

**Carmel Township  
Eaton County, Michigan**

**FINANCIAL STATEMENTS**

**March 31, 2014**

Carmel Township  
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March 31, 2014

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## INDEPENDENT AUDITOR'S REPORT

To the Members of the Township Board  
Carmel Township  
Eaton County, Michigan

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

We have audited the accompanying financial statements of the governmental activities and the major fund of Carmel Township (the Township), as of and for the year ended March 31, 2014, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

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

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

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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## ***Opinions***

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

## ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as identified 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.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

June 11, 2014

Carmel Township

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2014

The following is a discussion and analysis of Carmel Township's (the Township's) financial performance and position, providing an overview of the activities for the year ended March 31, 2014. This analysis should be read in conjunction with the Independent Auditor's Report and with the Township's financial statements, which follow this section. This discussion and analysis provides comparisons with the previous audited financial statements.

**Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2014:

- The Township incurred expenditures of approximately \$49,500 related to the construction of the new Township hall.
- The Township incurred expenditures of approximately \$23,884 to rebuild approximately 6 miles of roads within the Township.

**Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net position and the statement of activities provide information about the activities of Carmel Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of Carmel Township in more detail than the government-wide financial statements by providing information about the Township's General Fund.

**The Township as a Whole**

The following table shows, in a condensed format, the net position as of March 31, 2014, and March 31, 2013.

	March 31,	
	2014	2013
<b>Assets</b>		
Current assets	\$ 1,745,263	\$ 1,688,631
Capital assets	290,642	245,386
Total assets	2,035,905	1,934,017
<b>Liabilities</b>		
Current liabilities	40,290	3,716
<b>Net position</b>		
Net investment in capital assets	290,642	245,386
Unrestricted	1,704,973	1,684,915
Total net position	\$ 1,995,615	\$ 1,930,301

The Township's net position was \$1,995,615 at March 31, 2014. Unrestricted net position (the part of net position that can be used to finance day-to-day operations) was \$1,704,973.

Carmel Township

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2014

The following table shows the changes in net position for the years ended March 31, 2014, and March 31, 2013.

	March 31,	
	2014	2013
<b>Revenue</b>		
Program revenues		
Charges for services	\$ 42,471	\$ 40,418
Operating grants and contributions	3,348	8,210
General revenues		
Property taxes	69,284	68,988
PA 425 agreement	5,732	5,968
State shared revenue	212,240	208,174
Investment earnings	4,483	9,395
Gain on sale of land	13,421	-
Other	3,085	723
Total revenues	354,064	341,876
<b>Program Expenses</b>		
General government	160,540	141,892
Public safety	93,578	60,399
Public works	24,820	54,028
Health and welfare	4,111	4,111
Recreation and culture	5,701	4,711
Total program expenses	288,750	265,141
<b>Change in net position</b>	<u>\$ 65,314</u>	<u>\$ 76,735</u>

**Governmental Activities**

The Township's governmental revenues totaled \$354,064 with the greatest revenue source being state shared revenues which made up approximately 60 percent of total governmental revenue. The second largest revenue, property taxes, made up approximately 20 percent of total revenues. The most significant increase was to the gain on sale of land of \$13,421 due to the sale of the old township hall during 2014.

The Township incurred expenses of \$288,750 during the year. The majority of expenses are associated with the general government and public safety functions, which includes various general governmental activities and fire protection services. The most significant changes were to public safety which increased approximately 55% and public works which decreased 54%. These increase to public safety was related to the Township's funding of the Fire Department's long-term capital asset plan during while the decrease in public works was due to reconstructing the near six (6) miles of dirt road as was completed in fiscal year 2013.

**The Township Fund**

The analysis of the Township's major fund begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the only fund of the Township, the General Fund. If/when necessary, the Carmel Township's Board of Trustees creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as property tax millages.

Carmel Township

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2014

**The Township Fund - continued**

The General Fund pays for all of the Township's governmental services. The most significant services provided during the fiscal year were general government activities of \$156,311; an increase of approximately \$16,564 or 11.9% due to approved salary increases correlating with additional responsibilities taken on by Township personnel. The second most significant services provided during the fiscal year was public safety activities of \$93,578; an increase of approximately \$33,179 or 54.9% due to the Township providing a significant payment on their portion on new equipment purchases. These activities are funded primarily through state shared revenues and property taxes.

**General Fund Budgetary Highlights**

Over the course of the fiscal year, the Township Board made necessary budget adjustments to fund unanticipated expenditures during the year. The Township's final expenditure budget was increased from the original budget by \$50,495 during the fiscal year. The most significant budget amendments were the increase to fire protection to fund new equipment purchases for the fire department and the increase to capital outlay to account for survey expenditures related to the construction of the new township hall. Total expenditures had a favorable variance of \$41,375 from the amended budget as road work originally in the 2013/2014 budget was delayed due to weather and other factors.

**Capital Assets**

At the end of the fiscal year, the Township had approximately \$311,203 in historical cost in land, construction in progress, land improvements, equipment, and software. This is an increase of \$48,485 from the prior year due to construction in progress related to the building of a new Township hall. There was \$20,561 in accumulated depreciation on these assets with a resulting investment in capital assets (net book value) of \$290,642. See Note C in the financial statements for more details.

**Current Economic Factors**

Revenue sharing is the most significant budgetary concern at this time. The State of Michigan continues to experience significant budget problems, and as they look for solutions, revenue sharing continues to be under attack. Personal property tax is being phased out in the state of Michigan. This is a minimal amount to the Township budget, but could affect the Township in the future with revenues.

**Contacting the Township's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Township Clerk or Treasurer or the Township Hall.

## **BASIC FINANCIAL STATEMENTS**



Carmel Township  
STATEMENT OF NET POSITION  
March 31, 2014

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 1,053,107
Investments	688,280
Taxes receivable	<u>3,876</u>
Total current assets	1,745,263
Noncurrent assets	
Capital assets not being depreciated	227,979
Capital assets, net of accumulated depreciation	<u>62,663</u>
Total noncurrent assets	<u>290,642</u>
TOTAL ASSETS	2,035,905
LIABILITIES	
Current liabilities	
Accounts payable	33,528
Accrued liabilities	<u>6,762</u>
TOTAL LIABILITIES	<u>40,290</u>
NET POSITION	
Net investment in capital assets	290,642
Unrestricted	<u>1,704,973</u>
TOTAL NET POSITION	<u><u>\$ 1,995,615</u></u>

See accompanying notes to financial statements.

Carmel Township  
STATEMENT OF ACTIVITIES  
Year Ended March 31, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
General government	\$ 160,540	\$ 42,471	\$ -	\$ (118,069)
Public safety	93,578	-	-	(93,578)
Public works	24,820	-	3,348	(21,472)
Health and welfare	4,111	-	-	(4,111)
Recreation and culture	5,701	-	-	(5,701)
Total governmental activities	<u>\$ 288,750</u>	<u>\$ 42,471</u>	<u>\$ 3,348</u>	(242,931)
General revenues:				
Taxes				69,284
PA 425 agreement				5,732
State revenue sharing				212,240
Investment earnings				4,483
Gain on sale of land				13,421
Other				<u>3,085</u>
Total general revenues				<u>308,245</u>
Change in net position				65,314
Net position, beginning of year				<u>1,930,301</u>
Net position, end of the year				<u>\$ 1,995,615</u>

See accompanying notes to financial statements.

Carmel Township  
Governmental Fund  
BALANCE SHEET  
March 31, 2014

	<u>General</u>
ASSETS	
Cash	\$ 1,053,107
Investments	688,280
Taxes receivable	<u>3,876</u>
TOTAL ASSETS	<u><u>\$ 1,745,263</u></u>
LIABILITIES	
Accounts payable	\$ 33,528
Accrued liabilities	<u>6,762</u>
TOTAL LIABILITIES	40,290
FUND BALANCE	
Committed	
Building	524,110
Roads	166,786
Public safety	17,095
Cemetery	15,000
Assigned	
Subsequent year's expenditures	15,276
Unassigned	<u>966,706</u>
TOTAL FUND BALANCE	<u>1,704,973</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 1,745,263</u></u>

See accompanying notes to financial statements.

Carmel Township

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET POSITION

March 31, 2014

**Total fund balance - governmental fund** **\$ 1,704,973**

Amounts reported for the governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental fund.

The cost of capital assets is	\$ 311,203
Accumulated depreciation is	<u>(20,561)</u>

Capital assets, net	<u>290,642</u>
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<b>Net position of governmental activities</b>	<b><u><u>\$ 1,995,615</u></u></b>
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Carmel Township

Governmental Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year Ended March 31, 2014

	<u>General</u>
REVENUES	
Taxes	\$ 103,886
Licenses and permits	4,972
Intergovernmental	215,588
Charges for services	7,231
Interest and rent	5,881
Other	<u>16,506</u>
TOTAL REVENUES	354,064
EXPENDITURES	
Current	
General government	156,311
Public safety	93,578
Public works	24,820
Health and welfare	4,111
Recreation and culture	5,701
Capital outlay	<u>49,485</u>
TOTAL EXPENDITURES	<u>334,006</u>
NET CHANGE IN FUND BALANCE	20,058
Fund balance, beginning of year	<u>1,684,915</u>
Fund balance, end of year	<u><u>\$ 1,704,973</u></u>

See accompanying notes to financial statements.

Carmel Township

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL  
FUND TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2014

**Net change in fund balance - governmental fund** \$ 20,058

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in the governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, this amount is:

Capital outlay	\$ 49,485
Depreciation expense	<u>(3,229)</u>

Excess of capital outlay over depreciation expense	46,256
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The net effect of the sale of land is to decrease net position	<u>(1,000)</u>
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<b>Change in net position of governmental activities</b>	<u><u>\$ 65,314</u></u>
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Carmel Township

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

**NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Carmel Township, Michigan (the Township) was organized as a township under provisions of the constitution and general law of the State of Michigan. The Township is one of sixteen (16) townships in Eaton County. The Township operates under an elected Township Board which consists of a Supervisor, Clerk, Treasurer, and two trustees and provides services in many areas including fire protection, roads, and zoning.

The financial statements of the Township have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Township governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Township's more significant accounting policies are described below.

1. Reporting Entity

As required by generally accepted accounting principles in the United States of America, these financial statements present all financial activities of Carmel Township. The Township has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Carmel Township contain all the funds controlled by the Township Board.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the government-wide statements) present information for the Township as a whole.

The statement of activities presents the direct functional expenses of the Township and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services that are restricted to meeting the operational requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes property taxes, interest, and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Township's individual major fund.

The Township reports the following major governmental fund:

- a. General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

**NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Revenues for grants and contributions are recognized when all eligibility requirements imposed by the provider have been met. Unearned revenue is recorded in the government-wide statements when resources are received by the Township before it has legal claim to them, such as when program fees are received. If/when both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include state and federal grants and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

5. Budgets and Budgetary Accounting

The General Fund budget shown in the required supplementary information of the financial statements was prepared on a basis not substantially different than the basis used to reflect actual results.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to April 1, the General Fund budget is legally adopted at the total fund level through passage of a Board resolution after a public hearing is held to obtain taxpayer comments. After the budget is adopted, all transfers of budgeted amounts between activities or any revisions that alter the total expenditures of the fund or activity must be approved by the Township Board.
- b. Formal budgetary integration is employed as a management control device during the year.
- c. The Township does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at March 31 are not carried forward to the following fiscal year.



Carmel Township

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

**NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

5. Budgets and Budgetary Accounting - continued

- d. Budgeted amounts are reported as originally adopted or amended by the Township Board during the year. Individual amendments were appropriately approved by the Township Board as required.

6. Cash and Investments

Cash consists of checking and savings accounts. Investments consist of certificates of deposit with an original maturity of greater than 90 days. Investments are recorded at market value.

7. Capital Assets

Capital assets are recorded net of accumulated depreciation in the government-wide financial statements. Capital assets are those with an initial individual cost of \$1,000 or more and an estimated useful life of more than two years. Capital acquisitions and construction are reflected as expenditures in the governmental fund, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Equipment	5 - 20 years
Buildings and land improvements	15 - 30 years
Software	3 years

8. Property Taxes

Carmel Township bills and collects both its own property tax levy and the tax levy for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are as follows:

The property taxes attach as an enforceable lien on property as of December 1. Taxes are levied December 1 and are payable through February 14. All property taxes not paid by February 14 are deemed delinquent. Delinquent real property taxes are turned over to the Eaton County Treasurer on March 1. The Eaton County Treasurer remits payment to all taxing units on all delinquent real property taxes. Delinquent personal property taxes are retained by the Township for subsequent collection. Property taxes are recognized as revenues in the period for which they are levied.

The Township is permitted to levy up to \$1 per \$1,000 of assessed valuation for general governmental service. For the year ended March 31, 2014, the Township levied 0.8359 mills per \$1,000 of assessed valuation for general governmental services. The total taxable value for the 2013 levy for property within the Township was \$83,525,705.

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

**NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

9. Deferred Outflows/Inflows of Resources - continued

The Township does not currently have any deferred outflows or deferred inflows of resources to report.

10. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

**NOTE B: CASH AND INVESTMENTS**

In accordance with Michigan Compiled Laws, Carmel Township is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2014, the carrying amount of the Township's deposits was \$1,741,387 and the bank balance was \$1,818,615, of which \$1,115,767 was covered by federal depository insurance. The remaining balance of \$702,848 was uninsured and uncollateralized.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of March 31, 2014, the Township did not have any investments that would be subject to rating.

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 designing its portfolio with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Carmel Township

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

**NOTE B: CASH AND INVESTMENTS - CONTINUED**

Concentration of credit risk

The Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying its investments by security type and institution to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Custodial credit risk

The Township will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments that are in possession of an outside party by diversifying its investments by institution to ensure that potential losses on individual securities do not exceed the income generated by the remainder of the portfolio.

**NOTE C: CAPITAL ASSETS**

Capital asset activity for the year ended March 31, 2014, was as follows:

	Balance April 1, 2013	Additions	Deletions	Balance March 31, 2014
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 173,987	\$ -	\$ (1,000)	\$ 172,987
Construction in progress	5,507	49,485	-	54,992
Total capital assets not being depreciated	179,494	49,485	(1,000)	227,979
Capital assets being depreciated				
Buildings and land improvements	64,357	-	-	64,357
Equipment	16,405	-	-	16,405
Software	2,462	-	-	2,462
Total capital assets being depreciated	83,224	-0-	-0-	83,224
Less accumulated depreciation for:				
Buildings and land improvements	(5,290)	(2,401)	-	(7,691)
Equipment	(9,580)	(828)	-	(10,408)
Software	(2,462)	-	-	(2,462)
Total accumulated depreciation	(17,332)	(3,229)	-0-	(20,561)
Total capital assets being depreciated, net	65,892	(3,229)	-0-	62,663
Net capital assets	\$ 245,386	\$ 46,256	\$ (1,000)	\$ 290,642

Depreciation expense of \$3,229 was allocated to the general government function on the statement of activities.

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

**NOTE D: RISK MANAGEMENT**

The Township is exposed to various risks of loss for liability, property, inland marine, crime, auto, public officials' liability, employee benefits, and electronic data processing (EDP) liability for which the Township carries commercial insurance.

The Township also carries commercial insurance for the risk of loss due to workers' compensation claims.

**NOTE E: DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS**

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five classifications of fund balance under this standard:

*Nonspendable* - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

*Restricted* - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

*Committed* - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

*Assigned* - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

*Unassigned* - all other resources; the remaining fund balance after nonspendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

**Fund Balance Classification Policies and Procedures**

For committed fund balance, the Township's highest level of decision-making authority is the Township Board of Trustees. Formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution of the Township Board.

For assigned fund balance, the Township has not approved a policy indicating who is authorized to assign amounts to a specific purpose. As a result, this authority is retained by the Township Board of Trustees.

Carmel Township has not formally adopted a policy that determines when both restricted and unrestricted fund balances are available which should be used first, therefore restricted resources will be used first, then unrestricted resources if they are needed. Also, the Township considers committed, then assigned, and finally unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

## **REQUIRED SUPPLEMENTARY INFORMATION**

## Carmel Township

## General Fund

## BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 99,450	\$ 99,450	\$ 103,886	\$ 4,436
Licenses and permits	2,800	2,800	4,972	2,172
Intergovernmental	215,000	215,000	215,588	588
Charges for services	2,600	2,600	7,231	4,631
Interest and rent	11,000	11,000	5,881	(5,119)
Other	-	-	16,506	16,506
TOTAL REVENUES	330,850	330,850	354,064	23,214
EXPENDITURES				
Current				
General government				
Township Board	12,000	12,982	13,209	(227)
Supervisor	13,700	13,700	12,613	1,087
Clerk	28,500	28,500	26,457	2,043
Board of review	1,575	1,575	1,765	(190)
Treasurer	26,000	27,855	29,751	(1,896)
Assessor	31,500	31,500	24,322	7,178
Elections	1,600	1,600	717	883
Township hall	17,200	17,519	15,061	2,458
Audit and legal	18,100	18,450	3,450	15,000
Cemetery	25,000	25,000	22,670	2,330
Payroll taxes	7,000	7,000	6,296	704
Total general government	182,175	185,681	156,311	29,370
Public safety				
Fire protection	65,000	93,578	93,578	-0-
Public works				
Roads	60,000	60,000	23,884	36,116
Drains	8,500	8,500	936	7,564
Total public works	68,500	68,500	24,820	43,680
Health and welfare				
Ambulance	4,500	4,500	4,111	389

## Carmel Township

## General Fund

## BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended March 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES - CONTINUED				
Current - continued				
Recreation and culture				
Parks and recreation	\$ 4,711	\$ 5,701	\$ 5,701	\$ -0-
Capital outlay	-	17,421	49,485	(32,064)
TOTAL EXPENDITURES	<u>324,886</u>	<u>375,381</u>	<u>334,006</u>	<u>41,375</u>
NET CHANGE IN FUND BALANCE	5,964	(44,531)	20,058	64,589
Fund balance, beginning of year	<u>1,684,915</u>	<u>1,684,915</u>	<u>1,684,915</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 1,690,879</u>	<u>\$ 1,640,384</u>	<u>\$ 1,704,973</u>	<u>\$ 64,589</u>

## Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA  
Alan D. Panter, CPA  
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### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS

To the Members of the Township Board  
Carmel Township  
Eaton County, Michigan

In planning and performing our audit of the financial statements of the governmental activities and the major fund of Carmel Township (the Township) as of and for the year ended March 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be material weakness.

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 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 following deficiency in internal control to be a material weakness:

#### MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Material journal entries for the proper recognition of various financial statement amounts were proposed by the auditors. These misstatements were not detected by the Township's internal control over financial reporting. These entries were necessary to record various transactions in accordance with U.S. generally accepted accounting principles (GAAP). Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements.

We recommend that the Township take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.



## 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 provision of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following other matter.

### WRITTEN POLICIES AND PROCEDURES

Based on our discussions with management, we noted that the Township has not formally adopted written procedures and policies for areas of operation that directly or indirectly affect financial reporting. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater oversight over those areas over which they are responsible.

Specifically, we recommend that the Township develop, formally adopt, and implement written procedures and policies affecting the financial reporting process in the following areas:

- a. Business continuity plan - We recommend the Township adopt a business continuity plan. The plan should identify areas of operation that are critical to the Township and detail how operations would continue if the Township experienced an interruption of service.
- b. Code of conduct - We recommend the Township put in place a code of conduct including a policy on conflicts of interest. The code should include a requirement that key employees and Board members periodically make a declaration of compliance with the code, particularly with respect to conflicts of interest.

This communication is intended solely for the information and use of members of the Township Board, others within the Township, and applicable departments of the State of Michigan, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

June 11, 2014