

TOWNSHIP OF SALEM, MICHIGAN

ANNUAL FINANCIAL REPORT

YEAR ENDED MARCH 31, 2014



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INDEPENDENT AUDITOR'S REPORT

Honorable Members of the
Board of Trustees
Township of Salem
Salem, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Salem, Michigan, 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 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 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Salem, Michigan, as of March 31, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof 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 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 July 31, 2014, on our consideration of the Township of Salem, Michigan'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 Township of Salem, Michigan's internal control over financial reporting and compliance.



Gabridge & Company, PLC
Grand Rapids, MI
July 31, 2014

Management's Discussion and Analysis

As management of the Township of Salem, Michigan (The "Township" or "government") we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2014. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- The assets of the Township exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$12,889,088 (net position). Of this amount, \$7,966,435 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- At the close of the current fiscal year, the Township's general fund reported fund balance of \$7,798,028, a decrease of \$1,049,118 in comparison with the prior year. Approximately 93% of this amount (\$7,251,324) is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$7,251,324, or approximately 158% of total general fund expenditures.

Overview of the Financial Statements

The discussion and analysis provided here is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support 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 financial information on all of the Township's assets, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the Township'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 for some items that will only result in cash flows in future fiscal periods (e.g., 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) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include general government, public safety, highways and streets, community and economic development, and culture and recreation. The business-type activities of the Township include water and sewer services.

The government-wide financial statements can be found on pages 13 - 14 of this report.

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 three categories: governmental funds, proprietary 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 assessing 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 one governmental fund, the general fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund.

The Township adopts an annual appropriated budget for the general fund. A budgetary comparison schedule for the general fund has been provided to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 15 - 18 of this report.

Proprietary Funds. The Township maintains one proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Township uses enterprises funds to account for its water and sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations, which is considered to be a major fund of the Township.

The basic proprietary fund financial statements can be found on pages 19 - 21 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported 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. The township reports one type of fiduciary fund, an *agency fund*.

The *agency funds* report resources held by the Township in a custodial capacity for individuals, private organizations, and other governments.

The fiduciary fund financial statement can be found on page 22 of this report.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 23 - 37 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Township's budgetary comparison schedules.

Required supplementary information can be found on pages 39 - 40 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the Township, assets exceeded liabilities by \$12,889,088, at the close of the most recent fiscal year.

Township of Salem Statement of Net Position as of March 31, 2014 and March 31, 2013

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
ASSETS						
<i>Current Assets</i>						
Cash and Cash Equivalents	\$ 1,024,572	\$ 509,802	\$ 257,208	\$ 190,745	\$ 1,281,780	\$ 700,547
Investments	7,063,786	8,036,258	136,637	143,525	7,200,423	8,179,783
Accounts Receivable	51,930	47,410	24,849	35,118	76,779	82,528
Landfill Receivable	241,822	230,463	-	-	241,822	230,463
Due from Other Governments	60,882	84,051	-	-	60,882	84,051
Prepaid Items	11,674	5,546	-	-	11,674	5,546
Due from Agency	8,386	-	-	-	8,386	-
Special Assessments	-	-	43,348	101,711	43,348	101,711
Total Current Assets	8,463,052	8,913,530	462,042	471,099	8,925,094	9,384,629
<i>Noncurrent Assets</i>						
Special Assessments	-	-	538,085	610,895	538,085	610,895
Capital Assets (Net)	3,736,527	2,273,403	1,981,126	2,049,694	5,717,653	4,323,097
Total Assets	12,199,579	11,186,933	2,981,253	3,131,688	15,180,832	14,318,621
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	776,744	68,533	2,767	286	779,511	68,819
Accrued Liabilities	3,110	12,681	-	-	3,110	12,681
Accrued Interest	-	-	8,869	9,889	8,869	9,889
Current Portion of Long-term Debt	350,000	-	180,000	180,000	530,000	180,000
Internal Balances	(114,830)	(14,830)	114,830	14,830	-	-
Total Current Liabilities	1,015,024	66,384	306,466	205,005	1,321,490	271,389
<i>Noncurrent Liabilities</i>						
Compensated Absences	5,254	4,765	-	-	5,254	4,765
Long-term Debt	350,000	-	615,000	795,000	965,000	795,000
Total Liabilities	1,370,278	71,149	921,466	1,000,005	2,291,744	1,071,154
NET POSITION						
Net Investment in Capital Assets	3,736,527	2,273,403	1,186,126	1,074,694	4,922,653	3,348,097
Unrestricted	7,092,774	8,842,381	873,661	1,056,989	7,966,435	9,899,370
Total Net Position	\$ 10,829,301	\$ 11,115,784	\$ 2,059,787	\$ 2,131,683	\$ 12,889,088	\$ 13,247,467

A large portion of the Township's net position (38%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The Township uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the Township's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of \$7,966,435 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the Township is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The Township's overall net position decreased \$358,379 from the prior fiscal year. The reasons for this overall decrease are discussed in the following sections for governmental activities and business-type activities.

Governmental Activities. During the current fiscal year, net position for governmental activities decreased \$286,483 from the prior fiscal year for an ending balance of \$10,829,301. The decrease in the overall net position of governmental activities in comparison with the previous year is the result of an increase in overall expenses of \$343,922. This reason for the increase is due to the purchase of land and an increase in landfill fees of \$76,054 during the current year. The Township also had increased public works expenditures of as a result of a \$1,050,000 project on North Territorial Road during the current year.

Township of Salem
Change in Net Position for Fiscal Years Ended March 31, 2014 and March 31, 2013

	Governmental Activities		Business-type Activities		Total Government	
	2014	2013	2014	2013	2014	2013
Revenue						
Program Revenues						
Charges for Services	\$ 175,545	\$ 146,843	\$ 105,856	\$ 101,395	\$ 281,401	\$ 248,238
Total Program Revenues	175,545	146,843	105,856	101,395	281,401	248,238
General Revenues						
State Revenue Sharing	425,062	408,704	-	-	425,062	408,704
Landfill Fees						
Host Fees	644,546	607,514	-	-	644,546	607,514
Gas Royalties	1,221,665	1,188,367	-	-	1,221,665	1,188,367
Compost Host Fees	35,249	29,525	-	-	35,249	29,525
Franchise Fees	87,788	83,653	-	-	87,788	83,653
Investment Income	-	129,925	22,505	34,902	22,505	164,827
Net Decrease in Fair Value of Investments	(110,594)	-	-	-	(110,594)	-
Total General Revenues	2,303,716	2,447,688	22,505	34,902	2,326,221	2,482,590
Total Revenues	2,479,261	2,594,531	128,361	136,297	2,607,622	2,730,828
Expenses						
General Government	730,795	1,117,287	-	-	730,795	1,117,287
Public Safety	785,167	830,987	-	-	785,167	830,987
Public Works	1,090,542	299,170	-	-	1,090,542	299,170
Community & Economic Development	158,440	173,908	-	-	158,440	173,908
Recreation & Culture	800	400	-	-	800	400
Water & Sewer	-	-	200,257	205,122	200,257	205,122
Total Expenses	2,765,744	2,421,752	200,257	205,122	2,966,001	2,626,874
Change in Net Position	(286,483)	172,779	(71,896)	(68,825)	(358,379)	103,954
<i>Net Position at the Beginning of Period</i>	11,115,784	10,943,005	2,131,683	2,200,508	13,247,467	13,143,513
Net Position at the End of Period	\$ 10,829,301	\$ 11,115,784	\$ 2,059,787	\$ 2,131,683	\$ 12,889,088	\$ 13,247,467

Business-type Activities. For the Township's business-type activities, the results for the current fiscal year resulted in an ending net position balance of \$2,059,787. The total decrease in net position for business-type activities was \$71,896, or 3%, from the prior fiscal year. The decrease is consistent with previous year.

Financial Analysis of Governmental Funds

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

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 discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Township itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Township's Board.

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 \$7,251,324, while total fund balance decreased to \$7,798,028. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 158 percent of total general fund expenditures, while total fund balance represents approximately 170 percent of that same amount.

The fund balance of the Township's general fund decreased by \$1,049,118 during the current fiscal year. The main reason for the large decrease in fund balance was due to the purchase of a parcel of land for \$1,500,000 and the \$1,050,000 North Territorial Road project.

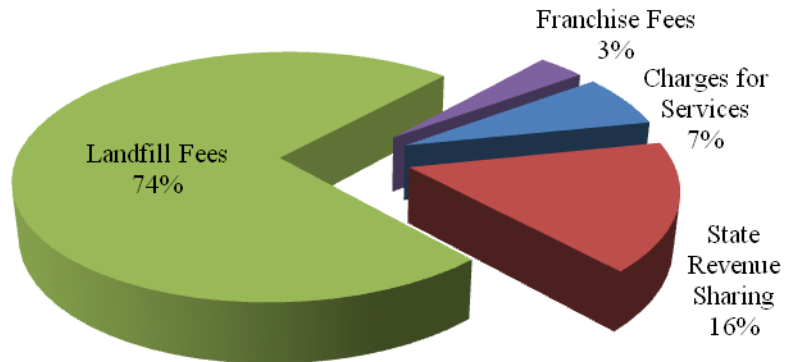
Proprietary Funds. The Township's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the water and sewer fund at the end of the year was \$873,661. The decrease in net position for the water and sewer fund was \$71,896. The decrease in net position of the water fund was consistent with prior year results.

Governmental Activities

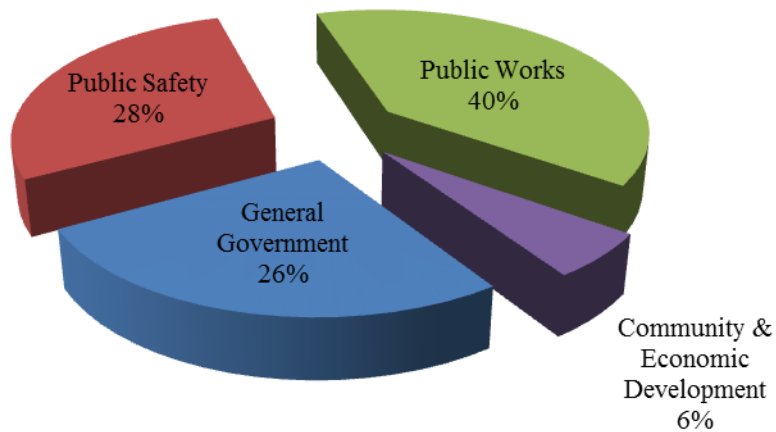
The following chart summarizes the revenue sources for the governmental activities of the Township for the most recent fiscal year end.

Governmental Activities Revenues



The following chart summarizes the expenses for the governmental activities of the Township for the most recent fiscal year end.

Governmental Activities Expenses



General Fund Budgetary Highlights

Original budget compared to final budget. During the year there was no need for any significant amendments to increase either the original estimated revenues or original budgeted appropriations.

Final budget compared to actual results. During the current fiscal year the Township had the following significant budget variances between the final budget compared to actual results:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Elections	\$ 5,400	\$ 11,562	\$ (6,162)
Attorney	100,000	133,586	(33,586)
Other	88,379	99,883	(11,504)
Public Works	395,000	1,090,542	(695,542)
Capital Outlay	271,785	1,548,531	(1,276,746)
Debt Service	-	350,000	(350,000)

Capital Assets and Debt Administration

Capital assets. The Township's investment in capital assets for its governmental and business-type activities as of March 31, 2014, amounts to \$5,717,653 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, and water and sewer infrastructure. The total increase in capital assets for the current fiscal year was approximately 32%.

	<u>2014</u>	<u>2013</u>
Land	\$ 3,647,517	\$ 2,147,517
Building & Improvements	133,969	144,554
Machinery & Equipment	178,762	213,809
Office Furnishings & Equipment	36,011	27,255
Water & Sewer Infrastructure	1,721,394	1,789,962
Totals	<u>\$ 5,717,653</u>	<u>\$ 4,323,097</u>

Long-term Debt

As described in Note 7 to the financial statements, the Township had \$795,000 in water and sewer fund leases payable at the end of 2014. During the current year the Township entered into an agreement with the Washtenaw County Road Commission, which advanced not to exceed \$1,050,000 for road projects, of which \$700,000 remains outstanding in governmental activities. Other long-term obligations consisted of a \$5,254 liability for compensated absences.

Economic Condition and Outlook

Roughly \$2.5 million of revenues are expected to be available for appropriation in the general fund in the upcoming budget. Expenditures are expected to change by small amounts compared to 2014. The Township continues to review all budget line items for opportunities to reduce expenditures when possible. The budget will be monitored during the year to identify any necessary amendments. In 2014, the Township plans again to use current revenues to provide essential services and to maintain the Township's financial reserves at similar levels. The ongoing costs of providing essential services for the citizens of the Township will again need to be monitored in order to maintain the financial condition of the Township.

Contacting the Township

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. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Township of Salem
9600 Six Mile Road
Salem, MI 48175

BASIC FINANCIAL STATEMENTS

Township of Salem
Statement of Net Position
March 31, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
<i>Current Assets</i>			
Cash & Cash Equivalents	\$ 1,024,572	\$ 257,208	\$ 1,281,780
Investments	7,063,786	136,637	7,200,423
Accounts Receivable	51,930	24,849	76,779
Landfill Receivable	241,822	--	241,822
Due from Other Governments	60,882	--	60,882
Prepaid Items	11,674	--	11,674
Special Assessments Receivable, Current	--	43,348	43,348
Due from Agency	8,386	--	8,386
Total Current Assets	8,463,052	462,042	8,925,094
<i>Noncurrent Assets</i>			
Special Assessment Receivable	--	538,085	538,085
Capital Assets not being Depreciated	3,387,785	259,732	3,647,517
Capital Asses being Depreciated	348,742	1,721,394	2,070,136
Total Assets	12,199,579	2,981,253	15,180,832
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable	86,744	2,767	89,511
Contracts Payable	690,000	--	690,000
Accrued Liabilities	3,110	--	3,110
Accrued Interest	--	8,869	8,869
Current Portion of Long-term Debt	350,000	180,000	530,000
Internal Balances	(114,830)	114,830	--
Total Current Liabilities	1,015,024	306,466	1,321,490
<i>Noncurrent Liabilities</i>			
Long-term Debt	350,000	615,000	965,000
Compensated Absences	5,254	--	5,254
Total Liabilities	1,370,278	921,466	2,291,744
NET POSITION			
Net Investment in Capital Assets	3,736,527	1,186,126	4,922,653
<i>Unrestricted</i>	7,092,774	873,661	7,966,435
Total Net Position	\$ 10,829,301	\$ 2,059,787	\$ 12,889,088

The Notes to the Financial Statements are an integral part of these Financial Statements

**Township of Salem
Statement of Activities
For the Year Ended March 31, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental Activities:							
General Government	\$ 730,795	\$ 61,972	\$ --	\$ --	\$ (668,823)	\$ --	\$ (668,823)
Public Safety	785,167	--	--	--	(785,167)	--	(785,167)
Public Works	1,090,542	--	--	--	(1,090,542)	--	(1,090,542)
Community & Economic Development	158,440	113,573	--	--	(44,867)	--	(44,867)
Recreation & Culture	800	--	--	--	(800)	--	(800)
Total Governmental Activities	2,765,744	175,545	--	--	(2,590,199)	--	(2,590,199)
Business-type Activities:							
Water and Sewer Fund	200,257	105,856	--	--	--	(94,401)	(94,401)
Total Business-type Activities	200,257	105,856	--	--	--	(94,401)	(94,401)
Total Primary Government	\$ 2,966,001	\$ 281,401	\$ --	\$ --	\$ (2,590,199)	\$ (94,401)	\$ (2,684,600)
General Purpose Revenues and Transfers:							
Revenues							
State Revenue Sharing					425,062	--	425,062
Landfill Fees							
Host Fees					644,546	--	644,546
Gas Royalties					1,221,665	--	1,221,665
Compost Host Fees					35,249	--	35,249
Franchise Fees					87,788	--	87,788
Investment Earnings					(110,594)	22,505	(88,089)
Transfers					--	--	--
Total General Revenues and Transfers					2,303,716	22,505	2,326,221
Change in Net Position					(286,483)	(71,896)	(358,379)
<i>Net Position at Beginning of Period</i>					11,115,784	2,131,683	13,247,467
Net Position at End of Period					\$ 10,829,301	\$ 2,059,787	\$ 12,889,088

The Notes to the Financial Statements are an integral part of these Financial Statements

**Township of Salem
Balance Sheet
Governmental Funds
March 31, 2014**

	General
ASSETS	
Cash & Cash Equivalents	\$ 1,024,572
Investments	7,063,786
Accounts Receivable	51,930
Landfill Receivable	241,822
Due from Other Governments	60,882
Prepaid Items	11,674
Due from Agency	8,386
Due from Other Funds	114,830
<i>Total Assets</i>	\$ 8,577,882
LIABILITIES	
Accounts Payable	\$ 86,744
Contracts Payable	690,000
Accrued Liabilities	3,110
<i>Total Liabilities</i>	779,854
FUND BALANCE	
Nonspendable	126,504
Committed	420,200
Unassigned	7,251,324
<i>Total Fund Balance</i>	7,798,028
<i>Total Liabilities and Fund Balance</i>	\$ 8,577,882

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Salem
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
March 31, 2014

Total Fund Balance - Governmental Funds	\$ 7,798,028
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the fund. This represents capital assets of \$4,867,860 net of accumulated depreciation of \$1,131,334.	3,736,527
Compensated absences are not due in and payable in the current period, and therefore, are not reported in the funds.	(5,254)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.	(700,000)
Total Net Position - Governmental Funds	\$ <u>10,829,301</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Salem
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended March 31, 2014

	General
Revenues	
Licenses & Permits	\$ 108,678
State Revenue Sharing	425,062
Charges for Services	10,454
Landfill/host community fees	
Host Fees	644,546
Gas Royalties	1,221,665
Compost Host Fees	35,249
Franchise Fees	107,632
Miscellaneous Revenue	36,569
Investment Earnings	(110,594)
Total Revenues	2,479,261
Expenditures	
General Government	708,860
Public Safety	721,206
Public Works	1,090,542
Community & Economic Development	158,440
Recreation & Culture	800
Capital Outlay	1,548,531
Debt Service - Principal	350,000
Total Expenditures	4,578,379
Excess of Revenues Over	
(Under) Expenditures	(2,099,118)
Other Financing Sources (Uses)	
Proceeds from Loan Issuance	1,050,000
Net Other Financing Sources (Uses)	1,050,000
Net Change in Fund Balance	(1,049,118)
<i>Fund Balance at Beginning of Period</i>	8,847,146
Fund Balance at End of Period	\$ 7,798,028

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Salem
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended March 31, 2014

Total Net Change in Fund Balances - Governmental Funds \$ (1,049,118)

The general fund reports 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. This is the amount by which capital outlay expenditures of \$1,548,531, is in excess of depreciation expense of \$85,407. 1,463,124

Some expense reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the fund. This represents the change in the accrual for compensated absences. (489)

Current year long-term debt principal payments on contractual obligations are expenditures in the fund financial statements but are reductions in long-term debt in the government-wide financial statements. This amount contract issuance proceeds of \$1,050,000, net of principal payments of \$350,000. (700,000)

Changes in Net Position - Governmental Funds \$ (286,483)

**Township of Salem
Statement of Net Position
Proprietary Funds
March 31, 2014**

	<u>Business-type Activities - Enterprise Funds</u>
	<u>Water and Sewer Fund</u>
ASSETS	
<i>Current Assets</i>	
Cash & Cash Equivalents	\$ 257,208
Investments	136,637
Accounts Receivable	24,849
Special Assessments Receivable, Current	43,348
<i>Total Current Assets</i>	<u>462,042</u>
<i>Noncurrent Assets</i>	
Special Assessment Receivable	538,085
Capital Assets not being Depreciated	259,732
Capital Asses being Depreciated	1,721,394
<i>Total Assets</i>	<u>2,981,253</u>
LIABILITIES	
<i>Current Liabilities</i>	
Accounts Payable	2,767
Accrued Interest	8,869
Current Portion of Long-term Liabilities	180,000
Due to Other Funds	114,830
<i>Total Current Liabilities</i>	<u>306,466</u>
<i>Noncurrent Liabilities</i>	
Long-term Debt	615,000
<i>Total Liabilities</i>	<u>921,466</u>
NET POSITION	
Net Investment in Capital Assets	1,186,126
<i>Unrestricted</i>	873,661
<i>Total Net Position</i>	<u>\$ 2,059,787</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Salem
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended March 31, 2014

	Business-type Activities - Enterprise Funds	Water and Sewer Fund
Operating Revenues		
Charges for Services	\$ 105,856	
<i>Total Operating Revenues</i>	<u>105,856</u>	
Operating Expenses		
Contractual	97,565	
Other Expense	99	
Depreciation	68,568	
<i>Total Operating Expenses</i>	<u>166,232</u>	
<i>Operating Income (Loss)</i>	<u>(60,376)</u>	
Non-Operating Revenues (Expenses)		
Investment Earnings	22,505	
Interest Expense	(34,025)	
<i>Net Non-Operating Revenues (Expenses)</i>	<u>(11,520)</u>	
<i>Income Before Contributions and Transfers</i>	<u>(71,896)</u>	
Transfers from Other Funds	--	
Transfers to Other Funds	--	
<i>Change In Net Position</i>	<u>(71,896)</u>	
<i>Net Position at Beginning of Period</i>	2,131,683	
<i>Net Position at End of Period</i>	<u>\$ 2,059,787</u>	

The Notes to the Financial Statements are an integral part of these Financial Statements

**Township of Salem
Statement of Cash Flows
Proprietary Fund
For the Year Ended March 31, 2014**

	Business-type Activities - Enterprise Fund
	Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from customers and users	\$ 116,125
Payments to suppliers	(95,183)
<i>Total Cash Flows from Operating Activities</i>	20,942
Cash Flows from Non-capital Financing Activities	
Increase (Decrease) in internal balances	100,000
<i>Cash Flows from Non-capital Financing Activities</i>	100,000
Cash Flows from Capital and Related Financing Activities	
Principal paid on debt	(180,000)
Interest paid on debt	(35,045)
Special assessment collections - principal	131,173
Special assessment collections - interest	29,153
<i>Cash Flows from Capital and Related Financing Activities</i>	(54,719)
Cash Flows from Investing Activities	
Interest on investments	240
<i>Total Cash Flows from Investing Activities</i>	240
Net Increase (Decrease) in Cash and Equivalents	66,463
<i>Cash and Equivalents - Beginning of Year</i>	190,745
Cash and Equivalents - End of Year	\$ 257,208
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income	(60,376)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities	
Depreciation Expense	68,568
Changes in Assets and Liabilities	
Accounts Receivable	10,269
Accounts Payable	2,481
Net Cash Provided by Operating Activities	\$ 20,942

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Salem
Statement of Fiduciary Net Position
Fiduciary Funds
March 31, 2014

	Agency
	Agency Funds
ASSETS	
Cash & Cash Equivalents	\$ 42,384
<i>Total Assets</i>	42,384
LIABILITIES	
Accounts Payable	2,118
Due to General Fund	8,386
Undistributed Receipts	31,880
<i>Total Liabilities</i>	42,384
NET POSITION	
Held in Trust	\$ --

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Salem

Notes to the Financial Statements

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Township of Salem (the “Township” or “government”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township’s accounting policies are described below.

Reporting Entity

These financial statements only present the Township. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, there are no other entities for which the Township exercises oversight responsibility.

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*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise 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,

Township of Salem

Notes to the Financial Statements

regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and compensated absences expenditures are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The government reports the following major governmental funds:

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

The government reports the following major proprietary funds:

The ***water and sewer enterprise fund*** accounts for the activities of the Township's water supply and sewage disposal fund

Additionally, the government reports the following fund types:

The ***agency funds*** account for the collection and disbursements of taxes and other monies due to other units of government and individuals.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Township's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and

Township of Salem

Notes to the Financial Statements

delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses are not meeting this definition are reported as nonoperating revenues and expenses.

Budgetary Basis of Accounting

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The general fund is subject to legal budgetary accounting controls and all are budgeted annually. Annual budgets are adopted on basis consistent with generally accepted accounting principals for the general fund. All annual appropriations lapse at fiscal year end.

The budget for the general fund is adopted at the department level.

Assets, Liabilities, Deferred Inflows of Resources, and Equity

Cash and Cash Equivalents

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

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

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- 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.

Township of Salem

Notes to the Financial Statements

- External investment pools as authorized by Public Act 20 as amended through March, 1997.

Investments

Investments are stated at fair market value (FMV) in accordance with GASB Statement No. 31. Investments are exposed to various risks, such as significant external events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of net position.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as “due to/from other funds” (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade receivables are shown net of an allowance for uncollectibles, as applicable. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. No amounts have been deemed uncollectable.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Donated capital assets are valued at their estimated fair market value on the date received.

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. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Township of Salem

Notes to the Financial Statements

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, there was no interest expense capitalized as part of the cost of assets under construction.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

Description	Useful Life
Sewer Building & System	40 Years
Building & Improvements	20 Years
Fire Equipment	8 to 20 Years
Furniture & Equipment	5 to 10 Years

Compensated Absences (Vacation and Sick Leave)

It is the Township's policy to permit employees to accumulate earned but unused personal and vacation pay benefits. Vacation days may be accumulated up to a maximum of twenty (20) days. Employees will be compensated for unused vacation days upon termination of their employment. Personal days maybe accumulated up to a maximum of twenty (20) days. Unused personal days, over the twenty (20) accumulated days, will be paid to the employee on their anniversary date. Employees will be compensated for unused personal leave upon termination of their employment.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. For new bond issuances of governmental funds after the implementation of GASB Statement No. 34 and all proprietary fund bond issues, bond premiums and discounts, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Township of Salem

Notes to the Financial Statements

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. 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. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Township Board is the highest level of decision-making authority for the government that can, by adoption of an ordinance or resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance or resolution remains in place until a similar action is taken (the adoption of another ordinance or resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Township Board has authorized the Township Supervisor to assign fund balance. The Township Board may

Township of Salem

Notes to the Financial Statements

also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Property Tax Revenue Recognition

The Township property tax is levied on December 1 on the taxable valuation of property located in the Township as of the preceding December 31. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Township. It is the Township's policy to recognize revenues in the current year when they are levied and made available for the financing of Township operations. The Township considers property taxes levied on December 1 to be revenues of the current period.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Note 2 – Excess of Expenditures Over Budget

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

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

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Elections	\$ 5,400	\$ 11,562	\$ (6,162)
Attorney	100,000	133,586	(33,586)
Other	88,379	99,883	(11,504)
Public Works	395,000	1,090,542	(695,542)
Capital Outlay	271,785	1,548,531	(1,276,746)
Debt Service	-	350,000	(350,000)

Township of Salem

Notes to the Financial Statements

Note 3 – Cash and Investments

The Township maintains pooled and individual fund demand deposits, certificates of deposit and short-term investment accounts for the primary government.

Following is a reconciliation of deposit and investment balances as of March, 2014:

	<u>Primary Government</u>
Statement of Net Position	
Cash and Cash Equivalents	\$ 1,281,780
Investments	7,200,423
Statement of Fiduciary Net Position	
Cash and Cash Equivalents	<u>42,384</u>
Total Deposits and Investments	<u>\$ 8,524,587</u>
Deposits and Investments	
Checking and Savings Accounts	\$ 1,323,364
Investments	7,200,423
Cash on hand	<u>800</u>
Total	<u>\$ 8,524,587</u>

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the Township's deposits might 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, \$1,105,299 of the Township's bank balance of \$1,335,299 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the Township believes it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk – Investments. For an investment, custodial credit risk 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 or collateral securities that are in the possession of an outside party. In order to minimize this risk, Township policy limits the types of investments and pre-qualifies financial institutions. As of March 31, 2014, none of the Township's investments were exposed to risk

Township of Salem

Notes to the Financial Statements

since the securities are held in the Township's name by the counterparty. Following is a summary of the Township's investments as of March 31, 2014:

U.S. Agencies	\$ 6,568,241
Certificates of Deposit	488,704
Cash	143,478
	<hr/>
	\$ 7,200,423

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The Township's investment policy does not have specific limits in excess of state law on investment credit risk.

Credit risk ratings, where applicable, are summarized as follows:

<u>Rating Agency</u>	<u>Rating</u>	<u>FMV</u>
Standard & Poor's	AA+	4,517,307
Standard & Poor's	AA	318,264
Standard & Poor's	AA-	313,845
Standard & Poor's	A+	297,528
NA	Unavailable	1,753,479
		<hr/>
		\$ 7,200,423

Interest Rate Risk. Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Township's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Township of Salem

Notes to the Financial Statements

Maturity dates for investments and certificates of deposit held at year-end are summarized as follows:

	Investments
No Maturity	\$ 143,477
Due within one year	611,373
Due in 1-5 Years	1,304,058
Due in 6-10 Years	2,791,099
Due in 11-15 Years	1,229,118
Due in 26-31 Years	1,121,298
	\$ 7,200,423

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the Township's investment in a single issuer. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The Township's investment policy does not limit investments in a single financial institution of a single security type (with the exception of U.S. treasuries and agencies and authorized pools) to a % of the total investment portfolio. All investments held at year end are reported above.

Note 4 – Capital Assets

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

	March 31, 2013	Additions	Reductions	March 31, 2014
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 1,887,785	\$ 1,500,000	\$ -	\$ 3,387,785
Subtotal - nondepreciable capital assets	1,887,785	1,500,000	-	3,387,785
Capital assets being depreciated				
Buildings & Improvements	236,254	-	-	236,254
Machinery & Equipment	1,092,374	28,913	-	1,121,287
Office Furnishings & Equipment	114,100	19,618	11,184	122,534
Total capital assets being depreciated	1,442,728	48,531	11,184	1,480,075
Less accumulated depreciation				
Buildings & Improvements	91,700	10,585	-	102,285
Machinery & Equipment	878,565	63,960	-	942,525
Office Furnishings & Equipment	86,845	10,862	11,184	86,523
Total accumulated depreciation	1,057,110	85,407	11,184	1,131,333
Total capital assets being depreciated - Net	385,618	(36,876)	-	348,742
Governmental activities capital assets - Net	\$ 2,273,403	\$ 1,463,124	\$ -	\$ 3,736,527

Township of Salem

Notes to the Financial Statements

Business-type Activities	March 31, 2013	Additions	Reductions	March 31, 2014
Capital assets not being depreciated				
Land	\$ 259,732	\$ -	\$ -	\$ 259,732
Capital assets being depreciated				
Infrastructure	<u>2,742,722</u>	-	-	<u>2,742,722</u>
Total capital assets, being depreciated	<u>2,742,722</u>	<u>-</u>	<u>-</u>	<u>2,742,722</u>
Less accumulated depreciation				
Infrastructure	<u>952,760</u>	68,568	-	<u>1,021,328</u>
Total accumulated depreciation	<u>952,760</u>	<u>68,568</u>	<u>-</u>	<u>1,021,328</u>
Total capital assets being depreciated - Net	<u>1,789,962</u>	<u>(68,568)</u>	<u>-</u>	<u>1,721,394</u>
Business-type activities capital assets - Net	<u>\$ 2,049,694</u>	<u>\$ (68,568)</u>	<u>\$ -</u>	<u>\$ 1,981,126</u>

Depreciation expense was charged to programs of the Township as follows:

Governmental Activities

General Government	\$ 21,446
Public Safety	<u>63,961</u>
<i>Total Governmental Activities</i>	<u>\$ 85,407</u>

Business-type Activities

Sewer	<u>68,568</u>
<i>Total Business-type Activities</i>	<u>\$ 68,568</u>

Note 5 – Interfund Receivables, Payables and Transfers

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.

For the year ended March 31, 2014, due to/due from other funds consisted of \$114,830 from the water and sewer enterprise fund to the general fund for administrative costs and to reimburse the general fund for prior year operating subsidies.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorizations. For the current year, there were no transfers between funds of the Township.

Township of Salem

Notes to the Financial Statements

Note 6 – Construction Code

The Township oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction costs, including an allocation of estimated overhead costs. A summary of current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Current year building permit revenue	\$ 106,921
Less related expenditures:	
Direct Cost	80,691
Estimated indirect costs	<u>40,672</u>
Current year shortfall	(14,442)
Cumulative shortfall, beginning of year	<u>(294,651)</u>
Cumulative shortfall, end of year	<u>\$ (309,093)</u>

Note 7 – Long-term Debt

Washtenaw County Road Commission - In June 2013, the Township entered into an agreement with the Washtenaw County Road Commission (WCRC), in which the road commission would provide up to \$1,050,000 in various road projects within the township. The agreement repayment terms were installments of \$350,000, with no interest, to be paid on August 1, 2013, June 30, 2014 and June 30, 2015, with the final payment depending on final cost, on a not to exceed basis as stated above. The agreement was also dependent on road funding by the state, if the state is to pass the long-term road funding proposal, the Township would be relinquished of any remaining responsibility, as the July 25 the state has not acted on the proposal in question.

Original Construction - In May 1995, the Township, in cooperation with Washtenaw County (the "County"), approved and began construction of a sanitary sewage disposal system for individuals within the Hamlet of Salem. On May 1, 1995, the Township entered into a lease agreement with the County relating to the system. Under this agreement, the County is responsible for construction and financing of the system through a bond program with the Michigan Municipal Bond Authority. The original lease amount of \$2,255,000 is equal to the total proceeds that may be drawn by the County. The Township will pay the County semi-annual amounts sufficient to pay the debt service requirements and other related costs. Payments are due in annual installments of \$115,000 to \$130,000 through 2018 with interest at 2.25%.

The Township will lease the system from the County and is required to operate, maintain, repair, insure, and manage the system for the County. Ownership of the system will be transferred at no cost to the Township after the bonds have been paid in full. The capital lease represents the financing of public improvements that benefited a specific district. Special assessments were

Township of Salem

Notes to the Financial Statements

levied against properties within the district for a portion of the cost of the sewer improvements. At March 31, 2014, the Township had approximately \$170,000 of special assessments receivable outstanding related to this project.

2002/2003 Expansion - In May 2002, the Township entered into an agreement with the County to expand the Township's existing sewer system. Under this agreement, the County is responsible for construction and financing of the project through a bond program with the Michigan Municipal Bond Authority. The bond was issued in May 2002 for \$1,090,000. The Township has entered into a lease agreement equal to the total proceeds that will be drawn down by the County. The Township will pay the County semiannual amounts sufficient to pay the debt service requirements and other related costs. Payments are due in annual installments of \$55,000 to \$60,000 through 2022 with interest at 3.00% to 5.00%.

Changes in long-term debt during the current year were as follows:

	March 31, 2013	Additions	Reductions	March 31, 2014	Due Within One Year
Governmental activities					
Road Commission Note	\$ -	\$ 1,050,000	\$ 350,000	\$ 700,000	\$ 350,000
Compensated absences	4,765	489	-	5,254	-
Total Governmental Activities	<u>4,765</u>	<u>1,050,489</u>	<u>350,000</u>	<u>705,254</u>	<u>350,000</u>
Business-type activities					
1995 Construction	480,000	-	125,000	355,000	125,000
2002/2003 Expansion	495,000	-	55,000	440,000	55,000
Total Business-type Activities	<u>975,000</u>	<u>-</u>	<u>180,000</u>	<u>795,000</u>	<u>180,000</u>
Total Primary Government	<u>\$ 979,765</u>	<u>\$ 1,050,489</u>	<u>\$ 530,000</u>	<u>\$ 1,500,254</u>	<u>\$ 530,000</u>

Future debt requirements at March 31, 2014, were as follows:

For the year ended March 31,	Governmental Activities	Business-type Activities		
	Principal	Principal	Interest	Total
2015	\$ 350,000	\$ 180,000	\$ 26,615	\$ 206,615
2016	350,000	185,000	21,216	206,216
2017	-	155,000	16,044	171,044
2018	-	55,000	12,279	67,279
2019	-	55,000	9,598	64,598
2020-2022	-	165,000	12,375	177,375
Totals	<u>\$ 700,000</u>	<u>\$ 795,000</u>	<u>\$ 98,126</u>	<u>\$ 893,126</u>

Township of Salem

Notes to the Financial Statements

Note 8 – Pension Plan

The Township provides pension benefits to certain full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by the adoption agreement, the Township contributes 10 percent of gross earnings to the employee's account. The current year contribution was \$11,045. There were no employee contributions made for this plan. The Township also provides a deferred compensation retirement plan to eligible employees. This plan allows eligible employees to defer, each month, a portion of their compensation. The employer can make contributions to the Plan on behalf of eligible employees. During the year, employer and employee contributions were \$4,519 and \$2,684, respectively. The Township closed the deferred compensation plan as of March 31, 2014.

Note 9 – Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended March 31, 2014, the government carried commercial insurance to cover all risks of losses. The Township has had no settled claims from these risks that exceeded its commercial coverage in any of the past three fiscal years.

Note 10 – Landfill Agreement

In 1991, the Township entered into a host community agreement and lease with Veolia Environmental Services (Veolia), formerly Onyx North America - Arbor Hills Landfill, covering a Township-owned landfill site. The Township receives quarterly lease renewal payments in return for leasing the site to Veolia for landfill operations. In addition, the Township receives monthly payments from Gas Recovery Systems equal to 50 percent of the revenue generated from the sale of landfill gases. For the year ended March 31, 2014, host revenue and gas royalties were \$644,546 and \$1,221,665, respectively.

In June 1996, the Township also entered into a host community agreement with Veolia covering a composting site. Total revenue for the year ended March 31, 2014 relating to this agreement was \$35,249.

State and federal laws and regulations require that a final cover be placed on the landfill site when it stops accepting waste and that certain maintenance and monitoring functions be performed at the site for 30 years after closure. Any costs associated with closure or postclosure care are the responsibility of Veolia. The Township has considered the guidance in GASB 18 in determining that no liability is necessary.

Township of Salem

Notes to the Financial Statements

Note 11 – Contingent Liabilities

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government and component unit's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

REQUIRED SUPPLEMENTARY INFORMATION

Township of Salem
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended March 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative)
				Final to Actual
Revenues				
Licenses & Permits	\$ 56,000	\$ 56,000	\$ 108,678	\$ 52,678
State Revenue Sharing	409,000	409,000	425,062	16,062
Charges for Services	6,200	6,200	10,454	4,254
Host Fees	600,000	600,000	644,546	44,546
Gas Royalties	1,100,000	1,100,000	1,221,665	121,665
Compost Host Fees	25,000	25,000	35,249	10,249
Franchise Fees	92,500	92,500	107,632	15,132
Miscellaneous Revenue	28,500	28,500	36,569	8,069
Investment Earnings	100,000	100,000	(110,594)	(210,594)
Total Revenues	<u>2,417,200</u>	<u>2,417,200</u>	<u>2,479,261</u>	<u>62,061</u>
Other Financing Sources				
Proceeds from Loan Issuance	--	--	1,050,000	1,050,000
Total Revenues and Other Financing Sources	<u>2,417,200</u>	<u>2,417,200</u>	<u>3,529,261</u>	<u>1,112,061</u>
Expenditures				
General Governmental				
Township Board	36,082	36,082	32,652	3,430
Supervisor	81,806	85,728	83,290	2,438
Elections	5,400	5,400	11,562	(6,162)
Accounting & Audit	30,000	30,000	24,931	5,069
Assessor	95,666	95,666	46,572	49,094
Clerk	78,583	78,583	65,207	13,376
Board of Review	3,941	3,941	2,515	1,426
Treasurer	81,447	81,447	80,231	1,216
Attorney	100,000	100,000	133,586	(33,586)
Building & Grounds	157,665	157,665	129,231	28,434
Other	290,086	88,379	99,083	(10,704)
Total General Governmental	<u>960,676</u>	<u>762,891</u>	<u>708,860</u>	<u>54,031</u>
Public Safety				
Police	315,000	315,000	305,984	9,016
Fire	437,628	467,628	415,222	52,406
Total Public Safety	<u>752,628</u>	<u>782,628</u>	<u>721,206</u>	<u>61,422</u>
Public Works - Highways, streets & drains	313,000	395,000	1,090,542	(695,542)

Township of Salem
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual (Continued)
General Fund
For the Year Ended March 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative)
				<u>Final to Actual</u>
Community & Economic Development				
Land Preservation & Conservation	112,211	142,211	121,363	20,848
Planning & Zoning	49,135	49,135	37,077	12,058
Total Community & Economic Development	<u>161,346</u>	<u>191,346</u>	<u>158,440</u>	<u>32,906</u>
Recreation & Culture - Parks & Recreation	1,200	1,200	800	400
Capital Outlay	216,000	271,785	1,548,531	(1,276,746)
Debt Service	--	--	350,000	(350,000)
<i>Total Expenditures</i>	<u>2,404,850</u>	<u>2,404,850</u>	<u>4,578,379</u>	<u>(2,173,529)</u>
<i>Excess (Deficiency) of Revenues and Other Sources Over Expenditures</i>	<u>12,350</u>	<u>12,350</u>	<u>(1,049,118)</u>	<u>(1,061,468)</u>
<i>Net Change in Fund Balance</i>	12,350	12,350	(1,049,118)	(1,061,468)
<i>Fund Balance at Beginning of Period</i>	8,847,146	8,847,146	8,847,146	--
<i>Fund Balance at End of Period</i>	<u>\$ 8,859,496</u>	<u>\$ 8,859,496</u>	<u>\$ 7,798,028</u>	<u>\$ (1,061,468)</u>

July 31, 2014

Board of Trustees of
Salem Township

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Salem for the year ended March 31, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 25, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Township of Salem are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended March 31, 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- 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.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level

of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 31, 2014.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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



Gabridge & Company, PLC
Grand Rapids, MI

INDEPENDENT AUDITOR'S 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*

July 31, 2014

To the Board of Trustees of the
Township of Salem, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Township of Salem, Michigan (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, and have issued our report thereon dated July 31, 2014.

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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and response as items 2014-1.

The Township's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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.

Best regards,

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in dark ink and is positioned above the printed name of the company.

Gabridge & Company, PLC
Grand Rapids, MI

Township of Salem

Schedule of Findings and Responses

STATUTORY NONCOMPLIANCE

2014-1 – Expenditures in Excess of Appropriations

Condition: The Townships 2013/2014 General Appropriations Act (budget) provided for expenditures of the general fund to be controlled to the activity level by the Township. As detailed below, actual 2013/2014 expenditures exceeded the Board of Trustees approved budget allocations for several general fund functions, largely because of year-end accrual adjustments.

Criteria: The expenditure of funds in excess of appropriations is contrary to the provisions of Section 17 of Public Act 2 of 1968.

Effect: The Township is in noncompliance with State statute.

Recommendation: The Township is periodically through out the year review and make amendments to the budget as deemed necessary.

Managements Response:

The Board of Trustees will review budget to actuals, and make amendments as they are needed - and will give additional attention to possible year-end accruals which could impact budget compliance.