

**CHARTER TOWNSHIP OF NILES, MICHIGAN  
ANNUAL FINANCIAL REPORT  
YEAR ENDED DECEMBER 31, 2014**

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## INDEPENDENT AUDITOR'S REPORT

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Niles, Michigan (the "Township") as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Niles, Michigan, as of December 31, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 June 30, 2015, 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.



Gabridge & Company, PLC  
Grand Rapids, Michigan  
June 30, 2015

## 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, 2014. We encourage readers to consider the information presented here in conjunction with the financial statements.

### Financial Highlights

- The assets of the Township exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$21,444,077 (net position). Of this amount, \$7,585,211 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 \$4,651,388, an increase of \$530,710 in comparison with the prior year. Approximately 71% of this amount (\$3,306,165) 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 296% of total general fund expenditures.

### Overview of the Financial Statements

The discussion and analysis provided here are 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, sanitation, and culture and recreation. The business-type activities of the Township include a water and sewer fund.

**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 each major fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets.

**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 enterprise funds to account for its Water and Sewer Authority operation. *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 health benefit program. 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 Authority operation, 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.

**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.

**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.

**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.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pensions.

## 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 \$21,444,077, 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, 2014 and December 31, 2013</b>						
	<b>Governmental</b>		<b>Business-type</b>		<b>Total Primary</b>	
	<b>Activities</b>		<b>Activities</b>		<b>Government</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>						
<i>Current Assets</i>						
Cash and Cash Equivalents	\$ 1,855,953	\$ 3,065,871	\$ 3,069,671	\$ 3,078,895	\$ 4,925,624	\$ 6,144,766
Investments	1,999,953	791,396	299,754	298,899	2,299,707	1,090,295
Taxes Receivable	1,249,954	993,802	-	-	1,249,954	993,802
Receivables (Net)	405,147	248,676	510,230	522,331	915,377	771,007
Special Assessments Receivable	-	-	87,363	93,212	87,363	93,212
Prepaid Expenses	58,778	55,340	13,208	13,244	71,986	68,584
Due from Agency Funds	739,792	701,557	120,753	109,630	860,545	811,187
<b>Total Current Assets</b>	<b>6,309,577</b>	<b>5,856,642</b>	<b>4,100,979</b>	<b>4,006,581</b>	<b>10,410,556</b>	<b>9,863,223</b>
<i>Noncurrent Assets</i>						
Special Assessments	-	-	439,288	529,511	439,288	529,511
Capital Assets (Net)	3,118,643	2,420,425	10,235,735	10,544,149	13,354,378	12,964,574
<b>Total Assets</b>	<b>9,428,220</b>	<b>8,277,067</b>	<b>14,776,002</b>	<b>15,080,241</b>	<b>24,204,222</b>	<b>23,357,308</b>
<b>LIABILITIES</b>						
<i>Current Liabilities</i>						
Accounts Payable	35,758	69,340	91,552	78,535	127,310	147,875
Accrued Payroll	44,371	26,566	8,224	6,613	52,595	33,179
Accrued Interest	-	-	6,456	7,323	6,456	7,323
Current Portion of Long-term Debt	7,946	-	134,671	130,000	142,617	130,000
Deposits & Escrow	-	-	4,991	6,312	4,991	6,312
Internal Balances	7,320	7,320	(7,320)	(7,320)	-	-
<b>Total Current Liabilities</b>	<b>95,395</b>	<b>103,226</b>	<b>238,574</b>	<b>221,463</b>	<b>333,969</b>	<b>324,689</b>
<i>Noncurrent Liabilities</i>						
Compensated Absences	45,437	26,440	980	459	46,417	26,899
Bonds Payable	7,946	-	784,671	910,000	792,617	910,000
<b>Total Liabilities</b>	<b>148,778</b>	<b>129,666</b>	<b>1,024,225</b>	<b>1,131,922</b>	<b>1,173,003</b>	<b>1,261,588</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Taxes Levied for Subsequent Period	1,587,142	1,635,857	-	-	1,587,142	1,635,857
<b>Total Deferred Inflows of Resources</b>	<b>1,587,142</b>	<b>1,635,857</b>	<b>-</b>	<b>-</b>	<b>1,587,142</b>	<b>1,635,857</b>
<b>NET POSITION</b>						
Net Investment in Capital Assets	3,102,751	2,420,425	9,316,393	9,504,149	12,419,144	11,924,574
Restricted	913,071	531,233	526,651	622,723	1,439,722	1,153,956
Unrestricted	3,676,478	3,559,886	3,908,733	3,931,077	7,585,211	7,490,963
<b>Total Net Position</b>	<b>\$ 7,692,300</b>	<b>\$ 6,511,544</b>	<b>\$ 13,751,777</b>	<b>\$ 14,057,949</b>	<b>\$ 21,444,077</b>	<b>\$ 20,569,493</b>

By far, the largest portion of the Township's net position (\$12,419,144, or 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 (\$1,439,722, or 7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$7,585,211 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 \$874,584 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 \$1,180,756 from the prior fiscal year for an ending balance of \$7,692,300. The increase in net position for the current year was due to higher revenues from grants, and expenditures that only increased slightly. The largest increase in revenue over the prior fiscal year is from capital grants & contributions, which increased by \$857,571, which related to the purchase and construction of the River Valley Trail, property taxes also increased in the current year due to the adoption of a police service levy.

## Changes in Net Position

### Charter Township of Niles Change in Net Position for Fiscal Years Ended December 31, 2014 and December 31, 2013

	Governmental Activities		Business-type Activities		Total Government	
	2014	2013	2014	2013	2014	2013
<b>Revenue</b>						
<b>Program Revenues</b>						
Charges for Services	\$ 331,794	\$ 320,836	\$ 1,791,877	\$ 1,685,233	\$ 2,123,671	\$ 2,006,069
Operating Grants & Contributions	3,675	2,500	-	-	3,675	2,500
Capital Grants & Contributions	857,571	-	-	-	857,571	-
<b>Total Program Revenues</b>	<b>1,193,040</b>	<b>323,336</b>	<b>1,791,877</b>	<b>1,685,233</b>	<b>2,984,917</b>	<b>2,008,569</b>
<b>General Revenues</b>						
Taxes	1,897,704	1,731,710	-	-	1,897,704	1,731,710
State Sources	1,100,916	1,052,946	-	-	1,100,916	1,052,946
Other	84,513	86,147	18,470	-	102,983	86,147
Investment Income	18,782	26,464	32,655	59,448	51,437	85,912
Net Decrease in Fair Value of Investments	-	(2,284)	-	(5,436)	-	(7,720)
<b>Total General Revenues</b>	<b>3,101,915</b>	<b>2,894,983</b>	<b>51,125</b>	<b>54,012</b>	<b>3,153,040</b>	<b>2,948,995</b>
<b>Total Revenues</b>	<b>4,294,955</b>	<b>3,218,319</b>	<b>1,843,002</b>	<b>1,739,245</b>	<b>6,137,957</b>	<b>4,957,564</b>
<b>Expenses</b>						
Legislative	54,562	70,498	-	-	54,562	70,498
General Government	591,886	552,375	-	-	591,886	552,375
Public Safety	2,176,569	2,109,979	-	-	2,176,569	2,109,979
Culture and Recreation	83,398	40,792	-	-	83,398	40,792
Public Works	121,181	81,076	-	-	121,181	81,076
Community / Economic Development	86,603	79,999	-	-	86,603	79,999
Interest on Long-term Debt	-	11,139	-	-	-	11,139
Sewer	-	-	1,812,532	1,595,595	1,812,532	1,595,595
Water	-	-	336,642	247,972	336,642	247,972
<b>Total Expenses</b>	<b>3,114,199</b>	<b>2,945,858</b>	<b>2,149,174</b>	<b>1,843,567</b>	<b>5,263,373</b>	<b>4,789,425</b>
<b>Change in Net Position</b>	<b>1,180,756</b>	<b>272,461</b>	<b>(306,172)</b>	<b>(104,322)</b>	<b>874,584</b>	<b>168,139</b>
<i>Net Position at the Beginning of Period</i>	<i>6,511,544</i>	<i>6,239,083</i>	<i>14,057,949</i>	<i>14,162,271</i>	<i>20,569,493</i>	<i>20,401,354</i>
<b>Net Position at the End of Period</b>	<b>\$ 7,692,300</b>	<b>\$ 6,511,544</b>	<b>\$ 13,751,777</b>	<b>\$ 14,057,949</b>	<b>\$ 21,444,077</b>	<b>\$ 20,569,493</b>

**Business-type Activities.** The Township's business-type activities ended the current fiscal year with \$13,751,777 in Net Position, which was a decrease in net position of \$306,172 or 2% from the prior fiscal year. The decrease was attributable to expenditures increasing by 17% across the sewer and water funds, while revenues only increased 6%.

## 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, 2014, the Township's governmental funds reported combined fund balances of \$4,651,388, an increase of \$530,710 in comparison with the prior year. Approximately 71% of this amount (\$3,306,165) 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 (\$58,778), 2) restricted for particular purposes (\$880,803), or 3) assigned for particular purposes (\$405,642).

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 \$3,306,165, while total fund balance decreased to \$3,332,675. 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 296 percent of total general fund expenditures, while total fund balance represents approximately 298 percent of that same amount.

The fund balance of the Township's general fund decreased by \$190,784 during the current fiscal year. The decrease is due to separating out the police activity of the township to a separate fund, and the transfer out of the portion of fund balance that was attributed to the accumulated resources for the policing activity.

The fire operating fund, a major fund, had an \$114,326 increase in fund balance during the current fiscal year which put the overall fund balance at \$270,701. An increase in taxes \$150,956 and minor increase in expenditures led to the increase of \$114,326 as compared to the previous fiscal year loss of \$10,063.

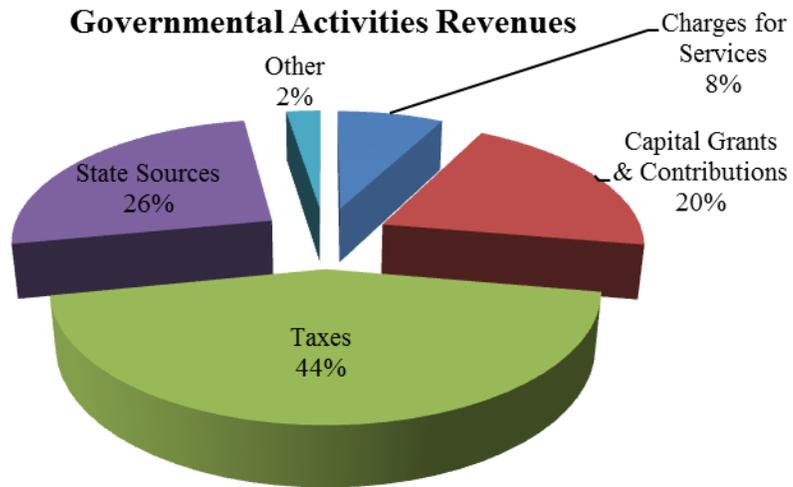
The police fund, a major fund, had an increase in fund balance of \$207,336, which was also the fund balance as of year end. Transfers of resources previously accounted for in the general fund and property tax revenue, less expenditures led to the increase in the current fiscal year.

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

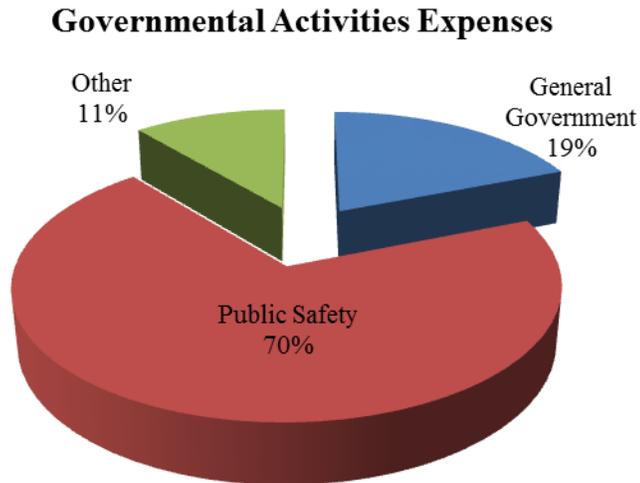
Unrestricted net position of the water fund at the end of the year was \$757,353 and for the sewer fund operation was \$3,151,380. The decrease in net position for the water fund was \$31,056 and the decrease in net position of the sewer fund was \$275,116. The increase in net position of the water fund was consistent with prior year results. The biggest change between the years was a decrease in operations and supplies expenses and an increase in interest expense. The main reason for the decrease in net position of the sewer fund is due to increase in contracted services expense of \$103,543 in comparison with the previous year.

## 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.

During the current fiscal year the Township had the following significant budget variances:

<u>General Fund</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Supervisor	\$ 32,627	\$ 33,695	\$ (1,068)
Assessor	107,142	111,157	(4,015)
Clerk	92,474	94,871	(2,397)
Treasurer	86,932	89,352	(2,420)
Township Hall and Grounds	168,145	176,806	(8,661)
Police Protection	35,909	278,514	(242,605)
Recreation and Culture	27,379	29,662	(2,283)
Capital Outlay	-	18,255	(18,255)
Transfers Out	853,482	856,066	(2,584)

## 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, 2014, amounts to \$13,354,378 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, roads, highways, bridges, and water and sewer infrastructure. The total increase in capital assets for the current fiscal year was approximately 3.0%.

	<u>2014</u>	<u>2013</u>
Land	\$ 296,214	\$ 265,652
Construction in progress	-	59,642
Buildings	1,545,780	1,575,895
Land Improvements	859,542	-
Vehicles	240,274	303,603
Equipment	231,558	167,263
Streets	74,604	80,379
Sewer	7,301,192	7,600,980
Water	2,805,214	2,911,160
Totals	<u>\$ 13,354,378</u>	<u>\$ 12,964,574</u>

### ***Long-term Debt***

As described in Note 7 to the financial statements, the Township had \$935,234 outstanding in long-term debt. In the current year the township issued an installment purchase agreement for the purchase of BS&A software. Other long-term obligations consisted of a \$46,417 liability for compensated absences.

### **Economic Condition and Outlook**

About \$1.8 million of revenues are expected to be available for appropriation in the General Fund. Expenditures are expected to change by small amounts compared to 2014. The Township continues to review all budget line items for opportunities to reduce expenditures when possible. The budget will be monitored during the year to identify any necessary amendments. In 2015, 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, 2014**

	<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	\$ 1,855,953	\$ 3,069,671	\$ 4,925,624
Investments	1,999,953	299,754	2,299,707
Taxes Receivable	1,249,954	--	1,249,954
Receivables (Net)	405,147	510,230	915,377
Special Assessment Receivables	--	87,363	87,363
Prepaid Expenses	58,778	13,208	71,986
Due from Agency Funds	739,792	120,753	860,545
<b>Total Current Assets</b>	<b>6,309,577</b>	<b>4,100,979</b>	<b>10,410,556</b>
<i>Noncurrent Assets</i>			
Special Assessments	--	439,288	439,288
Capital Assets not Being Depreciated	264,205	32,009	296,214
Capital Assets Being Depreciated, Net	2,854,438	10,203,726	13,058,164
<b>Total Assets</b>	<b>9,428,220</b>	<b>14,776,002</b>	<b>24,204,222</b>
<b>LIABILITIES</b>			
<i>Current Liabilities</i>			
Accounts Payable	35,758	91,552	127,310
Accrued Payroll	44,371	8,224	52,595
Accrued Interest	--	6,456	6,456
Current Portion of Long-term Debt	7,946	134,671	142,617
Deposits and Escrow	--	4,991	4,991
Internal Balances	7,320	(7,320)	--
<b>Total Current Liabilities</b>	<b>95,395</b>	<b>238,574</b>	<b>333,969</b>
<i>Noncurrent Liabilities</i>			
Long-term Debt	7,946	784,671	792,617
Compensated Absences	45,437	980	46,417
<b>Total Liabilities</b>	<b>148,778</b>	<b>1,024,225</b>	<b>1,173,003</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Taxes Levied for a Subsequent Period	1,587,142	--	1,587,142
<b>Total Deferred Inflows of Resources</b>	<b>1,587,142</b>	<b>--</b>	<b>1,587,142</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	3,102,751	9,316,393	12,419,144
<i>Restricted for:</i>			
Public Safety	714,616	--	714,616
Public Works	198,455	--	198,455
Special Assessments	--	526,651	526,651
<i>Unrestricted</i>	3,676,478	3,908,733	7,585,211
<b>Total Net Position</b>	<b>\$ 7,692,300</b>	<b>\$ 13,751,777</b>	<b>\$ 21,444,077</b>

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



**Charter Township of Niles  
Balance Sheet  
Governmental Funds  
December 31, 2014**

	<u>Special Revenue</u>			<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Fire Operating</u>	<u>Police Fund</u>	<u>River Valley Trail Fund</u>		
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 956,040	\$ 54,515	\$ 215,131	\$ 149,964	\$ 463,620	\$ 1,839,270
Investments	1,999,900	28	--	--	25	1,999,953
Taxes Receivable	540,445	645,027	--	--	64,482	1,249,954
Receivables (Net)	211,831	89	--	190,686	2,541	405,147
Prepaid Expenses	26,510	32,268	--	--	--	58,778
Due from Agency Funds	296,018	378,915	--	--	64,859	739,792
Due from Other Funds	14,943	14,857	--	--	--	29,800
<b>Total Assets</b>	<u>4,045,687</u>	<u>1,125,699</u>	<u>215,131</u>	<u>340,650</u>	<u>595,527</u>	<u>6,322,694</u>
<b>LIABILITIES</b>						
Accounts Payable	\$ 14,787	\$ 4,229	\$ 7,795	\$ --	\$ 8,908	\$ 35,719
Accrued Payroll	19,056	25,315	--	--	--	44,371
Due to Other Funds	--	--	--	--	1,533	1,533
<b>Total Liabilities</b>	<u>33,843</u>	<u>29,544</u>	<u>7,795</u>	<u>--</u>	<u>10,441</u>	<u>81,623</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable Revenue	--	--	--	--	2,541	2,541
Taxes Levied for a Subsequent Period	679,169	825,454	--	--	82,519	1,587,142
<b>Total Liabilities and Deferred Inflows of Resources</b>	<u>713,012</u>	<u>854,998</u>	<u>7,795</u>	<u>--</u>	<u>95,501</u>	<u>1,671,306</u>
<b>FUND BALANCE</b>						
Nonspendable	26,510	32,268	--	--	--	58,778
Restricted	--	238,433	207,336	--	435,034	880,803
Assigned	--	--	--	340,650	64,992	405,642
Unassigned	3,306,165	--	--	--	--	3,306,165
<b>Total Fund Balance</b>	<u>3,332,675</u>	<u>270,701</u>	<u>207,336</u>	<u>340,650</u>	<u>500,026</u>	<u>4,651,388</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<u>\$ 4,045,687</u>	<u>\$ 1,125,699</u>	<u>\$ 215,131</u>	<u>\$ 340,650</u>	<u>\$ 595,527</u>	<u>\$ 6,322,694</u>

The Notes to the Financial Statements 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, 2014**

Total Fund Balance - Governmental Funds	\$	4,651,388
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		(18,943)
General government capital assets of \$5,791,521, net of accumulated depreciation of \$2,672,878, are not financial resources and, accordingly, are not reported in the funds		3,118,643
Long-term liabilities are not due any payable in the current period and therefore are not reported in the funds		(15,892)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds		(45,437)
Unavailable revenues are not available to to pay current period expenditures and, therefore, are deferred inflows of resources in the funds		2,541
<b>Total Net Position - Governmental Funds</b>	<b>\$</b>	<b><u>7,692,300</u></b>

The Notes to the Financial Statements 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, 2014**

	<u>Special Revenue</u>			<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Fire Operating</u>	<u>Police Fund</u>	<u>River Valley Trail Fund</u>		
<b>Revenues</b>						
Taxes and Penalties	\$ 438,066	\$ 975,120	\$ 354,084	\$ --	\$ 130,655	\$ 1,897,925
Licenses and Permits	83,577	--	6,723	--	111,936	202,236
State Sources	1,100,916	--	--	685,844	--	1,786,760
Local Contributions	--	--	--	171,727	--	171,727
Charges for Services	50,658	78,086	--	--	--	128,744
Fines and Forfeitures	336	--	1,288	--	25	1,649
Other Revenue	87,353	--	--	--	--	87,353
Interest Income	9,842	8,005	373	79	483	18,782
<b>Total Revenues</b>	<u>1,770,748</u>	<u>1,061,211</u>	<u>362,468</u>	<u>857,650</u>	<u>243,099</u>	<u>4,295,176</u>
<b>Expenditures</b>						
Legislative	54,562	--	--	--	--	54,562
General Government	555,021	--	--	--	836	555,857
Public Safety	300,970	945,024	666,062	--	130,970	2,043,026
Public Works	72,815	--	--	--	41,685	114,500
Community / Economic Development	86,351	--	--	--	--	86,351
Cultural and Recreation	29,662	--	--	--	--	29,662
Capital Outlay	18,255	5,583	--	842,000	30,562	896,400
<b>Total Expenditures</b>	<u>1,117,636</u>	<u>950,607</u>	<u>666,062</u>	<u>842,000</u>	<u>204,053</u>	<u>3,780,358</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>653,112</u>	<u>110,604</u>	<u>(303,594)</u>	<u>15,650</u>	<u>39,046</u>	<u>514,818</u>
<b>Other Financing Sources (Uses)</b>						
Debt Issuance	12,170	3,722	--	--	--	15,892
Transfers from Other Funds	--	--	510,930	325,000	20,136	856,066
Transfers to Other Funds	(856,066)	--	--	--	--	(856,066)
<b>Net Other Financing Sources (Uses)</b>	<u>(843,896)</u>	<u>3,722</u>	<u>510,930</u>	<u>325,000</u>	<u>20,136</u>	<u>15,892</u>
<b>Net Change in Fund Balance</b>	<u>(190,784)</u>	<u>114,326</u>	<u>207,336</u>	<u>340,650</u>	<u>59,182</u>	<u>530,710</u>
<i>Fund Balance at Beginning of Period</i>	3,523,459	156,375	--	--	440,844	4,120,678
<b>Fund Balance at End of Period</b>	<u>\$ 3,332,675</u>	<u>\$ 270,701</u>	<u>\$ 207,336</u>	<u>\$ 340,650</u>	<u>\$ 500,026</u>	<u>\$ 4,651,388</u>

The Notes to the Financial Statements 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, 2014**

Total Net Change in Fund Balances - Governmental Funds	\$	530,710
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		(13,062)
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 capital outlay expenditures of \$896,400 are in excess of depreciation expense of \$198,182		698,218
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		(18,997)
Proceeds from debt issuance are reported as revenue in the fund statements, but are reported as liabilities in the Statement of Net Assets		(15,892)
Revenues in the Statement of Activities that do not provide current financial resources are reported as deferred inflows of resources		(221)
<b>Changes in Net Position - Governmental Funds</b>	<b>\$</b>	<b><u>1,180,756</u></b>

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

**Charter Township of Niles  
Statement of Net Position  
Proprietary Funds  
December 31, 2014**

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities</b>
	<b>Sewer</b>	<b>Water</b>	<b>Total Enterprise Funds</b>	<b>Internal Service Funds</b>
<b>ASSETS</b>				
<i>Current Assets</i>				
Cash and Cash Equivalents	\$ 2,039,102	\$ 1,030,569	\$ 3,069,671	\$ 16,683
Investments	299,754	--	299,754	--
Receivables (Net)	493,743	16,487	510,230	--
Special Assessment Receivables	--	87,363	87,363	--
Prepaid Expenses	10,430	2,778	13,208	--
Due from Agency Funds	83,886	36,867	120,753	--
Due from Other Funds	320,686	578	321,264	--
<b>Total Current Assets</b>	<b>3,247,601</b>	<b>1,174,642</b>	<b>4,422,243</b>	<b>16,683</b>
<i>Noncurrent Assets</i>				
Special Assessments	--	439,288	439,288	--
Capital Assets not Being Depreciated	2,150	29,859	32,009	--
Capital Assets Being Depreciated, Net	7,386,091	2,817,635	10,203,726	--
<b>Total Assets</b>	<b>10,635,842</b>	<b>4,461,424</b>	<b>15,097,266</b>	<b>16,683</b>
<b>Total Deferred Outflows of Resources</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>LIABILITIES</b>				
<i>Current Liabilities</i>				
Accounts Payable	88,662	2,890	91,552	39
Accrued Payroll	6,579	1,645	8,224	--
Accrued Interest	--	6,456	6,456	--
Current Portion of Long-term Debt	3,292	131,379	134,671	--
Deposits and Escrow	--	4,991	4,991	--
Due to Other Funds	--	313,944	313,944	35,587
<b>Total Current Liabilities</b>	<b>98,533</b>	<b>461,305</b>	<b>559,838</b>	<b>35,626</b>
<i>Noncurrent Liabilities</i>				
Long-term Debt	3,292	781,379	784,671	--
Compensated Absences	980	--	980	--
<b>Total Liabilities</b>	<b>102,805</b>	<b>1,242,684</b>	<b>1,345,489</b>	<b>35,626</b>
<b>NET POSITION</b>				
Net Investment in Capital Assets	7,381,657	1,934,736	9,316,393	--
<i>Restricted for:</i>				
Special Assessments	--	526,651	526,651	--
<i>Unrestricted</i>	3,151,380	757,353	3,908,733	(18,943)
<b>Total Net Position</b>	<b>\$ 10,533,037</b>	<b>\$ 3,218,740</b>	<b>\$ 13,751,777</b>	<b>\$ (18,943)</b>

The Notes to the Financial Statements 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, 2014**

	<u>Business-type Activities - Enterprise Funds</u>			<b>Governmental</b>
	<u>Sewer</u>	<u>Water</u>	<u>Total Enterprise Funds</u>	<b>Activities Internal Service Funds</b>
<b>Operating Revenues</b>				
Charges for Services	\$ 1,481,464	\$ 274,730	\$ 1,756,194	\$ 4,411
Other Revenue	51,377	2,776	54,153	--
<b>Total Operating Revenues</b>	<u>1,532,841</u>	<u>277,506</u>	<u>1,810,347</u>	<u>4,411</u>
<b>Operating Expenses</b>				
Benefits Expenses	--	--	--	17,473
Contracted services	1,201,430	40,578	1,242,008	--
Personnel costs	297,909	75,756	373,665	--
Operations and supplies	80,731	82,023	162,754	--
Depreciation	232,462	97,662	330,124	--
<b>Total Operating Expenses</b>	<u>1,812,532</u>	<u>296,019</u>	<u>2,108,551</u>	<u>17,473</u>
<b>Operating Income (Loss)</b>	<u>(279,691)</u>	<u>(18,513)</u>	<u>(298,204)</u>	<u>(13,062)</u>
<b>Non-Operating Revenues (Expenses)</b>				
Interest Income	4,575	28,080	32,655	--
Debt Service - Interest	--	(40,623)	(40,623)	--
<b>Net Non-Operating Revenues (Expenses)</b>	<u>4,575</u>	<u>(12,543)</u>	<u>(7,968)</u>	<u>--</u>
<b>Income Before Contributions and Transfers</b>	<u>(275,116)</u>	<u>(31,056)</u>	<u>(306,172)</u>	<u>(13,062)</u>
Transfers from Other Funds	--	--	--	--
Transfers to Other Funds	--	--	--	--
<b>Change In Net Position</b>	<u>(275,116)</u>	<u>(31,056)</u>	<u>(306,172)</u>	<u>(13,062)</u>
<i>Net Position at Beginning of Period</i>	<u>10,808,153</u>	<u>3,249,796</u>	<u>14,057,949</u>	<u>(5,881)</u>
<b>Net Position at End of Period</b>	<u>\$ 10,533,037</u>	<u>\$ 3,218,740</u>	<u>\$ 13,751,777</u>	<u>\$ (18,943)</u>

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

**Charter Township of Niles  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2014**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities Internal Service Funds</u>
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total Enterprise Funds</u>	
<b>Cash Flows from Operating Activities</b>				
Cash Received from Charges for Service	\$ 1,481,435	\$ 285,539	\$ 1,766,974	\$ 4,411
Other Miscellaneous Income	51,377	2,776	54,153	-
Cash Payments to Employees for Services and Fringe Benefits	(296,633)	(75,767)	(372,400)	-
Cash Payments to Suppliers for Good and Services	(1,268,226)	(123,483)	(1,391,709)	(17,451)
<b>Total Cash Flows from Operating Activities</b>	<u>(32,047)</u>	<u>89,065</u>	<u>57,018</u>	<u>(13,040)</u>
<b>Cash Flows from Non-capital Financing Activities</b>				
Transfers from (to) Other Funds	-	-	-	-
Decrease (Increase) in Due from Other Funds	24,618	(35,741)	(11,123)	-
<b>Total Cash Flows from Non-capital Financing Activities</b>	<u>24,618</u>	<u>(35,741)</u>	<u>(11,123)</u>	<u>-</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Collections on Special Assessments	-	96,072	96,072	-
Purchases of Capital Assets	(17,573)	(4,137)	(21,710)	-
Issuance of Long-term Debt	6,584	2,758	9,342	-
Principal Payments on Bonds	-	(130,000)	(130,000)	-
Interest Payments on Bonds	-	(40,623)	(40,623)	-
<b>Total Cash Flows from Capital and Related Financing Activities</b>	<u>(10,989)</u>	<u>(75,930)</u>	<u>10,743</u>	<u>-</u>
<b>Cash Flows from Investing Activities</b>				
Sale (Acquisition) of Investments	(855)	-	(855)	-
Interest Income	4,575	28,080	32,655	-
<b>Total Cash Flows from Investing Activities</b>	<u>3,720</u>	<u>28,080</u>	<u>31,800</u>	<u>-</u>
Net Increase (Decrease) in Cash and Equivalents	(14,698)	5,474	(9,224)	(13,040)
<i>Cash and Equivalents - Beginning of Year</i>	2,053,800	1,025,095	3,078,895	29,723
<b>Cash and Equivalents - End of Year</b>	<u>\$ 2,039,102</u>	<u>\$ 1,030,569</u>	<u>\$ 3,069,671</u>	<u>\$ 16,683</u>

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

**Charter Township of Niles  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2014**

	<u>Business-type Activities - Enterprise Funds</u>			<b>Governmental</b>
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total Enterprise Funds</u>	<b>Activities Internal Service Funds</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>				
<b>Operating Income</b>	\$ (279,691)	\$ (18,513)	\$ (298,204)	\$ (13,062)
Adjustments to Reconcile Operating Income to Net Cash				
<b>Provided (Used) by Operating Activities</b>				
Depreciation Expense	232,462	97,662	330,124	-
<b>Changes in Assets &amp; Liabilities</b>				
Receivables (Net)	(29)	12,130	12,101	-
Prepaid Expenses	201	(165)	36	-
Accounts Payable	13,734	(717)	13,017	22
Deposits & Escrow	-	(1,321)	(1,321)	-
Accrued and Other Liabilities	1,276	(11)	1,265	-
<b>Net Cash Provided by Operating Activities</b>	<u>\$ (32,047)</u>	<u>\$ 89,065</u>	<u>\$ 57,018</u>	<u>\$ (13,040)</u>

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

**Charter Township of Niles  
Statement of Fiduciary Net Position  
Fiduciary Funds  
December 31, 2014**

	<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	\$ --	\$ 166,837	\$ 994,452
Investments	838,305	3,571,811	79,772
Accrued Interest	--	9,854	--
<b><i>Total Assets</i></b>	<b>838,305</b>	<b>3,748,502</b>	<b>1,074,224</b>
<b>LIABILITIES</b>			
Due to Individuals and Agencies	--	--	1,074,224
<b><i>Total Liabilities</i></b>	<b>--</b>	<b>--</b>	<b>1,074,224</b>
<b>NET POSITION</b>			
Held in Trust	<b>\$ 838,305</b>	<b>\$ 3,748,502</b>	<b>\$ --</b>

The Notes to the Financial Statements 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, 2014**

	<u>System Fund -</u>	<u>Pension Plan</u>	<u>Totals</u>
<b>ADDITIONS</b>			
<i>Contributions</i>			
Employer	\$ 47,752	\$ 120,884	\$ 168,636
Participants	28,833	34,951	63,784
<b><i>Total Contributions</i></b>	<u>76,585</u>	<u>155,835</u>	<u>232,420</u>
Investment Return	43,231	175,670	218,901
<b><i>Total Additions</i></b>	<u>119,816</u>	<u>331,505</u>	<u>451,321</u>
<b>DEDUCTIONS</b>			
Benefits Paid	-	364,285	364,285
Expenses	-	22,262	22,262
<b><i>Total Deductions</i></b>	<u>-</u>	<u>386,547</u>	<u>386,547</u>
<b>Net Increase (Decrease)</b>	119,816	(55,042)	64,774
<i>Net Position at Beginning of Period</i>	718,489	3,803,544	4,522,033
<b><i>Net Position at End of Period</i></b>	<u><b>\$ 838,305</b></u>	<u><b>\$ 3,748,502</b></u>	<u><b>\$ 4,586,807</b></u>

The Notes to the Financial Statements 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 *police fund* accounts for the activity of the government's costs for police services.

The *river valley trail fund* accounts for the activity of the government's river valley trail project.

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.

## Charter Township of Niles

### Notes to the Financial Statements

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*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.

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 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.

## Charter Township of Niles

### Notes to the Financial Statements

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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, 2014. Expenditures may 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.

## Charter Township of Niles

### Notes to the Financial Statements

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#### ***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 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.

# Charter Township of Niles

## Notes to the Financial Statements

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### 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, 2014, the Township incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>General Fund</b>			
Supervisor	\$ 32,627	\$ 33,695	\$ (1,068)
Assessor	107,142	111,157	(4,015)
Clerk	92,474	94,871	(2,397)
Treasurer	86,932	89,352	(2,420)
Township Hall and Grounds	168,145	176,806	(8,661)
Police Protection	35,909	278,514	(242,605)
Recreation and Culture	27,379	29,662	(2,283)
Capital Outlay	-	18,255	(18,255)
Transfers Out	853,482	856,066	(2,584)

## 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, 2014:

	<u>Primary Government</u>
Statement of Net Position	
Cash and Cash Equivalents	\$ 4,925,624
Investments	2,299,707
Statement of Fiduciary Net Position	
Cash and Cash Equivalents	1,163,829
Investments	4,487,348
Total Deposits and Investments	<u>\$ 12,876,508</u>
Deposits and Investments	
Checking and Savings Accounts	\$ 5,878,396
Certificates of Deposit	844,027
Investments	6,153,485
Cash on hand	600
Total	<u>\$ 12,876,508</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, \$4,659,939 of the Township's bank balance of \$5,401,077 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.

## Charter Township of Niles

### Notes to the Financial Statements

**Custodial Credit Risk – Investments.** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In order to minimize this risk, Township policy limits the types of investments and pre-qualifies financial institutions. As of December 31, 2014, 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, 2014:

U.S. Agencies	\$	1,017,756
Corporate Bonds		337,467
Equities & Mutual Funds		4,700,639
Certificates of Deposit		844,027
Money Market Funds		66,397
<b>Total</b>	<b>\$</b>	<b><u>6,966,286</u></b>

**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 & Poor's	AAAm	\$1,392,694
Standard & Poor's	AA+	1,017,756
NA	Unavailable	<u>4,555,836</u>
<b>Total</b>		<b><u>\$6,966,286</u></b>

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

**Charter Township of Niles**

Notes to the Financial Statements

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

	Certificates of Deposit	Investments	Total
No Maturity	\$ -	\$ 5,103,612	\$ 5,103,612
Due within one year	99,271	85,775	185,046
Due in 1-5 Years	744,756	517,556	1,262,312
Due in 6 + Years	-	415,316	415,316
	\$ 844,027	\$ 6,122,259	\$ 6,966,286

**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, 2014, for the Township’s individual major and nonmajor funds, in the aggregate, were as follows:

	General	Fire Operating	River Valley Trail	Other Governmental	Total
Receivables					
Accounts	\$ 21,145	\$ 89	\$ -	\$ 2,541	\$ 23,775
Due from State	190,686	-	190,686	-	381,372
Total Receivables	\$ 211,831	\$ 89	\$ 190,686	\$ 2,541	\$ 405,147

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, 2014, was as follows:

<b>Governmental Activities</b>	December 31, 2013	Additions	Reductions	December 31, 2014
Capital assets not being depreciated				
Land	\$ 233,553	\$ 30,652	\$ -	\$ 264,205
Construction in Process	59,642	-	59,642	-
Subtotal - nondepreciable capital assets	<u>293,195</u>	<u>30,652</u>	<u>59,642</u>	<u>264,205</u>
Capital assets being depreciated				
Buildings	2,826,464	-	-	2,826,464
Land Improvements	-	901,642	-	901,642
Vehicles	1,021,534	-	-	1,021,534
Equipment	638,376	23,838	-	662,214
Streets	115,462	-	-	115,462
Total capital assets being depreciated	<u>4,601,836</u>	<u>925,480</u>	<u>-</u>	<u>5,527,316</u>
Less accumulated depreciation				
Buildings	1,250,569	43,491	-	1,294,060
Land Improvements	-	42,100	-	42,100
Vehicles	717,931	65,289	-	783,220
Equipment	471,113	41,529	-	512,642
Streets	35,083	5,773	-	40,856
Total accumulated depreciation	<u>2,474,696</u>	<u>198,182</u>	<u>-</u>	<u>2,672,878</u>
Total capital assets being depreciated - Net	<u>2,127,140</u>	<u>727,298</u>	<u>-</u>	<u>2,854,438</u>
Governmental activities capital assets - Net	<u>\$ 2,420,335</u>	<u>\$ 757,950</u>	<u>\$ 59,642</u>	<u>\$ 3,118,643</u>

## Charter Township of Niles

### Notes to the Financial Statements

<b>Business-type Activities</b>	December 31, 2013	Additions	Reductions	December 31, 2014
Capital assets not being depreciated				
Land	\$ 32,009	\$ -	\$ -	\$ 32,009
Capital assets being depreciated				
Sewer System	14,811,250	17,573	-	14,828,823
Water System	4,589,503	4,137	-	4,593,640
Total capital assets, being depreciated	<u>19,400,753</u>	<u>21,710</u>	<u>-</u>	<u>19,422,463</u>
Less accumulated depreciation				
Sewer System	7,210,270	232,462	-	7,442,732
Water System	1,678,343	97,662	-	1,776,005
Total accumulated depreciation	<u>8,888,613</u>	<u>330,124</u>	<u>-</u>	<u>9,218,737</u>
Total capital assets being depreciated - Net	<u>10,512,140</u>	<u>(308,414)</u>	<u>-</u>	<u>10,203,726</u>
Business-type activities capital assets - Net	<u>\$ 10,544,149</u>	<u>\$ (308,414)</u>	<u>\$ -</u>	<u>\$ 10,235,735</u>

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

#### **Governmental Activities**

General Government	\$ 18,992
Public Safety	118,521
Public Works	6,681
Recreation & Culture	53,736
Community & Economic Development	252
Total Governmental Activities	<u>\$ 198,182</u>

#### **Business-type Activities**

Water	\$ 97,662
Sewer	232,462
Total Business-type Activities	<u>\$ 330,124</u>

## Charter Township of Niles

### Notes to the Financial Statements

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#### Note 6 – Interfund Receivables, Payables and Transfers

The composition of interfund balances as of December 31, 2014, was as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Health Benefits	\$ 14,943
Fire Operating	Health Benefits	13,324
Sewer	Health Benefits	6,742
Water	Health Benefits	578
Fire Operating	Special Assessment	1,533
Sewer	Water Fund	313,944

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 \$313,944) in annual installments of \$32,749, including interest at 5.0%, through September 2021.

The composition of interfund transfers for the year ended December 31, 2014 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Police Fund	General	\$ 510,930
River Valley Trail	General	325,000
Nonmajor Governmental Funds	General	20,136

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 7 – 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, 2013	Additions	Reductions	December 31, 2014	Due Within One Year
<b>Governmental activities</b>					
Installment Note	\$ -	\$ 15,892	\$ -	\$ 15,892	\$ 7,946
Compensated absences	26,440	18,997	-	45,437	-
<b>Total Governmental Activities</b>	<b>26,440</b>	<b>34,889</b>	<b>-</b>	<b>45,437</b>	<b>7,946</b>
<b>Business-type activities</b>					
Bonds	1,040,000	-	130,000	910,000	130,000
Installment Note	-	9,342	-	9,342	4,671
Compensated Absences	406	574	-	980	-
<b>Total Business-type Activities</b>	<b>\$ 1,040,406</b>	<b>\$ 9,916</b>	<b>\$ 130,000</b>	<b>\$ 920,322</b>	<b>\$ 134,671</b>

Future bond debt requirements at December 31, 2014, were as follows:

	Bond Debt Requirements		
	Principal	Interest	Total
2015	\$ 130,000	\$ 41,340	\$ 171,340
2016	130,000	35,978	165,978
2017	130,000	30,453	160,453
2018	130,000	24,928	154,928
2019	130,000	19,403	149,403
2020-2021	260,000	19,500	279,500
Totals	<b>\$ 910,000</b>	<b>\$ 171,602</b>	<b>\$ 1,081,602</b>

### Note 8 – 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, 2014, member contributions totaled \$34,951. 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, 2014, was \$120,884.

**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>
12/31/2012	\$ 124,048	100%	-
12/31/2013	123,016	100%	-
12/31/2014	120,884	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>Actuarial Accrued Liability (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%

The Police and Fire Pension Plan has separately issued financial statements.

## Charter Township of Niles

### Notes to the Financial Statements

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#### ***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 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 \$47,752 and \$28,833, respectively, for the year ended December 31, 2014.

#### **Note 9 – 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 10 – 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**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**General Fund**  
**For the Year Ended December 31, 2014**

	Budgeted Amounts		Actual	Variance
	Original	Final		(Unfavorable) Final to Actual
<b>Revenues</b>				
Taxes and Penalties	\$ 308,301	\$ 308,301	\$ 438,066	\$ 129,765
State Grants	1,059,873	1,059,873	1,100,916	41,043
Licenses and Permits	71,950	71,950	83,577	11,627
Fines & Forfeitures	--	--	336	336
Charges for Services	49,060	49,060	50,658	1,598
Other Revenue	2,486	2,486	87,353	84,867
Interest Income	5,000	5,000	9,842	4,842
<b>Total Revenues</b>	<u>1,496,670</u>	<u>1,496,670</u>	<u>1,770,748</u>	<u>274,078</u>
<b>Other Financing Sources</b>				
Proceeds from Debt Issuance	--	--	12,170	12,170
<b>Total Revenues and Other Financing Sources</b>	<u>1,496,670</u>	<u>1,496,670</u>	<u>1,782,918</u>	<u>286,248</u>
<b>Expenditures</b>				
<b>Legislative</b>	68,793	68,793	54,562	14,231
<b>General Government</b>				
Supervisor	32,627	32,627	33,695	(1,068)
Elections	25,850	25,850	19,849	6,001
Assessor	107,142	107,142	111,157	(4,015)
Clerk	90,650	92,474	94,871	(2,397)
Board of Review	1,800	1,800	1,045	755
Data Processing	7,700	7,700	3,530	4,170
Treasurer	86,932	86,932	89,352	(2,420)
Tax Preparation and Collection	16,750	16,750	15,668	1,082
Township Hall and Grounds	161,078	168,145	176,806	(8,661)
Other	12,000	12,000	9,048	2,952
<b>Total General Government</b>	<u>542,529</u>	<u>551,420</u>	<u>555,021</u>	<u>(3,601)</u>
<b>Public Safety</b>				
Police Protection	33,642	35,909	278,514	(242,605)
Building Inspection	--	2,146	2,146	--
Ordinance Administration	37,248	42,906	20,310	22,596
<b>Total Public Safety</b>	<u>70,890</u>	<u>80,961</u>	<u>300,970</u>	<u>(220,009)</u>
<b>Public Works</b>				
Highways and Streets	78,000	78,000	49,659	28,341
Drains at Large	23,650	23,650	23,156	494
<b>Total Public Works</b>	<u>101,650</u>	<u>101,650</u>	<u>72,815</u>	<u>28,835</u>
<b>Community / Economic Development</b>	85,877	85,877	86,351	(474)
<b>Recreation and Culture</b>	22,900	27,379	29,662	(2,283)
<b>Capital Outlay</b>	--	--	18,255	(18,255)
<b>Total Expenditures</b>	<u>892,639</u>	<u>916,080</u>	<u>1,117,636</u>	<u>(201,556)</u>
<b>Other Financing Uses</b>				
Transfers to Other Funds	515,930	853,482	856,066	(2,584)
<b>Total Expenditures and Other Financing Uses</b>	<u>1,408,569</u>	<u>1,769,562</u>	<u>1,973,702</u>	<u>(204,140)</u>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>	88,101	(272,892)	(190,784)	82,108
<b>Net Change in Fund Balance</b>	<u>88,101</u>	<u>(272,892)</u>	<u>(190,784)</u>	<u>82,108</u>
<i>Fund Balance at Beginning of Period</i>	3,523,459	3,523,459	3,523,459	--
<b>Fund Balance at End of Period</b>	<u>\$ 3,611,560</u>	<u>\$ 3,250,567</u>	<u>\$ 3,332,675</u>	<u>\$ 82,108</u>

**Charter Township of Niles**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**Fire Operating**  
**For the Year Ended December 31, 2014**

	<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	\$ 817,102	\$ 817,102	\$ 975,120	\$ 158,018
Charges for Services	75,000	75,000	78,086	3,086
Interest Income	800	800	8,005	7,205
<b>Total Revenues</b>	<u>892,902</u>	<u>892,902</u>	<u>1,061,211</u>	<u>168,309</u>
<b>Expenditures</b>				
<b>Total Expenditures</b>	<u>950,847</u>	<u>953,732</u>	<u>950,607</u>	<u>3,125</u>
<b>Other Financing Sources</b>				
Proceeds from Debt Issuance	--	--	3,722	3,722
<b>Total Revenues and Other Financing Sources</b>	<u>892,902</u>	<u>892,902</u>	<u>1,064,933</u>	<u>172,031</u>
<b>Expenditures</b>				
Public Safety	950,847	948,132	945,024	3,108
Capital Outlay	--	5,600	5,583	17
<b>Total Expenditures</b>	<u>950,847</u>	<u>953,732</u>	<u>950,607</u>	<u>3,125</u>
<b>Other Financing Uses</b>				
<b>Total Expenditures and Other Financing Uses</b>	<u>950,847</u>	<u>953,732</u>	<u>950,607</u>	<u>3,125</u>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>	<u>(57,945)</u>	<u>(60,830)</u>	<u>114,326</u>	<u>175,156</u>
<b>Net Change in Fund Balance</b>	<u>(57,945)</u>	<u>(60,830)</u>	<u>114,326</u>	<u>175,156</u>
<b>Fund Balance at Beginning of Period</b>	156,375	156,375	156,375	--
<b>Fund Balance at End of Period</b>	<u>\$ 98,430</u>	<u>\$ 95,545</u>	<u>\$ 270,701</u>	<u>\$ 175,156</u>

**Charter Township of Niles**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**Police Fund**  
**For the Year Ended December 31, 2014**

	<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	\$ 386,205	\$ 386,205	\$ 354,084	\$ (32,121)
Licenses and Permits	7,300	7,300	6,723	(577)
Fines & Forfeitures	--	--	1,288	1,288
Interest Income	--	--	373	373
<b>Total Revenues</b>	<u>393,505</u>	<u>393,505</u>	<u>362,468</u>	<u>(31,037)</u>
<b>Other Financing Sources</b>				
Transfers In	<u>510,930</u>	<u>510,930</u>	<u>510,930</u>	<u>--</u>
<b>Total Revenues and Other Financing Sources</b>	<u>904,435</u>	<u>904,435</u>	<u>873,398</u>	<u>(31,037)</u>
<b>Expenditures</b>				
Public Safety	<u>904,435</u>	<u>904,435</u>	<u>666,062</u>	<u>238,373</u>
<b>Total Expenditures</b>	<u>904,435</u>	<u>904,435</u>	<u>666,062</u>	<u>238,373</u>
<b>Other Financing Uses</b>				
<b>Total Expenditures and Other Financing Uses</b>	<u>904,435</u>	<u>904,435</u>	<u>666,062</u>	<u>238,373</u>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>	<u>--</u>	<u>--</u>	<u>207,336</u>	<u>207,336</u>
<b>Net Change in Fund Balance</b>	<u>--</u>	<u>--</u>	<u>207,336</u>	<u>207,336</u>
<b>Fund Balance at Beginning of Period</b>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<b>Fund Balance at End of Period</b>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 207,336</u>	<u>\$ 207,336</u>

**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%

**OTHER SUPPLEMENTARY INFORMATION**

**Charter Township of Niles  
Combining Balance Sheet  
Nonmajor Governmental Funds  
December 31, 2014**

	<u>Special Revenue</u>			<u>Capital Projects</u>	<b>Total Nonmajor Governmental Funds</b>
	<u>Fire Equipment</u>	<u>Special Assessment</u>	<u>Building Department</u>	<u>Capital Improvement</u>	
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 220,157	\$ 172,634	\$ 36,234	\$ 34,595	\$ 463,620
Investments	--	--	--	25	25
Taxes Receivable	64,482	--	--	--	64,482
Receivables (Net)	--	2,541	--	--	2,541
Due from Agency Funds	34,459	30,400	--	--	64,859
<i>Total Assets</i>	<b><u>\$ 319,098</u></b>	<b><u>\$ 205,575</u></b>	<b><u>\$ 36,234</u></b>	<b><u>\$ 34,620</u></b>	<b><u>\$ 595,527</u></b>
<b>LIABILITIES</b>					
Accounts Payable	\$ --	\$ 3,046	\$ 5,862	\$ --	\$ 8,908
Due to Other Funds	--	1,533	--	--	1,533
<i>Total Liabilities</i>	<u>--</u>	<u>4,579</u>	<u>5,862</u>	<u>--</u>	<u>10,441</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Taxes Levied for a Subsequent Period	82,519	--	--	--	82,519
Unavailable Revenues	--	2,541	--	--	2,541
<i>Total Liabilities and Deferred Inflows of Resources</i>	<u>82,519</u>	<u>7,120</u>	<u>5,862</u>	<u>--</u>	<u>95,501</u>
<b>FUND BALANCE</b>					
Restricted	236,579	198,455	--	--	435,034
Assigned	--	--	30,372	34,620	64,992
Unassigned	--	--	--	--	--
<i>Total Fund Balance</i>	<u>236,579</u>	<u>198,455</u>	<u>30,372</u>	<u>34,620</u>	<u>500,026</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<b><u>\$ 319,098</u></b>	<b><u>\$ 205,575</u></b>	<b><u>\$ 36,234</u></b>	<b><u>\$ 34,620</u></b>	<b><u>\$ 595,527</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, 2014**

	<u>Special Revenue</u>			<u>Capital Projects</u>	<b>Total Nonmajor Governmental Funds</b>
	<u>Fire Equipment</u>	<u>Special Assessment</u>	<u>Building Department</u>	<u>Capital Improvement</u>	
<b>Revenues</b>					
Taxes and Penalties	\$ 97,493	\$ 33,162	\$ --	\$ --	\$ 130,655
Licenses and Permits	--	--	111,936	--	111,936
Fines and Forfeitures	--	--	25	--	25
Interest Income	243	184	24	32	483
<b>Total Revenues</b>	<u>97,736</u>	<u>33,346</u>	<u>111,985</u>	<u>32</u>	<u>243,099</u>
<b>Expenditures</b>					
General Government	--	--	--	836	836
Public Safety	34,221	--	96,749	--	130,970
Public Works	--	41,685	--	--	41,685
Capital Outlay	--	--	--	30,562	30,562
<b>Total Expenditures</b>	<u>34,221</u>	<u>41,685</u>	<u>96,749</u>	<u>31,398</u>	<u>204,053</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>63,515</u>	<u>(8,339)</u>	<u>15,236</u>	<u>(31,366)</u>	<u>39,046</u>
<b>Other Financing Sources (Uses)</b>					
Transfers In	--	5,000	15,136	--	20,136
Transfers Out	--	--	--	--	--
<b>Net Other Financing Sources (Uses)</b>	<u>--</u>	<u>5,000</u>	<u>15,136</u>	<u>--</u>	<u>20,136</u>
<b>Net Change in Fund Balance</b>	<b>63,515</b>	<b>(3,339)</b>	<b>30,372</b>	<b>(31,366)</b>	<b>59,182</b>
<i>Fund Balance at Beginning of Period</i>	173,064	201,794	--	65,986	440,844
<b>Fund Balance at End of Period</b>	<b>\$ 236,579</b>	<b>\$ 198,455</b>	<b>\$ 30,372</b>	<b>\$ 34,620</b>	<b>\$ 500,026</b>

**Charter Township of Niles**  
**Combining Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**December 31, 2014**

Agency

	<u>Imprest Payroll</u>	<u>Reclamation Fund</u>	<u>Trust &amp; Agency</u>	<u>Current Tax Collection</u>	<u>Purdy Cemetery Trust</u>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 86,685	\$ 6,931	\$ 15,768	\$ 879,311	\$ 5,757
Investments	--	79,772	--	--	--
Accrued Interest	--	--	--	--	--
<b>Total Assets</b>	<u>86,685</u>	<u>86,703</u>	<u>15,768</u>	<u>879,311</u>	<u>5,757</u>
<b>LIABILITIES</b>					
Due to Individuals and Agencies	86,685	86,703	15,768	879,311	5,757
<b>Total Liabilities</b>	<u>86,685</u>	<u>86,703</u>	<u>15,768</u>	<u>879,311</u>	<u>5,757</u>
<b>NET POSITION</b>					
Held in Trust	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

June 30, 2015

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, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 13, 2015. 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, 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive 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 June 30, 2015.

### *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.

### *Other Matters*

We applied certain limited procedures to the budgetary comparison schedules and management's discussion and analysis, which are required supplementary information (RSI) that supplements

the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual fund financial statements and schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

*Restrictions on Use*

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.

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

Gabridge & Company, PLC  
Grand Rapids, MI

**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***

June 30, 2015

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, 2014, and the related notes to the financial statements, which collectively comprise The Township's basic financial statements, and have issued our report thereon dated June 30, 2015.

**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.

*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 material weaknesses: 2014-1 to 2014-3.

### **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 Weaknesses**

#### **2014-1 – 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.

## Charter Township of Niles

### Schedule of Findings and Responses

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#### **Material Weakness**

##### **2014-2 - Segregation of Incompatible Duties**

**Criteria:** Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the Township. A key element of internal control is the segregation of incompatible duties within the accounting function.

**Condition/Finding:** The Township has accounting functions which are performed by the same individual and are not subject to a documented independent review and approval. These areas include cash reconciliation, payroll, accounts receivable and accounts payable transactions.

**Cause:** This condition is a result of the limited size of the Township's accounting staff.

**Effect:** As a result of this condition, the Township is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected and corrected by management on a timely basis.

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

**View of Responsible Officials:** The Township deems the finding to be a result of limited staffing and limited resources available. Management staff will provide increased oversight and review of operations to enhance internal control and separation of incompatible duties.

## Charter Township of Niles

### Schedule of Findings and Responses

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#### **Material Weakness**

##### **2014-3 – Reconciliation of Key Balance Sheet Accounts**

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the Township. A key element of internal control is the monitoring and reconciling of financial data within the accounting function.

Condition/Finding: The Township has balance sheet accounts that are only reconciled at year end as part of the audit. These areas include cash, accounts payable, and accounts / taxes receivable. Accordingly, the Township's ability to prepare financial statements with reconciled balance sheet accounts 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.

Cause: This condition is a result of the lack of documented control policies and procedures at the Township.

Effect: As a result of this condition, the Township is susceptible to misstatements (whether caused by error or fraud) that may occur and not be prevented or detected and corrected by management on a timely basis.

Recommendation: We recommend developing policies and procedures for reconciling taxes, accounts payable, and accounts receivable (at least quarterly) to the general ledger. All cash accounts (including the fiduciary funds) need to be reconciled to the general ledger monthly. These policies and procedures should require involvement of a second responsible person as part of the review/monitoring process.

View of Responsible Officials: The Township has transitioned to new accounting software during 2014 and the transition will be finalized in 2015. Going forward, the Township will use the new accounting software in order to reconcile promptly.