	7.35%, 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 15, 2022

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, each major fund, and the remaining fund information of the **Township of Armada** (the "Township"), as of and for the year ended March 31, 2022, 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 15, 2022.

Report on 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.

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. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2022-001 to be a material weakness.



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 deficiency described in the accompanying schedule of findings and responses as item 2022-002 to be a significant deficiency.

Report on 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 of Armada's Response to Findings

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

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 Lohman 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, 2022

2022-001 – Material Audit Adjustments

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. During our audit, we identified and proposed some material adjustments (which were approved and posted by management) to adjust the Township's general ledger to the appropriate balances. These adjustments included entries to adjust the following:

- Intergovernmental revenues within the emergency services fund were initially overstated by approximately \$66,000;
- Tax receivable and related revenue within the emergency services fund were initially understated by approximately \$45,000;
- Allowance for doubtful accounts in the emergency services fund was understated by approximately \$26,000;
- Accrued wages in the emergency services fund were understated by approximately \$80,000; and
- Unearned revenues were understated and intergovernmental revenues were overstated in the general fund by approximately \$200,000.

Cause. This condition was the result of dependence on external auditors, who by definition cannot be a part of the Township's internal control, to make adjustments to the general ledger and reconcile certain accounts to their underlying detail.

Effect. As a result of this condition, the Township's accounting records were initially misstated by amounts material to the financial statements.

Recommendation. The Township should reconcile all general ledger accounts to subsidiary detail routinely in order to have a more accurate financial picture.

View of Responsible Officials. Management concurs with this finding.

TOWNSHIP OF ARMADA, MICHIGAN

Schedule of Findings and Responses

For the Year Ended March 31, 2022

2022-002 – Construction Bond and Developer Fee 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 general 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. 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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