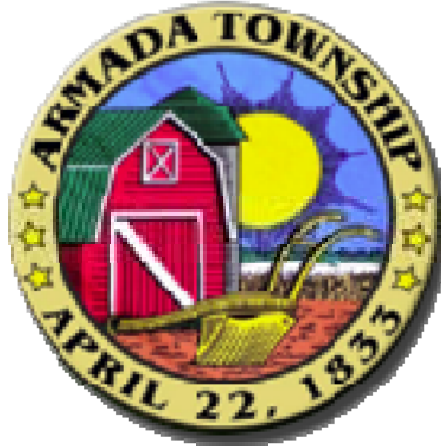


Township of
Armada, Michigan



Year Ended
March 31, 2019

Financial
Statements

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TOWNSHIP OF ARMADA

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INDEPENDENT AUDITORS' REPORT

September 5, 2019

Board of Trustees
Township of Armada
Macomb County, Michigan**Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Township of Armada, Michigan* (the "Township"), as of and for the year ended March 31, 2019, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Township'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, each major fund, and the aggregate remaining fund information of the *Township of Armada, Michigan* as of March 31, 2019, and the respective changes in financial position and the budgetary comparison for the general fund and the major special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management’s discussion and analysis and the schedules for the pension plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2019, on our consideration of the Township’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township’s internal control over financial reporting and compliance.



MANAGEMENT'S DISCUSSION AND ANALYSIS

TOWNSHIP OF ARMADA

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, 2019.

Financial Highlights

· Total net position	\$ 4,534,520
· Change in total net position	83,991
· Fund balances, governmental funds	1,954,063
· Change in fund balances, governmental funds	117,221
· Unassigned fund balance, general fund	1,141,847
· Change in fund balance, general fund	18,216
· Installment debt outstanding	162,118
· Decrease in installment debt	(29,393)

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, and liabilities 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

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 a 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. 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, Township 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

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 for all activities exceeded liabilities by \$4,534,520 at the close of the most recent fiscal year.

Of the Township's net position, \$2,560,511 (56.4%) reflects its investment in capital assets (e.g. land, land improvements, buildings and improvements, 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 \$828,355 (18.3%) represents resources that are subject to external restrictions on how they may be used. The Township may use the remaining balance of *unrestricted net position* of \$1,145,654 (25.3%) 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 \$83,991 during the current fiscal year.

	Net Position	
	Governmental Activities	
	2019	2018
Current and other assets	\$ 2,032,498	\$ 1,923,591
Capital assets, net	2,727,526	2,794,625
Total assets	4,760,024	4,718,216
Total deferred outflows of resources	10,003	4,394
Other liabilities	73,389	109,963
Long-term debt	162,118	162,118
Total liabilities	235,507	272,081
Net position:		
Net investment in capital assets	2,565,408	2,603,114
Restricted for public safety	808,409	709,404
Restricted for pension	19,946	12,490
Unrestricted	1,140,757	1,125,521
Total net position	\$ 4,534,520	\$ 4,450,529

TOWNSHIP OF ARMADA

Management's Discussion and Analysis

	Change in Net Position	
	Governmental Activities	
	2019	2018
Program revenues -		
Charges for services	\$ 282,294	\$ 283,815
Operating grants	88,545	97,500
Capital grants	-	216,736
General revenues:		
Property taxes	1,367,241	982,760
Intergovernmental	320,113	305,911
Other	60,588	116,051
Total revenues	<u>2,118,781</u>	<u>2,002,773</u>
Expenses:		
General government	332,845	292,945
Public safety	562,075	319,157
Health and welfare	950,884	912,650
Public works	71,281	75,431
Recreation and culture	112,808	85,426
Interest on long-term debt	4,897	6,310
Total expenses	<u>2,034,790</u>	<u>1,691,919</u>
Change in net position	83,991	310,854
Net position:		
Beginning of year	<u>4,450,529</u>	<u>4,139,675</u>
End of year	<u>\$ 4,534,520</u>	<u>\$ 4,450,529</u>

Governmental Activities. The net position of the governmental activities increased by \$83,991. This is due to revenues, both within and outside of the township's control or authority, increasing in fiscal year 2019. Specifically, revenue increased in the building department reflecting building and development activity. State revenue sharing also increased our budgeted revenue. In the Fire fund, a voter approved millage increase, significantly raised revenue within that fund as well.

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

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 2019, the Township's governmental funds reported combined ending fund balances of \$1,954,063, an increase of \$117,221 in comparison with the prior year. Approximately 58.4% of this total amount, or \$1,141,847, 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, \$13,360, represents amounts prepaid for fiscal year 2020 expenditures in fiscal year 2019. The restricted portion of the governmental fund balance, \$798,856, 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 \$1,141,847 while total fund balance was \$1,145,654. The fund balance of the Township's general fund increased by a total \$18,216 during the current fiscal year. The increase is the result of an effort to cut costs and increase fund balance for future contingencies.

General Fund Budgetary Highlights

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

Capital Asset and Debt Administration

Capital Assets. The Township's investment in capital assets for its governmental activities as of March 31, 2019, amounted to \$2,727,526 (net of accumulated depreciation). Capital assets balances for the current year and the previous year ended March 31 were as follows:

	Governmental Activities	
	2019	2018
Land	\$ 285,349	\$ 285,349
Construction in progress	174,487	134,772
Infrastructure	298,727	308,345
Buildings and improvements	1,037,630	1,097,225
Machinery and equipment	909,158	938,031
Office furnishings	22,175	30,903
Total capital assets, net	<u>\$ 2,727,526</u>	<u>\$ 2,794,625</u>

TOWNSHIP OF ARMADA

Management's Discussion and Analysis

The decrease in the Township's investment in capital assets for the current fiscal year of \$67,099 resulted primarily from depreciation exceeding additions. 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 had total debt outstanding of \$162,118. The long-term debt of the Township decreased by \$29,393 during fiscal year 2019 as a result of regular principal payments being made in accordance with the amortization schedule. Outstanding balances for the current year and the previous year ended March 31 were as follows:

	Governmental Activities	
	2019	2018
Installment purchase agreements	<u>\$ 162,118</u>	<u>\$ 191,511</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 2020 fiscal year:

- The uncertainty of State revenue sharing
- Department managers operating with a conservative and fiscally responsible budget approach
- Increased tax revenue within the fire department and the purchase of a new fire truck
- Potential industrial infrastructure development
- The board of trustees has passed a conservative balanced budget for fiscal year 2020

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

Statement of Net Position

March 31, 2019

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,872,935
Receivables, net	136,260
Prepaid items	13,360
Net pension asset	9,943
Capital assets not being depreciated	459,836
Capital assets being depreciated, net	<u>2,267,690</u>
Total assets	<u>4,760,024</u>
Deferred outflows of resources	
Deferred pension amounts	<u>10,003</u>
Liabilities	
Accounts payable and accrued liabilities	73,389
Long-term debt:	
Due within one year	30,362
Due in more than one year	<u>131,756</u>
Total liabilities	<u>235,507</u>
Net position	
Net investment in capital assets	2,565,408
Restricted for public safety	808,409
Restricted for pension benefits	19,946
Unrestricted	<u>1,140,757</u>
Total net position	<u>\$ 4,534,520</u>

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

TOWNSHIP OF ARMADA

Statement of Activities

For the Year Ended March 31, 2019

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenues
		Charges for Services	Operating Grants and Contributions	
Primary government				
Governmental activities:				
General government	\$ 332,845	\$ 51,571	\$ 100	\$ (281,174)
Public safety	562,075	16,714	76,677	(468,684)
Health and welfare	950,884	213,909	-	(736,975)
Public works	71,281	-	11,768	(59,513)
Recreation and culture	112,808	100	-	(112,708)
Interest on long-term debt	4,897	-	-	(4,897)
Total governmental activities	<u>\$ 2,034,790</u>	<u>\$ 282,294</u>	<u>\$ 88,545</u>	<u>(1,663,951)</u>
General revenues:				
Property taxes				1,367,241
Grants and contributions not restricted to specific programs				320,113
Other unrestricted revenues				44,665
Unrestricted investment earnings				<u>15,923</u>
Total general revenues				<u>1,747,942</u>
Change in net position				83,991
Net position, beginning of year				<u>4,450,529</u>
Net position, end of year				<u>\$ 4,534,520</u>

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

TOWNSHIP OF ARMADA

Balance Sheet

Governmental Funds

March 31, 2019

	General	Emergency Services	Totals
Assets			
Cash and cash equivalents	\$ 925,109	\$ 947,826	\$ 1,872,935
Receivables, net	74,407	61,853	136,260
Due from other funds	147,893	-	147,893
Prepaid items	3,807	9,553	13,360
Total assets	\$ 1,151,216	\$ 1,019,232	\$ 2,170,448
Liabilities			
Accounts payable	\$ 4,549	\$ 7,282	\$ 11,831
Accrued liabilities	1,013	55,648	56,661
Due to other funds	-	147,893	147,893
Total liabilities	5,562	210,823	216,385
Fund balances			
Nonspendable	3,807	9,553	13,360
Restricted	-	798,856	798,856
Unassigned	1,141,847	-	1,141,847
Total fund balances	1,145,654	808,409	1,954,063
Total liabilities and fund balances	\$ 1,151,216	\$ 1,019,232	\$ 2,170,448

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

TOWNSHIP OF ARMADA

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
March 31, 2019

Fund balances - total governmental funds	\$ 1,954,063
Amounts reported for <i>governmental activities</i> 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	459,836
Capital assets being depreciated, net	2,267,690
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Loan payable	(162,118)
Accrued interest on long-term debt	(4,897)
Certain pension-related amounts, such as the net pension asset and deferred amounts, are not due and payable in the current period or do not represent current financial resources, and therefore are not reported in the funds.	
Net pension asset	9,943
Deferred outflows related to the net pension asset	10,003
Net position of governmental activities	<u>\$ 4,534,520</u>

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

TOWNSHIP OF ARMADA

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended March 31, 2019

	General	Emergency Services	Totals
Revenues			
Taxes	\$ 230,463	\$ 1,136,778	\$ 1,367,241
Intergovernmental	331,981	76,677	408,658
Licenses and permits	50,137	-	50,137
Charges for services	1,534	230,623	232,157
Interest	10,485	5,438	15,923
Other	31,565	13,100	44,665
Total revenues	<u>656,165</u>	<u>1,462,616</u>	<u>2,118,781</u>
Expenditures			
Current:			
Legislative	65,122	-	65,122
General government	251,052	-	251,052
Public safety	119,988	377,023	497,011
Health and welfare	-	950,884	950,884
Public works	62,562	-	62,562
Recreation and culture	83,510	-	83,510
Debt service:			
Principal	-	29,393	29,393
Interest	-	6,311	6,311
Capital outlay	55,715	-	55,715
Total expenditures	<u>637,949</u>	<u>1,363,611</u>	<u>2,001,560</u>
Net change in fund balances	18,216	99,005	117,221
Fund balances, beginning of year	<u>1,127,438</u>	<u>709,404</u>	<u>1,836,842</u>
Fund balances, end of year	<u>\$ 1,145,654</u>	<u>\$ 808,409</u>	<u>\$ 1,954,063</u>

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

TOWNSHIP OF ARMADA

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended March 31, 2019

Net change in fund balances - total governmental funds	\$ 117,221
Amounts reported for <i>governmental activities</i> 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	128,976
Depreciation expense	(196,075)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond 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	29,393
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in the net pension asset and related deferred amounts	3,062
Change in accrued interest on long-term debt	1,414
Change in net position of governmental activities	<u>\$ 83,991</u>

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

TOWNSHIP OF ARMADA

Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended March 31, 2019

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenues				
Taxes	\$ 230,904	\$ 230,904	\$ 230,463	\$ (441)
Intergovernmental	330,212	330,212	331,981	1,769
Licenses and permits	87,000	87,000	50,137	(36,863)
Charges for services	101,677	101,677	1,534	(100,143)
Interest	1,000	1,000	10,485	9,485
Other	19,400	33,459	31,565	(1,894)
Total revenues	770,193	784,252	656,165	(128,087)
Expenditures				
Legislative - Township board	120,846	107,953	65,122	(42,831)
General government:				
Supervisor	38,648	35,364	34,071	(1,293)
Assessor	46,050	46,050	39,314	(6,736)
Elections	15,100	15,100	12,401	(2,699)
Clerk	60,198	60,198	57,226	(2,972)
Board of review	1,462	1,967	1,944	(23)
Treasurer	57,882	59,082	56,895	(2,187)
Buildings and grounds	21,230	21,730	14,579	(7,151)
Professional services	30,000	37,222	34,622	(2,600)
Total general government	270,570	276,713	251,052	(25,661)
Public safety:				
Ordinance enforcement	8,309	8,309	7,081	(1,228)
Inspections	100,841	100,892	80,245	(20,647)
Planning and zoning	30,199	38,914	32,662	(6,252)
Total public safety	139,349	148,115	119,988	(28,127)
Public works:				
Refuse collection	70,336	70,336	58,430	(11,906)
Cemetary	2,500	2,500	1,985	(515)
Highways, streets, and bridges	35,000	35,000	2,147	(32,853)
Total public works	107,836	107,836	62,562	(45,274)

continued...

TOWNSHIP OF ARMADA

Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended March 31, 2019

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Expenditures (continued)				
Recreation and culture -				
Parks and recreation	\$ 228,531	\$ 228,881	\$ 83,510	\$ (145,371)
Capital outlay	80,000	74,600	55,715	(18,885)
Total expenditures	947,132	944,098	637,949	(306,149)
Net change in fund balance	(176,939)	(159,846)	18,216	178,062
Fund balance, beginning of year	1,127,438	1,127,438	1,127,438	-
Fund balance, end of year	\$ 950,499	\$ 967,592	\$ 1,145,654	\$ 178,062

concluded.

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

TOWNSHIP OF ARMADA

Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual - Emergency Services

For the Year Ended March 31, 2019

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenues				
Taxes	\$ 782,579	\$ 782,579	\$ 1,136,778	\$ 354,199
Intergovernmental	69,000	69,000	76,677	7,677
Charges for services	240,000	240,000	230,623	(9,377)
Interest	500	500	5,438	4,938
Other	7,750	7,750	13,100	5,350
Total revenues	1,099,829	1,099,829	1,462,616	362,787
Expenditures				
Current:				
Public safety	374,934	418,753	377,023	(41,730)
Health and welfare	947,117	1,057,808	950,884	(106,923)
Total current	1,322,051	1,476,560	1,327,907	(148,653)
Debt service:				
Principal	36,000	29,689	29,393	(296)
Interest	6,311	6,311	6,311	-
Total debt service	42,311	36,000	35,704	(296)
Total expenditures	1,364,362	1,512,560	1,363,611	(148,949)
Net change in fund balance	(264,533)	(412,731)	99,005	511,736
Fund balance, beginning of year	709,404	709,404	709,404	-
Fund balance, end of year	\$ 444,871	\$ 296,673	\$ 808,409	\$ 511,736

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

TOWNSHIP OF ARMADA

Statement of Fiduciary Assets and Liabilities

Agency Funds
March 31, 2019

Assets

Cash and cash equivalents	<u>\$ 114,071</u>
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Liabilities

Due to other individuals and agencies	<u>\$ 114,071</u>
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The accompanying notes are an integral part of these financial statements.

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NOTES TO FINANCIAL STATEMENTS

TOWNSHIP OF ARMADA

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 proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. 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

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:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds are used to account for assets that the government holds for others in an agency capacity (such as taxes collected for other governments).

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, and Equity

Deposits and Investments

The government'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

Notes To Financial Statements

Bankers' acceptances of United States banks.

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

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

Receivables and Payables

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

Prepaid Items

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

Net Pension Asset

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

Capital Assets

Capital assets, which include land, construction in progress, infrastructure, buildings and improvements, machinery and equipment, and office furnishings, 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

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
Machinery, equipment, and furniture	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 change in expected and actual investment returns, assumptions, and benefits provided in its pension plan.

Long-term Obligations

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

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

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.

TOWNSHIP OF ARMADA

Notes To Financial Statements

When the government incurs an expenditure for purposes for which various fund balance classifications can be used, it is the government's policy to use restricted fund balance first, then committed fund balance, assigned fund balance (if applicable), and finally unassigned fund balance.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates. Additionally, management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

2. BUDGETARY INFORMATION

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

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

3. EXCESS OF EXPENDITURES OVER BUDGET

State statutes provide that a local unit shall not incur expenditures in excess of the amounts appropriated. The approved budgets of the Township were adopted on a department level basis for the general fund and the special revenue fund. The Township did not incur expenditures in excess of amounts appropriated for the year ended March 31, 2019.

4. CASH AND INVESTMENTS

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

Statement of Net Position	
Cash and cash equivalents	\$ 1,872,935
Statement of Fiduciary Assets and Liabilities	
Cash and cash equivalents	<u>114,071</u>
Total	<u>\$ 1,987,006</u>

TOWNSHIP OF ARMADA

Notes To Financial Statements

Following is a reconciliation of deposit and investment balances as of March 31, 2019:

Deposits and investments

Bank deposits:

Checking and savings accounts	\$ 1,896,390
Certificates of deposit (due within one year)	90,483
Cash on hand	<u>133</u>

Total	<u>\$ 1,987,006</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, \$1,337,575 of the Township's bank balance of \$2,020,616 was exposed to custodial credit risk because it 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, 2019, the Township did not have 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 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.

5. RECEIVABLES

Receivables are comprised of the following at year-end:

	General Fund	Emergency Services	Total Governmental Activities
Accounts	\$ 20,181	\$ 41,398	\$ 61,579
Allowance for doubtful accounts	-	(17,949)	(17,949)
Taxes	5,906	38,404	44,310
Due from other governments	<u>48,320</u>	<u>-</u>	<u>48,320</u>
	<u>\$ 74,407</u>	<u>\$ 61,853</u>	<u>\$ 136,260</u>

TOWNSHIP OF ARMADA

Notes To Financial Statements

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Payables are comprised of the following at year-end:

	General Fund	Emergency Services	Government-wide Statements	Total Governmental Activities
Accounts payable	\$ 4,549	\$ 7,282	\$ -	\$ 11,831
Accrued liabilities	1,013	55,648	-	56,661
Accrued interest	-	-	4,897	4,897
	<u>\$ 5,562</u>	<u>\$ 62,930</u>	<u>\$ 4,897</u>	<u>\$ 73,389</u>

7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The composition of interfund balances as of March 31, 2019, is as follows:

	Receivable	Payable
Due to and from primary government funds		
General fund	\$ 147,893	\$ -
Emergency services fund	-	147,893
Total	<u>\$ 147,893</u>	<u>\$ 147,893</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

Notes To Financial Statements

8. CAPITAL ASSETS

Primary government

Capital asset activity for the primary government for the year ended March 31, 2019, 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	134,772	55,715	-	(16,000)	174,487
	<u>420,121</u>	<u>55,715</u>	<u>-</u>	<u>(16,000)</u>	<u>459,836</u>
Capital assets being depreciated:					
Roads and sidewalks	366,516	-	-	-	366,516
Buildings and improvements	2,119,747	-	-	-	2,119,747
Furniture and equipment	2,553,334	73,261	-	16,000	2,642,595
Vehicles	57,360	-	-	-	57,360
	<u>5,096,957</u>	<u>73,261</u>	<u>-</u>	<u>16,000</u>	<u>5,186,218</u>
Less accumulated depreciation for:					
Roads and sidewalks	(58,171)	(9,618)	-	-	(67,789)
Buildings and improvements	(1,022,522)	(59,595)	-	-	(1,082,117)
Furniture and equipment	(1,615,303)	(118,134)	-	-	(1,733,437)
Vehicles	(26,457)	(8,728)	-	-	(35,185)
	<u>(2,722,453)</u>	<u>(196,075)</u>	<u>-</u>	<u>-</u>	<u>(2,918,528)</u>
Total capital assets being depreciated, net	<u>2,374,504</u>	<u>(122,814)</u>	<u>-</u>	<u>16,000</u>	<u>2,267,690</u>
Governmental activities capital assets, net	<u>\$ 2,794,625</u>	<u>\$ (67,099)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,727,526</u>

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

Depreciation of governmental activities by function

General government	\$ 16,671
Public safety	141,387
Public works	8,719
Recreation and culture	29,298
	<u>\$ 196,075</u>

TOWNSHIP OF ARMADA

Notes To Financial Statements

9. LONG-TERM DEBT

Long-term debt activity for the year ended March 31, 2019, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
\$300,000 loan payable due in annual installments of \$35,704 through April 24, 2023, interest at 3.25%	\$ 191,511	\$ -	\$ (29,393)	\$ 162,118	\$ 30,362

Annual debt service requirements to maturity for long-term bonds and installment purchase agreements (except the sewage disposal bonds noted below) are as follows:

Year Ended December 31,	Governmental Activities	
	Principal	Interest
2020	\$ 30,362	\$ 5,343
2021	31,350	4,354
2022	32,395	3,309
2023	33,463	2,242
2024	34,548	1,139
	<u>\$ 162,118</u>	<u>\$ 16,387</u>

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.

TOWNSHIP OF ARMADA

Notes To Financial Statements

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, 2019, 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 2018 levy for the property within the Township was \$307,239,345.

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.

Employees Covered by Benefit Terms. At the December 31, 2018 valuation date, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	1
Active employees	<u>6</u>
Total membership	<u><u>7</u></u>

TOWNSHIP OF ARMADA

Notes To Financial Statements

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, 2019:

Division/Bargaining Unit	Employer Contribution	Employee Contribution	Status
05 - Fire and Permanent EE	\$1,681/month	6.00%	Open

Net Pension Asset. The Township's net pension asset was measured as of December 31, 2018, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation

Although no explicit price inflation assumption is used in the valuation, the long-term annual rate of price inflation implicit in the 3.75% base wage inflation is 2.50%.

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

- The RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%
- The RP-2014 Employee Mortality Tables
- The RP-2014 Juvenile Mortality Tables

TOWNSHIP OF ARMADA

Notes To Financial Statements

The mortality table used to project the mortality experience of disabled plan members is 50% Male, 50% Female blend of RP-2014 Disabled Retiree Mortality Tables.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of the most recent actuarial experience study of 2009-2013.

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	55.5%	6.15%	3.41%
Global fixed income	18.5%	1.26%	0.23%
Real assets	13.5%	7.22%	0.98%
Diversifying strategies	12.5%	5.00%	0.63%
	100.0%		
Inflation			2.50%
Administrative expenses netted above			0.25%
Investment rate of return			8.00%

Discount Rate. The discount rate used to measure the total pension liability as of December 31, 2018 was 8.0%. 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

Notes To Financial Statements

Changes in Net Pension Asset

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
Balances at December 31, 2017	\$ 8,308	\$ 20,798	\$ (12,490)
Changes for the year:			
Service cost	34,095	-	34,095
Interest	2,028	-	2,028
Employer contributions	-	35,824	(35,824)
Net investment loss	-	(2,166)	2,166
Administrative expense	-	(69)	69
Other changes	13	-	13
Net changes	<u>36,136</u>	<u>33,589</u>	<u>2,547</u>
Balances at December 31, 2018	<u>\$ 44,444</u>	<u>\$ 54,387</u>	<u>\$ (9,943)</u>

Sensitivity of the Net Pension Asset to Changes in the Discount Rate. The following presents the net pension asset of the Township, calculated using the discount rate of 8.0%, as well as what the Township's net pension liability (asset) would be if it were calculated using a discount rate that is 1% lower (7.0%) or 1% higher (9.0%) than the current rate:

1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
<u>\$ 9,539</u>	<u>\$ (9,943)</u>	<u>\$ (7,197)</u>

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

Notes To Financial Statements

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended March 31, 2019, the Township recognized pension expense of \$34,381. The Township reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 4,208
Contributions subsequent to the measurement date	<u>5,795</u>
Total	<u>\$ 10,003</u>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension asset for the year ending March 31, 2020. 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
2020	\$ 1,052
2021	1,052
2022	1,052
2023	<u>1,052</u>
Total	<u>\$ 4,208</u>

Payable to the Pension Plan. At March 31, 2019, the Township had \$691 payable for contributions to the pension plan.

13. 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	\$ 50,137
Expenditures	<u>(80,245)</u>
Current year loss	<u>\$ (30,108)</u>
Loss absorbed in 2001-2018	<u>\$ (269,534)</u>

TOWNSHIP OF ARMADA

Notes To Financial Statements

14. 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	Total
Nonspendable - Prepays	\$ 3,807	\$ 9,553	\$ 13,360
Restricted for - Emergency services activities	-	798,856	798,856
Unassigned	<u>1,141,847</u>	<u>-</u>	<u>1,141,847</u>
Total fund balances, governmental funds	<u>\$ 1,145,654</u>	<u>\$ 808,409</u>	<u>\$ 1,954,063</u>

15. 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	\$ 2,727,526
Related debt:	
Bonds outstanding	<u>162,118</u>
Net investment in capital assets	<u>\$ 2,565,408</u>

16. SUBSEQUENT EVENT

On August 1, 2019, the Township entered into an installment purchase agreement in the amount of \$476,350 for the purchase of a new fire truck. The fire truck was purchased under a sales agreement dated October 10, 2018, but the Township did not take delivery of the truck until after March 31, 2019.



REQUIRED SUPPLEMENTARY INFORMATION

TOWNSHIP OF ARMADA

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,	
	2018	2019
Total pension liability		
Service cost	\$ 30,601	\$ 34,095
Interest	1,184	2,028
Benefit payments, including refunds of employee contributions	(1,000)	-
Other changes	(22,477)	13
Net change in total pension liability	8,308	36,136
Total pension liability, beginning of year	-	8,308
Total pension liability, end of year	8,308	44,444
Plan fiduciary net position		
Employer contributions	10,642	35,824
Employee contributions	10,648	-
Net investment income (loss)	513	(2,166)
Benefit payments, including refunds of employee contributions	(1,000)	-
Administrative expense	(5)	(69)
Net change in plan fiduciary net position	20,798	33,589
Plan fiduciary net position, beginning of year	-	20,798
Plan fiduciary net position, end of year	20,798	54,387
Township's net pension asset	\$ (12,490)	\$ (9,943)
Plan fiduciary net position as a percentage of total pension liability	250.3%	122.4%
Covered payroll	\$ 275,193	\$ 306,606
Township's net pension asset as a percentage of covered payroll	-4.5%	-3.2%

Notes:

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

TOWNSHIP OF ARMADA

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
2018	\$ 12,445	\$ 12,445	-	\$ 275,193	4.5%
2019	35,824	35,824	-	306,606	11.7%

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

Notes to Schedule of Contributions

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, closed
Remaining amortization period	0 years
Asset valuation method	Open; 5-year smooth market
Inflation	2.50%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation
Retirement age	Age-based table of rates that are specific to the type of eligibility condition. The Normal Retirement rates were first used for the December 31, 2015 actuarial valuations. The Early Retirement rates were first used for the December 31, 2015 actuarial valuations.
Mortality	Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

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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 5, 2019

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 aggregate remaining fund information of the *Township of Armada* (the "Township"), as of and for the year ended March 31, 2019, 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 5, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Township's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the 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 2019-002 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 2019-001 to be a significant deficiency.

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 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Township’s Response to Findings

The Township’s 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.



TOWNSHIP OF ARMADA

Schedule of Findings and Responses

For the Year Ended March 31, 2019

2019-001 - Significant Audit Adjustments (Repeat Comment)

Finding Type. Significant Deficiency 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 certain adjustments (which were approved and posted by management) to adjust the Township's general ledger to the appropriate balances.

Cause. This condition was the result of insufficient management oversight. Internal controls did not detect all adjustments necessary to properly record year-end balances.

Effect. As a result of this condition, the following amounts were initially misstated:

- Accrued wages and the related expense were understated by \$12,766 in the emergency services fund.
- Property taxes receivable and the related revenues were understated by \$14,663 in the emergency services fund.

Recommendation. We recommend that the Township prepare, review, and reconcile all year-end schedules that are used in financial reporting prior to audit fieldwork.

View of Responsible Officials. The township agrees with this finding. Significant improvement has been made in the financial reporting over the last fiscal year. The Treasurer's office continues to work with the auditors regarding adjusting entries and expects to prepare, review, and reconcile all year-end schedules prior to audit fieldwork.

TOWNSHIP OF ARMADA

Schedule of Findings and Responses

For the Year Ended March 31, 2019

2019-002 - Construction Bond and Developer Fee Agency Accounts

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

Criteria. The Township uses an agency fund to account for construction bonds and fees paid to the Township by developers and other companies that are completing projects which require inspection. 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 agency 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 account. For both accounts, we noted several payments (some over ten years old) that were made by individuals and never returned. This could be because the project was never finished or the result of a record keeping error.

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

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

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

View of Responsible Officials. The building administrator will track the bonds (financial guarantees) and when the job is complete and will request a check from clerks 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 admin 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.

