

**Carmel Township
Eaton County, Michigan**

FINANCIAL STATEMENTS

March 31, 2012

Carmel Township
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INDEPENDENT AUDITOR'S REPORT

To the Members of the Township Board
Carmel Township
Eaton County, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Carmel Township, Michigan as of and for the year ended March 31, 2012, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Carmel Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Carmel Township, Michigan, as of March 31, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

As discussed in Note E, during the year the Township implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. As a result of this implementation, fund balance classifications in the governmental fund financial statements have been changed to reflect the new classifications of fund balance under GASB Statement No. 54, as applicable.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 28, 2012

Carmel Township

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2012

The following is a discussion and analysis of Carmel Township's (the Township's) financial performance and position, providing an overview of the activities for the year ended March 31, 2012. This analysis should be read in conjunction with the Independent Auditor's Report and with the Township's financial statements, which follow this section. This discussion and analysis provides comparisons with the previous audited financial statements.

Financial Highlights

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

- State shared revenue increased approximately \$48,090 or approximately 30.0%.
- General Fund tax revenues increased by approximately \$16,978 from the prior audited financial statements.

Using this Annual Report

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

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of Carmel Township in more detail than the government-wide financial statements by providing information about the Township's General Fund.

The Township as a Whole

The following table shows, in a condensed format, the net assets as of March 31, 2012 and March 31, 2010.

	March 31,	
	2012	2010
Assets		
Current and other assets	\$ 1,802,081	\$ 1,632,743
Capital assets	72,123	54,367
Total assets	1,874,204	1,687,110
Liabilities		
Current liabilities	5,339	20,980
Net assets		
Invested in capital assets	72,123	54,367
Restricted	-	602,081
Unrestricted	1,796,742	1,009,682
Total net assets	\$ 1,868,865	\$ 1,666,130

The Township's net assets were \$1,868,865 at March 31, 2012. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$1,796,742.

Carmel Township

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2012

The following table shows the changes in net assets for the year ended March 31, 2012 and March 31, 2010.

	March 31,	
	<u>2012</u>	<u>2010</u>
Revenue		
Program revenues		
Charges for services	\$ 47,586	\$ 33,590
Operating grants and contributions	3,097	-
General revenues		
Property taxes	70,351	88,015
PA 425 agreement	6,156	-
State shared revenue	209,110	161,020
Investment earnings	11,998	32,181
Other	-	16,957
	<u>348,298</u>	<u>331,763</u>
Program Expenses		
General government	136,624	126,710
Public safety	55,551	73,240
Public works	30,541	29,366
Health and welfare	3,737	-
Recreation and culture	3,560	-
	<u>230,013</u>	<u>229,316</u>
Change in net assets	<u><u>\$ 118,285</u></u>	<u><u>\$ 102,447</u></u>

Governmental Activities

The Township's governmental revenues totaled \$348,298 with the greatest revenue source being state shared revenues which made up approximately 60 percent of total governmental revenue. The second largest revenue, property taxes, made up approximately 20 percent of total revenues.

The Township incurred expenses of \$230,013 during the year. The majority of expenses are associated with the general government and public safety functions, which includes various general governmental activities and fire protection services.

The Township Fund

The analysis of the Township's major fund begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the only fund of the Township, the General Fund. If/when necessary, the Carmel Township's Board of Trustees creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as property tax millages.

The General Fund pays for all of the Township's governmental services. The most significant services provided during the fiscal year were general governmental activities of \$135,251 and public safety activities of \$55,551 for the fiscal year. These activities are funded primarily through state shared revenues and property taxes.

Carmel Township

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2012

General Fund Budgetary Highlights

Over the course of the fiscal year, the Township Board made necessary budget adjustments to fund unanticipated expenditures during the year. The total expenditure budget had a favorable variance of \$65,859.

There were two amendments to the General Fund revenue and expenditure budget during the year.

Capital Assets

At the end of the fiscal year, the Township had approximately \$87,211 in historical cost in land, land improvements, Township equipment, and software. There was \$15,088 in accumulated depreciation on these assets with a resulting investment in capital assets (net book value) of \$72,123. See Note C in the financial statements for more details.

Current Economic Factors

Revenue sharing is the most significant budgetary concern at this time. The State of Michigan continues to experience significant budget problems, and as they look for solutions, revenue sharing continues to be under attack.

Contacting the Township's Management

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

BASIC FINANCIAL STATEMENTS

Carmel Township
STATEMENT OF NET ASSETS
March 31, 2012

	Governmental Activities
ASSETS	
Current assets	
Cash	\$ 481,804
Investments	1,312,776
Accounts receivable	2,346
Taxes receivable	5,155
Total current assets	1,802,081
Noncurrent assets	
Capital assets, net of accumulated depreciation	72,123
TOTAL ASSETS	1,874,204
LIABILITIES	
Current liabilities	
Accounts payable	4,072
Accrued liabilities	1,267
TOTAL LIABILITIES	5,339
NET ASSETS	
Invested in capital assets	72,123
Unrestricted	1,796,742
TOTAL NET ASSETS	\$ 1,868,865

See accompanying notes to financial statements.

Carmel Township

STATEMENT OF ACTIVITIES

Year Ended March 31, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
General government	\$ 136,624	\$ 43,586	\$ -	\$ (93,038)
Public safety	55,551	4,000	-	(51,551)
Public works	30,541	-	3,097	(27,444)
Health and welfare	3,737	-	-	(3,737)
Recreation and culture	3,560	-	-	(3,560)
Total governmental activities	<u>\$ 230,013</u>	<u>\$ 47,586</u>	<u>\$ 3,097</u>	(179,330)
General revenues:				
Taxes				70,351
PA 425 agreement				6,156
State revenue sharing				209,110
Investment earnings				<u>11,998</u>
Total general revenues				<u>297,615</u>
Change in net assets				118,285
Net assets, beginning of year				<u>1,750,580</u>
Net assets, end of the year				<u>\$ 1,868,865</u>

See accompanying notes to financial statements.

Carmel Township
 Governmental Fund
 BALANCE SHEET
 March 31, 2012

	General
ASSETS	
Cash	\$ 481,804
Investments	1,312,776
Accounts receivable	2,346
Taxes receivable	5,155
TOTAL ASSETS	\$ 1,802,081
 LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 4,072
Accrued liabilities	1,267
TOTAL LIABILITIES	5,339
 FUND BALANCE	
Committed to:	
Building	519,342
Roads	165,498
Public safety	13,251
Unassigned	1,098,651
TOTAL FUND BALANCE	1,796,742
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,802,081

Carmel Township

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

March 31, 2012

Total fund balance - governmental fund **\$ 1,796,742**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental fund.

The cost of capital assets is	\$ 87,211
Accumulated depreciation is	<u>(15,088)</u>

Capital assets, net	<u>72,123</u>
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Net assets of governmental activities **\$ 1,868,865**

Carmel Township

Governmental Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year Ended March 31, 2012

	<u>General</u>
REVENUES	
Taxes	\$ 104,993
Licenses and permits	4,098
Intergovernmental	212,207
Charges for services	14,618
Interest and rent	<u>12,382</u>
TOTAL REVENUES	348,298
EXPENDITURES	
Current	
General government	135,251
Public safety	55,551
Public works	30,541
Health and welfare	3,737
Recreation and culture	<u>3,560</u>
TOTAL EXPENDITURES	<u>228,640</u>
NET CHANGE IN FUND BALANCE	119,658
Fund balance, beginning of year	<u>1,677,084</u>
Fund balance, end of year	<u><u>\$ 1,796,742</u></u>

See accompanying notes to financial statements.

Carmel Township

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2012

Net change in fund balance - governmental fund **\$ 119,658**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in the governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, this amount is:

Capital outlay	\$ 2,485	
Depreciation expense	<u>(3,858)</u>	
Excess of depreciation expense over capital outlay		<u>(1,373)</u>

Change in net assets of governmental activities **\$ 118,285**

Carmel Township

NOTES TO FINANCIAL STATEMENTS

March 31, 2012

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township of Carmel, Michigan was organized as a Township under provisions of the constitution and general law of the State of Michigan. The Township is one of sixteen (16) townships in Eaton County. The Township operates under an elected Township Board which consists of a Supervisor, Clerk, Treasurer, and two trustees and provides services in many areas including fire protection, roads, and zoning.

The financial statements of the Township have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Township governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Township's more significant accounting policies are described below.

1. Reporting Entity

As required by generally accepted accounting principles in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 4*; these financial statements present all financial activities of the Township of Carmel. The Township has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Carmel Township contain all the funds controlled by the Township Board.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Township as a whole.

The statement of activities presents the direct functional expenses of the Township and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services that are restricted to meeting the operational requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes property taxes, interest, and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Township's individual major fund.

The Township reports the following major governmental fund:

- a. General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

NOTES TO FINANCIAL STATEMENTS

March 31, 2012

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Revenues for grants and contributions are recognized when all eligibility requirements imposed by the provider have been met. Unearned revenue is recorded in the government-wide statements when resources are received by the Township before it has legal claim to them, such as when program fees are received.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include state and federal grants and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

If/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.

5. Budgets and Budgetary Accounting

The General Fund budget shown in the required supplementary information of the financial statements was prepared on a basis not substantially different than the basis used to reflect actual results.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to April 1, the General Fund budget is legally adopted on a total fund level through passage of a Board resolution after a public hearing is held to obtain taxpayer comments. After the budget is adopted, all transfers of budgeted amounts between activities or any revisions that alter the total expenditures of the fund or activity must be approved by the Township Board.
- b. Formal budgetary integration is employed as a management control device during the year.
- c. The Township does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at March 31 are not carried forward to the following fiscal year.

Carmel Township

NOTES TO FINANCIAL STATEMENTS

March 31, 2012

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting - continued

d. Budgeted amounts are reported as originally adopted or amended by the Township Board during the year. Individual amendments were appropriately approved by the Township Board as required.

6. Cash and Investments

Cash consists of checking and savings accounts. Investments consist of certificates of deposit with an original maturity of greater than 90 days. Investments are recorded at market value.

7. Capital Assets

Capital assets are recorded net of accumulated depreciation in the government-wide financial statements. The Township does not have a formal policy in place establishing capitalization thresholds, etc. but in practice, capital assets are those material assets with an estimated useful life of more than one year. Capital acquisitions and construction are reflected as expenditures in the governmental fund, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Equipment	5 - 20 years
Land improvements	15 years
Software	3 years

8. Property Taxes

Carmel Township bills and collects both its own property tax levy and the tax levy for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are as follows:

The property taxes attach as an enforceable lien on property as of December 1. Taxes are levied December 1 and are payable through February 14. All property taxes not paid by February 14 are deemed delinquent. Delinquent real property taxes are turned over to the Eaton County Treasurer on March 1. The Eaton County Treasurer remits payment to all taxing units on all delinquent real property taxes. Delinquent personal property taxes are retained by the Township for subsequent collection. Property taxes are recognized as revenues in the period for which they are levied.

The Township is permitted to levy up to \$1 per \$1,000 of assessed valuation for general governmental service. For the year ended March 31, 2012, the Township levied 0.8359 mills per \$1,000 of assessed valuation for general governmental services. The total taxable value for the 2011 levy for property within the Township was \$85,408,007. This raised \$70,351 for general governmental services.

9. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

Carmel Township

NOTES TO FINANCIAL STATEMENTS

March 31, 2012

NOTE B: CASH AND INVESTMENTS

In accordance with Michigan Compiled Laws, Carmel Township is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2012, the carrying amount of the Township's deposits was \$1,794,580 and the bank balance was \$1,794,093, of which \$571,188 was covered by federal depository insurance. The remaining balance of \$1,222,905 was uninsured and uncollateralized.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of March 31, 2012, the Township did not have any accounts that would be subject to rating.

Interest rate risk

The Township has not adopted a policy that indicates how the Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of credit risk

The Township has not adopted a policy that indicates how the Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer.

Custodial credit risk

The Township has not adopted a policy that indicates how the Township will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

Carmel Township

NOTES TO FINANCIAL STATEMENTS

March 31, 2012

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2012 was as follows:

	Balance April 1, 2011	Additions	Deletions	Balance March 31, 2012
Governmental activities				
Capital assets not being depreciated				
Land	\$ 57,112	\$ -	\$ -	\$ 57,112
Capital assets being depreciated				
Land improvements	11,232	-	-	11,232
Equipment	13,920	2,485	-	16,405
Software	2,462	-	-	2,462
Total capital assets being depreciated	27,614	2,485	-0-	30,099
Less accumulated depreciation for:				
Land improvements	(3,587)	(630)	-	(4,217)
Equipment	(6,344)	(2,408)	-	(8,752)
Software	(1,299)	(820)	-	(2,119)
Total accumulated depreciation	(11,230)	(3,858)	-0-	(15,088)
Total capital assets being depreciated, net	16,384	(1,373)	-0-	15,011
Net capital assets	<u>\$ 73,496</u>	<u>\$ (1,373)</u>	<u>\$ -0-</u>	<u>\$ 72,123</u>

Depreciation expense of \$3,858 was allocated to the general government function on the statement of activities.

NOTE D: RISK MANAGEMENT

The Township is exposed to various risks of loss for liability, property, inland marine, crime, automobile, public officials' liability, and employer's liability for which the Township carries commercial insurance.

The Township also carries commercial insurance for the risk of loss due to workers' compensation claims.

NOTE E: DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS

In February 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated and unreserved have been replaced with five new classifications: nonspendable, restricted, committed, assigned and unassigned.

NOTES TO FINANCIAL STATEMENTS

March 31, 2012

NOTE E: DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS - CONTINUED

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after nonspendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, the Township's highest level of decision-making authority is the Township Board of Trustees. Formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution of the Township Board.

For assigned fund balance, the Township has not approved a policy indicating who is authorized to assign amounts to a specific purpose. As a result, this authority is retained by the Township Board of Trustees.

Carmel Township has not formally adopted a policy that determines when both restricted and unrestricted fund balances are available which should be used first, therefore restricted resources will be used first, then unrestricted resources if they are needed. Also, the Township considers committed, then assigned, and finally unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

NOTE F: UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the Township's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and the deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

REQUIRED SUPPLEMENTARY INFORMATION

Carmel Township

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 99,800	\$ 99,800	\$ 104,993	\$ 5,193
Licenses and permits	3,500	3,500	4,098	598
Intergovernmental	167,500	167,500	212,207	44,707
Charges for services	11,100	11,100	14,618	3,518
Interest and rent	3,500	3,500	12,382	8,882
TOTAL REVENUES	285,400	285,400	348,298	62,898
EXPENDITURES				
Current				
General government				
Township Board	8,630	12,061	12,223	(162)
Supervisor	8,300	8,300	8,000	300
Clerk	20,500	20,841	20,569	272
Board of review	1,250	1,250	951	299
Treasurer	23,600	23,600	20,623	2,977
Assessor	31,490	31,490	24,644	6,846
Elections	6,000	7,464	7,394	70
Township hall	17,200	17,200	14,982	2,218
Audit and legal	15,000	15,000	-	15,000
Cemetery	24,450	24,450	20,787	3,663
Payroll taxes	7,000	7,000	5,078	1,922
Total general government	163,420	168,656	135,251	33,405
Public safety				
Fire protection	65,000	65,000	55,551	9,449
Public works				
Roads	45,000	45,000	27,092	17,908
Drains	8,500	8,500	3,449	5,051
Total public works	53,500	53,500	30,541	22,959
Health and welfare				
Ambulance	4,000	4,000	3,737	263

Carmel Township

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended March 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES - CONTINUED				
Current - continued				
Recreation and culture				
Parks and recreation	<u>\$ 3,343</u>	<u>\$ 3,343</u>	<u>\$ 3,560</u>	<u>\$ (217)</u>
TOTAL EXPENDITURES	<u>289,263</u>	<u>294,499</u>	<u>228,640</u>	<u>65,859</u>
NET CHANGE IN FUND BALANCE	(3,863)	(9,099)	119,658	128,757
Fund balance, beginning of year	<u>1,677,084</u>	<u>1,677,084</u>	<u>1,677,084</u>	<u>-0-</u>
Fund balance, end of year	<u><u>\$ 1,673,221</u></u>	<u><u>\$ 1,667,985</u></u>	<u><u>\$ 1,796,742</u></u>	<u><u>\$ 128,757</u></u>

Carmel Township

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended March 31, 2012

NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

In the body of the budgetary comparison schedule, the Township's budgeted expenditures in the General Fund have been adopted and shown at the functional classification level.

During the year ended March 31, 2012, the Township incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Township Board	\$ 12,061	\$ 12,223	\$ 162
Recreation and culture			
Parks and recreation	3,343	3,560	217

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS

To the Members of the Township Board
Carmel Township
Eaton County, Michigan

In planning and performing our audit of the financial statements of the governmental activities and the major fund of Carmel Township as of and for the year ended March 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We identified no deficiencies in internal control that we consider to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the Township's internal control to be a significant deficiency:

PREPARATION OF FINANCIAL STATEMENTS

Auditing standards require us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with accounting principles generally accepted in the United States of America. Throughout the year the Township prepares monthly financial reporting at the fund level and the annual audited financial statements for the year ended March 31, 2012, for the Township required mainly only accrual audit adjustments. The staff at the Township does understand substantially all of the information included in the financial statements, and as such are able to take responsibility for the content. However, the presentation of financial statements in accordance with generally accepted accounting principles also includes the preparation of the government-wide financial statements and note disclosures. Currently the government-wide financial statements and note disclosures are prepared during the audit process. We are communicating these circumstances as required by professional standards, and recommend the Township consider the costs and benefits of preparing the financial statements and related note disclosures in the future.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following other matters.

WRITTEN POLICIES AND PROCEDURES

Based on our discussions with management, we noted that the Township has not formally adopted written procedures and policies for areas of operation that directly or indirectly affect financial reporting. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater oversight over those areas over which they are responsible.

Specifically, we recommend that the Township develop, formally adopt, and implement written procedures and policies affecting the financial reporting process in the following areas:

- a. Capital asset management policy - We recommend the Township adopt a policy for the acquisition and disposal of capital assets. The policy should specify the dollar threshold to be used for asset capitalization. The policy should also indicate estimated useful lives for each major classification of capital assets. Adoption of the capital asset management policy should be documented in the minutes of the Township Board.
- b. Business continuity plan - We recommend the Township adopt a business continuity plan. The plan should identify areas of operation that are critical to the Township and detail how operations would continue if the Township experienced an interruption of service.
- c. Code of conduct - We recommend the Township put in place a code of conduct including a policy on conflicts of interest. The code should include a requirement that key employees and Board members periodically make a declaration of compliance with the code, particularly with respect to conflicts of interest.

This communication is intended solely for the information and use of members of the Township Board, others within the Township, and applicable departments of the State of Michigan, and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 28, 2012