

**CHARTER TOWNSHIP OF NILES, MICHIGAN  
ANNUAL FINANCIAL REPORT  
YEAR ENDED DECEMBER 31, 2013**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the  
Charter Township of Niles, 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 the Charter Township of Niles, Michigan (the "Township") as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

## *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Niles, Michigan, as of December 31, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Niles, Michigan's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2013, on our consideration of the Charter Township of Niles, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Charter Township of Niles, Michigan's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Gabridge & Company".

Gabridge & Company, PLC  
Grand Rapids, Michigan  
April 21, 2014

## Management's Discussion and Analysis

As management of the Charter Township of Niles, Michigan (The "Township") we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended December 31, 2013. We encourage readers to consider the information presented here in conjunction with the financial statements.

### Financial Highlights

- The assets of the Township exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$20,569,493 (net position). Of this amount, \$7,490,963 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- At the close of the current fiscal year, the Township's governmental funds reported combined fund balances of \$4,120,678, an increase of \$364,286 in comparison with the prior year. Approximately 85% of this amount (\$3,496,885) is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unrestricted fund balance for the general fund was \$3,496,885, or approximately 192% of total general fund expenditures.

### Overview of the Financial Statements

The discussion and analysis provided here is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net position* presents financial information on all of the Township's assets, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the Township's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include general government, public safety, highways and streets, community and economic development, and culture and recreation. The business-type activities of the Township include water and sewer services.

The government-wide financial statements can be found on pages 14 - 15 of this report.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the fire operating fund, which are considered to be major funds. Data from the other three governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

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

The basic governmental fund financial statements can be found on pages 16 - 19 of this report.

**Proprietary Funds.** The Township maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Township uses enterprises funds to account for its water and sewer operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Township's various functions. The Township uses internal service funds to account for its employee benefits, allocating the costs to the funds that receive the benefit. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

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

The basic proprietary fund financial statements can be found on pages 20 - 23 of this report.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The Township maintains two different types of fiduciary funds. The Pension and Benefit trust funds are used to report resources held in trust for retirees and beneficiaries covered by the Employees' Pension Plan. The Agency funds report resources held by the Township in a custodial capacity for individuals, private organizations and other governments.

The fiduciary fund financial statements can be found on pages 24 – 25 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26 – 42 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Township's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison schedules. Required supplementary information can be found on pages 44 – 46 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 48 – 49 of this report.



## Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the Township, assets exceeded liabilities and deferred inflows of resources by \$20,569,493, at the close of the most recent fiscal year.

<b>Charter Township of Niles</b>						
<b>Statement of Net Position for Fiscal Years Ended December 31, 2013 and December 31, 2012</b>						
	<b>Governmental</b>		<b>Business-type</b>		<b>Total Primary</b>	
	<b>Activities</b>		<b>Activities</b>		<b>Government</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>						
<i>Current Assets</i>						
Cash and Cash Equivalents	\$ 3,065,871	\$ 1,059,965	\$ 3,078,895	\$ 2,842,244	\$ 6,144,766	\$ 3,902,209
Investments	791,396	2,492,643	298,899	306,193	1,090,295	2,798,836
Taxes Receivable	993,802	1,116,266	-	-	993,802	1,116,266
Receivables (Net)	248,676	215,863	522,331	547,884	771,007	763,747
Special Assessments Receivable	-	-	93,212	128,215	93,212	128,215
Prepaid Expenses	55,340	62,182	13,244	17,722	68,584	79,904
Due from Agency Funds	701,557	721,579	109,630	75,136	811,187	796,715
<b>Total Current Assets</b>	<b>5,856,642</b>	<b>4,946,919</b>	<b>4,006,581</b>	<b>3,842,258</b>	<b>9,863,223</b>	<b>8,789,177</b>
<i>Noncurrent Assets</i>						
Special Assessments	-	-	529,511	624,990	529,511	624,990
Capital Assets (Net)	2,420,425	2,495,453	10,544,149	10,874,183	12,964,574	13,369,636
<b>Total Assets</b>	<b>8,277,067</b>	<b>7,442,372</b>	<b>15,080,241</b>	<b>15,341,431</b>	<b>23,357,308</b>	<b>22,783,803</b>
<b>LIABILITIES</b>						
<i>Current Liabilities</i>						
Accounts Payable	69,340	22,304	78,535	78,556	147,875	100,860
Accrued Payroll	26,566	28,236	6,613	4,358	33,179	32,594
Accrued Interest	-	-	7,323	8,190	7,323	8,190
Current Portion of Long-term Debt	-	-	130,000	130,000	130,000	130,000
Deposits & Escrow	-	-	6,312	-	6,312	-
Internal Balances	7,320	7,320	(7,320)	(7,320)	-	-
<b>Total Current Liabilities</b>	<b>103,226</b>	<b>57,860</b>	<b>221,463</b>	<b>213,784</b>	<b>324,689</b>	<b>271,644</b>
<i>Noncurrent Liabilities</i>						
Compensated Absences	26,440	24,731	459	512	26,899	25,243
Bonds Payable	-	-	910,000	1,040,000	910,000	1,040,000
<b>Total Liabilities</b>	<b>129,666</b>	<b>82,591</b>	<b>1,131,922</b>	<b>1,254,296</b>	<b>1,261,588</b>	<b>1,336,887</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Taxes Levied for Subsequent Period	1,635,857	1,809,336	-	-	1,635,857	1,809,336
Unavailable Revenue	-	32,941	-	-	-	32,941
<b>Total Deferred Inflows of Resources</b>	<b>1,635,857</b>	<b>1,842,277</b>	<b>-</b>	<b>-</b>	<b>1,635,857</b>	<b>1,842,277</b>
<b>NET POSITION</b>						
Net Investment in Capital Assets	2,420,425	2,495,453	9,504,149	9,704,183	11,924,574	12,199,636
Restricted	531,233	330,340	622,723	753,205	1,153,956	1,083,545
Unrestricted	3,559,886	3,413,290	3,931,077	3,704,883	7,490,963	7,118,173
<b>Total Net Position</b>	<b>\$ 6,511,544</b>	<b>\$ 6,239,083</b>	<b>\$ 14,057,949</b>	<b>\$ 14,162,271</b>	<b>\$ 20,569,493</b>	<b>\$ 20,401,354</b>

By far, the largest portion of the Township's net position (58%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The Township uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the Township's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Township's net position (6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$7,490,963 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

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

The Township's overall net position increased \$168,139 from the prior fiscal year. The reasons for this overall decrease are discussed in the following sections for governmental activities and business-type activities.

**Governmental Activities.** During the current fiscal year, net position for governmental activities increased \$272,461 from the prior fiscal year for an ending balance of \$6,511,544. While the current recession certainly had an impact on the Township, management was able to take various actions (e.g., delaying certain nonrecurring expenses, reducing expenses related to non-essential ongoing programs in the culture and recreation function) that neutralized its effect on governmental activities. The increase in the overall net position of governmental activities in comparison with the previous year is the result of a decrease in overall expenses of \$127,169 and an increase in charges for service of \$182,803.

## Changes in Net Position

### Charter Township of Niles Change in Net Position for Fiscal Years Ended December 31, 2013 and December 31, 2012

	Governmental Activities		Business-type Activities		Total Government	
	2013	2012	2013	2012	2013	2012
<b>Revenue</b>						
<b>Program Revenues</b>						
Charges for Services	\$ 1,388,512	\$ 1,205,709	\$ 1,685,233	\$ 1,682,382	\$ 3,073,745	\$ 2,888,091
Operating Grants & Contributions	2,500	1,900	-	-	2,500	1,900
Capital Grants & Contributions	-	17,100	-	-	-	17,100
<b>Total Program Revenues</b>	<b>1,391,012</b>	<b>1,224,709</b>	<b>1,685,233</b>	<b>1,682,382</b>	<b>3,076,245</b>	<b>2,907,091</b>
<b>General Revenues</b>						
Taxes	664,034	668,495	-	-	664,034	668,495
State Sources	1,052,946	1,032,781	-	-	1,052,946	1,032,781
Other	86,147	37,764	-	-	86,147	37,764
Investment Income	26,464	38,592	59,448	56,798	85,912	95,390
Net Decrease in Fair Value of Investments	(2,284)	-	(5,436)	-	(7,720)	-
Transfers In (Out)	-	(3,300)	-	3,300	-	-
<b>Total General Revenues</b>	<b>1,827,307</b>	<b>1,774,332</b>	<b>54,012</b>	<b>60,098</b>	<b>1,881,319</b>	<b>1,834,430</b>
<b>Total Revenues</b>	<b>3,218,319</b>	<b>2,999,041</b>	<b>1,739,245</b>	<b>1,742,480</b>	<b>4,957,564</b>	<b>4,741,521</b>
<b>Expenses</b>						
Legislative	70,498	98,186	-	-	70,498	98,186
General Government	552,375	564,655	-	-	552,375	564,655
Public Safety	2,109,979	2,164,697	-	-	2,109,979	2,164,697
Culture and Recreation	40,792	60,650	-	-	40,792	60,650
Public Works	81,076	92,193	-	-	81,076	92,193
Community / Economic Development	79,999	72,201	-	-	79,999	72,201
Interest on Long-term Debt	11,139	20,445	-	-	11,139	20,445
Sewer	-	-	1,595,595	1,444,478	1,595,595	1,444,478
Water	-	-	247,972	239,294	247,972	239,294
<b>Total Expenses</b>	<b>2,945,858</b>	<b>3,073,027</b>	<b>1,843,567</b>	<b>1,683,772</b>	<b>4,789,425</b>	<b>4,756,799</b>
<b>Change in Net Position</b>	<b>272,461</b>	<b>(73,986)</b>	<b>(104,322)</b>	<b>58,708</b>	<b>168,139</b>	<b>(15,278)</b>
<i>Net Position at the Beginning of Period</i>	<i>6,239,083</i>	<i>6,313,069</i>	<i>14,162,271</i>	<i>14,103,563</i>	<i>20,401,354</i>	<i>20,416,632</i>
<b>Net Position at the End of Period</b>	<b>\$ 6,511,544</b>	<b>\$ 6,239,083</b>	<b>\$ 14,057,949</b>	<b>\$ 14,162,271</b>	<b>\$ 20,569,493</b>	<b>\$ 20,401,354</b>

**Business-type Activities.** For the Township's business-type activities, the results for the current fiscal year were a decrease in overall net position increased with an ending balance of \$14,057,949. The total decrease in net position for business-type activities (water and sewer funds) was \$104,322 or 1% from the prior fiscal year. The decrease was attributable to an overall increase in operating expenses in the water and sewer funds.

### Financial Analysis of Governmental Funds

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

**Governmental Funds.** The focus of the Township's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources

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

At December 31, 2013, the Township's governmental funds reported combined fund balances of \$4,120,678, an increase of \$364,286 in comparison with the prior year. Approximately 85% of this amount (\$3,496,885) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable*, *restricted*, *committed*, or *assigned* to indicate that it is 1) not in spendable form (\$55,340), 2) restricted for particular purposes (\$502,467), or 3) assigned for particular purposes (\$65,986).

The general fund is the chief operating fund of the Township. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,496,885, while total fund balance increased to \$3,523,459. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 192 percent of total general fund expenditures, while total fund balance represents approximately 194 percent of that same amount.

The fund balance of the Township's general fund increased by \$175,412 during the current fiscal year. The increase in fund balance is consistent with prior results. A slight increase in revenues and a decrease in overall expenditures for the year caused the increase to be larger than the prior year increase in fund balance.

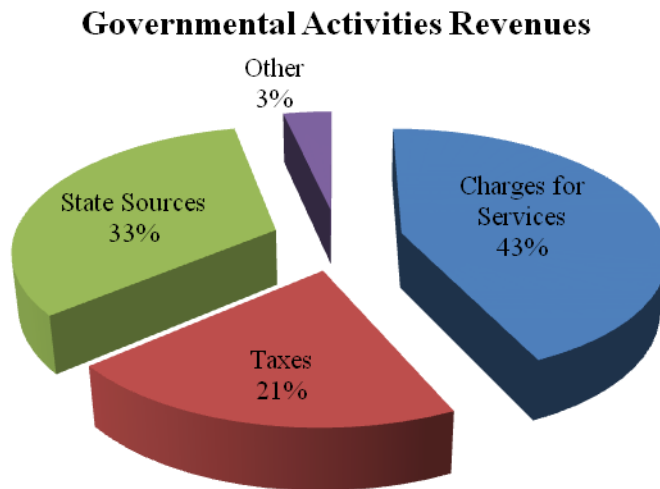
The fire operating fund, a major fund, had a \$10,063 decrease in fund balance during the current fiscal year which put the overall fund balance at \$156,375. An increase in taxes and a decrease in expenditures limited to the loss to \$10,063 as compared to the previous fiscal year loss of \$221,279.

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

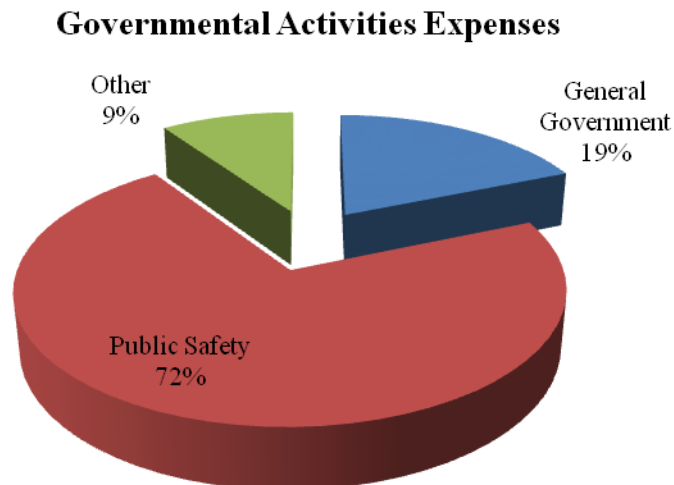
Unrestricted net position of the water fund at the end of the year was \$726,054 and for the sewer fund operation was \$3,205,023. The increase in net position for the water funds was \$22,011 and the decrease in net position of the sewer fund was \$126,333. The increase in net position of the water fund was consistent with prior year results. The most significant change from prior year for the sewer fund was an increase in contracted services expense of \$103,543.

## Governmental Activities

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



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



## General Fund Budgetary Highlights

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

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

	<u>Final Budget</u>		<u>Actual</u>		<u>Variance</u>
<b>General Fund</b>					
Assessor	\$ 109,058		\$ 114,888		\$ (5,830)
Treasurer	84,142		85,158		(1,016)
Township Hall & Grounds	141,932		158,087		(16,155)

## Capital Assets and Debt Administration

**Capital assets.** The Township's investment in capital assets for its governmental and business-type activities as of December 31, 2013, amounts to \$12,964,574 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, roads, and water and sewer infrastructure. The total decrease in capital assets for the current fiscal year was approximately 3.1%.

	<u>2013</u>	<u>2012</u>
Land	\$ 265,652	\$ 265,652
Construction in progress	59,642	12,757
Buildings	1,575,895	1,619,387
Vehicles	303,603	368,893
Equipment	167,263	174,622
Streets	80,379	86,152
Sewer	7,600,980	7,843,760
Water	2,911,160	2,998,413
Totals	<u>\$ 12,964,574</u>	<u>\$ 13,369,636</u>

## Long-term Debt

As described in Note 9 to the financial statements, the Township had \$1,040,000 in water fund bonds outstanding at the end of 2013. No new debt was issued during the year. Other long-term obligations consisted of a \$26,899 liability for compensated absences.

## Economic Condition and Outlook

About \$2 million of revenues are expected to be available for appropriation in the General Fund. Expenditures are expected to change by small amounts compared to 2013. The Township

continues to review all budget line items for opportunities to reduce expenditures when possible. The budget will be monitored during the year to identify any necessary amendments. In 2014, the Township plans again to use current revenues to provide essential services and to maintain the Township's financial reserves at similar levels. Property tax revenues are expected to change minimally reflecting fairly stable property values. The ongoing costs of providing essential services for the citizens of the Township will again need to be monitored in order to maintain the financial condition of the Township.

### **Contacting the Township**

This financial report is designed to provide a general overview of the Township's finances to its citizens, customers, investors, and creditors and to demonstrate the Township's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Charter Township of Niles  
320 Bell Road  
Niles, MI 49120

**Charter Township of Niles  
Statement of Net Position  
December 31, 2013**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
<i>Current Assets</i>			
Cash and Cash Equivalents	\$ 3,065,871	\$ 3,078,895	\$ 6,144,766
Investments	791,396	298,899	1,090,295
Taxes Receivable	993,802	--	993,802
Receivables, Net	248,676	522,331	771,007
Special Assessment Receivables	--	93,212	93,212
Prepaid Expenses	55,340	13,244	68,584
Due from Agency Funds	701,557	109,630	811,187
<b>Total Current Assets</b>	<b>5,856,642</b>	<b>4,116,211</b>	<b>9,972,853</b>
<i>Noncurrent Assets</i>			
Special Assessments	--	529,511	529,511
Capital Assets not Being Depreciated	293,285	32,009	325,294
Capital Assets Being Depreciated, Net	2,127,140	10,512,140	12,639,280
<b>Total Assets</b>	<b>8,277,067</b>	<b>15,189,871</b>	<b>23,466,938</b>
<b>LIABILITIES</b>			
<i>Current Liabilities</i>			
Accounts Payable	69,340	78,535	147,875
Accrued Payroll	26,566	6,613	33,179
Accrued Interest	--	7,323	7,323
Current Portion of Long-term Debt	--	130,000	130,000
Deposits and Escrow	--	6,312	6,312
Internal Balances	7,320	(7,320)	--
<b>Total Current Liabilities</b>	<b>103,226</b>	<b>221,463</b>	<b>324,689</b>
<i>Noncurrent Liabilities</i>			
Bonds Payable	--	910,000	910,000
Compensated Absences	26,440	459	26,899
<b>Total Liabilities</b>	<b>129,666</b>	<b>1,131,922</b>	<b>1,261,588</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Taxes Levied for a Subsequent Period	1,635,857	--	1,635,857
<b>Total Deferred Inflows of Resources</b>	<b>1,635,857</b>	<b>--</b>	<b>1,635,857</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	2,420,425	9,504,149	11,924,574
<i>Restricted for:</i>			
Public Safety	329,439	--	329,439
Public Works	201,794	--	201,794
Special Assessments	--	622,723	622,723
<i>Unrestricted</i>	3,559,886	3,931,077	7,490,963
<b>Total Net Position</b>	<b>\$ 6,511,544</b>	<b>\$ 14,057,949</b>	<b>\$ 20,569,493</b>

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



**Charter Township of Niles  
Statement of Activities  
For the Year Ended December 31, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government</b>							
<b>Governmental Activities:</b>							
Legislative	\$ 70,498	\$ --	\$ --	\$ --	\$ (70,498)	\$ --	\$ (70,498)
General Government	552,375	36,238	--	--	(516,137)	--	(516,137)
Public Safety	2,109,979	1,238,688	2,500	--	(868,791)	--	(868,791)
Cultural and Recreation	40,792	3,050	--	--	(37,742)	--	(37,742)
Public Works	81,076	110,536	--	--	29,460	--	29,460
Community / Economic Development	79,999	--	--	--	(79,999)	--	(79,999)
Interest on Long-term Debt	11,139	--	--	--	(11,139)	--	(11,139)
<b>Total Governmental Activities</b>	<b>2,945,858</b>	<b>1,388,512</b>	<b>2,500</b>	<b>--</b>	<b>(1,554,846)</b>	<b>--</b>	<b>(1,554,846)</b>
<b>Business-type Activities:</b>							
Sewer	1,595,595	1,509,394	--	--	--	(86,201)	(86,201)
Water	247,972	212,666	--	--	--	(35,306)	(35,306)
<b>Total Business-type Activities</b>	<b>1,843,567</b>	<b>1,722,060</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(121,507)</b>	<b>(121,507)</b>
<b>Total Primary Government</b>	<b>\$ 4,789,425</b>	<b>\$ 3,110,572</b>	<b>\$ 2,500</b>	<b>\$ --</b>	<b>\$ (1,554,846)</b>	<b>\$ (121,507)</b>	<b>\$ (1,676,353)</b>
<b>General Purpose Revenues and Transfers:</b>							
<b>Revenues</b>							
Taxes and Penalties					664,034	--	664,034
State Sources					1,052,946	--	1,052,946
Other Revenue					86,147	3,526	89,673
Interest Income					26,464	19,095	45,559
Net Decrease in Fair Value of Investments					(2,284)	(5,436)	(7,720)
<b>Transfers</b>					--	--	--
<b>Total General Revenues and Transfers</b>					<b>1,827,307</b>	<b>17,185</b>	<b>1,844,492</b>
<b>Change in Net Position</b>					<b>272,461</b>	<b>(104,322)</b>	<b>168,139</b>
<i>Net Position at Beginning of Period</i>					6,239,083	14,162,271	20,401,354
<b>Net Position at End of Period</b>					<b>\$ 6,511,544</b>	<b>\$ 14,057,949</b>	<b>\$ 20,569,493</b>

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

**Charter Township of Niles  
Balance Sheet  
Governmental Funds  
December 31, 2013**

	<u>Special Revenue</u>		<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Fire Operating</u>		
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 2,511,735	\$ 111,901	\$ 412,512	\$ 3,036,148
Investments	791,343	28	25	791,396
Taxes Receivable	399,568	540,114	54,120	993,802
Receivables, Net	238,171	--	10,505	248,676
Prepaid Expenses	26,574	28,766	--	55,340
Due from Agency Funds	280,659	364,003	56,895	701,557
Due from Other Funds	14,943	14,857	--	29,800
<i>Total Assets</i>	<u>4,262,993</u>	<u>1,059,669</u>	<u>534,057</u>	<u>5,856,719</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 66,971	\$ 1,988	\$ 364	\$ 69,323
Accrued Payroll	9,797	16,769	--	26,566
Due to Other Funds	--	--	1,533	1,533
<i>Total Liabilities</i>	<u>76,768</u>	<u>18,757</u>	<u>1,897</u>	<u>97,422</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Taxes Levied for a Subsequent Period	662,766	884,537	88,554	1,635,857
Unavailable Revenues - Special Assessments	--	--	2,762	2,762
<i>Total Liabilities and Deferred Inflows of Resources</i>	<u>739,534</u>	<u>903,294</u>	<u>93,213</u>	<u>1,736,041</u>
<b>FUND BALANCE</b>				
Nonspendable	26,574	28,766	--	55,340
Restricted	--	127,609	374,858	502,467
Assigned	--	--	65,986	65,986
Unassigned	3,496,885	--	--	3,496,885
<i>Total Fund Balance</i>	<u>3,523,459</u>	<u>156,375</u>	<u>440,844</u>	<u>4,120,678</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<u>\$ 4,262,993</u>	<u>\$ 1,059,669</u>	<u>\$ 534,057</u>	<u>\$ 5,856,719</u>

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

**Charter Township of Niles**  
**Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position**  
**December 31, 2013**

Total Fund Balance - Governmental Funds	\$ 4,120,678
Net position of internal service funds that are treated as proprietary in the fund level statements are treated as governmental in the entity-wide statements	(5,881)
General government capital assets of \$4,895,121, net of accumulated depreciation of \$2,474,696, are not financial resources and, accordingly, are not reported in the funds	2,420,425
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds	(26,440)
Unavailable revenues are not available to to pay current period expenditures and, therefore, are deferred inflows of resources in the funds	2,762
<b>Total Net Position - Governmental Funds</b>	<b>\$ <u>6,511,544</u></b>

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

**Charter Township of Niles**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended December 31, 2013**

	<u>General</u>	<u>Special Revenue</u> <u>Fire Operating</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
<b>Revenues</b>				
Taxes and Penalties	\$ 664,034	\$ 824,164	\$ 243,512	\$ 1,731,710
Licenses and Permits	167,553	--	--	167,553
State Sources	1,052,946	--	--	1,052,946
Charges for Services	60,922	74,373	--	135,295
Fines and Forfeitures	10,536	--	--	10,536
Other Revenue	23,241	--	63,194	86,435
Interest Income	17,617	8,375	472	26,464
Net Decrease in Fair Value of Investments	(2,284)	--	--	(2,284)
<b>Total Revenues</b>	<u>1,994,565</u>	<u>906,912</u>	<u>307,178</u>	<u>3,208,655</u>
<b>Expenditures</b>				
Legislative	70,498	--	--	70,498
General Government	513,187	--	--	513,187
Public Safety	1,044,354	916,975	33,048	1,994,377
Public Works	29,472	--	39,690	69,162
Community / Economic Development	79,747	--	--	79,747
Cultural and Recreation	28,008	--	--	28,008
Debt Service - Interest	--	--	11,139	11,139
Capital Outlay	53,887	--	24,364	78,251
<b>Total Expenditures</b>	<u>1,819,153</u>	<u>916,975</u>	<u>108,241</u>	<u>2,844,369</u>
<b>Excess of Revenues Over</b> <b>(Under) Expenditures</b>	<u>175,412</u>	<u>(10,063)</u>	<u>198,937</u>	<u>364,286</u>
<b>Other Financing Sources (Uses)</b>				
Transfers from Other Funds	--	--	--	--
Transfers to Other Funds	--	--	--	--
<b>Net Other Financing Sources (Uses)</b>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<b>Net Change in Fund Balance</b>	<u>175,412</u>	<u>(10,063)</u>	<u>198,937</u>	<u>364,286</u>
<b>Fund Balance at Beginning of Period</b>	<u>3,348,047</u>	<u>166,438</u>	<u>241,907</u>	<u>3,756,392</u>
<b>Fund Balance at End of Period</b>	<u>\$ 3,523,459</u>	<u>\$ 156,375</u>	<u>\$ 440,844</u>	<u>\$ 4,120,678</u>

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

**Charter Township of Niles**  
**Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance with Statement of Activities**  
**For the Year Ended December 31, 2013**

Total Net Change in Fund Balances - Governmental Funds	\$	364,286
Changes in net position of internal service funds that are treated as enterprise fund changes in net position in the fund level statements are treated as governmental fund changes in net position in the entity-wide statements		(17,850)
Governmental funds report capital outlay as expenditures; however, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which depreciation expense of \$153,279 is in excess of capital outlay expenditures of \$78,251		(75,028)
Compensated absences are expensed in the Statement of Activities when incurred. However, if they are not to be paid using current financial resources, they are not recorded in the fund statements. This represents the change in compensated absences for the year		(1,709)
Revenues in the Statement of Activities that do not provide current financial resources are reported as deferred inflows of resources		2,762
<b>Changes in Net Position - Governmental Funds</b>	<b>\$</b>	<b><u>272,461</u></b>

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

**Charter Township of Niles**  
**Statement of Net Position**  
**Proprietary Funds**  
**December 31, 2013**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total Enterprise</u>	<u>Internal Service</u>
			<u>Funds</u>	<u>Funds</u>
<b>ASSETS</b>				
<i>Current Assets</i>				
Cash and Cash Equivalents	\$ 2,053,800	\$ 1,025,095	\$ 3,078,895	\$ 29,723
Investments	298,899	--	298,899	--
Receivables, Net	493,714	28,617	522,331	--
Special Assessment Receivables	--	93,212	93,212	--
Prepaid Expenses	10,631	2,613	13,244	--
Due from Agency Funds	75,755	33,875	109,630	--
Due from Other Funds	353,435	578	354,013	--
<b>Total Current Assets</b>	<u>3,286,234</u>	<u>1,183,990</u>	<u>4,470,224</u>	<u>29,723</u>
<i>Noncurrent Assets</i>				
Special Assessments	--	529,511	529,511	--
Capital Assets not Being Depreciated	2,150	29,859	32,009	--
Capital Assets Being Depreciated, Net	7,600,980	2,911,160	10,512,140	--
<b>Total Assets</b>	<u>10,889,364</u>	<u>4,654,520</u>	<u>15,543,884</u>	<u>29,723</u>
<b>LIABILITIES</b>				
<i>Current Liabilities</i>				
Accounts Payable	74,928	3,607	78,535	17
Accrued Payroll	5,824	789	6,613	--
Accrued Interest	--	7,323	7,323	--
Current Portion of Long-term Debt	--	130,000	130,000	--
Deposits and Escrow	--	6,312	6,312	--
Due to Other Funds	--	346,693	346,693	35,587
<b>Total Current Liabilities</b>	<u>80,752</u>	<u>494,724</u>	<u>575,476</u>	<u>35,604</u>
<i>Noncurrent Liabilities</i>				
Notes Payable	--	910,000	910,000	--
Compensated Absences	459	--	459	--
<b>Total Liabilities</b>	<u>81,211</u>	<u>1,404,724</u>	<u>1,485,935</u>	<u>35,604</u>
<b>NET POSITION</b>				
Net Investment in Capital Assets	7,603,130	1,901,019	9,504,149	--
<i>Restricted for:</i>				
Special Assessments	--	622,723	622,723	--
<i>Unrestricted</i>	3,205,023	726,054	3,931,077	(5,881)
<b>Total Net Position</b>	<u>\$ 10,808,153</u>	<u>\$ 3,249,796</u>	<u>\$ 14,057,949</u>	<u>\$ (5,881)</u>

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

**Charter Township of Niles**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended December 31, 2013**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total Enterprise</u>	<u>Activities</u>
			<u>Funds</u>	<u>Internal Service</u>
				<u>Funds</u>
<b>Operating Revenues</b>				
Charges for Services	\$ 1,451,875	\$ 169,673	\$ 1,621,548	\$ 6,902
Other Revenue	57,673	6,012	63,685	--
<b>Total Operating Revenues</b>	<u>1,509,548</u>	<u>175,685</u>	<u>1,685,233</u>	<u>6,902</u>
<b>Operating Expenses</b>				
General Government	--	--	--	24,752
Contracted Services	956,788	11,560	968,348	--
Personnel Costs	290,771	41,257	332,028	--
Operations and Supplies	105,254	36,475	141,729	--
Depreciation	242,782	95,848	338,630	--
<b>Total Operating Expenses</b>	<u>1,595,595</u>	<u>185,140</u>	<u>1,780,735</u>	<u>24,752</u>
<b>Operating Income (Loss)</b>	<u>(86,047)</u>	<u>(9,455)</u>	<u>(95,502)</u>	<u>(17,850)</u>
<b>Non-Operating Revenues (Expenses)</b>				
Interest Income	89	59,359	59,448	--
Net Decrease in Fair Value of Investments	(5,436)	--	(5,436)	--
Interest Expense	--	(62,832)	(62,832)	--
<b>Net Non-Operating Revenues (Expenses)</b>	<u>(5,347)</u>	<u>(3,473)</u>	<u>(8,820)</u>	<u>--</u>
<b>Income Before Contributions and Transfers</b>	<u>(91,394)</u>	<u>(12,928)</u>	<u>(104,322)</u>	<u>(17,850)</u>
Transfers from Other Funds	--	34,939	34,939	--
Transfers to Other Funds	(34,939)	--	(34,939)	--
<b>Change In Net Position</b>	<u>(126,333)</u>	<u>22,011</u>	<u>(104,322)</u>	<u>(17,850)</u>
<i>Net Position at Beginning of Period</i>	<u>10,934,486</u>	<u>3,227,785</u>	<u>14,162,271</u>	<u>11,969</u>
<b>Net Position at End of Period</b>	<u>\$ 10,808,153</u>	<u>\$ 3,249,796</u>	<u>\$ 14,057,949</u>	<u>\$ (5,881)</u>

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

**Charter Township of Niles  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2013**

	<u>Business-type Activities - Enterprise Funds</u>			<b>Governmental</b>
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total Enterprise Funds</u>	<b>Internal Service Funds</b>
<b>Cash Flows from Operating Activities</b>				
Cash Received from Charges for Service	\$ 1,485,568	\$ 167,845	\$ 1,653,413	\$ 6,902
Other Miscellaneous Income	57,673	6,012	63,685	-
Cash Payments to Employees for Services and Fringe Benefits	(288,512)	(41,314)	(329,826)	-
Cash Payments to Suppliers for Good and Services	(1,057,214)	(48,407)	(1,105,621)	(26,688)
<b>Total Cash Flows from Operating Activities</b>	<u>197,515</u>	<u>84,136</u>	<u>281,651</u>	<u>(19,786)</u>
<b>Cash Flows from Non-capital Financing Activities</b>				
Transfers from (to) Other Funds	(34,939)	34,939	-	-
Decrease (Increase) in Due from Other Funds	58,036	(92,530)	(34,494)	-
<b>Total Cash Flows from Non-capital Financing Activities</b>	<u>23,097</u>	<u>(57,591)</u>	<u>(34,494)</u>	<u>-</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Collections on Special Assessments	-	130,482	130,482	-
Purchases of Capital Assets	-	(8,595)	(8,595)	-
Principal Payments on Bonds	-	(130,000)	(130,000)	-
Interest Payments on Bonds	-	(63,699)	(63,699)	-
<b>Total Cash Flows from Capital and Related Financing Activities</b>	<u>-</u>	<u>(71,812)</u>	<u>(71,812)</u>	<u>-</u>
<b>Cash Flows from Investing Activities</b>				
Sale of Investments	7,294	-	7,294	-
Interest Income	(5,347)	59,359	54,012	-
<b>Total Cash Flows from Investing Activities</b>	<u>1,947</u>	<u>59,359</u>	<u>61,306</u>	<u>-</u>
Net Increase (Decrease) in Cash and Equivalents	222,559	14,092	236,651	(19,786)
<i>Cash and Equivalents - Beginning of Year</i>	1,831,241	1,011,003	2,842,244	49,509
<b>Cash and Equivalents - End of Year</b>	<u>\$ 2,053,800</u>	<u>\$ 1,025,095</u>	<u>\$ 3,078,895</u>	<u>\$ 29,723</u>

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



**Charter Township of Niles**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2013**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total Enterprise</u>	<u>Internal Service</u>
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>
<b>Reconciliation of Operating Income (Loss) to</b>				
<b>Net Cash Provided (Used) by Operating Activities</b>				
<b>Operating Income</b>	\$ (86,047)	\$ (9,455)	\$ (95,502)	\$ (17,850)
Adjustments to Reconcile Operating Income to Net Cash				
<b>Provided (Used) by Operating Activities</b>				
Depreciation Expense	242,782	95,848	338,630	-
<b>Changes in Assets &amp; Liabilities</b>				
Receivables (Net)	33,692	(8,140)	25,552	-
Prepaid Expenses	4,653	(175)	4,478	-
Accounts Payable	176	(197)	(21)	(1,936)
Deposits & Escrow	-	6,312	6,312	-
Accrued and Other Liabilities	2,259	(57)	2,202	-
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 197,515</u>	<u>\$ 84,136</u>	<u>\$ 281,651</u>	<u>\$ (19,786)</u>

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

**Charter Township of Niles  
Statement of Fiduciary Net Position  
Fiduciary Funds  
December 31, 2013**

	<b>Pension and Benefit Trust</b>		
	<b>Retirement System Fund- General</b>	<b>Police &amp; Fire Retirement Fund</b>	<b>Agency Funds</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ --	\$ 166,526	\$ 1,017,856
Investments	718,489	3,627,536	80,000
Accrued Interest	--	9,482	--
<b><i>Total Assets</i></b>	<b>718,489</b>	<b>3,803,544</b>	<b>1,097,856</b>
<b>LIABILITIES</b>			
Due to Other Governments	--	--	286,669
Due to Other Funds	--	--	811,187
<b><i>Total Liabilities</i></b>	<b>--</b>	<b>--</b>	<b>1,097,856</b>
<b>NET POSITION</b>			
Held in Trust	<b>\$ 718,489</b>	<b>\$ 3,803,544</b>	<b>\$ --</b>

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

**Charter Township of Niles**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**For the Year Ended December 31, 2013**

	<b>Retirement System Fund - General</b>	<b>Police and Fire Pension Plan</b>	<b>Totals</b>
<b>ADDITIONS</b>			
<i>Contributions</i>			
Employer	\$ 49,046	\$ 123,016	\$ 172,062
Participants	29,329	32,496	61,825
<b><i>Total Contributions</i></b>	<b>78,375</b>	<b>155,512</b>	<b>233,887</b>
Investment Return	93,792	507,005	600,797
<b><i>Total Additions</i></b>	<b>172,167</b>	<b>662,517</b>	<b>834,684</b>
<b>DEDUCTIONS</b>			
Benefits Paid	366,311	368,535	734,846
Expenses	-	21,690	21,690
<b><i>Total Deductions</i></b>	<b>366,311</b>	<b>390,225</b>	<b>756,536</b>
<b>Net Increase (Decrease)</b>	<b>(194,144)</b>	<b>272,292</b>	<b>78,148</b>
<i>Net Position at Beginning of Period</i>	912,633	3,531,252	4,443,885
<b><i>Net Position at End of Period</i></b>	<b>\$ 718,489</b>	<b>\$ 3,803,544</b>	<b>\$ 4,522,033</b>

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

## Charter Township of Niles

### Notes to the Financial Statements

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#### **Note 1 – Summary of Significant Accounting Policies**

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

#### ***Reporting Entity***

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

#### ***Government-wide and Fund Financial Statements***

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### ***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred,

## Charter Township of Niles

### Notes to the Financial Statements

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

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and compensated absences expenditures are recorded only when payment is due.

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

The government reports the following major governmental funds:

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

The *fire operating fund* accounts for the activity of the government's operating costs of fire protection and response services.

The government reports the following major proprietary funds:

The *sewer fund* accounts for the operation of the Township's sewage system and treatment plant.

The *water fund* accounts for the operation of the Township's water mains and pumping facilities.

Additionally, the government reports the following fund types:

*Special revenue funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

*Capital projects funds* account for the accumulation and disbursement of resources for the construction of governmental fund capital projects.

The *internal service fund* accounts for the accumulation and allocation of self-funded healthcare claims program to various Township departments.

## Charter Township of Niles

### Notes to the Financial Statements

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

The *pension benefit trust funds* account for assets held to provide retirement benefits to eligible participants and their beneficiaries.

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

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

#### ***Budgetary Basis of Accounting***

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The general fund and special revenue funds are subject to legal budgetary accounting controls and all are budgeted annually. The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Township Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following January 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to the first day of the following fiscal year, the budget is legally enacted through passage of a resolution.
4. The Township Supervisor is authorized to make budget transfers to or from any one appropriation category during the fiscal year within dollar limits established by the Township Board. The legal level of budgetary control is at the activity level.
5. Formal budgetary integration is employed as a management control device during the year for all funds except agency funds. Budget appropriations lapse at year-end.
6. Adoption and amendments of all budgets used by the Township are governed by Public Act 621, which was followed for the year ended December 31, 2013. Expenditures may

## Charter Township of Niles

### Notes to the Financial Statements

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not exceed appropriations. The appropriations resolutions are based on the projected expenditures budget of the department heads of the Township. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the Township Board.

#### **Assets, Liabilities, Deferred Inflows of Resources, and Equity**

##### *Cash and Cash Equivalents*

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

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

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

##### *Investments*

Investments are stated at fair market value in accordance with GASB Statement No. 31. Investments are exposed to various risks, such as significant external events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the

## Charter Township of Niles

### Notes to the Financial Statements

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near term and that such changes could materially affect the amounts reported in the statement of net position.

#### ***Receivables and Payables***

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

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

#### ***Prepaid items***

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

#### ***Capital assets***

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

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



## Charter Township of Niles

### Notes to the Financial Statements

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

<u>Description</u>	<u>Useful Life</u>
Buildings & Improvements	15 to 50 Years
Furniture, Fixtures, & Equipment	5 to 15 Years
Vehicles	5 to 15 Years
Infrastructure	20 Years
Sewer & Water Systems	40 to 75 Years

#### *Compensated Absences (Vacation and Sick Leave)*

It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. However, accrued vacation must be used within ninety (90) days of year end. Per the union contract, 50% of a maximum number of days of unused firefighter sick leave is vested. Vested compensated absences are accrued when earned in the government-wide and proprietary funds financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

#### *Long-term Obligations*

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

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

#### *Deferred Inflows of Resources*

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues, which arise only under a modified accrual basis

## Charter Township of Niles

### Notes to the Financial Statements

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of accounting, from special assessment receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The Township also reports property tax revenues in this category. Property tax revenue, which is levied to finance the following period's budget, is deferred and recognized as an inflow of resources in the period that it was intended to finance.

#### ***Net Position Flow Assumption***

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

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

#### ***Fund Balance Flow Assumptions***

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

#### ***Fund Balance Policies***

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

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

## Charter Township of Niles

### Notes to the Financial Statements

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Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Township Board has authorized the Township Supervisor to assign fund balance. The Township Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

#### **Revenues and Expenditures / Expenses**

##### *Property tax revenue recognition*

Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, at which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and accordingly, the total levy is recognized as revenue in the subsequent year.

##### *Use of Estimates*

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

#### **Note 2 – Excess of Expenditures Over Budget**

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

During the year ended December 31, 2013, the Township incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>General Fund</b>			
Assessor	\$ 109,058	\$ 114,888	\$ (5,830)
Treasurer	84,142	85,158	(1,016)
Township Hall & Grounds	141,932	158,087	(16,155)

## Charter Township of Niles

### Notes to the Financial Statements

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#### Note 3 – Cash and Investments

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

Following is a reconciliation of deposit and investment balances as of December 31, 2013:

	<u>Primary Government</u>
Statement of Net Position	
Cash and Cash Equivalents	\$ 6,144,766
Investments	1,090,295
Statement of Fiduciary Net Position	
Cash and Cash Equivalents	1,184,382
Investments	<u>4,426,025</u>
Total Deposits and Investments	<u>\$ 12,845,468</u>
Deposits and Investments	
Checking and Savings Accounts	\$ 7,162,022
Certificates of Deposit	166,526
Investments	5,516,320
Cash on hand	<u>600</u>
Total	<u>\$ 12,845,468</u>

***Custodial Credit Risk - Deposits.*** Custodial credit risk is the risk that, in the event of a bank failure, the Township's deposits might not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year-end, \$5,514,733 of the Township's bank balance of \$8,208,196 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the Township believes it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

***Custodial Credit Risk – Investments.*** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In order to

## Charter Township of Niles

### Notes to the Financial Statements

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minimize this risk, Township policy limits the types of investments and pre-qualifies financial institutions. As of December 31, 2013, none of the Township's investments were exposed to risk since the securities are held in the Township's name by the counterparty. Following is a summary of the Township's investments as of December 31, 2013:

U.S. Agencies	\$	1,291,567
Corporate Bonds		355,648
Equities & Mutal Funds		3,204,235
Certificates of Deposit held in Trust		398,071
Money Market Funds		186,799
Cash		80,000
		<hr/>
	\$	<u>5,516,320</u>

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

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

Standard & Poors	AAAm	\$	186,799
Standard & Poors	AAA		8,370
Standard & Poors	AA+		1,320,094
Standard & Poors	AA		23,908
Standard & Poors	AA-		25,804
Standard & Poors	A		222,272
Standard & Poors	BBB		21,191
Standard & Poors	B		15,613
NA	Unavailable		3,692,269
			<hr/>
		\$	<u>5,516,320</u>

**Interest Rate Risk.** Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Township's investment policy does not have specific limits in excess of

## Charter Township of Niles

### Notes to the Financial Statements

state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

	Certificates of Deposit	Investments
No Maturity	\$ -	\$ 3,470,037
Due within one year	-	261,863
Due in 1-5 Years	166,526	1,119,345
Due in 6-10 Years	-	396,749
Due in 11-15 Years	-	7,359
Due in 16-20 Years	-	137,071
Due in 21-25 Years	-	38,319
Due in 26-31 Years	-	85,577
	\$ 166,526	\$ 5,516,320

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

#### Note 4 - Receivables

Receivables as of December 31, 2013, for the Townships individual major and nonmajor funds, in the aggregate, were as follows:

	Proprietary Funds				
	General	Other Funds	Sewer	Water	Total
Receivables					
Accounts	\$ 60,811	\$ -	\$ 189,477	\$ 4,173	\$ 254,461
Unbilled	-	-	126,356	11,387	137,743
Intergovernmental	177,360	10,505	177,881	13,057	378,803
Total Receivables	\$ 238,171	\$ 10,505	\$ 493,714	\$ 28,617	\$ 771,007

All receivables are considered fully collectible.

## Charter Township of Niles

### Notes to the Financial Statements

#### Note 5 – Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

<b>Governmental Activities</b>	December 31, 2012	Additions	Reductions	December 31, 2013
Capital assets not being depreciated				
Land	\$ 233,643	\$ -	\$ -	\$ 233,643
Construction in Process	12,757	46,885	-	59,642
Subtotal - nondepreciable capital assets	<u>246,400</u>	<u>46,885</u>	<u>-</u>	<u>293,285</u>
Capital assets being depreciated				
Buildings	2,826,464	-	-	2,826,464
Vehicles	1,021,534	-	-	1,021,534
Equipment	607,010	31,366	-	638,376
Streets	115,462	-	-	115,462
Total capital assets being depreciated	<u>4,570,470</u>	<u>31,366</u>	<u>-</u>	<u>4,601,836</u>
Less accumulated depreciation				
Buildings	1,207,078	43,491	-	1,250,569
Vehicles	652,641	65,290	-	717,931
Equipment	432,388	38,725	-	471,113
Streets	29,310	5,773	-	35,083
Total accumulated depreciation	<u>2,321,417</u>	<u>153,279</u>	<u>-</u>	<u>2,474,696</u>
Total capital assets being depreciated - Net	<u>2,249,053</u>	<u>(121,913)</u>	<u>-</u>	<u>2,127,140</u>
Governmental activities capital assets - Net	<u>\$ 2,495,453</u>	<u>\$ (75,028)</u>	<u>\$ -</u>	<u>\$ 2,420,425</u>
<b>Business-type Activities</b>	December 31, 2012	Additions	Reductions	December 31, 2013
Capital assets not being depreciated				
Land	\$ 32,009	\$ -	\$ -	\$ 32,009
Capital assets being depreciated				
Sewer System	14,811,250	-	-	14,811,250
Water System	4,580,908	8,595	-	4,589,503
Total capital assets, being depreciated	<u>19,392,158</u>	<u>8,595</u>	<u>-</u>	<u>19,400,753</u>
Less accumulated depreciation				
Sewer System	6,967,488	242,782	-	7,210,270
Water System	1,582,495	95,848	-	1,678,343
Total accumulated depreciation	<u>8,549,983</u>	<u>338,630</u>	<u>-</u>	<u>8,888,613</u>
Total capital assets being depreciated - Net	<u>10,842,175</u>	<u>(330,035)</u>	<u>-</u>	<u>10,512,140</u>
Business-type activities capital assets - Net	<u>\$ 10,874,184</u>	<u>\$ (330,035)</u>	<u>\$ -</u>	<u>\$ 10,544,149</u>

**Charter Township of Niles**

Notes to the Financial Statements

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

**Governmental Activities**

General Government	\$ 15,177
Public Safety	117,298
Public Works	7,768
Recreation & Culture	12,784
Community & Economic Development	252
Total Governmental Activities	\$ 153,279

**Business-type Activities**

Water	\$ 95,848
Sewer	242,782
Total Business-type Activities	\$ 338,630

**Note 6 - Payables**

Payables as of December 31, 2013, for the Township's individual major and nonmajor funds, in the aggregate, were as follows:

	General	Fire Operating	Other Funds	Proprietary Funds		Total
				Sewer	Water	
Payables						
Accounts	\$ 66,971	\$ 1,988	\$ 364	\$ 74,928	\$ 3,607	\$ 147,858
Payroll	9,797	16,769	-	5,824	789	33,179
Interest	-	-	-	-	7,323	7,323
Total Payables	\$ 76,768	\$ 18,757	\$ 364	\$ 80,752	\$ 11,719	\$ 188,360



## Charter Township of Niles

### Notes to the Financial Statements

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#### Note 7 – Interfund Receivables, Payables and Transfers

The composition of interfund balances as of December 31, 2013, was as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Health Benefits	\$ 14,943
General	Payroll Fund	15,538
Fire Operating	Health Benefits	13,324
Fire Operating	Special Assessment	1,533
Fire Operating	Payroll Fund	19,581
Sewer	Health Benefits	6,742
Sewer	Payroll Fund	8,093
Sewer	Water Fund	346,693
Water	Health Benefits	578
Water	Payroll Fund	\$ 1,064

All amounts due from other funds represent advances to other funds to finance operations or capital outlays. The amounts due from the Health Benefits Fund represent the cumulative overbilling for allocated costs.

The Water Fund is repaying an advance from the Sewer Fund (currently \$346,693) in annual installments of \$24,846, including interest at 5.0%, through September 2021.

The composition of interfund transfers for the year ended December 31, 2013 consisted of a transfer from the Sewer Fund to the Water Fund of \$34,939.

Transfers are used to 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and 2) moves receipts restricted to 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 in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

#### Note 8 – Long-term Debt

Governmental long-term debt consists of vested compensated absences.

Business-type long-term debt consists of \$1,170,000, Water Improvement Project Special Assessment bonds (a limited tax obligation). The bonds were issued pursuant to the provisions of Public Act 188, as amended, to finance water system improvements, and are to be repaid primarily from special assessments levied upon benefited properties. The bonds are secured by the full faith and credit of the Township. The bond is due in annually in maturities of \$130,000, final installment in 2021, with interest rates from 4.00% to 4.30%.

## Charter Township of Niles

### Notes to the Financial Statements

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

	December 31, 2012	Additions	Reductions	December 31, 2013	Due Within One Year
Governmental activities					
Compensated absences	\$ 24,731	\$ 1,709	\$ -	\$ 26,440	\$ -
Business-type activities					
Bonds	1,170,000	-	130,000	1,040,000	130,000
Compensated Absences	512	-	53	459	-
Total Business-type Activities	<u>\$ 1,170,512</u>	<u>\$ 1,709</u>	<u>\$ 130,053</u>	<u>\$ 1,040,459</u>	<u>\$ 130,000</u>

Future bond debt requirements at December 31, 2013, were as follows:

	Bond Debt Requirements		
	Principal	Interest	Total
2014	\$ 130,000	\$ 41,340	\$ 171,340
2015	130,000	35,978	165,978
2016	130,000	30,453	160,453
2017	130,000	24,928	154,928
2018	130,000	19,403	149,403
2019-2021	390,000	25,025	415,025
Totals	<u>\$ 1,040,000</u>	<u>\$ 177,127</u>	<u>\$ 1,217,127</u>

### Note 9 – Retirement Plans

#### *Police and Fire Pension Plan*

**Plan description.** The Police and Fire Pension Plan (PFPP) is a single-employer defined benefit pension plan administered by the Township. The PFPP provides retirement, disability, and death benefits to eligible police and fire department members and their beneficiaries. Cost of living adjustments are provided to members and beneficiaries at the discretion of the Township. Separately issued financial statements of this plan are not prepared.

**Funding policy.** The contribution requirements of plan members and the Township are established and may be amended by Township resolution. Plan members are required to contribute 7.0% of their annual covered salary. For the year ended December 31, 2013, member contributions totaled \$32,496. The Township is required to contribute at an actuarially determined rate (currently 24.73% of annual covered payroll). The Township's annual pension cost for the year ended December 31, 2013, was \$123,016.

**Charter Township of Niles**

Notes to the Financial Statements

**Annual pension cost (APC) and three-year trend information.** The Townships APC, percentage of APC contributed, and Net Pension Obligation (Asset) for the plan for the current year and each of the two preceding years were as follows:

<i>Three-year Trend Information</i>			
<b>Fiscal Year Ending</b>	<b>Annual Pension Cost</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
12/31/2011	\$ 99,758	100%	-
12/31/2012	124,048	100%	-
12/31/2013	123,016	100%	-

**Funded status and funding progress.** The funded status of the plan for the most recent actuarial valuation date is as follows:

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Liability (AAL) Entry Age (b)</b>	<b>(Overfunded) Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio Total</b>	<b>Covered Payroll (c)</b>	<b>UAL as a Percentage of Covered Payroll ((b-a)/c)</b>
12/31/2012	\$ 3,550,948	\$ 5,044,212	\$ 1,493,264	70%	\$ 507,635	294%

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial liability for benefits.

**Actuarial methods and assumptions.** The ARC for the plan was determined as part of the December 31, 2012 actuarial valuation using the following methods and assumptions:

Actuarial Cost method	Individual Entry-Age
Amortization Method	Level percent of pay closed
Remaining Amortization Period	26 Years
Asset Valuation Method	5 Year smoother market value
Investment Return	7%
Projected Salary Increases	5%

**General Government Pension Plan**

The General Government Pension Plan (GGPP) is a single-employer defined contribution pension plan administered by the Township. The GGPP provides retirement benefits to all full-time employees other than those covered by the PFPP. Plan provisions and contribution requirements are established and may be amended by the Township Board. Currently, the

## Charter Township of Niles

### Notes to the Financial Statements

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Township contributes 9.0% of covered salary. Plan members are required to contribute 5.0% of covered salary and may make voluntary contributions subject to IRS limitations. The employer and employee contributions totaled \$49,049 and \$29,329, respectively, for the year ended December 31, 2013.

#### **Note 10 – Risk Management**

The Township is exposed to various risks of loss to general liability, property and casualty, workers' compensation, and employee health and medical claims. The risks of loss arising from general liability up to \$5,000,000, building contents and workers' compensation, and casualty are managed through purchased commercial insurance. For all such risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

#### **Note 11 – Building Inspection Activities**

A summary of building inspection fees and direct costs is as follows:

Revenues	\$ 68,313
Expenses	130,069
Operating Income	<u>\$ (61,756)</u>

#### **Note 12 – Property Taxes**

The 2013 taxable valuation of the Township totaled \$353,814,906, on which ad valorem taxes levied consisted of the following:

<u>Fund</u>	<u>Millage Rate</u>	<u>Purpose</u>	<u>Taxes Raised</u>
General	0.8732	General Operations	\$ 308,951
Police	1.0000	Police Safety Operations	353,815
Fire - Operating	2.5000	Fire Operations	884,537
Fire - Capital	0.2500	Fire Equipment	88,454

These amounts are recognized in the financial statements as taxes receivable, with an offsetting credit to deferred inflows. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

#### **Note 13 – Litigation**

In the normal course of its activities, the Township has become a party in various legal actions, including property tax assessment appeals. Management of the Township is of the opinion that the outcome of such actions will not have a material effect on the financial position of the Township and, therefore, has not reflected loss reserves in the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Charter Township of Niles  
Required Supplementary Information  
Police & Fire Pension Plan  
Schedule of Funding Progress (Unaudited)**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Entry Age (b)</b>	<b>(Overfunded) Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio Total</b>	<b>Covered Payroll (c)</b>	<b>UAL as a Percentage of Covered Payroll ((b-a)/c)</b>
12/31/2008	3,785,657	5,001,460	1,215,803	76%	421,277	289%
12/31/2010	3,693,890	5,216,935	1,523,045	71%	447,916	340%
12/31/2012	3,550,948	5,044,212	1,493,264	70%	507,635	294%

**Charter Township of Niles**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**General Fund**  
**For the Year Ended December 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>		<b>Positive (Negative) Final to Actual</b>
<b>Revenues</b>				
Taxes and Penalties	\$ 670,089	\$ 670,089	\$ 664,034	\$ (6,055)
Licenses and Permits	144,082	144,082	167,553	23,471
Fines & Forfeitures	10,000	10,000	10,536	536
Charges for Services	51,200	51,200	60,922	9,722
State Sources	1,042,972	1,042,972	1,052,946	9,974
Interest & Rentals	17,500	17,500	17,617	117
Other	6,000	6,000	23,241	17,241
Net Decrease in Fair Value of Investments	--	--	(2,284)	(2,284)
<b>Total Revenues</b>	<u>1,941,843</u>	<u>1,941,843</u>	<u>1,994,565</u>	<u>52,722</u>
<b>Other Financing Sources</b>				
<b>Total Revenues and Other Financing Sources</b>	<u>1,941,843</u>	<u>1,941,843</u>	<u>1,994,565</u>	<u>52,722</u>
<b>Expenditures</b>				
<b>Legislative</b>	76,675	76,675	70,498	6,177
<b>General Government</b>				
Supervisor	32,627	32,627	32,463	164
Elections	1,250	4,250	3,173	1,077
Assessor	103,526	109,058	114,888	(5,830)
Clerk	87,530	87,530	88,131	(601)
Board of Review	1,750	1,750	1,107	643
Data Processing	8,000	8,000	7,250	750
Treasurer	84,142	84,142	85,158	(1,016)
Tax Preparation and Collection	16,079	16,079	15,473	606
Township Hall and Grounds	145,719	141,932	158,087	(16,155)
Other	10,000	10,000	7,457	2,543
<b>Total General Government</b>	<u>490,623</u>	<u>495,368</u>	<u>513,187</u>	<u>(17,819)</u>
<b>Public Safety</b>				
Police Protection	890,474	956,528	896,838	59,690
Building Inspection	163,068	163,068	131,169	31,899
Ordinance Administration	22,600	22,600	16,378	6,222
<b>Total Public Safety</b>	<u>1,076,142</u>	<u>1,142,196</u>	<u>1,044,385</u>	<u>97,811</u>
<b>Public Works</b>				
Highways and Streets	60,000	60,000	18,519	41,481
Street Lighting	3,500	3,500	2,819	681
Drains at Large	15,650	15,650	8,134	7,516
<b>Total Public Works</b>	<u>79,150</u>	<u>79,150</u>	<u>29,472</u>	<u>49,678</u>
<b>Recreation and Culture</b>	84,153	80,938	79,716	1,222
<b>Community / Economic Development</b>				
Planning and Zoning	55,312	55,312	28,008	27,304
<b>Capital Outlay</b>	--	53,387	53,887	(500)
<b>Total Expenditures</b>	<u>1,862,055</u>	<u>1,983,026</u>	<u>1,819,153</u>	<u>163,873</u>
<b>Other Financing Uses</b>				
<b>Total Expenditures and Other Financing Uses</b>	<u>1,862,055</u>	<u>1,983,026</u>	<u>1,819,153</u>	<u>163,873</u>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>	79,788	(41,183)	175,412	216,595
<b>Net Change in Fund Balance</b>	<u>79,788</u>	<u>(41,183)</u>	<u>175,412</u>	<u>216,595</u>
<b>Fund Balance at Beginning of Period</b>	3,348,047	3,348,047	3,348,047	--
<b>Fund Balance at End of Period</b>	<u>\$ 3,427,835</u>	<u>\$ 3,306,864</u>	<u>\$ 3,523,459</u>	<u>\$ 216,595</u>

**Charter Township of Niles**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**Fire Operating**  
**For the Year Ended December 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>		<b>Positive (Negative) Final to Actual</b>
<b>Revenues</b>				
Taxes	\$ 818,107	\$ 818,107	\$ 824,164	\$ 6,057
Charges for Services	70,323	70,323	74,373	4,050
Interest Income	1,150	1,150	8,375	7,225
<b>Total Revenues</b>	<u>889,580</u>	<u>889,580</u>	<u>906,912</u>	<u>17,332</u>
<b>Expenditures</b>				
<b>Total Expenditures</b>	<u>965,091</u>	<u>965,091</u>	<u>916,975</u>	<u>48,116</u>
<b>Other Financing Sources</b>				
<b>Total Revenues and Other Financing Sources</b>	<u>889,580</u>	<u>889,580</u>	<u>906,912</u>	<u>17,332</u>
<b>Expenditures</b>				
Public Safety	965,091	965,091	916,975	48,116
<b>Total Expenditures</b>	<u>965,091</u>	<u>965,091</u>	<u>916,975</u>	<u>48,116</u>
<b>Other Financing Uses</b>				
<b>Total Expenditures and Other Financing Uses</b>	<u>965,091</u>	<u>965,091</u>	<u>916,975</u>	<u>48,116</u>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>	<u>(75,511)</u>	<u>(75,511)</u>	<u>(10,063)</u>	<u>65,448</u>
<b>Net Change in Fund Balance</b>	<u>(75,511)</u>	<u>(75,511)</u>	<u>(10,063)</u>	<u>65,448</u>
<i>Fund Balance at Beginning of Period</i>	166,438	166,438	166,438	--
<b>Fund Balance at End of Period</b>	<u>\$ 90,927</u>	<u>\$ 90,927</u>	<u>\$ 156,375</u>	<u>\$ 65,448</u>



## **OTHER SUPPLEMENTARY INFORMATION**

**Charter Township of Niles  
Combining Balance Sheet  
Nonmajor Governmental Funds  
December 31, 2013**

	<u>Special Revenue</u>		<u>Capital Projects</u>	<b>Total Nonmajor Governmental Funds</b>
	<u>Fire Equipment</u>	<u>Special Assessment</u>	<u>Capital Improvement</u>	
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 173,039	\$ 173,512	\$ 65,961	\$ 412,512
Investments	--	--	25	25
Taxes Receivable	54,120	--	--	54,120
Receivables, Net	--	10,505	--	10,505
Due from Agency Funds	34,459	22,436	--	56,895
<i>Total Assets</i>	<b><u>\$ 261,618</u></b>	<b><u>\$ 206,453</u></b>	<b><u>\$ 65,986</u></b>	<b><u>\$ 534,057</u></b>
<b>LIABILITIES</b>				
Accounts Payable	\$ --	\$ 364	\$ --	\$ 364
Due to Other Funds	--	1,533	--	1,533
<i>Total Liabilities</i>	<u>--</u>	<u>1,897</u>	<u>--</u>	<u>1,897</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Taxes Levied for a Subsequent Period	88,554	--	--	88,554
Unavailable Revenues	--	2,762	--	2,762
<i>Total Liabilities and Deferred Inflows of Resources</i>	<u>88,554</u>	<u>4,659</u>	<u>--</u>	<u>93,213</u>
<b>FUND BALANCE</b>				
Restricted	173,064	201,794	--	374,858
Assigned	--	--	65,986	65,986
Unassigned	--	--	--	--
<i>Total Fund Balance</i>	<u>173,064</u>	<u>201,794</u>	<u>65,986</u>	<u>440,844</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<b><u>\$ 261,618</u></b>	<b><u>\$ 206,453</u></b>	<b><u>\$ 65,986</u></b>	<b><u>\$ 534,057</u></b>

**Charter Township of Niles**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended December 31, 2013**

	<u>Special Revenue</u>		<u>Capital Projects</u>	<b>Total Nonmajor Governmental Funds</b>
	<u>Fire Equipment</u>	<u>Special Assessment</u>	<u>Capital Improvement</u>	
<b>Revenues</b>				
Taxes and Penalties	\$ 243,512	\$ --	\$ --	\$ 243,512
Other Revenue	--	63,194	--	63,194
Interest Income	187	186	99	472
<b>Total Revenues</b>	<u>243,699</u>	<u>63,380</u>	<u>99</u>	<u>307,178</u>
<b>Expenditures</b>				
Public Safety	33,048	--	--	33,048
Public Works	--	39,690	--	39,690
Debt Service - Interest	11,139	--	--	11,139
Capital Outlay	6,500	--	17,864	24,364
<b>Total Expenditures</b>	<u>50,687</u>	<u>39,690</u>	<u>17,864</u>	<u>108,241</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>193,012</u>	<u>23,690</u>	<u>(17,765)</u>	<u>198,937</u>
<b>Other Financing Sources (Uses)</b>				
Transfers from Other Funds	--	--	--	--
Transfers to Other Funds	--	--	--	--
<b>Net Other Financing Sources (Uses)</b>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<b>Net Change in Fund Balance</b>	<b>193,012</b>	<b>23,690</b>	<b>(17,765)</b>	<b>198,937</b>
<i>Fund Balance at Beginning of Period</i>	(19,948)	178,104	83,751	241,907
<b>Fund Balance at End of Period</b>	<b>\$ 173,064</b>	<b>\$ 201,794</b>	<b>\$ 65,986</b>	<b>\$ 440,844</b>

April 21, 2014

To the Board of Trustees of the  
Charter Township of Niles, 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 Charter Township of Niles, Michigan for the year ended December 31, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 21, 2013. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended December 31, 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

### *Difficulties Encountered in Performing the Audit*

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

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated April 21, 2014.

### *Management Consultations with Other Independent Accountants*

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

### *Other Audit Findings or Issues*

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

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

*Gabridge & Company*

Gabridge & Company, PLC  
Grand Rapids, MI

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

April 21, 2013

To the Board of Trustees of the  
Charter Township of Niles, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Charter Township of Niles, Michigan as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise The Township's basic financial statements, and have issued our report thereon dated April 21, 2014.

**Internal Control over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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

or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be a material weakness – 2013-1.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Township’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Best regards,

A handwritten signature in cursive script that reads "Gabridge & Company".

Gabridge & Company, PLC  
Grand Rapids, MI



# Charter Township of Niles

## Schedule of Findings and Responses

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### Material Weakness

#### **2013-1 – Preparation of Governmental Financial Statements**

**Criteria:** All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government'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 (e.g., external financial reporting.)

**Condition/Finding:** 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 government-wide 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, at least in part, on its reliance on its external auditors, who cannot by definition be considered a part of the Township's internal controls. In addition, we proposed, and management approved, material journal entries to properly record debt service, accounts receivable, unbilled receivables, prepaid expenditures, taxes payable, and capital asset (capital outlay) transactions in the proprietary and governmental funds.

**Cause:** This condition was caused by the Township's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors 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 complete internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, at least in part, on its external auditors for assistance with this task. In addition, the Township's records were initially misstated by an amount material to the financial statements.

**View of Responsible Officials:** The Township agrees with this finding. It is cost prohibitive to produce financial statements in accordance with GAAP. However, the Township will be working with the audit team to understand the conditions that led to the proposed journal entries and develop a process to move toward the production of GAAP financial statements by the Township.