

*Charter Township of Niles*  
*Berrien County, Michigan*  
**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**  
*Year ended December 31, 2009*

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

*Charter Township of Niles*  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The following discussion and analysis is intended as a narrative overview of the Charter Township of Niles, Michigan's operations over the fiscal year and its financial condition on December 31, 2009. Please read it in conjunction with the Township's financial statements.

**FINANCIAL HIGHLIGHTS**

- The Township's total net assets decreased \$611 thousand as a result of this year's operations.
- Of the \$20 million total net assets reported, \$6.3 million is unrestricted.
- The General Fund's unreserved, undesignated fund balance at the end of the fiscal year was \$2.7 million.

**Overview of the financial statements**

This discussion and analysis introduces the Township's basic financial statements that follow this section. These financial statements are presented to comply with Governmental Accounting Standards Board Statement 34 (GASB 34). The Township's basic financial statements are comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township government, reporting the Township's operations in more detail than the government-wide financial statements.
  - The governmental funds statements tell how general government services, like public works and public safety, were financed in the short term, as well as what remains for future spending.
  - Proprietary funds statements offer short- and long-term financial information about the activities the government operates like a business. The Township has three proprietary funds to account for its sewer and water operations, and the allocation of self-insurance costs to the Township's funds.
  - Fiduciary fund statements show the changes in assets held for others, including employee pensions.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

*Charter Township of Niles*  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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**Government-wide statements**

The government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets and the Statement of Activities include all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets (the difference between the Township's assets and liabilities) is one way to measure the Township's financial health, or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township, you need to consider additional nonfinancial factors, such as changes in the Township's property tax base and the condition of the Township's roads.

The government-wide financial statements of the Township are divided into two categories:

- *Governmental activities* - These activities include functions most commonly associated with government (e.g., general government, public safety, public works, etc.). Property taxes and intergovernmental revenues generally fund these services.
- *Business-type activities* - The Township charges fees to customers to help it cover the costs of operating the water and sewer operations

**Fund financial statements**

The fund financial statements provide more detailed information about the Township's most significant funds - not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by grant agreements.
- The Township Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and other revenues.

The Township has three kinds of funds:

- *Governmental funds*. Most of the Township's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flows in and out, and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement that explains the relationship between them.

**Charter Township of Niles**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

- *Proprietary funds.* Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
- *Fiduciary funds.* These funds are used to account for the collection and disbursement of resources for the benefit of employees and other entities outside the Township. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

**FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE**

The following tables present comparative government-wide financial information for the Township:

*Condensed financial information*  
*Net assets (in thousands)*

|                               | <i>Governmental activities</i> |                   | <i>Business-type activities</i> |                    | <i>Totals</i>      |                    |
|-------------------------------|--------------------------------|-------------------|---------------------------------|--------------------|--------------------|--------------------|
|                               | <u>2009</u>                    | <u>2008</u>       | <u>2009</u>                     | <u>2008</u>        | <u>2009</u>        | <u>2008</u>        |
| Current and other assets      | \$ 5,052.0                     | \$ 4,722.8        | \$ 4,821.1                      | \$ 5,424.1         | \$ 9,873.1         | \$ 10,146.9        |
| Capital assets                | <u>2,670.0</u>                 | <u>2,805.6</u>    | <u>11,068.9</u>                 | <u>11,302.9</u>    | <u>13,738.9</u>    | <u>14,108.5</u>    |
| <b>Total assets</b>           | <u>7,722.0</u>                 | <u>7,528.4</u>    | <u>15,890.0</u>                 | <u>16,727.0</u>    | <u>23,612.0</u>    | <u>24,255.4</u>    |
| Current and other liabilities | 1,931.3                        | 1,805.9           | 108.6                           | 156.5              | 2,039.9            | 1,962.4            |
| Long-term debt                | <u>13.1</u>                    | <u>-</u>          | <u>1,534.6</u>                  | <u>1,658</u>       | <u>1,547.7</u>     | <u>1,658</u>       |
| <b>Total liabilities</b>      | <u>1,944.4</u>                 | <u>1,805.9</u>    | <u>1,643.2</u>                  | <u>1,814.2</u>     | <u>3,587.6</u>     | <u>3,620.1</u>     |
| Net assets:                   |                                |                   |                                 |                    |                    |                    |
| Invested in capital assets    | 2,670.0                        | 2,805.6           | 9,534.3                         | 9,645.2            | 12,204.3           | 12,450.8           |
| Restricted                    | 417.3                          | 402.6             | 1,116.0                         | 1,235.5            | 1,533.3            | 1,638.1            |
| Unrestricted                  | <u>2,690.3</u>                 | <u>2,514.3</u>    | <u>3,596.5</u>                  | <u>4,032.1</u>     | <u>6,286.8</u>     | <u>6,546.4</u>     |
| <b>Total net assets</b>       | <u>\$ 5,777.6</u>              | <u>\$ 5,722.5</u> | <u>\$ 14,246.8</u>              | <u>\$ 14,912.8</u> | <u>\$ 20,024.4</u> | <u>\$ 20,635.3</u> |

The net assets categories of the governmental activities, including investments in capital assets, and restricted and unrestricted net assets have remained relatively unchanged compared to the prior year.

The unrestricted net assets of the business-type activities decreased by approximately \$435 thousand, primarily due to a write off of uncollectible sewer assessments.

**Charter Township of Niles**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

*Condensed financial information*  
*Changes in net assets (in thousands)*

|                                    | <u>Governmental activities</u> |                | <u>Business-type activities</u> |                   | <u>Totals</u>     |                   |
|------------------------------------|--------------------------------|----------------|---------------------------------|-------------------|-------------------|-------------------|
|                                    | <u>2009</u>                    | <u>2008</u>    | <u>2009</u>                     | <u>2008</u>       | <u>2009</u>       | <u>2008</u>       |
| Program revenues:                  |                                |                |                                 |                   |                   |                   |
| Charges for services               | \$ 238.8                       | \$ 291.3       | \$ 1,515.4                      | \$ 1,527.1        | \$ 1,754.2        | \$ 1,818.4        |
| Operating grants                   | 17.4                           | 12.9           | -                               | -                 | 17.4              | 12.9              |
| Capital grants                     | -                              | -              | (418.3)                         | -                 | (418.3)           | -                 |
| General revenues:                  |                                |                |                                 |                   |                   |                   |
| Property taxes                     | 1,755.8                        | 1,354.2        | -                               | -                 | 1,755.8           | 1,354.2           |
| State grants                       | 852.9                          | 988.0          | -                               | -                 | 852.9             | 988.0             |
| Franchise fees                     | 63.3                           | 57.4           | -                               | -                 | 63.3              | 57.4              |
| Investment income                  | 19.5                           | 86.2           | 106.8                           | 183.2             | 126.3             | 269.4             |
| Gain on sale of assets             | 7.6                            | -              | -                               | -                 | 7.6               | -                 |
| Total revenues                     | <u>2,955.3</u>                 | <u>2,790.0</u> | <u>1,203.9</u>                  | <u>1,710.3</u>    | <u>4,159.2</u>    | <u>4,500.3</u>    |
| Expenses:                          |                                |                |                                 |                   |                   |                   |
| Legislative                        | 51.3                           | 49.1           | -                               | -                 | 51.3              | 49.1              |
| General government                 | 538.0                          | 536.1          | -                               | -                 | 538.0             | 536.1             |
| Public safety                      | 2,081.2                        | 1,907.0        | -                               | -                 | 2,081.2           | 1,907.0           |
| Public works                       | 89.8                           | 96.8           | 1,796.9                         | 1,797.5           | 1,886.7           | 1,894.3           |
| Recreation and culture             | 88.7                           | 80.7           | -                               | -                 | 88.7              | 80.7              |
| Community and economic development | 51.3                           | 62.0           | -                               | -                 | 51.3              | 62.0              |
| Interest on debt                   | -                              | -              | 72.9                            | 79.1              | 72.9              | 79.1              |
| Total expenses                     | <u>2,900.3</u>                 | <u>2,731.7</u> | <u>1,869.8</u>                  | <u>1,876.6</u>    | <u>4,770.1</u>    | <u>4,608.3</u>    |
| Increase (decrease) in net assets  | <u>\$ 55.0</u>                 | <u>\$ 58.3</u> | <u>\$ (665.9)</u>               | <u>\$ (166.3)</u> | <u>\$ (610.9)</u> | <u>\$ (108.0)</u> |

The changes in net assets of the governmental activities were comparable to the prior year, with nominal increases in total revenues and expenses in 2009 compared to 2008.

The negative capital grant in the business-type activities reflects the sewer assessment write-off referred to above.

*Charter Township of Niles*  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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**FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS**

At December 31, 2009, the Township's governmental funds reported a combined fund balance of \$3.1 million.

Expenditures in the General Fund for 2009 exceeded revenue by \$36 thousand, less than 1% of the total.

The fund balance in the Fire Operating Fund increased \$36 thousand. The fund balance at the end of 2009 was \$282 thousand.

The fund deficit in the Fire Equipment Fund decreased by \$234 thousand, as taxes raised exceeded expenditures for the year. The cumulative deficit is \$688 thousand at the end of 2009.

The combined fund balances for all other governmental funds decreased by \$15 thousand and totaled approximately \$798 thousand at the end of 2009.

The Sewer and Water funds experienced operating losses of \$221 thousand and \$60 thousand, respectively, reflecting primarily the non-cash charges for depreciation not covered by service charges and comparatively larger water system maintenance costs in 2009. Sewer operating revenues increased slightly. Water revenues decreased, reflecting reimbursements that were received in the prior year only. In total, Sewer Fund net assets decreased \$579 thousand, while the Water Fund net assets decreased by \$87 thousand, as the Sewer Fund assessment write-off, and Water Fund interest expense exceeded interest earned on investments by \$358 thousand and \$26 thousand, respectively.

**General Fund budgetary highlights**

There was no change in total appropriations between the original and final General Fund budget adopted by the Township Board. Budget amendments within and among categories were nominal and were made to reflect anticipated 2009 expenditures.

Revenue totals, including decreases in state grants, permits, and interest, were \$236 thousand less than budgeted, reflecting current economic conditions, but were offset in a large part by decreases in planned expenditures in several categories. The net negative budget variance was \$74 thousand, compared to a \$39 thousand budgeted increase.

**Capital assets and debt administration**

*Capital assets*

Through December 31, 2009, the Township has invested \$13.7 million in various capital assets, including its land, buildings, equipment, and sewer and water systems.

This year's major capital asset additions included a \$76 thousand sewer extension.

*Long-term debt*

At the end of the fiscal year, the Township had \$1.5 million Water Fund bonds outstanding. No new debt was issued during the year.

Other long-term obligations consisted of a liability for compensated absences of \$13 thousand.

**Charter Township of Niles**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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**Economic condition and outlook**

About \$2.7 million is available for appropriation in the General Fund. Expenditures are expected to change by small amounts compared to 2009. 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 2010, the Township plans to use current revenues to provide essential services in order to maintain the Township's financial reserves. All local units of government in the State of Michigan have experienced reductions in state-shared sales tax revenue and investment income. Property tax revenues are also expected to decline by a small amount because of current negative economic conditions. 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 and operational capabilities of the Township.

**Contacting the Township's financial management**

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 money it receives. Questions regarding any information provided in this report or request for additional financial information should be addressed to:

James Kidwell, Supervisor  
Charter Township of Niles  
320 Bell Road  
Niles, MI 49120

Phone: (269) 684-0870

## INDEPENDENT AUDITORS' REPORT

**Board of Trustees  
Charter Township of Niles, Michigan**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Niles, Michigan, as of December 31, 2009, and for the year then ended, which collectively comprise the Township's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis, budgetary comparison information, and schedule of funding progress, as listed in the contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees  
Charter Township of Niles, Michigan  
Page 2

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 fund financial statements, as listed in the contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Charter Township of Niles, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Sigfried Crandall P.C.*

June 1, 2010

## **BASIC FINANCIAL STATEMENTS**

*Charter Township of Niles*  
**STATEMENT OF NET ASSETS**  
*December 31, 2009*

|   | <u>Governmental<br/>activities</u> | <u>Business-type<br/>activities</u> | <u>Totals</u>        |
|---|------------------------------------|-------------------------------------|----------------------|
| <b>ASSETS</b>                                   |                                    |                                     |                      |
| Current assets:                                 |                                    |                                     |                      |
| Cash  | \$ 3,139,774                       | \$ 3,012,719                        | \$ 6,152,493         |
| Investments                                     | 503,736                            | 199,598                             | 703,334              |
| Receivables, net                                | 1,307,652                          | 585,944                             | 1,893,596            |
| Prepaid items                                   | 108,208                            | 16,774                              | 124,982              |
| Interfund balances                              | <u>(7,320)</u>                     | <u>7,320</u>                        | <u>-</u>             |
| Total current assets                            | <u>5,052,050</u>                   | <u>3,822,355</u>                    | <u>8,874,405</u>     |
| Noncurrent assets:                              |                                    |                                     |                      |
| Receivables, noncurrent                         | -                                  | 969,500                             | 969,500              |
| Deferred charges                                | -                                  | 29,245                              | 29,245               |
| Capital assets not being depreciated - land     | 97,158                             | 32,009                              | 129,167              |
| Capital assets, net of accumulated depreciation | <u>2,572,806</u>                   | <u>11,036,879</u>                   | <u>13,609,685</u>    |
| Total noncurrent assets                         | <u>2,669,964</u>                   | <u>12,067,633</u>                   | <u>14,737,597</u>    |
| Total assets                                    | <u>7,722,014</u>                   | <u>15,889,988</u>                   | <u>23,612,002</u>    |
| <b>LIABILITIES</b>                              |                                    |                                     |                      |
| Current liabilities:                            |                                    |                                     |                      |
| Payables  | 31,543                             | 108,591                             | 140,134              |
| Deferred revenue                                | 1,899,772                          | -                                   | 1,899,772            |
| Current portion of long-term obligations        | <u>-</u>                           | <u>125,000</u>                      | <u>125,000</u>       |
| Total current liabilities                       | 1,931,315                          | 233,591                             | 2,164,906            |
| Long-term debt                                  | <u>13,100</u>                      | <u>1,409,560</u>                    | <u>1,422,660</u>     |
| Total liabilities                               | <u>1,944,415</u>                   | <u>1,643,151</u>                    | <u>3,587,566</u>     |
| <b>NET ASSETS</b>                               |                                    |                                     |                      |
| Invested in capital assets, net of related debt | 2,669,964                          | 9,534,328                           | 12,204,292           |
| Restricted:                                     |                                    |                                     |                      |
| Debt service                                    | -                                  | 1,116,010                           | 1,116,010            |
| Cemetery  | 5,735                              | -                                   | 5,735                |
| Public safety                                   | 269,179                            | -                                   | 269,179              |
| Public works                                    | 142,455                            | -                                   | 142,455              |
| Unrestricted                                    | <u>2,690,266</u>                   | <u>3,596,499</u>                    | <u>6,286,765</u>     |
| Total net assets                                | <u>\$ 5,777,599</u>                | <u>\$ 14,246,837</u>                | <u>\$ 20,024,436</u> |

See notes to the financial statements

**Charter Township of Niles**  
**STATEMENT OF ACTIVITIES**  
Year ended December 31, 2009

|                                    | <u>Program revenues</u> |                             |   |
|------------------------------------|-------------------------|-----------------------------|---|
|                                    | <u>Expenses</u>         | <u>Charges for services</u> | <u>Operating grants and contributions</u> |
| <b>Functions/Programs</b>          |                         |                             |   |
| Governmental activities:           |                         |                             |   |
| Legislative                        | \$ 51,267               | \$ -                        | \$ -                                      |
| General government                 | 537,989                 | 20,824                      | -   |
| Public safety                      | 2,081,192               | 144,295                     | 7,376                                     |
| Public works                       | 89,824                  | 62,117                      | 10,014                                    |
| Recreation and culture             | 88,737                  | 4,455                       | -   |
| Community and economic development | <u>51,290</u>           | <u>7,150</u>                | <u>-</u>                                  |
| Total governmental activities      | <u>2,900,299</u>        | <u>238,841</u>              | <u>17,390</u>                             |
| Business-type activities:          |                         |                             |   |
| Sewer                              | 1,587,054               | 1,366,005                   | -   |
| Water                              | <u>282,821</u>          | <u>149,407</u>              | <u>-</u>                                  |
| Total business-type activities     | <u>1,869,875</u>        | <u>1,515,412</u>            | <u>-</u>                                  |
| Totals                             | <u>\$ 4,770,174</u>     | <u>\$ 1,754,253</u>         | <u>\$ 17,390</u>                          |

General revenues:  
Property taxes  
State grants  
Franchise fees  
Investment return  
Gain on sale of assets

Total general revenues

Changes in net assets

Net assets - beginning

Net assets - ending

| <u>Program<br/>revenues</u>                     | <u>Net (expenses) revenues and changes in net assets</u> |                                     |               |
|---|--|-------------------------------------|---------------|
| <u>Capital<br/>grants and<br/>contributions</u> | <u>Governmental<br/>activities</u>                       | <u>Business-type<br/>activities</u> | <u>Totals</u> |
| \$ -  | \$ (51,267)  |                                     | \$ (51,267)   |
| -   | (517,165)  |                                     | (517,165)     |
| -   | (1,929,521)  |                                     | (1,929,521)   |
| -   | (17,693)   |                                     | (17,693)      |
| -   | (84,282)   |                                     | (84,282)      |
| -   | (44,140)   |                                     | (44,140)      |
| -   | (2,644,068)  |                                     | (2,644,068)   |
| -   | -  | \$ (221,049)                        | (221,049)     |
| (418,329)                                       | -  | (551,743)                           | (551,743)     |
| (418,329)                                       | -  | (772,792)                           | (772,792)     |
| \$ (418,329)                                    | (2,644,068)  | (772,792)                           | (3,416,860)   |
|   | 1,755,818  | -                                   | 1,755,818     |
|   | 852,851  | -                                   | 852,851       |
|   | 63,337   | -                                   | 63,337        |
|   | 19,508   | 106,867                             | 126,375       |
|   | 7,639  | -                                   | 7,639         |
|   | 2,699,153  | 106,867                             | 2,806,020     |
|   | 55,085   | (665,925)                           | (610,840)     |
|   | 5,722,514  | 14,912,762                          | 20,635,276    |
| \$  | 5,777,599  | \$ 14,246,837                       | \$ 20,024,436 |

See notes to financial statements

Charter Township of Niles  
**BALANCE SHEET - governmental funds**  
 December 31, 2009

|   | <u>General</u>      | <u>Fire<br/>Operating</u> | <u>Fire<br/>Equipment</u> |
|---|---------------------|---------------------------|---------------------------|
| <b>ASSETS</b>                               |                     |                           |                           |
| Cash  | \$ 1,217,653        | \$ 624,479                | \$ 482,759                |
| Investments                                 | 447,622             | 28                        | 5,830                     |
| Receivables, net                            | 581,507             | 502,891                   | 201,145                   |
| Due from other funds                        | 1,063,436           | 14,857                    | -                         |
| Prepaid expenditures                        | <u>74,908</u>       | <u>-</u>                  | <u>-</u>                  |
| Total assets                                | <u>\$ 3,385,126</u> | <u>\$ 1,142,255</u>       | <u>\$ 689,734</u>         |
| <b>LIABILITIES AND FUND BALANCES</b>        |                     |                           |                           |
| Liabilities:                                |                     |                           |                           |
| Payables                                    | \$ 20,494           | \$ 3,691                  | \$ 482                    |
| Due to other funds                          | -                   | -                         | 1,040,246                 |
| Deferred revenue                            | <u>673,464</u>      | <u>856,285</u>            | <u>337,134</u>            |
| Total liabilities                           | <u>693,958</u>      | <u>859,976</u>            | <u>1,377,862</u>          |
| Fund balances:                              |                     |                           |                           |
| Unreserved, undesignated                    | 1,650,922           | 282,279                   | (688,128)                 |
| Reserved                                    | 1,040,246           | -                         | -                         |
| Unreserved, undesignated of nonmajor funds: |                     |                           |                           |
| Special revenue                             | -                   | -                         | -                         |
| Capital project                             | <u>-</u>            | <u>-</u>                  | <u>-</u>                  |
| Total fund balances (deficit)               | <u>2,691,168</u>    | <u>282,279</u>            | <u>(688,128)</u>          |
| Total liabilities and fund balances         | <u>\$ 3,385,126</u> | <u>\$ 1,142,255</u>       | <u>\$ 689,734</u>         |

Total fund balances

Amounts reported for *governmental activities* in the statement of net assets (page 5) are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds.

Prepaid items requiring the use of current financial resources are expenditures in the funds.

Certain assets are not considered available financial resources and are deferred in the funds.

Compensated absences do not require current financial resources and are not included in the funds.

Net assets of governmental activities

| <u>Other<br/>governmental<br/>funds</u> | <u>Total<br/>governmental<br/>funds</u> |
|---|---|
| \$ 777,544                              | \$ 3,102,435                            |
| 50,256                                  | 503,736                                 |
| 22,109                                  | 1,307,652                               |
| 59,504                                  | 1,137,797                               |
| -                                       | 74,908                                  |
| \$ 909,413                              | \$ 6,126,528                            |

|          |           |
|----------|-----------|
| \$ 3,145 | \$ 27,812 |
| 71,263   | 1,111,509 |
| 36,995   | 1,903,878 |
| 111,403  | 3,043,199 |

|         |           |
|---------|-----------|
| -       | 1,245,073 |
| -       | 1,040,246 |
| 598,281 | 598,281   |
| 199,729 | 199,729   |
| 798,010 | 3,083,329 |

|            |              |
|------------|--------------|
| \$ 909,413 | \$ 6,126,528 |
|            | \$ 3,083,329 |

|              |
|--------------|
| 2,669,964    |
| 33,300       |
| 4,106        |
| (13,100)     |
| \$ 5,777,599 |

*Charter Township of Niles*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**

**BALANCES - governmental funds**

*Year ended December 31, 2009*

|  | <u>General</u>      | <u>Fire<br/>Operating</u> | <u>Fire<br/>Equipment</u> |
|--|---------------------|---------------------------|---------------------------|
| <b>REVENUES</b>  |                     |                           |                           |
| Taxes  | \$ 663,897          | \$ 793,453                | \$ 317,358                |
| State grants   | 862,865             | -                         | -                         |
| Fines and forfeitures  | 6,761               | -                         | -                         |
| Licenses and permits   | 169,520             | -                         | -                         |
| Charges for services   | 39,910              | 40,207                    | -                         |
| Interest and rentals   | 51,642              | 5,087                     | 3,435                     |
| Other  | 9,411               | 6,321                     | 8,084                     |
|  | <u>1,804,006</u>    | <u>845,068</u>            | <u>328,877</u>            |
| Total revenues   |                     |                           |                           |
| <b>EXPENDITURES</b>  |                     |                           |                           |
| Legislative  | 51,267              | -                         | -                         |
| General government   | 510,853             | -                         | 1,555                     |
| Public safety  | 1,083,497           | 809,110                   | -                         |
| Public works   | 46,327              | -                         | -                         |
| Recreation and culture                                       | 80,080              | -                         | -                         |
| Community and economic development                           | 51,290              | -                         | -                         |
| Capital outlay   | 16,605              | -                         | 51,319                    |
| Interest   | -                   | -                         | 42,450                    |
|  | <u>1,839,919</u>    | <u>809,110</u>            | <u>95,324</u>             |
| Total expenditures   |                     |                           |                           |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES</b> | (35,913)            | 35,958                    | 233,553                   |
| <b>FUND BALANCES - BEGINNING</b>                             | <u>2,727,081</u>    | <u>246,321</u>            | <u>(921,681)</u>          |
| <b>FUND BALANCES - ENDING</b>                                | <u>\$ 2,691,168</u> | <u>\$ 282,279</u>         | <u>\$ (688,128)</u>       |

| <u>Other<br/>governmental<br/>funds</u> | <u>Total<br/>governmental<br/>funds</u> |
|---|---|
| \$ -                                    | \$ 1,774,708                            |
| -                                       | 862,865                                 |
| -                                       | 6,761                                   |
| -                                       | 169,520                                 |
| -                                       | 80,117                                  |
| 4,044                                   | 64,208                                  |
| <u>42,818</u>                           | <u>66,634</u>                           |
| <br>                                    |   |
| <u>46,862</u>                           | <u>3,024,813</u>                        |
| <br>                                    |   |
| -                                       | 51,267                                  |
| -                                       | 512,408                                 |
| -                                       | 1,892,607                               |
| 38,046                                  | 84,373                                  |
| -                                       | 80,080                                  |
| -                                       | 51,290                                  |
| 23,735                                  | 91,659                                  |
| <u>-</u>                                | <u>42,450</u>                           |
| <br>                                    |   |
| <u>61,781</u>                           | <u>2,806,134</u>                        |
| <br>                                    |   |
| (14,919)                                | 218,679                                 |
| <br>                                    |   |
| <u>812,929</u>                          | <u>2,864,650</u>                        |
| <br>                                    |   |
| <u>\$ 798,010</u>                       | <u>\$ 3,083,329</u>                     |

See notes to the financial statements

**Charter Township of Niles**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES - governmental funds (Continued)**  
Year ended December 31, 2009

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|  |                  |
|--|------------------|
| Net change in fund balances - total governmental funds (page 8)  | \$ 218,679       |
| Amounts reported for <i>governmental activities</i> in the statement of activities (page 6) are different because: |                  |
| Capital assets:  |                  |
| Additions  | 44,836           |
| Provision for depreciation   | (180,033)        |
| Net book value of assets sold  | (445)            |
| Change in deferred revenue   | (14,052)         |
| Change in prepaid expense  | (800)            |
| Change in compensated absences   | <u>(13,100)</u>  |
| Change in net assets of <i>governmental activities</i>   | <u>\$ 55,085</u> |

See notes to the financial statements

Charter Township of Niles  
**STATEMENT OF NET ASSETS - proprietary funds**  
December 31, 2009

|   | <i>Business-type activities</i> |                     |                      | <i>Governmental activities</i> |
|---|---------------------------------|---------------------|----------------------|--------------------------------|
|   | <i>Enterprise funds</i>         |                     |                      | <i>Internal service</i>        |
|   | <i>Sewer</i>                    | <i>Water</i>        | <i>Totals</i>        |                                |
| <b>ASSETS</b>                                   |                                 |                     |                      |                                |
| Current assets:                                 |                                 |                     |                      |                                |
| Cash  | \$ 2,173,932                    | \$ 838,787          | \$ 3,012,719         | \$ 37,339                      |
| Investments                                     | 164,168                         | 35,430              | 199,598              | -                              |
| Receivables                                     | 413,556                         | 172,388             | 585,944              | -                              |
| Due from other funds                            | 476,662                         | 578                 | 477,240              | -                              |
| Prepaid expenses                                | 15,774                          | 1,000               | 16,774               | -                              |
| Total current assets                            | <u>3,244,092</u>                | <u>1,048,183</u>    | <u>4,292,275</u>     | <u>37,339</u>                  |
| Noncurrent assets:                              |                                 |                     |                      |                                |
| Receivables, noncurrent                         | -                               | 969,500             | 969,500              | -                              |
| Deferred charges                                | -                               | 29,245              | 29,245               | -                              |
| Capital assets, net of accumulated depreciation | <u>7,769,629</u>                | <u>3,299,259</u>    | <u>11,068,888</u>    | <u>-</u>                       |
| Total noncurrent assets                         | <u>7,769,629</u>                | <u>4,298,004</u>    | <u>12,067,633</u>    | <u>-</u>                       |
| Total assets                                    | <u>11,013,721</u>               | <u>5,346,187</u>    | <u>16,359,908</u>    | <u>37,339</u>                  |
| <b>LIABILITIES</b>                              |                                 |                     |                      |                                |
| Current liabilities:                            |                                 |                     |                      |                                |
| Payables  | 96,051                          | 12,540              | 108,591              | 3,731                          |
| Due to other funds                              | -                               | 469,920             | 469,920              | 33,608                         |
| Total current liabilities                       | 96,051                          | 482,460             | 578,511              | 37,339                         |
| Long-term debt                                  | -                               | 1,534,560           | 1,534,560            | -                              |
| Total liabilities                               | <u>96,051</u>                   | <u>2,017,020</u>    | <u>2,113,071</u>     | <u>37,339</u>                  |
| <b>NET ASSETS</b>                               |                                 |                     |                      |                                |
| Invested in capital assets                      | 7,769,629                       | 1,764,699           | 9,534,328            | -                              |
| Restricted for debt service                     | -                               | 1,116,010           | 1,116,010            | -                              |
| Unrestricted                                    | <u>3,148,041</u>                | <u>448,458</u>      | <u>3,596,499</u>     | <u>-</u>                       |
| Total net assets                                | <u>\$ 10,917,670</u>            | <u>\$ 3,329,167</u> | <u>\$ 14,246,837</u> | <u>\$ -</u>                    |

See notes to the financial statements

Charter Township of Niles  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET  
ASSETS - proprietary funds**  
Year ended December 31, 2009

|   | <i>Business-type activities</i> |                     |                      | <i>Governmental activities</i> |
|---|---------------------------------|---------------------|----------------------|--------------------------------|
|   | <i>Enterprise funds</i>         |                     |                      | <i>Internal service</i>        |
|   | <i>Sewer</i>                    | <i>Water</i>        | <i>Totals</i>        |                                |
| <b>OPERATING REVENUES</b>               |                                 |                     |                      |                                |
| Charges for services                    | \$ 1,336,636                    | \$ 140,478          | \$ 1,477,114         | \$ 20,570                      |
| Other                                   | 29,369                          | 8,929               | 38,298               | -                              |
| Total operating revenues                | <u>1,366,005</u>                | <u>149,407</u>      | <u>1,515,412</u>     | <u>20,570</u>                  |
| <b>OPERATING EXPENSES</b>               |                                 |                     |                      |                                |
| Contracted services                     | 1,016,540                       | 19,922              | 1,036,462            | -                              |
| Personnel costs                         | 271,072                         | 38,391              | 309,463              | -                              |
| Operations and supplies                 | 84,755                          | 56,416              | 141,171              | -                              |
| Depreciation                            | 214,687                         | 95,126              | 309,813              | -                              |
| Employee benefits                       | -                               | -                   | -                    | 20,894                         |
| Total operating expenses                | <u>1,587,054</u>                | <u>209,855</u>      | <u>1,796,909</u>     | <u>20,894</u>                  |
| <b>OPERATING LOSS</b>                   | <u>(221,049)</u>                | <u>(60,448)</u>     | <u>(281,497)</u>     | <u>(324)</u>                   |
| <b>NONOPERATING REVENUES (EXPENSES)</b> |                                 |                     |                      |                                |
| Assessment write-off - uncollectible    | (418,329)                       | -                   | (418,329)            | -                              |
| Interest income                         | 60,195                          | 68,821              | 129,016              | 324                            |
| Interest expense                        | -                               | (95,115)            | (95,115)             | -                              |
| Net nonoperating revenues (expenses)    | <u>(358,134)</u>                | <u>(26,294)</u>     | <u>(384,428)</u>     | <u>324</u>                     |
| <b>CHANGES IN NET ASSETS</b>            | <u>(579,183)</u>                | <u>(86,742)</u>     | <u>(665,925)</u>     | <u>-</u>                       |
| <b>NET ASSETS - BEGINNING</b>           | <u>11,496,853</u>               | <u>3,415,909</u>    | <u>14,912,762</u>    | <u>-</u>                       |
| <b>NET ASSETS - ENDING</b>              | <u>\$ 10,917,670</u>            | <u>\$ 3,329,167</u> | <u>\$ 14,246,837</u> | <u>\$ -</u>                    |

See notes to the financial statements

Charter Township of Niles  
**STATEMENT OF CASH FLOWS -proprietary funds**  
Year ended December 31, 2009

|   | <i>Business-type activities</i> |                   |                     | <i>Governmental activities</i> |
|---|---------------------------------|-------------------|---------------------|--------------------------------|
|   | <i>Enterprise funds</i>         |                   |                     | <i>Internal service</i>        |
|   | <i>Sewer</i>                    | <i>Water</i>      | <i>Totals</i>       |                                |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |                                 |                   |                     |                                |
| Receipts from customers   | \$ 1,371,014                    | \$ 147,596        | \$ 1,518,610        | \$ 3,428                       |
| Payments to vendors and suppliers                               | (1,147,808)                     | (89,898)          | (1,237,706)         | -                              |
| Payments to employees   | (271,072)                       | (38,391)          | (309,463)           | -                              |
| Payments of healthcare claims                                   | -                               | -                 | -                   | (19,566)                       |
| Net cash provided by (used in) operating activities             | <u>(47,866)</u>                 | <u>19,307</u>     | <u>(28,559)</u>     | <u>(16,138)</u>                |
| <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>         |                                 |                   |                     |                                |
| Increase (decrease) in interfund balances                       | <u>26,087</u>                   | <u>(48,236)</u>   | <u>(22,149)</u>     | <u>-</u>                       |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b> |                                 |                   |                     |                                |
| Collections on special assessments                              | 1,857                           | 180,601           | 182,458             | -                              |
| Acquisition of capital assets                                   | (75,810)                        | -                 | (75,810)            | -                              |
| Payment on long-term debt                                       | -                               | (125,000)         | (125,000)           | -                              |
| Interest paid   | -                               | (66,865)          | (66,865)            | -                              |
| Net cash used in capital and related financing activities       | <u>(73,953)</u>                 | <u>(11,264)</u>   | <u>(85,217)</u>     | <u>-</u>                       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                                 |                   |                     |                                |
| Sale of investments   | 896,289                         | 398,743           | 1,295,032           | -                              |
| Interest and dividends  | <u>59,961</u>                   | <u>8,517</u>      | <u>68,478</u>       | <u>324</u>                     |
| Net cash provided by investing activities                       | <u>956,250</u>                  | <u>407,260</u>    | <u>1,363,510</u>    | <u>324</u>                     |
| <b>NET INCREASE (DECREASE) IN CASH</b>                          | 860,518                         | 367,067           | 1,227,585           | (15,814)                       |
| <b>CASH - BEGINNING</b>   | <u>1,313,414</u>                | <u>471,720</u>    | <u>1,785,134</u>    | <u>63,153</u>                  |
| <b>CASH - ENDING</b>  | <u>\$ 2,173,932</u>             | <u>\$ 838,787</u> | <u>\$ 3,012,719</u> | <u>\$ 37,339</u>               |

See notes to the financial statements

Charter Township of Niles  
**STATEMENT OF CASH FLOWS -proprietary funds (Continued)**  
Year ended December 31, 2009

|   | <u>Business-type activities</u> |                  |                    | <u>Governmental activities</u> |
|---|---------------------------------|------------------|--------------------|--------------------------------|
|   | <u>Enterprise funds</u>         |                  |                    | <u>Internal service</u>        |
|   | <u>Sewer</u>                    | <u>Water</u>     | <u>Totals</u>      |                                |
| Reconciliation of operating loss to net cash provided by (used in) operating activities:        |                                 |                  |                    |                                |
| Operating loss  | \$ (221,049)                    | \$ (60,448)      | \$ (281,497)       | \$ (324)                       |
| Adjustments to reconcile operating loss to net cash provided by (used in) operating activities: |                                 |                  |                    |                                |
| Depreciation  | 214,687                         | 95,126           | 309,813            | -                              |
| (Increase) decrease in:   |                                 |                  |                    |                                |
| Receivables, net  | 5,008                           | (1,811)          | 3,197              | -                              |
| Due from other funds  | 3,740                           | -                | 3,740              | -                              |
| Prepaid expense   | (15,774)                        | -                | (15,774)           | -                              |
| Increase (decrease) in:   |                                 |                  |                    |                                |
| Payables  | (34,478)                        | (13,560)         | (48,038)           | 2,881                          |
| Due to other funds  | -                               | -                | -                  | (18,695)                       |
| Net cash provided by (used in) operating activities   | <u>\$ (47,866)</u>              | <u>\$ 19,307</u> | <u>\$ (28,559)</u> | <u>\$ (16,138)</u>             |

See notes to the financial statements

*Charter Township of Niles*  
**STATEMENT OF FIDUCIARY NET ASSETS**  
*December 31, 2009*

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|   | <u>Employee<br/>retirement<br/>plans</u> | <u>Agency<br/>funds</u> |
|---|--|-------------------------|
| <b>ASSETS</b>                                 |  |                         |
| Cash  | \$ 132,502                               | \$ 1,011,995            |
| Investments                                   | 4,337,638                                | -                       |
| Accrued interest                              | <u>18,213</u>                            | <u>-</u>                |
| Total assets                                  | <u>4,488,353</u>                         | <u>1,011,995</u>        |
| <b>LIABILITIES</b>                            |  |                         |
| Payables                                      | 3,717                                    | \$ -                    |
| Due to other governmental units               | -  | 929,174                 |
| Due to others                                 | <u>-</u>                                 | <u>82,821</u>           |
| Total liabilities                             | <u>3,717</u>                             | <u>\$ 1,011,995</u>     |
| <b>NET ASSETS</b>                             |  |                         |
| Held in trust for employees' pension benefits | <u>\$ 4,484,636</u>                      |                         |

*See notes to the financial statements*

*Charter Township of Niles*  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
*Year ended December 31, 2009*

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|   | <u><i>Employee<br/>retirement<br/>plans</i></u> |
|---|---|
| <b>ADDITIONS</b>                                      |   |
| Contributions:  |   |
| Employer  | \$ 148,589                                      |
| Participants  | <u>69,014</u>                                   |
| Total contributions                                   | 217,603   |
| Investment return                                     | <u>581,758</u>                                  |
| Total additions                                       | 799,361   |
| <b>DEDUCTIONS</b>                                     |   |
| Benefits paid   | <u>420,435</u>                                  |
| <b>NET INCREASE</b>                                   | 378,926   |
| <b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:</b> |   |
| Beginning   | <u>4,105,710</u>                                |
| Ending  | <u>\$ 4,484,636</u>                             |

See notes to financial statements

**Charter Township of Niles**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Charter Township of Niles, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

*a) Reporting entity:*

The Township is governed by an elected board of trustees. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements 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.

*b) Government-wide and fund financial statements:*

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Township. The effect of all interfund activity has been removed from these statements. Governmental activities, normally 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 revenue.

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

*c) 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

**Charter Township of Niles**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

*c) Measurement focus, basis of accounting, and financial statement presentation (continued):*

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 if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, 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 only when cash is received by the Township.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund.

The Fire Operating Fund accounts for special voted taxes levied to support operating costs of fire protection and response services.

The Fire Equipment Fund accounts for special voted taxes levied to finance capital outlays used in operating costs of fire protection and response services.

The Township 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 Township reports the following fund types:

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

*Charter Township of Niles*  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

*c) Measurement focus, basis of accounting, and financial statement presentation (continued):*

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

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The Township has elected not to follow subsequent private-sector standards.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

*d) Assets, liabilities, and net assets or equity:*

*i) Bank deposits* - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

*ii) Investments* - Investments are stated at fair market value. 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 assets.

*iii) Receivables and payables* - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are considered to be fully collectible.

**Charter Township of Niles**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

*d) Assets, liabilities, and net assets or equity (continued):*

*iv) 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, other than infrastructure, are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

|                                    |               |
|------------------------------------|---------------|
| Buildings and improvements         | 15 - 50 years |
| Furniture, fixtures, and equipment | 5 - 15 years  |
| Vehicles                           | 5 - 15 years  |
| Infrastructure                     | 20 years      |
| Sewer and water systems            | 40 - 75 years |

*v) Compensated absences (vacation and sick leave)* - It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. However, such benefits must be used within ninety (90) days of year end. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the Township. Vested compensated absences are accrued when earned in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

*vi) Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

*vii) 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.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

*Budgetary information* - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, department, and line-item. The legal level of budgetary control adopted by the governing body is the activity level. Amounts encumbered for purchase orders, contracts, etc., are tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. There were no significant negative expenditure budget variances.

**Charter Township of Niles**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued):**

*Deficit equity position* - As of December 31, 2009, the Township reported a deficit in the Fire Equipment Fund of \$921,681, which arose from the use of a temporary advance from the General Fund to partially finance a new fire station. The Township intends for the fund to repay the advance over the next three years using a special voted tax.

**NOTE 3 - CASH AND INVESTMENTS:**

A reconciliation of cash and investments to the Township's deposits and investments, as shown in the government-wide financial statements and in the statement of fiduciary net assets, is as follows:

|              | <u>Govern-<br/>mental<br/>activities</u> | <u>Business-<br/>type<br/>activities</u> | <u>Fiduciary net assets</u>              |                         |                      |
|--------------|--|--|--|-------------------------|----------------------|
|              |  |  | <u>Employee<br/>retirement<br/>plans</u> | <u>Agency<br/>funds</u> | <u>Totals</u>        |
| Cash         | \$ 3,139,774                             | \$ 3,012,719                             | \$ 132,502                               | \$ 1,011,995            | \$ 7,296,990         |
| Investments  | <u>503,736</u>                           | <u>199,598</u>                           | <u>4,337,638</u>                         | <u>-</u>                | <u>5,040,972</u>     |
|              | <u>\$ 3,643,510</u>                      | <u>\$ 3,212,317</u>                      | <u>\$ 4,470,140</u>                      | <u>\$ 1,011,995</u>     | <u>\$ 12,337,962</u> |
| Deposits     |  |  |  |                         | \$ 7,296,490         |
| Cash on hand |  |  |  |                         | 500                  |
| Investments  |  |  |  |                         | <u>5,040,972</u>     |
|              |  |  |  |                         | <u>\$ 12,337,962</u> |

*a) Deposits:*

Deposits are carried at cost and are maintained at various financial institutions in the name of the Township. Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Township's deposits are in accordance with statutory authority.

Custodial credit risk of deposits is the risk that, in the event of the failure of a depository financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance or are uncollateralized. As of December 31, 2009, \$4,506,699 of the Township's bank balances of \$7,032,168 was exposed to custodial credit risk because it was uninsured. Of the total bank balances, \$6,031,573 was maintained with one financial institution. The Township does not have a policy that addresses custodial credit risk for deposits.

*b) Investments:*

State statutes authorize the Township to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper, within three (3) highest rate classifications by at least two (2) national rating services, maturing not later than 270 days; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; and e) mutual funds holding investments allowable by state statute.

**Charter Township of Niles**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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NOTE 3 - CASH AND INVESTMENTS (Continued):

*b) Investments (continued):*

State statutes authorize defined benefit plan trusts to invest not more than 65% in common stocks and no more than 5% in real estate holdings. Participant directed defined contribution plans are not subject to limitations as to the nature and extent of holdings. Investments as of December 31, 2009, consist of the following (reported at fair value):

|  |                  |
|--|------------------|
| Governmental and business-type activities:       |                  |
| Michigan CLASS                                   | \$ 702,933       |
| U.S. government agencies                         | <u>401</u>       |
| Total governmental and business-type investments | <u>703,334</u>   |
| Pension trust funds:                             |                  |
| Police and Fire Pension Trust Fund:              |                  |
| Pooled equity funds:                             |                  |
| Fidelity Contra Fund #022                        | 493,229          |
| Wasatch First Source Income Equity Fund          | 378,014          |
| Other funds                                      | <u>699,594</u>   |
| Total pooled equity funds                        | <u>1,570,837</u> |
| Government agencies and treasuries:              |                  |
| U.S. agencies                                    | 810,116          |
| U.S. treasuries                                  | 353,967          |
| Other municipalities                             | <u>5,185</u>     |
| Total government agencies and treasuries         | <u>1,169,267</u> |
| Corporate debt securities                        | <u>377,638</u>   |
| Pooled fixed income funds                        | <u>157,440</u>   |
| Money market fund                                | <u>87,860</u>    |
| Equities   | <u>19,775</u>    |
| Total Police and Fire Pension Trust Fund         | 3,382,817        |
| General Government Pension Trust Fund:           |                  |
| Pooled separate accounts with insurance company  | <u>954,821</u>   |
| Total investments of pension trust funds         | <u>4,337,638</u> |
| Total investments                                | \$ 5,040,972     |

**Charter Township of Niles**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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NOTE 3 - CASH AND INVESTMENTS (Continued):

*b) Investments (continued):*

Risks related to investments:

The Township has not established an investment policy that addresses interest rate risk, credit risk, concentration of credit risk, or custodial credit risk, as described below.

Interest rate risk:

Of the Township's holdings, the U.S. treasuries, U.S. agencies, municipal, and corporate debt securities holdings are subject to interest rate risk disclosure. As of December 31, 2009, \$113,468 is due within one year, \$955,596 is due within two to ten years, and \$477,841 is due in more than ten years.

Credit risk:

The Township's investment holdings in U.S. agencies and corporate debt securities had the following Standard and Poor's credit risk ratings:

|                                 | <u>Fair value</u> | <u>Rating</u> |
|---------------------------------|-------------------|---------------|
| U.S. agencies                   | \$ <u>810,516</u> | AAA           |
| Municipal debt securities       | \$ <u>5,185</u>   | AAA           |
| Corporate debt securities:      |                   |               |
|                                 | \$ 71,934         | AAA           |
|                                 | 65,739            | AA            |
|                                 | 139,995           | A             |
|                                 | <u>99,970</u>     | BBB           |
| Total corporate debt securities | \$ <u>377,638</u> |               |

Custodial credit risk:

Of the Township's investment holdings, U.S. treasuries, U.S. agencies, and corporate debt holdings are subject to custodial credit risk disclosure and are uninsured, unregistered, and held by the Township's brokerage firm. Investments in mutual funds are not subject to custodial credit risk.

**Charter Township of Niles**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 4 - RECEIVABLES:**

Receivables as of year end for the Township's individual major and nonmajor funds, in the aggregate, are as follows. All amounts shown are considered fully collectible.

|                             | <u>Taxes</u>               | <u>Accounts</u>          | <u>Inter-<br/>govern-<br/>mental</u> | <u>Special<br/>assess-<br/>ments</u> | <u>Totals</u>              |
|-----------------------------|----------------------------|--------------------------|--------------------------------------|--------------------------------------|----------------------------|
| Governmental funds:         |                            |                          |                                      |                                      |                            |
| General                     | \$ 415,099                 | \$ 16,419                | \$ 149,989                           | \$ -                                 | \$ 581,507                 |
| Fire Operating              | 502,891                    | -                        | -                                    | -                                    | 502,891                    |
| Fire Equipment              | 201,145                    | -                        | -                                    | -                                    | 201,145                    |
| Other governmental funds    | -                          | -                        | -                                    | 22,109                               | 22,109                     |
| <b>Totals</b>               | <b><u>\$ 1,119,135</u></b> | <b><u>\$ 16,419</u></b>  | <b><u>\$ 149,989</u></b>             | <b><u>\$ 22,109</u></b>              | <b><u>\$ 1,307,652</u></b> |
| Proprietary funds:          |                            |                          |                                      |                                      |                            |
| Sewer                       | \$ -                       | \$ 410,886               | \$ -                                 | \$ 2,670                             | \$ 413,556                 |
| Water                       | -                          | 15,188                   | -                                    | 1,126,700                            | 1,141,888                  |
| <b>Totals</b>               | <b><u>\$ -</u></b>         | <b><u>\$ 426,074</u></b> | <b><u>\$ -</u></b>                   | <b><u>\$ 1,129,370</u></b>           | <b><u>\$ 1,555,444</u></b> |
| Amounts due beyond one year | <u>\$ -</u>                | <u>\$ -</u>              | <u>\$ -</u>                          | <u>\$ 969,500</u>                    | <u>\$ 969,500</u>          |

**Charter Township of Niles**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 5 - CAPITAL ASSETS:**

Capital asset activity of the Township for the current year was as follows:

|  | <i>Beginning<br/>balance</i> | <i>Increases</i>    | <i>Decreases</i> | <i>Ending<br/>balance</i> |
|--|------------------------------|---------------------|------------------|---------------------------|
| Governmental activities:                     |                              |                     |                  |                           |
| Capital assets not being depreciated - land  | \$ 97,158                    | \$ -                | \$ -             | \$ 97,158                 |
| Capital assets being depreciated:            |                              |                     |                  |                           |
| Buildings                                    | 2,803,685                    | 6,589               | -                | 2,810,274                 |
| Vehicles                                     | 988,520                      | -                   | -                | 988,520                   |
| Equipment                                    | 495,015                      | 38,247              | (13,360)         | 519,902                   |
| Streets                                      | 87,276                       | -                   | -                | 87,276                    |
| Subtotal                                     | <u>4,374,496</u>             | <u>44,836</u>       | <u>(13,360)</u>  | <u>4,405,972</u>          |
| Less accumulated depreciation for:           |                              |                     |                  |                           |
| Buildings                                    | (1,033,925)                  | (44,095)            | -                | (1,078,020)               |
| Vehicles                                     | (383,108)                    | (70,407)            | -                | (453,515)                 |
| Equipment                                    | (238,941)                    | (61,167)            | 12,915           | (287,193)                 |
| Streets                                      | (10,074)                     | (4,364)             | -                | (14,438)                  |
| Subtotal                                     | <u>(1,666,048)</u>           | <u>(180,033)</u>    | <u>12,915</u>    | <u>(1,833,166)</u>        |
| Total capital assets being depreciated, net  | <u>2,708,448</u>             | <u>(135,197)</u>    | <u>(445)</u>     | <u>2,572,806</u>          |
| Governmental activities capital assets, net  | <u>\$ 2,805,606</u>          | <u>\$ (135,197)</u> | <u>\$ (445)</u>  | <u>\$ 2,669,964</u>       |
| Business-type activities:                    |                              |                     |                  |                           |
| Capital assets not being depreciated - land  | \$ 32,009                    | \$ -                | \$ -             | \$ 32,009                 |
| Capital assets being depreciated:            |                              |                     |                  |                           |
| Sewer system                                 | 13,949,288                   | 75,810              | -                | 14,025,098                |
| Water system                                 | 4,565,768                    | -                   | -                | 4,565,768                 |
| Subtotal                                     | <u>18,515,056</u>            | <u>75,810</u>       | <u>-</u>         | <u>18,590,866</u>         |
| Less accumulated depreciation for:           |                              |                     |                  |                           |
| Sewer system                                 | (6,042,932)                  | (214,687)           | -                | (6,257,619)               |
| Water system                                 | (1,201,242)                  | (95,126)            | -                | (1,296,368)               |
| Subtotal                                     | <u>(7,244,174)</u>           | <u>(309,813)</u>    | <u>-</u>         | <u>(7,553,987)</u>        |
| Total capital assets being depreciated, net  | <u>11,270,882</u>            | <u>(234,003)</u>    | <u>-</u>         | <u>11,036,879</u>         |
| Business-type activities capital assets, net | <u>\$ 11,302,891</u>         | <u>\$ (234,003)</u> | <u>\$ -</u>      | <u>\$ 11,068,888</u>      |

**Charter Township of Niles**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 5 - CAPITAL ASSETS (Continued):**

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

|                        |                   |
|------------------------|-------------------|
| General government     | \$ 26,629         |
| Public safety          | 139,496           |
| Public works           | 5,451             |
| Recreation and culture | <u>8,457</u>      |
|                        | <u>\$ 180,033</u> |

**NOTE 6 - PAYABLES:**

Payables as of year end for the Township's individual major and nonmajor funds, in the aggregate, are as follows.

|                          | <u>Accounts</u>  | <u>Health claims</u> | <u>Interest</u>  | <u>Totals</u>     |
|--------------------------|------------------|----------------------|------------------|-------------------|
| Governmental funds:      |                  |                      |                  |                   |
| General                  | \$ 20,494        | \$ -                 | \$ -             | \$ 20,494         |
| Fire Operating           | 3,691            | -                    | -                | 3,691             |
| Fire Equipment           | 482              | -                    | -                | 482               |
| Other governmental funds | <u>3,145</u>     | <u>-</u>             | <u>-</u>         | <u>3,145</u>      |
| Totals                   | <u>\$ 27,812</u> | <u>\$ -</u>          | <u>\$ -</u>      | <u>\$ 27,812</u>  |
| Business-type funds:     |                  |                      |                  |                   |
| Sewer                    | \$ 96,051        | \$ -                 | \$ -             | \$ 96,051         |
| Water                    | <u>1,850</u>     | <u>-</u>             | <u>10,690</u>    | <u>12,540</u>     |
| Totals                   | <u>\$ 97,901</u> | <u>\$ -</u>          | <u>\$ 10,690</u> | <u>\$ 108,591</u> |
| Internal service fund    | <u>\$ 126</u>    | <u>\$ 3,605</u>      | <u>\$ -</u>      | <u>\$ 3,731</u>   |

**NOTE 7- DEFERRED REVENUE:**

Governmental funds report deferred revenues in connection with assets that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenues are as follows:

|                     | <u>Unearned</u>     | <u>Unavailable</u> | <u>Total</u>       |
|---------------------|---------------------|--------------------|--------------------|
| Property taxes      | \$ 1,866,883        | \$ -               | \$1,866,883        |
| Special assessments | <u>32,889</u>       | <u>4,106</u>       | <u>36,995</u>      |
|                     | <u>\$ 1,899,772</u> | <u>\$ 4,106</u>    | <u>\$1,903,878</u> |

*Charter Township of Niles*  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 8 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:**

The composition of interfund balances as of December 31, 2009, is as follows:

| <u>Fund</u>              | <u>Interfund<br/>receivable</u> | <u>Fund</u>              | <u>Interfund<br/>payable</u> |
|--------------------------|---------------------------------|--------------------------|------------------------------|
| General                  | \$ 1,063,436                    | Fire Equipment           | \$ 1,040,246                 |
|                          |                                 | Other governmental funds | 10,226                       |
|                          |                                 | Health Claims            | <u>12,964</u>                |
|                          |                                 |                          | <u>1,063,436</u>             |
| Fire Operating           | 14,857                          | Other governmental funds | 1,533                        |
|                          |                                 | Health Claims            | <u>13,324</u>                |
|                          |                                 |                          | <u>14,857</u>                |
| Other governmental funds | 59,504                          | Other governmental funds | <u>59,504</u>                |
| Sewer                    | 476,662                         | Water                    | 469,920                      |
|                          |                                 | Health Claims            | <u>6,742</u>                 |
|                          |                                 |                          | <u>476,662</u>               |
| Water                    | <u>578</u>                      | Health Claims            | <u>578</u>                   |
|                          | <u>\$ 1,615,037</u>             |                          | <u>\$ 1,615,037</u>          |

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

The Fire Equipment Fund is repaying an advance from the General Fund (currently \$1,040,246) as resources become available, with interest at 4.0%.

The Water Fund is repaying an advance from the Sewer Fund (currently, \$432,961) in annual installments of \$24,846, including interest at 5.0%, through September 2021.

**Charter Township of Niles**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 9 - LONG-TERM DEBT:**

Governmental long-term debt consists of vested compensated absences.

Business-type long-term debt consists of 2007 \$1,795,000 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.

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

|                           | <u>Beginning<br/>balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending<br/>balance</u> |
|---------------------------|------------------------------|------------------|-------------------|---------------------------|
| Governmental activities:  |                              |                  |                   |                           |
| Compensated absences      | \$ -                         | \$ 18,000        | \$ 4,900          | \$ 13,100                 |
| Business-type activities: |                              |                  |                   |                           |
| 2006 Water Fund bonds     | \$ 1,670,000                 | \$ -             | \$ 125,000        | \$ 1,545,000              |
| Less discount             | <u>(12,264)</u>              | <u>-</u>         | <u>(1,824)</u>    | <u>(10,440)</u>           |
|                           | <u>\$ 1,657,736</u>          | <u>\$ -</u>      | <u>\$ 123,176</u> | <u>\$ 1,534,560</u>       |

Future bond debt requirements at December 31, 2009, are as follows:

| <u>Period</u> | <u>Principal</u>    | <u>Interest</u>   |
|---------------|---------------------|-------------------|
| 2010          | \$ 125,000          | \$ 61,640         |
| 2011          | 125,000             | 56,640            |
| 2012          | 125,000             | 51,640            |
| 2013          | 130,000             | 46,540            |
| 2014          | 130,000             | 41,340            |
| 2015 - 2019   | 650,000             | 124,638           |
| 2020 - 2021   | <u>260,000</u>      | <u>11,147</u>     |
|               | <u>\$ 1,545,000</u> | <u>\$ 393,585</u> |

**NOTE 10 - RETIREMENT PLANS:**

*a) Police and Fire Pension Plan:*

*i) 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.

**Charter Township of Niles**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 10 - RETIREMENT PLANS (Continued):

a) *Police and Fire Pension Plan (continued):*

ii) *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, 2009, member contributions totaled \$30,947. The Township is required to contribute at an actuarially determined rate (currently 19.9% of annual covered payroll). The Township's annual pension cost for the year ended December 31, 2009, was \$96,607.

iii) *Annual pension cost and three-year trend information*

The annual required contribution was determined as part of the April 1, 2007, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a) 7.5% investment rate of return and b) projected payroll increases of 5.0%. The actuarial value of assets is based on current fair value. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open period of 15 years.

| <i>Three-year trend information</i> |                                  |                                      |                               |
|-------------------------------------|----------------------------------|--------------------------------------|-------------------------------|
| <i>Year ended</i>                   | <i>Annual pension cost (APC)</i> | <i>Percentage of APC contributed</i> | <i>Net pension obligation</i> |
| 12/31/2007                          | \$ 67,833                        | 100%                                 | \$ -                          |
| 12/31/2008                          | \$ 78,512                        | 100%                                 | \$ -                          |
| 12/31/2009                          | \$ 96,607                        | 100%                                 | \$ -                          |

iv) *Funded status and funding progress:*

The funded status of the plan for the most recent actuarial valuation date is as follows:

| <i>Actuarial Valuation date, December 31,</i> | <i>Actuarial value of assets (a)</i> | <i>Actuarial accrued liability (AAL) entry age (b)</i> | <i>Unfunded AAL (b-a)</i> | <i>Funded ratio (a/b)</i> | <i>Covered payroll (c)</i> | <i>UAAL as a percentage of covered payroll ((b-a)/c)</i> |
|---|--------------------------------------|--|---------------------------|---------------------------|----------------------------|--|
| 2008  | \$ 3,785,657                         | \$ 5,001,460   | \$ 1,215,803              | 76%                       | \$ 421,277                 | 289%   |

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.

Certain other accounting policies and plan asset matters are discussed in greater detail in the Township's actuarial valuation.

**Charter Township of Niles**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 10 - RETIREMENT PLANS (Continued):**

*a) Police and Fire Pension Plan (continued):*

*iv) Funded status and funding progress (continued):*

Effective with the actuarial valuation as of December 31, 2008, the Township adopted the following changes in actuarial assumptions:

- The valuation date was changed from April 1 to December 31.
- The amortization of the unfunded accrued liability was changed from a level dollar amortization over an open period of 15 years to a level percent of payroll amortization over a closed 30-year period.
- The asset valuation method was changed from market value to a 5-year smoothing of investment gains and losses.

*b) 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 \$51,982 and \$38,067, respectively, for the year ended December 31, 2009.

**NOTE 11 - 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 12 - BUILDING INSPECTION ACTIVITIES:**

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

|                                      |                     |
|--------------------------------------|---------------------|
| Revenues                             | \$ 97,832           |
| Expenses                             | <u>198,518</u>      |
| Deficiency of revenues over expenses | <u>\$ (100,686)</u> |

**Charter Township of Niles**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 13 - PROPERTY TAXES:**

The 2009 taxable valuation of the Township totaled \$339,605,634, on which ad valorem taxes levied consisted of the following:

| <u>Fund</u>    | <u>Millage rate</u> | <u>Purpose</u>           | <u>Taxes raised</u> |
|----------------|---------------------|--------------------------|---------------------|
| General        | 0.8712              | General operations       | \$ 314,030          |
| Police         | 0.9978              | Public safety operations | 359,434             |
| Fire Operating | 2.5000              | Public safety operations | 856,285             |
| Fire Equipment | 1.0000              | Capital outlays          | 337,134             |

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

**NOTE 14 - PRIOR PERIOD ADJUSTMENTS:**

In 2009, the Township recorded prior period adjustments in its General Fund and governmental activities to correct the method of recognizing prepaid amounts for contractual public safety services, as follows:

|  | <u>General Fund</u> | <u>Governmental Activities</u> |
|--|---------------------|--------------------------------|
| Fund balance/net assets - beginning of year:       |                     |                                |
| As previously reported                             | \$ 2,662,483        | \$ 5,657,916                   |
| Prior period adjustment to record prepaid contract | <u>64,598</u>       | <u>64,598</u>                  |
| As restated  | <u>\$ 2,727,081</u> | <u>\$ 5,722,514</u>            |

**REQUIRED SUPPLEMENTARY INFORMATION**

**Charter Township of Niles**  
**BUDGETARY COMPARISON SCHEDULE - General Fund**  
Year ended December 31, 2009

|                                 | <u>Original<br/>budget</u> | <u>Final<br/>budget</u> | <u>Actual</u>    | <u>Variance<br/>with final<br/>budget<br/>positive<br/>(negative)</u> |
|---------------------------------|----------------------------|-------------------------|------------------|---|
| <b>REVENUES</b>                 |                            |                         |                  |   |
| Taxes                           | \$ 665,606                 | \$ 665,606              | \$ 663,897       | \$ (1,709)  |
| State grants                    | 1,005,045                  | 1,005,045               | 862,865          | (142,180)   |
| Fines and forfeitures           | 5,200                      | 5,200                   | 6,761            | 1,561   |
| Licenses and permits            | 220,400                    | 220,400                 | 169,520          | (50,880)  |
| Charges for services            | 40,752                     | 40,752                  | 39,910           | (842)   |
| Interest and rentals            | 97,900                     | 97,900                  | 51,642           | (46,258)  |
| Other                           | 5,600                      | 5,600                   | 9,411            | 3,811   |
| <b>Total revenues</b>           | <u>2,040,503</u>           | <u>2,040,503</u>        | <u>1,804,006</u> | <u>(236,497)</u>  |
| <b>EXPENDITURES</b>             |                            |                         |                  |   |
| Legislative                     | <u>48,340</u>              | <u>48,340</u>           | <u>51,267</u>    | <u>(2,927)</u>  |
| General government:             |                            |                         |                  |   |
| Supervisor                      | 27,782                     | 31,331                  | 32,013           | (682)   |
| Elections                       | 15,495                     | 15,495                  | 6,767            | 8,728   |
| Assessor                        | 90,084                     | 90,084                  | 86,095           | 3,989   |
| Clerk                           | 84,980                     | 84,980                  | 84,181           | 799   |
| Board of Review                 | 1,400                      | 1,400                   | 699              | 701   |
| Treasurer                       | 115,481                    | 115,481                 | 113,205          | 2,276   |
| Building and grounds            | 151,289                    | 151,289                 | 139,295          | 11,994  |
| Other                           | 62,100                     | 62,900                  | 48,598           | 14,302  |
| <b>Total general government</b> | <u>548,611</u>             | <u>552,960</u>          | <u>510,853</u>   | <u>42,107</u>   |
| Public safety:                  |                            |                         |                  |   |
| Police protection               | 844,075                    | 869,043                 | 858,073          | 10,970  |
| Building inspection             | 217,306                    | 217,306                 | 198,518          | 18,788  |
| Ordinance enforcement           | 22,938                     | 29,087                  | 26,906           | 2,181   |
| <b>Total public safety</b>      | <u>1,084,319</u>           | <u>1,115,436</u>        | <u>1,083,497</u> | <u>31,939</u>   |
| Public works:                   |                            |                         |                  |   |
| Highways and streets            | 89,260                     | 89,260                  | 42,256           | 47,004  |
| Street lighting                 | 2,700                      | 2,700                   | 2,639            | 61  |
| Drains                          | 4,150                      | 4,150                   | 1,432            | 2,718   |
| <b>Total public works</b>       | <u>96,110</u>              | <u>96,110</u>           | <u>46,327</u>    | <u>49,783</u>   |

Charter Township of Niles  
**BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**  
Year ended December 31, 2009

|  | <u>Original<br/>budget</u> | <u>Final<br/>budget</u> | <u>Actual</u>       | <i>Variance<br/>with final<br/>budget<br/>positive<br/>(negative)</i> |
|--|----------------------------|-------------------------|---------------------|---|
| <b>EXPENDITURES (Continued)</b>                              |                            |                         |                     |   |
| Recreation and culture                                       | \$ 88,250                  | \$ 88,250               | \$ 80,080           | \$ 8,170  |
| Community and economic development:                          |                            |                         |                     |   |
| Planning and zoning  | 69,460                     | 48,575                  | 37,989              | 10,586  |
| Community development  | <u>23,900</u>              | <u>23,900</u>           | <u>13,301</u>       | <u>10,599</u>   |
| Total community and<br>economic development                  | <u>93,360</u>              | <u>72,475</u>           | <u>51,290</u>       | <u>21,185</u>   |
| Capital outlay   | <u>42,934</u>              | <u>28,353</u>           | <u>16,605</u>       | <u>11,748</u>   |
| Total expenditures   | <u>2,001,924</u>           | <u>2,001,924</u>        | <u>1,839,919</u>    | <u>162,005</u>  |
| <b>(EXCESS) DEFICIENCY OF REVENUES<br/>OVER EXPENDITURES</b> | 38,579                     | 38,579                  | (35,913)            | (74,492)  |
| <b>FUND BALANCES - BEGINNING</b>                             | <u>2,727,081</u>           | <u>2,727,081</u>        | <u>2,727,081</u>    | <u>-</u>  |
| <b>FUND BALANCES - ENDING</b>                                | <u>\$ 2,765,660</u>        | <u>\$ 2,765,660</u>     | <u>\$ 2,691,168</u> | <u>\$ (74,492)</u>  |

Charter Township of Niles  
**BUDGETARY COMPARISON SCHEDULE - Fire Operating Fund**  
Year ended December 31, 2009

|   | <u>Original<br/>budget</u> | <u>Final<br/>budget</u> | <u>Actual</u>     | <i>Variance<br/>with final<br/>budget<br/>positive<br/>(negative)</i> |
|---|----------------------------|-------------------------|-------------------|---|
| <b>REVENUES</b>                                 |                            |                         |                   |   |
| Taxes   | \$ 796,000                 | \$ 796,000              | \$ 793,453        | \$ (2,547)  |
| Charges for services                            | 52,000                     | 52,000                  | 40,207            | (11,793)  |
| Interest and rentals                            | 17,500                     | 17,500                  | 5,087             | (12,413)  |
| Other   | 8,000                      | 8,000                   | 6,321             | (1,679)   |
| Total revenues                                  | 873,500                    | 873,500                 | 845,068           | (28,432)  |
| <b>EXPENDITURES</b>                             |                            |                         |                   |   |
| Public safety                                   | <u>852,623</u>             | <u>852,623</u>          | <u>809,110</u>    | <u>43,513</u>   |
| <b>EXCESS OF REVENUES OVER<br/>EXPENDITURES</b> | 20,877                     | 20,877                  | 35,958            | 15,081  |
| <b>FUND BALANCES - BEGINNING</b>                | <u>246,321</u>             | <u>246,321</u>          | <u>246,321</u>    | <u>-</u>  |
| <b>FUND BALANCES - ENDING</b>                   | <u>\$ 267,198</u>          | <u>\$ 267,198</u>       | <u>\$ 282,279</u> | <u>\$ 15,081</u>  |

Charter Township of Niles  
**BUDGETARY COMPARISON SCHEDULE - Fire Equipment Fund**  
Year ended December 31, 2009

|   | <u>Original<br/>budget</u> | <u>Final<br/>budget</u> | <u>Actual</u>       | <u>Variance<br/>with final<br/>budget<br/>positive<br/>(negative)</u> |
|---|----------------------------|-------------------------|---------------------|---|
| <b>REVENUES</b>                                 |                            |                         |                     |   |
| Taxes   | \$ 318,500                 | \$ 318,500              | \$ 317,358          | \$ (1,142)  |
| Interest and rentals                            | 12,000                     | 12,000                  | 3,435               | (8,565)   |
| Other   | -                          | -                       | 8,084               | 8,084   |
| Total revenues                                  | <u>330,500</u>             | <u>330,500</u>          | <u>328,877</u>      | <u>(1,623)</u>  |
| <b>EXPENDITURES</b>                             |                            |                         |                     |   |
| General government                              | 950                        | 950                     | 1,555               | (605)   |
| Capital outlay                                  | 75,700                     | 75,700                  | 51,319              | 24,381  |
| Interest  | 47,400                     | 47,400                  | 42,450              | 4,950   |
| Total expenditures                              | <u>124,050</u>             | <u>124,050</u>          | <u>95,324</u>       | <u>28,726</u>   |
| <b>EXCESS OF REVENUES OVER<br/>EXPENDITURES</b> | 206,450                    | 206,450                 | 233,553             | 27,103  |
| <b>FUND DEFICIT - BEGINNING</b>                 | <u>(921,681)</u>           | <u>(921,681)</u>        | <u>(921,681)</u>    | <u>-</u>  |
| <b>FUND DEFICIT - ENDING</b>                    | <u>\$ (715,231)</u>        | <u>\$ (715,231)</u>     | <u>\$ (688,128)</u> | <u>\$ 27,103</u>  |

**Charter Township of Niles**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedule of Funding Progress for Police and Fire Pension Plan**

| <i>Actuarial valuation date</i> | <i>Actuarial value of assets (a)</i> | <i>Actuarial Accrued Liability (AAL) - Entry age (b)</i> | <i>Unfunded AAL (UAAL) (b-a)</i> | <i>Funded ratio (a/b)</i> | <i>Covered payroll (c)</i> | <i>UAAL as a percentage of covered payroll (b-a)/c</i> |
|---------------------------------|--------------------------------------|--|----------------------------------|---------------------------|----------------------------|--|
| <i>April 1,</i>                 |                                      |  |                                  |                           |                            |  |
| 1992                            | \$ 1,913,611                         | \$ 2,148,405   | \$ 234,794                       | 89.1%                     | \$ 503,378                 | 47%  |
| 1997                            | 2,671,899                            | 2,805,804  | 133,905                          | 95.2%                     | 526,516                    | 25%  |
| 1999                            | 3,320,380                            | 3,086,346  | (234,034)                        | 107.6%                    | 553,940                    | -42%   |
| 2001                            | 3,468,445                            | 3,485,349  | 16,904                           | 99.5%                     | 583,909                    | 3%   |
| 2003                            | 3,127,745                            | 3,642,748  | 515,003                          | 85.9%                     | 424,622                    | 121%   |
| 2005                            | 3,556,256                            | 4,020,181  | 463,925                          | 88.5%                     | 552,423                    | 84%  |
| 2007                            | 3,767,251                            | 4,245,129  | 477,878                          | 88.7%                     | 419,120                    | 114%   |
| <i>December 31,</i>             |                                      |  |                                  |                           |                            |  |
| 2008                            | 3,785,657                            | 5,001,460  | 1,215,803                        | 75.7%                     | 421,277                    | 289%   |

## **SUPPLEMENTARY INFORMATION**

**Charter Township of Niles**  
**COMBINING BALANCE SHEET - other governmental funds**  
 December 31, 2009

|   | <u>Special revenue funds</u>    |                                  |                               |
|---|---------------------------------|----------------------------------|-------------------------------|
|   | <u>Budget<br/>Stabilization</u> | <u>Revolving<br/>Improvement</u> | <u>Special<br/>Assessment</u> |
| <b>ASSETS</b>                               |                                 |                                  |                               |
| Cash  | \$ 128,879                      | \$ 82,498                        | \$ 217,417                    |
| Investments                                 | 12,564                          | -                                | -                             |
| Receivables, net                            | -                               | -                                | 22,109                        |
| Due from other funds                        | -                               | -                                | -                             |
| Total assets                                | <u>\$ 141,443</u>               | <u>\$ 82,498</u>                 | <u>\$ 239,526</u>             |
| <b>LIABILITIES AND FUND BALANCES</b>        |                                 |                                  |                               |
| Liabilities:                                |                                 |                                  |                               |
| Payables                                    | \$ -                            | \$ -                             | \$ 3,145                      |
| Due to other funds                          | 10,226                          | -                                | 61,037                        |
| Deferred revenue                            | -                               | -                                | 36,995                        |
| Total liabilities                           | 10,226                          | -                                | 101,177                       |
| Fund balances - unreserved,<br>undesignated | <u>131,217</u>                  | <u>82,498</u>                    | <u>138,349</u>                |
| Total liabilities and<br>fund balances      | <u>\$ 141,443</u>               | <u>\$ 82,498</u>                 | <u>\$ 239,526</u>             |

| <u>Special revenue funds</u> |                   |                             |                                       |
|------------------------------|-------------------|-----------------------------|---------------------------------------|
| <u>Financing</u>             | <u>Totals</u>     | <u>Capital project fund</u> | <u>Total other governmental funds</u> |
| \$ 167,867                   | \$ 596,661        | \$ 180,883                  | \$ 777,544                            |
| 18,846                       | 31,410            | 18,846                      | 50,256                                |
| -                            | 22,109            | -                           | 22,109                                |
| <u>59,504</u>                | <u>59,504</u>     | <u>-</u>                    | <u>59,504</u>                         |
| <u>\$ 246,217</u>            | <u>\$ 709,684</u> | <u>\$ 199,729</u>           | <u>\$ 909,413</u>                     |
| <br>                         |                   |                             |                                       |
| \$ -                         | \$ 3,145          | \$ -                        | \$ 3,145                              |
| -                            | 71,263            | -                           | 71,263                                |
| -                            | 36,995            | -                           | 36,995                                |
| <u>-</u>                     | <u>111,403</u>    | <u>-</u>                    | <u>111,403</u>                        |
| <br>                         |                   |                             |                                       |
| <u>246,217</u>               | <u>598,281</u>    | <u>199,729</u>              | <u>798,010</u>                        |
| <br>                         |                   |                             |                                       |
| <u>\$ 246,217</u>            | <u>\$ 709,684</u> | <u>\$ 199,729</u>           | <u>\$ 909,413</u>                     |

Charter Township of Niles  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES - other governmental funds**  
 Year ended December 31, 2009

|  | <u>Special revenue funds</u>    |                                  |                               |
|--|---------------------------------|----------------------------------|-------------------------------|
|  | <u>Budget<br/>Stabilization</u> | <u>Revolving<br/>Improvement</u> | <u>Special<br/>Assessment</u> |
| <b>REVENUES</b>  |                                 |                                  |                               |
| Interest   | \$ 654                          | \$ 461                           | \$ 1,186                      |
| Other  | -                               | -                                | 42,818                        |
| Total revenues   | <u>654</u>                      | <u>461</u>                       | <u>44,004</u>                 |
| <b>EXPENDITURES</b>  |                                 |                                  |                               |
| Public works   | -                               | -                                | 38,046                        |
| Capital outlay   | -                               | -                                | -                             |
| Total expenditures   | <u>-</u>                        | <u>-</u>                         | <u>38,046</u>                 |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES</b> | 654                             | 461                              | 5,958                         |
| <b>FUND BALANCES - BEGINNING</b>                             | <u>130,563</u>                  | <u>82,037</u>                    | <u>132,391</u>                |
| <b>FUND BALANCES - ENDING</b>                                | <u>\$ 131,217</u>               | <u>\$ 82,498</u>                 | <u>\$ 138,349</u>             |

| <u>Special revenue funds</u> |                   |                             |                                       |
|------------------------------|-------------------|-----------------------------|---------------------------------------|
| <u>Financing</u>             | <u>Totals</u>     | <u>Capital project fund</u> | <u>Total other governmental funds</u> |
| \$ 783                       | \$ 3,084          | \$ 960                      | \$ 4,044                              |
| -                            | 42,818            | -                           | 42,818                                |
| <u>783</u>                   | <u>45,902</u>     | <u>960</u>                  | <u>46,862</u>                         |
| -                            | 38,046            | -                           | 38,046                                |
| -                            | -                 | 23,735                      | 23,735                                |
| <u>-</u>                     | <u>38,046</u>     | <u>23,735</u>               | <u>61,781</u>                         |
| 783                          | 7,856             | (22,775)                    | (14,919)                              |
| <u>245,434</u>               | <u>590,425</u>    | <u>222,504</u>              | <u>812,929</u>                        |
| <u>\$ 246,217</u>            | <u>\$ 598,281</u> | <u>\$ 199,729</u>           | <u>\$ 798,010</u>                     |

*Charter Township of Niles*

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS - *pension trust funds***

*December 31, 2009*

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|   | <u>General<br/>Government<br/>Pension Plan</u> | <u>Police<br/>and Fire<br/>Pension Plan</u> | <u>Totals</u>       |
|---|--|---|---------------------|
| <b>ASSETS</b>                                 |  |   |                     |
| Cash  | \$ 12,502                                      | \$ 120,000                                  | \$ 132,502          |
| Investments                                   | 954,821  | 3,382,817                                   | 4,337,638           |
| Interest receivable                           | <u>-</u>                                       | <u>18,213</u>                               | <u>18,213</u>       |
| Total assets                                  | 967,323  | 3,521,030                                   | 4,488,353           |
| <b>LIABILITIES</b>                            |  |   |                     |
| Payables                                      | <u>-</u>                                       | <u>3,717</u>                                | <u>3,717</u>        |
| <b>NET ASSETS</b>                             |  |   |                     |
| Held in trust for employees' pension benefits | <u>\$ 967,323</u>                              | <u>\$ 3,517,313</u>                         | <u>\$ 4,484,636</u> |

*Charter Township of Niles*  
**COMBINING STATEMENT OF CHANGES IN**  
**FIDUCIARY NET ASSETS - pension trust funds**  
*Year ended December 31, 2009*

|  | <u>General<br/>Government<br/>Pension Plan</u> | <u>Police<br/>and Fire<br/>Pension Plan</u> | <u>Totals</u>       |
|--|--|---|---------------------|
| <b>ADDITIONS</b>   |  |   |                     |
| Contributions:   |  |   |                     |
| Employer   | \$ 51,982                                      | \$ 96,607                                   | \$ 148,589          |
| Participants   | <u>38,067</u>                                  | <u>30,947</u>                               | <u>69,014</u>       |
| Total contributions                                      | 90,049   | 127,554                                     | 217,603             |
| Investment return  | <u>101,442</u>                                 | <u>480,316</u>                              | <u>581,758</u>      |
| Total additions  | 191,491  | 607,870                                     | 799,361             |
| <b>DEDUCTIONS</b>  |  |   |                     |
| Benefits paid  | <u>74,763</u>                                  | <u>345,672</u>                              | <u>420,435</u>      |
| <b>NET INCREASE</b>                                      | 116,728  | 262,198                                     | 378,926             |
| <b>NET ASSETS HELD IN TRUST FOR<br/>PENSION BENEFITS</b> |  |   |                     |
| Beginning  | <u>850,595</u>                                 | <u>3,255,115</u>                            | <u>4,105,710</u>    |
| Ending   | <u>\$ 967,323</u>                              | <u>\$ 3,517,313</u>                         | <u>\$ 4,484,636</u> |

*Charter Township of Niles*  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS - agency funds**  
*December 31, 2009*

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|                           | <u>Trust and<br/>Agency</u> | <u>Tax<br/>Collection</u> | <u>Totals</u>       |
|---------------------------|-----------------------------|---------------------------|---------------------|
| <b>ASSETS</b>             |                             |                           |                     |
| Cash                      | \$ 86,625                   | \$ 925,370                | \$ 1,011,995        |
| <br><b>LIABILITIES</b>    |                             |                           |                     |
| Due to governmental units | \$ 3,804                    | \$ 925,370                | \$ 929,174          |
| Due to others             | <u>82,821</u>               | <u>-</u>                  | <u>82,821</u>       |
|                           | <u>\$ 86,625</u>            | <u>\$ 925,370</u>         | <u>\$ 1,011,995</u> |

June 1, 2010

To the Board of Trustees  
Charter Township of Niles

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 for the year ended December 31, 2009, and have issued our report thereon dated June 1, 2010. Professional standards require that we provide you with the following information related to our audit.

***Our Responsibility under U.S. Generally Accepted Auditing Standards***

As stated in our engagement letter dated November 5, 2009, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Charter Township of Niles 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 2009. We noted no transactions entered into by the Charter Township of Niles during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Township's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

*Audit Adjustments*

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' 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 associated with the audit for the year ended December 31, 2009.

*Other 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 Charter Township of Niles's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

*Difficulties Encountered in Performing the Audit*

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

*Communication Regarding Internal Control*

In planning and performing our audit of the financial statements of the Charter Township of Niles as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Charter Township of Niles' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

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

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

The Township has not implemented a system of controls to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to achieve the objectives of recording revenue and expense accruals, the capitalization and depreciation of capital assets, and the presentation of financial statement disclosures. The Township has relied upon our firm as auditor to identify and develop material adjustments necessary to convert the Township's financial statements into full accrual financial statements and to prepare the financial statements and appropriate disclosures. This service is allowable under current auditing standards and ethical guidelines and may be the most efficient and effective method for preparation of the Township's financial statements. However, when an organization (on its own) lacks the ability to produce financial statements that conform to generally accepted accounting principles, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses. The Township has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so.

This communication is intended solely for the information and use of the Board of Trustees of the Charter Township of Niles and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Sigfried Crandall P.C.*