

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE  
UNDER SAS NO. 114**

September 28, 2012

To the Board of Trustees of  
Salem Township  
Salem, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of *Salem Township* (the "Township") for the year ended March 31, 2012, and have issued our report thereon dated September 28, 2012. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America**

As stated in our engagement letter dated May 1, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on May 2, 2012.

**Significant Results of the Audit***Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township are described in Note 1 to the financial statements. Other than the adoption of GASB 54, no new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Township during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 estimates affecting the financial statements were:

- 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.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

#### *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 the 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 attached management representation letter dated September 28, 2012.

#### *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 entity'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 Township'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 the governing body and management of Salem Township and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

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

# Salem Township, Michigan

## Attachment A - Consideration of Internal Control Over Financial Reporting

For the March 31, 2012 Audit

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of *Salem Township* (the "Township") for the year ended March 31, 2012, and have issued our report thereon dated September 28, 2012.

In planning and performing our audit in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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

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.

### Significant Deficiency

We consider the following deficiency in internal control over financial reporting to be a significant deficiency:

#### 2012-1 Preparation of Financial Statements in Accordance with GAAP

**Criteria.** The Township is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Township's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

**Condition.** As is the case with many smaller and medium-sized entities, the Township has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Township's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the Township's internal controls.

# Salem Township, Michigan

## Attachment A - Consideration of Internal Control Over Financial Reporting

For the March 31, 2012 Audit

### 2012-1 Preparation of Financial Statements in Accordance with GAAP (concluded)

**Cause.** Management has made the decision that it is in its best interest to outsource the preparation of its annual financial statements to the auditors rather than to incur the time and expense of obtaining the necessary training and expertise required for the Township to perform this task internally.

**Effect.** As a result of this condition, the Township lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

**View of Responsible Officials.** Recognizing the requirement is for the township to be self-sufficient in producing its own financial statements the township has implemented the following strategy toward that end goal:

The Deputy Clerk has been designated as the primary individual to attend financial training classes and seminars to enhance her knowledge and understanding of the requirements involved in preparing the Township's financial statements in accordance with generally accepted accounting principles. Additionally, the Township has become a member with the Michigan Government Finance Officers Association and the Deputy Clerk has attended a number of their training classes to aid in this endeavor. On an as needed basis, the Township may utilize the services of an accounting consultant to assist the Deputy Clerk in preparing the financial statements.

### 2012-2 Audit Adjustments

**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 audit adjustments (which were approved and posted by management) to adjust the Township's general ledger to the appropriate balances. These adjustments included entries to record debt payments in the Sewer Fund to the appropriate period and to record investments at fair value (including accrued interest) in the General Fund.

**Cause:** This condition was the result of an oversight by management when recording payments made near year end, and when reconciling investment accounts.

**Effect:** As a result of this condition, the Township's accounting records were initially misstated.

**Recommendation:** We recommend that the Township implement procedures at year end to ensure that debt payments are reported in the proper period and investments are recorded at fair value.

**View of Responsible Officials:** The Township will implement a joint year end meeting between the Treasurer and Clerk departments to review debt and investment balances to insure the proper recording of debt payments for the correct fiscal year and investments are recorded at fair market value. The accounting consultant will perform a secondary review of those journal entries to ensure accuracy.

# Salem Township, Michigan

## Attachment A - Consideration of Internal Control Over Financial Reporting For the March 31, 2012 Audit

### Other Matters

#### 2012-3 Internal Control - Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Township's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

As is the case with many organizations of similar size, the Township lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it. During our audit, we noted several areas in which the Township could improve segregation of duties:

- One individual receipts in cash, completes the deposit slip, posts cash receipts to the general ledger, deposits the monies to the bank, applies cash receipts to individual consumer accounts and has the ability to record write-offs to customer accounts.
- There is no independent review of the payroll journal.
- There is no documentation of a review of water/sewer adjustments made to consumer accounts.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the Township's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the Township's internal control structure, and cannot not be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.



# Salem Township, Michigan

## Attachment B - Upcoming Changes in Accounting Standards

For the March 31, 2012 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the Township in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the Township. For the complete text of these and other GASB standards, visit [www.gasb.org](http://www.gasb.org) and click on the “pronouncements” tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

### **GASB 63 ■ Deferred Inflows, Outflows, and Net Position**

*Effective 12/15/2012 (your FY 2013)*

This standard will introduce new terminology to the balance sheet by creating a category of quasi-assets called “deferred outflows”, and a category of quasi-liabilities called “deferred inflows”. As a result, the term “net assets” will no longer be used, and is replaced by the more generic term “net position”. Essentially, deferred inflows and outflows will be used to report transactions that occurred prior to year end that relate to revenues and expenses (inflows and outflows) of future periods. The format of the new “statement of net position” will be presented as *assets + deferred outflows - liabilities - deferred inflows = net position*. Net position will be further categorized into *net investment in capital assets, restricted, and unrestricted* amounts. Fund balance of governmental funds will be unaffected, and governmental funds will continue to report a traditional balance sheet (*assets = liabilities + fund balance*).

### **GASB 65 ■ Items Previously Reported as Assets and Liabilities**

*Effective 12/15/2013 (your FY 2014)*

This standard builds on the new terminology introduced in GASB 63. Certain items previously reported as assets and liabilities will now be classified as deferred inflows and outflows, while other items will no longer be carried on the balance sheet. As such, a restatement of beginning equity may be required to write off balances from previous years that no longer meet the definition for presentation on the balance sheet. The term “deferred revenue” will no longer be used by governments for any purpose. While GASB 65 is not required to be implemented until one year after GASB 63, we recommend that they be adopted together, as the standards complement one another.

# Salem Township, Michigan

## Attachment B - Upcoming Changes in Accounting Standards

For the March 31, 2012 Audit

The follow table provides examples of balances affected by this standard:

Item	Pre-GASB 65	Post-GASB 65
Loss/gain on refunding of bonds payable	Liability/asset (“deferred loss/gain on refunding”)	Deferred outflow/inflow
Property taxes levied prior to the year they are intended to finance	Liability (“deferred revenue”)	Deferred inflow
Grant funds received but all grant requirements not met	Provider: asset (“advance to...”) Recipient: liability (“advance from...”)	No change
Grant funds received and all grant requirements met, but advance is for the following program year	Provider: asset (“advance to...”) Recipient: liability (“advance from...”)	Provider: deferred outflow Recipient: deferred inflow
Bond issuance costs	Asset (“deferred bond issuance costs” or “deferred bond charges”)	Expense in year incurred
Initial direct costs of operating leases	Asset (“prepaid”)	Expense in year incurred
Unexpended proceeds of expenditure-driven grants; charges for services collected in advance	Liability (“deferred revenue”)	Liability (“unearned revenue”)
Revenues not “available” in governmental funds because they are not collected soon enough after year-end	Liability (“deferred revenue”)	Deferred inflow

### GASB 66 ■ 2012 Technical Corrections (an Amendment to GASB 10 and GASB 62)

*Effective 12/15/2013 (your FY 2014)*

This standard was issued to eliminate conflicting guidance that resulted from the issuance of GASB 54 and GASB 62, which are both already effective. GASB 10 was amended to allow for risk financing activities to be accounted for in whichever fund type is most applicable (no longer limited to the general fund or an internal service fund). GASB 62 was amended to modify specific guidance related to (1) operating leases with scheduled rent increases, (2) purchase of loans at an amount other than the principal amount, and (3) service fees related to mortgages that are sold when the service rate varies significantly from the current (normal) service fees.

We do not expect GASB 66 to have any significant impact on the Township at this time.

### GASB 67 ■ Financial Reporting for Pension Plans

*Effective 06/15/2014 (your FY 2014)*

This standard establishes the requirements for pension plans administered by trusts to report on their operations, including setting new uniform requirements for actuarial valuations of the total pension liability, and reporting various 10-year trend data as required supplementary information. The financial statements of pension plans will not change substantially as a result of GASB 67, though the additional note disclosures and required supplementary information will be significant. Additionally, actuarial valuations conducted in accordance with GASB 67 will have to match the government’s fiscal year, or be rolled forward to that date by the actuary.

Because the Township does not maintain its own pension trust fund, we do not expect GASB 67 to have any significant impact on the Township at this time.



# Salem Township, Michigan

## ■ Attachment B - Upcoming Changes in Accounting Standards

For the March 31, 2012 Audit

### GASB 68 ■ Accounting and Financial Reporting for Pensions

*Effective 06/15/2015 (your FY 2015)*

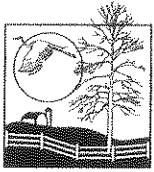
This standard establishes new requirements for governments to report a “net pension liability” for the unfunded portion of its pension plan. Governments that maintain their own pension plans (either single employer or agent multiple-employer) will report a liability for the difference between the total pension liability calculated in accordance with GASB 67 and the amount held in the pension trust fund. Governments that participate in a cost sharing plan will report a liability for their “proportionate share” of the net pension liability of the entire system.

Historically, governments have only been required to report a net pension obligation to the extent that they have not met the annual required contribution (ARC) in any given year. Upon implementation of this standard, governments will be required to report a net pension liability based on the current funded status of their pension plans. This liability would be limited to the government-wide financial statements and proprietary funds. Changes in this liability from year to year will largely be reflected on the income statement, though certain amounts will be deferred and amortized over varying periods.

GASB 68 also requires more extensive note disclosures and required supplementary information, including 10 years of historical information. The methods used to determine the discount rate (the assumed rate of return on plan assets held in trust) are mandated and must be disclosed, along with what the impact would be on the net pension liability if that rate changed by 1% in either direction. Other new disclosure requirements include details of the changes in the components of the net pension liability, comparisons of actual employer contributions to actuarially determined contributions, and ratios to put the net pension liability in context. For single-employer and agent multiple-employer plans, the information for these statements will come from the annual actuarial valuation. For cost sharing plans, this information will be derived from the financial reports of the plan itself, multiplied by the government’s proportionate share of plan.

GASB 67 and 68 are only applicable to pension plans. However, the GASB has announced its intent to issue similar standards for other postemployment benefits (e.g., retiree healthcare) on a two year delay from these standards.





# SALEM TOWNSHIP

Robert Heyl, *Supervisor*  
Paul J. Uherek, *Treasurer*  
David Trent, *Clerk*  
Susan Bejin, *Trustee*  
Marcia Van Fossen, *Trustee*  
Wayne W. Wallazy, *Trustee*  
Brien Witkowski, *Trustee*

P.O. Box 702546, Plymouth, Michigan 48170

Phone: 248.349.1690 • Fax: 248.349.9350

September 28, 2012

Rehmann Robson  
675 Robinson Road  
Jackson, MI 49203

We are providing this letter in connection with your audit of the financial statements of **Salem Township** as of September 28, 2012 and for the year then ended for the purpose of expressing opinions as to whether the financial statements 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 Salem Township and the respective changes in financial position and, where applicable, cash flows thereof in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of September 28, 2012, the following representations made to you during your audit.

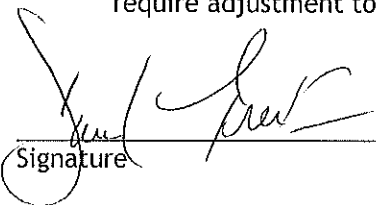
1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all—
  - a. Financial records and related data.
  - b. Minutes of the meetings of the Board of Trustees or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. We are in agreement with the adjusting journal entries you have proposed, and they have been posted.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
  - a. Management,
  - b. Employees who have significant roles in internal control, or
  - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you have reported to us.
10. We have a process to track the status of audit findings and recommendations.
11. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
12. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
13. The Township has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
14. The following, if any, have been properly recorded or disclosed in the financial statements:
  - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

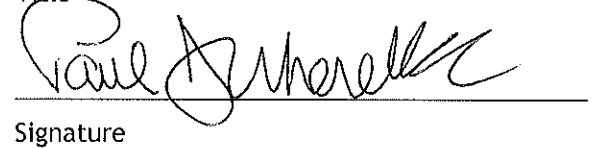
For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
  - b. Guarantees, whether written or oral, under which the Township is contingently liable.
  - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances.
15. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

16. There are no—
  - a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
  - b. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with generally accepted accounting principles, and we have not consulted a lawyer concerning litigation, claims, or assessments.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles.
17. As part of your audit, you assisted with preparation of the financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
18. The Township has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
19. The Township has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
20. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
21. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
22. The financial statements properly classify all funds and activities.
23. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
24. Components of net assets (invested in capital assets, net of related debt; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
25. Provisions for uncollectible receivables have been properly identified and recorded.
26. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
27. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

28. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
29. Deposits and investments are properly classified as to risk and are properly disclosed.
30. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
31. We have appropriately disclosed the Township's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available and have determined that net assets were properly recognized under the policy.
32. We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting purposes are appropriate in the circumstances.
33. We acknowledge our responsibility for the required supplementary information (RSI). The required supplementary information is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
34. We have evaluated the Township's ability to continue as a going concern and have included appropriate disclosures, as necessary, in the financial statements.
35. Expenditures of federal awards were below the \$500,000 threshold in the audit period and we were not required to have an audit in accordance with OMB Circular A-133.
36. We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

  
\_\_\_\_\_  
Signature

CLERK  
\_\_\_\_\_  
Title

  
\_\_\_\_\_  
Signature

TREASURER  
\_\_\_\_\_  
Title

  
\_\_\_\_\_  
Signature

SUPERVISOR  
\_\_\_\_\_  
Title

Salem Township  
Washtenaw County,  
Michigan



For the  
Year Ended  
March 31, 2012

Financial  
Statements

# SALEM TOWNSHIP, MICHIGAN

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**INDEPENDENT AUDITORS' REPORT**

September 28, 2012

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

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 *Salem Township, Michigan*, as of and for the year ended March 31, 2012, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Salem Township, Michigan, as of March 31, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as noted 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.





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## MANAGEMENT'S DISCUSSION AND ANALYSIS

# SALEM TOWNSHIP, MICHIGAN

## Management's Discussion and Analysis

Our discussion and analysis of Salem Township, Michigan's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2012. Please read it in conjunction with the Township's financial statements.

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlight for the year ended March 31, 2012:

- The Township had a significant increase in revenues this past year compared to expenditures in the general fund that resulted in a \$760,000 surplus. Asset reserves for the Township are now over \$8,700,000. This surplus was a result of specific factors that are discussed in further detail in this analysis.

### Using this Annual Report

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

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

### Salem Township as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

	Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 8,804,175	\$ 7,975,868	\$ 1,233,833	\$ 1,434,658	\$10,038,008	\$ 9,410,526
Capital assets, net	2,251,980	2,320,461	2,118,262	2,186,830	4,370,242	4,507,291
Total assets	<u>11,056,155</u>	<u>10,296,329</u>	<u>3,352,095</u>	<u>3,621,488</u>	<u>14,408,250</u>	<u>13,917,817</u>
Long-term liabilities	11,971	17,352	1,150,000	1,330,000	1,161,971	1,347,352
Other liabilities	101,179	33,050	1,587	-	102,766	33,050
Total liabilities	<u>113,150</u>	<u>50,402</u>	<u>1,151,587</u>	<u>1,330,000</u>	<u>1,264,737</u>	<u>1,380,402</u>
Net assets:						
Invested in capital assets, net of related debt	2,251,980	2,320,461	968,262	856,830	3,220,242	3,177,291
Restricted	1,639	2,260	-	-	1,639	2,260
Unrestricted	8,689,386	7,923,206	1,232,246	1,434,658	9,921,632	9,357,864
Total net assets	<u>\$10,943,005</u>	<u>\$10,245,927</u>	<u>\$ 2,200,508</u>	<u>\$ 2,291,488</u>	<u>\$13,143,513</u>	<u>\$12,537,415</u>

# SALEM TOWNSHIP, MICHIGAN

## Management's Discussion and Analysis

The Township's combined net assets increased just over \$606,000 or 4.8 percent from a year ago, increasing from approximately \$12.5 million to \$13.1 million. This was a result of two factors: first the Township experienced a significant increase in revenues that totaled \$2.5 million. Main contributors to this increase were landfill/host agreement income, state shared revenue, and investment earnings. Secondly, while overall expenses were up slightly by 4% some cost centers realized decreases due to reductions in staffing that were instituted in May 2011. The Township consolidated responsibilities of the Building Department Coordinator and Zoning Administrator into one position now called the Community Development Administrator. In addition, the part-time position of Election Coordinator was eliminated culminating in a 1.5 person staff reduction. These manpower savings helped offset increases in other cost centers this year, primarily in legal expenses.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by approximately \$766,000 for the governmental activities or 9.7 percent. The current level of unrestricted net assets for our governmental activities stands at approximately \$8.7 million, giving the Township funding reserves that would cover the next four budget years.

The following table shows the changes of the net assets during the current year and as compared to the prior year:

	Change in Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program revenues:						
Charges for services	\$ 197,132	\$ 169,031	\$ 99,233	\$ 97,251	\$ 296,365	\$ 266,282
Capital grants	-	-	-	14,950	-	14,950
General revenues:						
State shared revenue	406,783	365,431	-	-	406,783	365,431
Landfill/Host community fees	1,701,001	1,526,740	-	-	1,701,001	1,526,740
Unrestricted investment earnings	251,466	146,553	43,151	49,628	294,617	196,181
<b>Total revenues</b>	<b>2,556,382</b>	<b>2,207,755</b>	<b>142,384</b>	<b>161,829</b>	<b>2,698,766</b>	<b>2,369,584</b>
Expenses:						
General government	930,337	877,149	-	-	930,337	877,149
Public safety	506,996	508,848	-	-	506,996	508,848
Public works	176,136	185,177	-	-	176,136	185,177
Planning and zoning	244,635	206,171	-	-	244,635	206,171
Parks and recreation	1,200	1,200	-	-	1,200	1,200
Water and sewer	-	-	233,364	214,627	233,364	214,627
<b>Total expenses</b>	<b>1,859,304</b>	<b>1,778,545</b>	<b>233,364</b>	<b>214,627</b>	<b>2,092,668</b>	<b>1,993,172</b>
Change in net assets	697,078	429,210	(90,980)	(52,798)	606,098	376,412
Net assets:						
Beginning of year	10,245,927	9,816,717	2,291,488	2,344,286	12,537,415	12,161,003
End of year	<u>\$10,943,005</u>	<u>\$10,245,927</u>	<u>\$ 2,200,508</u>	<u>\$ 2,291,488</u>	<u>\$13,143,513</u>	<u>\$12,537,415</u>

# SALEM TOWNSHIP, MICHIGAN

## Management's Discussion and Analysis

### Governmental Activities

Salem Township's total governmental revenues increased 14 percent this past year primarily due to three factors. The most significant factors were an increase in the landfill host community fees by 11.4 percent, state shared revenue by 11.3 percent, and investment earnings by 46 percent. These three categories of revenue constitute 92 percent of the Township's income and combined exceeded \$2.3 million. These sources of revenue enable the Township to operate without the necessity of a local tax millage to provide services to its citizens.

Also, the Township reached the \$2,000,000 threshold for the eighth consecutive year reflecting the benefits and strength of these three main sources of revenue. As a result of the 2010 census, where the Township had a modest increase in population since 2000, the revised calculations of constitutionally mandated funds that the Township receives from the state should remain stable over the next few years and be just over \$400,000 annually.

Overall, expenditures for governmental activities were up 4.5% from the prior year. The two categories that figured prominently in that increase were legal and planning/zoning activities. Legal expenses increased due to arbitration proceedings being invoked again this year by a local developer. It is anticipated that this particular action will be concluded by the end of 2012. Planning and zoning activities for this past year included special consulting projects covering a Fire Department study and a citizens' survey. Results from the citizens' survey were utilized in establishing new budget parameters for public safety cost centers for the 2012-13 fiscal year.

### Business-type Activities

Salem Township business-type activities consist of the Water and Sewer Fund. Sewage treatment for the Hamlet is provided through a Salem Township owned and operated sewage treatment plant. Compared to 2011, the Township had decreased revenues of approximately \$19,000 or 12% due primarily to less capital grants and contributions. Operating expenses increased by approximately \$19,000 or 8.7%. The combination of these two factors resulted in the Water and Sewer Fund having a decrease in net assets of almost \$91,000. The lack of building activity over the past few years has given cause for a renewed evaluation of future expenses and viability of the Sewer Fund to cover bond expenses past 2013. A rate study analysis by a consultant has been budgeted for the 2012-13 fiscal year to assist the Board in assessing future operating and maintenance costs.

### Salem Township Funds

Salem Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Township's major funds are the General Fund and the Water and Sewer Fund. Additionally, the Township has an Agency Fund that handles escrow monies that are administered by the building department, as well as tax collections made by the treasurer's office.

The General Fund pays for all of the Township's governmental services. A majority of the revenue funding comes from landfill/host community fees, gas royalty fees, and state revenue sharing. The most significant expenditures are for the fire department, police services contracted with Washtenaw County, and general government services operations.

### General Fund Budgetary Highlights

The Township experienced a large surplus this past fiscal year due to a large increase in revenues and maintaining control of expenses. Double digit percentage increases in landfill/host agreement fees, state shared revenues, and investment earnings enabled the Township to exceed \$2.5 million in revenue.

As the Township's cash reserves have continued to increase significantly the past two years the Board implemented a strategy to commit funds for future major expenditures. Budgetary measures were adopted that have committed \$150,000 toward the purchase of a replacement tanker for the Fire Department. In addition, funds have been committed toward the preservation of land and open space in the Township. Over \$85,000 was committed this past year toward the future acquisition of property or development rights.

# SALEM TOWNSHIP, MICHIGAN

## Management's Discussion and Analysis

### Capital Assets and Debt Administration

The primary assets owned by the Township are the wastewater treatment facility, land, the town hall building, and fire department vehicles and equipment. The decrease in the Township's investment in capital assets was primarily the result of current year depreciation.

	Capital Assets (Net of Depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 1,823,585	\$ 1,823,585	\$ 259,732	\$ 259,732	\$ 2,083,317	\$ 2,083,317
Buildings and improvements	155,140	154,908	-	-	155,140	154,908
Machinery and equipment	237,371	298,177	-	-	237,371	298,177
Office furnishings and equipment	35,884	43,791	-	-	-	-
Infrastructure	-	-	1,858,530	1,927,098	1,894,414	1,970,889
Total capital assets, net	<u>\$ 2,251,980</u>	<u>\$ 2,320,461</u>	<u>\$ 2,118,262</u>	<u>\$ 2,186,830</u>	<u>\$ 4,370,242</u>	<u>\$ 4,507,291</u>

The Township's installment debt consists entirely of leases payable with Washtenaw County which are to be paid from special assessments in the Sewer Fund. The decrease in long-term debt was the result of scheduled debt payments.

	Outstanding Debt					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Leases payable	\$ -	\$ -	\$ 1,150,000	1,330,000	\$ 1,150,000	\$ 1,330,000

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

For the upcoming year, the Township envisions revenues being projected at \$2.3 million with a relatively small contingency. Due to input from the citizens' survey that was conducted this past year the Board has invested more funds for road maintenance and public safety. Additionally, with the creation of a Land Preservation and Conservation Board, the Board has budgeted \$200,000 for the administrative functions of this new public body and acquisition of property and/or development rights.

In light of the ongoing building slump throughout Michigan the Township modified its past policy that continued to subsidize the building department. The Board of Trustees this past May 2011 reduced staffing levels that consolidated two positions into one. While the year end results again reflected a negative balance of just under \$30,000 it was much more favorable impact compared to the shortfall of almost \$73,000 from the prior fiscal year. Due to a staffing change that occurred in July 2012 this consolidated position is now being filled by a part-time employee at a lower salary. Further analysis of this department will take place next year to reassess building department fees if warranted.

### Salem Township Management

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

## BASIC FINANCIAL STATEMENTS

# SALEM TOWNSHIP, MICHIGAN

## Statement of Net Assets

March 31, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 90,437	\$ 283,975	\$ 374,412
Investments	8,285,383	145,393	8,430,776
Receivables	407,566	819,295	1,226,861
Internal balances	14,830	(14,830)	-
Other assets	5,959	-	5,959
Capital assets not being depreciated	1,823,585	259,732	2,083,317
Capital assets being depreciated, net	428,395	1,858,530	2,286,925
<b>Total assets</b>	<b>11,056,155</b>	<b>3,352,095</b>	<b>14,408,250</b>
<b>Liabilities</b>			
Accounts payable and accrued expenses	101,179	1,587	102,766
Long-term liabilities:			
Due within one year	11,971	175,000	186,971
Due in more than one year	-	975,000	975,000
<b>Total liabilities</b>	<b>113,150</b>	<b>1,151,587</b>	<b>1,264,737</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	2,251,980	968,262	3,220,242
Restricted for Village Green	1,639	-	1,639
Unrestricted	8,689,386	1,232,246	9,921,632
<b>Total net assets</b>	<b>\$ 10,943,005</b>	<b>\$ 2,200,508</b>	<b>\$ 13,143,513</b>

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



# SALEM TOWNSHIP, MICHIGAN

## Statement of Activities

For the Year Ended March 31, 2012

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Capital Grants and Contributions	
Primary government				
Governmental activities:				
General government	\$ 930,337	\$ 147,696	\$ -	\$ (782,641)
Public safety	506,996	-	-	(506,996)
Public works	176,136	-	-	(176,136)
Planning and zoning	244,635	49,436	-	(195,199)
Parks and recreation	1,200	-	-	(1,200)
<b>Total governmental activities</b>	<b>1,859,304</b>	<b>197,132</b>	<b>-</b>	<b>(1,662,172)</b>
Business-type activities -				
Water and sewer	233,364	99,233	-	(134,131)
<b>Total primary government</b>	<b>\$ 2,092,668</b>	<b>\$ 296,365</b>	<b>\$ -</b>	<b>\$ (1,796,303)</b>

Continued...

# SALEM TOWNSHIP, MICHIGAN

## Statement of Activities

For the Year Ended March 31, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net expense	\$ (1,662,172)	\$ (134,131)	\$ (1,796,303)
General revenues:			
State shared revenue	406,783	-	406,783
Landfill/Host community fees	1,701,001	-	1,701,001
Unrestricted investment earnings	251,466	43,151	294,617
Total general revenues	2,359,250	43,151	2,402,401
Change in net assets	697,078	(90,980)	606,098
Net assets, beginning of year	10,245,927	2,291,488	12,537,415
Net assets, end of year	\$ 10,943,005	\$ 2,200,508	\$ 13,143,513

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

# SALEM TOWNSHIP, MICHIGAN

## Balance Sheet

General Fund  
March 31, 2012

### Assets

Cash and cash equivalents	\$ 90,437
Investments	8,285,383
Accounts receivable	56,832
Landfill receivable	286,040
Due from other governments	64,694
Due from other funds	14,830
Prepaid items	5,959

Total assets \$ 8,804,175

### Liabilities

Accounts payable	\$ 98,938
Accrued liabilities	2,241

Total liabilities 101,179

### Fund balance

Nonspendable for prepaid items	5,959
Restricted for Village Green	1,639
Committed for capital acquisitions	235,200
Unassigned	8,460,198

Total fund balance 8,702,996

Total liabilities and fund balance \$ 8,804,175

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

## SALEM TOWNSHIP, MICHIGAN

### Reconciliation

Fund Balance for the General Fund  
to Net Assets of Governmental Activities  
March 31, 2012

Fund balance - General Fund	\$ 8,702,996
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund.	
Capital assets not being depreciated	1,823,585
Capital assets being depreciated, net	428,395
Certain liabilities are not due and payable in the current period and therefore are not reported in the fund.	
Compensated absences	<u>(11,971)</u>
Net assets of governmental activities	<u><u>\$ 10,943,005</u></u>

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

# SALEM TOWNSHIP, MICHIGAN

## Statement of Revenues, Expenditures

and Changes in Fund Balance

General Fund

For the Year Ended March 31, 2012

### Revenues

Licenses and permits	\$ 49,436
Intergovernmental	406,783
Charges for services	13,938
Landfill/Host community fees:	
Host fees	602,164
Gas royalties	1,073,348
Compost host fees	25,489
Franchise fees	74,192
Investment earnings	251,466
Other revenue	59,566

Total revenues 2,556,382

### Expenditures

Current expenditures:	
General government	928,043
Public safety	446,190
Public works	176,136
Planning and zoning	244,635
Culture and recreation	1,200

Total expenditures 1,796,204

Net change in fund balance 760,178

Fund balance, beginning of year 7,942,818

Fund balance, end of year \$ 8,702,996

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

## SALEM TOWNSHIP, MICHIGAN

### Reconciliation

Net Change in Fund Balance of the General Fund  
to Change in Net Assets of Governmental Activities  
For the Year Ended March 31, 2012

Net change in fund balance - general fund	\$ 760,178
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
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.	
Capital outlay	11,444
Depreciation expense	(79,925)
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 the fund.	
Change in the accrual for compensated absences	<u>5,381</u>
Change in net assets of governmental activities	<u><u>\$ 697,078</u></u>

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

# SALEM TOWNSHIP, MICHIGAN

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

Budget and Actual - General Fund  
For the Year Ended March 31, 2012

	Budget Original	Final	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Licenses and permits	\$ 29,500	\$ 29,500	\$ 49,436	\$ 19,936
Intergovernmental	360,000	360,000	406,783	46,783
Charges for services	12,650	12,650	13,938	1,288
Landfill/Host community fees:				
Host fees	400,000	400,000	602,164	202,164
Gas royalties	900,000	900,000	1,073,348	173,348
Compost host fees	30,000	30,000	25,489	(4,511)
Franchise fees	50,000	50,000	74,192	24,192
Investment earnings	231,100	231,100	251,466	20,366
Other revenue	124,813	124,813	59,566	(65,247)
<b>Total revenues</b>	<b>2,138,063</b>	<b>2,138,063</b>	<b>2,556,382</b>	<b>418,319</b>
<b>Expenditures</b>				
<b>General government</b>				
Township board	36,832	36,832	36,045	(787)
Township supervisor	130,023	130,023	104,439	(25,584)
Elections	30,221	30,221	14,145	(16,076)
Accounting and audit	26,500	26,500	20,641	(5,859)
Assessor	51,400	51,400	48,850	(2,550)
Township clerk	80,430	80,430	67,191	(13,239)
Board of review	3,711	3,711	3,385	(326)
Township treasurer	86,618	87,618	87,242	(376)
Attorney	100,000	270,000	280,521	10,521
Building and grounds	152,115	170,000	173,568	3,568
Land preservation & conservation	116,000	116,000	21,073	(94,927)
Other	222,080	97,945	70,943	(27,002)
<b>Total general government</b>	<b>1,035,930</b>	<b>1,100,680</b>	<b>928,043</b>	<b>(172,637)</b>
<b>Public safety</b>				
Police	153,595	153,595	152,660	(935)
Fire	291,083	291,083	293,530	2,447
<b>Total public safety</b>	<b>444,678</b>	<b>444,678</b>	<b>446,190</b>	<b>1,512</b>

Continued...

## SALEM TOWNSHIP, MICHIGAN

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

Budget and Actual - General Fund  
For the Year Ended March 31, 2012

	Budget Original	Final	Actual	Actual Over (Under) Final Budget
Expenditures (concluded)				
Public works				
Highways, streets and drains	\$ 202,400	\$ 177,400	\$ 176,136	\$ (1,264)
Planning and zoning				
Planning and zoning	263,855	264,105	244,635	(19,470)
Culture and recreation				
Parks and recreation	1,200	1,200	1,200	-
Capital outlay	190,000	150,000	-	(150,000)
Total expenditures	2,138,063	2,138,063	1,796,204	(341,859)
Net change in fund balance	-	-	760,178	760,178
Fund balance, beginning of year	7,942,818	7,942,818	7,942,818	-
Fund balance, end of year	\$ 7,942,818	\$ 7,942,818	\$ 8,702,996	\$ 760,178

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



# SALEM TOWNSHIP, MICHIGAN

## Statement of Net Assets

Water and Sewer Enterprise Fund

March 31, 2012

### Assets

#### Current assets:

Cash and cash equivalents	\$ 283,975
Investments	145,393
Accounts receivable, net	27,957
Special assessments receivable, current portion	<u>101,711</u>

Total current assets 559,036

#### Noncurrent assets:

Special assessments receivable, net of current portion	689,627
Capital assets not being depreciated	259,732
Capital assets being depreciated, net	<u>1,858,530</u>

Total noncurrent assets 2,807,889

Total assets 3,366,925

### Liabilities

#### Current liabilities:

Accounts payable	1,587
Due to other funds	14,830
Leases payable, current portion	<u>175,000</u>

Total current liabilities 191,417

#### Noncurrent liabilities -

Leases payable, net of current portion	<u>975,000</u>
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Total liabilities 1,166,417

### Net assets

Invested in capital assets, net of related debt	968,262
Unrestricted	<u>1,232,246</u>

Total net assets \$ 2,200,508

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

## SALEM TOWNSHIP, MICHIGAN

### Statement of Revenues, Expenses and Changes in Fund Net Assets

Water and Sewer Enterprise Fund  
For the Year Ended March 31, 2012

Operating revenues	
Charges for services	<u>\$ 99,233</u>
Operating expenses	
Contractual	95,115
Maintenance	89
Other expense	307
Depreciation	<u>68,568</u>
Total operating expenses	<u>164,079</u>
Operating loss	<u>(64,846)</u>
Nonoperating revenues (expenses)	
Investment earnings	43,151
Interest expense and fees	<u>(69,285)</u>
Total nonoperating expenses	<u>(26,134)</u>
Change in net assets	(90,980)
Net assets, beginning of year	<u>2,291,488</u>
Net assets, end of year	<u><u>\$ 2,200,508</u></u>

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

## SALEM TOWNSHIP, MICHIGAN

### Statement of Cash Flows

Water and Sewer Enterprise Fund  
For the Year Ended March 31, 2012

Cash flows from operating activities	
Receipts from customers and users	\$ 102,926
Payments to suppliers	<u>(93,924)</u>
Net cash provided by operating activities	<u>9,002</u>
Cash flows from capital and related financing activities	
Principal paid on debt	(180,000)
Interest paid on debt	(69,285)
Special assessment collections - principal	170,993
Special assessment collections - interest	<u>39,077</u>
Net cash used in capital and related financing activities	<u>(39,215)</u>
Cash flows from investing activities	
Proceeds from maturities of investments	98,038
Interest received on investments	<u>4,074</u>
Net cash provided by investing activities	<u>102,112</u>
Net change in cash and cash equivalents	71,899
Cash and cash equivalents, beginning of year	<u>212,076</u>
Cash and cash equivalents, end of year	<u><u>\$ 283,975</u></u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (64,846)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	68,568
Changes in assets and liabilities:	
Accounts receivable	3,693
Accounts payable and accrued liabilities	<u>1,587</u>
Net cash provided by operating activities	<u><u>\$ 9,002</u></u>

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

# SALEM TOWNSHIP, MICHIGAN

## Statement of Net Assets

Fiduciary Funds

March 31, 2012

### Assets

Cash and cash equivalents	\$ 6,189
Accounts receivable	<u>7,560</u>

### Total assets

\$ 13,749

### Liabilities

Undistributed receipts	<u>\$ 13,749</u>
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The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS

# SALEM TOWNSHIP, MICHIGAN

## Notes To Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

Salem Township, Michigan is a municipal corporation governed by an elected supervisor and a seven-member board. The Township has adopted the position of the Governmental Accounting Standards Board (GASB) Statement #14 regarding the definition of reporting entity and 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 assets 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, 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.

# SALEM TOWNSHIP, MICHIGAN

## Notes To Financial Statements

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 compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, intergovernmental revenue, 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 the government receives cash.

The government reports the following major governmental fund -

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 government reports the following major proprietary fund -

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

Additionally, the government reports the following fund type -

*Agency fund*. This fund accounts for assets held for other governments or individuals in an agency capacity.

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 government'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.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, *general revenues* include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewage disposal and water enterprise funds are charges to customers for sales and services. The enterprise fund also recognizes as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

# SALEM TOWNSHIP, MICHIGAN

## Notes To Financial Statements

### Assets, 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 authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

#### *Receivables and Payables*

Activity 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) or "advances to/from other funds" (i.e., the non current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

#### *Prepaid Items*

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

#### *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 columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.



# SALEM TOWNSHIP, MICHIGAN

## Notes To Financial Statements

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

	Years
Sewer building and systems	40
Buildings and improvements	20
Fire equipment	8-20
Office furnishing and equipment	5-10

### *Long-term Obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, 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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types 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 sources while discounts 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.

### *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 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 formal resolution of the Board of Trustees is required to establish, modify, or rescind a fund balance commitment. The Township reports assigned fund balance for amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is the residual classification for the general fund or deficit fund balances.

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, assigned, and finally unassigned fund balance.

## 2. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end.

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

# SALEM TOWNSHIP, MICHIGAN

## Notes To Financial Statements

### 3. EXCESS OF EXPENDITURES OVER BUDGET

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. Expenditures in excess of appropriations in individual funds, which were funded by available fund balance, were as follows for the year ended March 31, 2012:

	Final Budget	Actual	Variance
General fund:			
General government:			
Attorney	\$ 270,000	\$ 280,521	\$ 10,521
Building and grounds	170,000	173,568	3,568
Public safety -			
Fire	291,083	293,530	2,447

### 4. CONSTRUCTION CODE FEES

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	\$ 49,436
Less related expenditures:	
Direct costs	(36,338)
Estimated indirect costs	(42,741)
Current year shortfall	<u>(29,643)</u>
Cumulative shortfall, beginning of year	<u>(260,554)</u>
Cumulative shortfall, end of year	<u>\$ (290,197)</u>

### 5. DEPOSITS AND INVESTMENTS

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

Statement of Net Assets	
Cash and cash equivalents	\$ 374,412
Investments	8,430,776
Statement of Fiduciary Net Assets	
Cash and investments	<u>6,189</u>
Total	<u>\$ 8,811,377</u>

# SALEM TOWNSHIP, MICHIGAN

## Notes To Financial Statements

Deposits and investments	
Bank deposits (checking accounts, savings accounts and certificates of deposit)	\$ 624,854
Investments in securities, mutual funds and similar vehicles	8,185,923
Cash on hand	<u>600</u>
<b>Total</b>	<b><u>\$ 8,811,377</u></b>

The Township chooses to disclose its investments by specifically identifying each. As of year end, the Township had the following investments:

Financial Institution	Investment	Maturity	Amount	S&P	Callable
Comerica	Money Market	N/A	\$ 9,078	N/A	No
Comerica	FNMA	11/23/2016	801,160	AA+	Yes
Comerica	FHLMC	8/24/2018	199,962	AA+	No
Comerica	FHLMC	12/7/2018	149,924	AA+	No
Comerica	FHLB	3/28/2022	600,084	AA+	No
Comerica	FNMA	1/30/2024	349,531	AA+	Yes
Comerica	FNMA	6/30/2026	386,009	AA+	Yes
Comerica	FNMA	8/24/2026	197,082	AA+	Yes
Comerica	FNMA	9/30/2026	895,698	AA+	Yes
Comerica	FNMA	11/17/2026	1,100,583	AA+	Yes
Comerica	FNMA	12/28/2026	792,912	AA+	No
Comerica	GNMA	9/20/2040	300,138	N/A	No
Comerica	GNMA	2/20/2041	58,358	N/A	No
Comerica	GNMA	2/20/2041	67,632	N/A	No
Comerica	Genesee County	9/1/2012	10,000	SP-1+	Yes
JP Morgan	Money Market	N/A	8,603	N/A	No
JP Morgan	FHLB	6/7/2022	504,550	AA+	Yes
JP Morgan	FHLB	9/28/2023	759,209	AA+	Yes
JP Morgan	FNMA	10/26/2023	<u>995,410</u>	AA+	Yes
			<b><u>\$ 8,185,923</u></b>		

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the accounting policies. The Township’s investment policy does not have specific limits in excess of state law. Maturities of investments, where applicable, have been identified above for the Township’s investments.

*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 accounting policies. The Township’s investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings from S&P, where applicable, have been identified above for the Township’s investments.

# SALEM TOWNSHIP, MICHIGAN

## Notes To Financial Statements

*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. The Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimate risk level are used as depositories. As of March 31, 2012, all of the Township's bank balance of \$736,081 was fully insured.

*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. State law does not require and the Township does not have a policy for investment custodial credit risk. None of the Township's investments were exposed to custodial credit risk at year end.

*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. All investments held at year end are reported above.

## 6. RECEIVABLES

Receivables as of year-end are as follows:

	Governmental Activities	Business-type Activities
Accounts receivable	\$ 56,832	\$ 27,957
Landfill receivable	286,040	-
Due from other governments	64,694	-
Special assessments receivable	-	791,338
	<u>\$ 407,566</u>	<u>\$ 819,295</u>

Of the outstanding receivables at year end, approximately \$689,000 of special assessments is not expected to be collected within one year.

# SALEM TOWNSHIP, MICHIGAN

## Notes To Financial Statements

### 7. CAPITAL ASSETS

Capital assets activity for the year was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
<b>Governmental Activities</b>				
Capital assets, not being depreciated -				
Land	\$ 1,823,585	\$ -	\$ -	\$ 1,823,585
Capital assets, being depreciated:				
Buildings and improvements	225,845	10,409	-	236,254
Machinery and equipment	1,053,351	-	-	1,053,351
Office furnishings and equipment	113,065	1,035	-	114,100
Total capital assets being depreciated	1,392,261	11,444	-	1,403,705
Less accumulated depreciation for:				
Buildings and improvements	(70,937)	(10,177)	-	(81,114)
Machinery and equipment	(755,174)	(60,806)	-	(815,980)
Office furnishings and equipment	(69,274)	(8,942)	-	(78,216)
Total accumulated depreciation	(895,385)	(79,925)	-	(975,310)
Total capital assets being depreciated, net	496,876	(68,481)	-	428,395
Governmental activities capital assets, net	\$ 2,320,461	\$ (68,481)	\$ -	\$ 2,251,980
<b>Business-type Activities</b>				
Capital assets, not being depreciated -				
Land	\$ 259,732	\$ -	\$ -	\$ 259,732
Capital assets, being depreciated -				
Infrastructure	2,742,722	-	-	2,742,722
Less accumulated depreciation for -				
Infrastructure	(815,624)	(68,568)	-	(884,192)
Total capital assets being depreciated, net	1,927,098	(68,568)	-	1,858,530
Business-type activities capital assets, net	\$ 2,186,830	\$ (68,568)	\$ -	\$ 2,118,262

Depreciation expense was charged to functions/programs of governmental activities as follows:

General government	\$ 19,119
Public safety	60,806
	<u>\$ 79,925</u>

# SALEM TOWNSHIP, MICHIGAN

## Notes To Financial Statements

### 8. PAYABLES

The payables balance in governmental activities as of March 31, 2012, consisted of trade accounts payable of \$98,938 and accrued liabilities of \$2,241. The payable balance in business-type activities consisted of \$1,587 due to vendors.

### 9. 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, 2012, due to/due from other funds consisted of \$14,830 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.

### 10. LONG-TERM DEBT

*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 levied against properties within the district for a portion of the cost of the sewer improvements. At March 31, 2012, the Township had approximately \$168,000 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%.

# SALEM TOWNSHIP, MICHIGAN

## Notes To Financial Statements

The capital lease represents the financing of public improvements that benefited a specific district. Special assessments were levied against properties within the district for a portion of the cost of the sewer improvements. At March 31, 2012, the Township had approximately \$518,000 of special assessments receivable outstanding related to this project.

Annual debt service requirements to maturity for these leases are as follows:

Year Ended December 31,	Principal	Interest	Total
2013	\$ 175,000	\$ 39,779	\$ 214,779
2014	180,000	34,659	214,659
2015	180,000	29,428	209,428
2016	185,000	24,086	209,086
2017	155,000	19,757	174,757
2018-2022	275,000	34,252	309,252
	<u>\$ 1,150,000</u>	<u>\$ 181,961</u>	<u>\$ 1,331,961</u>

*Changes in Long-Term Debt.* Long-term liability activity for the year ended March 31, 2012, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<b>Governmental activities</b>					
Compensated absences	\$ 17,352	\$ 13,834	\$ (19,215)	\$ 11,971	\$ 11,971
<b>Business-type activities</b>					
Leases payable	\$ 1,330,000	\$ -	\$ (180,000)	\$ 1,150,000	\$ 175,000

For governmental activities, compensated absences are liquidated by the general fund.

## 11. NET ASSETS INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT

Following is a summary of net assets invested in capital assets, net of related debt, as presented in the government-wide statement of net assets:

	Governmental Activities	Business-type Activities
Invested in capital assets:		
Capital assets not being depreciated	\$ 1,823,585	\$ 259,732
Capital assets being depreciated, net	428,395	1,858,530
Less related debt -		
Leases payable	-	(1,150,000)
<b>Total invested in capital, net of related debt</b>	<u>\$ 2,251,980</u>	<u>\$ 968,262</u>

# SALEM TOWNSHIP, MICHIGAN

## Notes To Financial Statements

### 12. 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, 2012, host revenue and gas royalties were \$602,164 and \$1,073,348, 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, 2012 relating to this agreement was \$25,489.

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.

### 13. 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, 2012, 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.

### 14. 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 \$15,667. 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 \$1,492 and \$3,797, respectively.

### 15. 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.





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