

*Charter Township of Kalamazoo  
Kalamazoo County, Michigan*

**FINANCIAL STATEMENTS**

*Year ended December 31, 2017*

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**INDEPENDENT AUDITOR'S REPORT**



## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Charter Township of Kalamazoo  
Kalamazoo County, Michigan

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Kalamazoo, Michigan (the Township), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

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

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

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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Kalamazoo, Michigan, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension and OPEB schedules, as identified 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.

### *Other Information*

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

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

*Stevens Kirinovic & Tucker, P.C.*

STEVENS, KIRINOVIC & TUCKER, P.C.  
Certified Public Accountants

June 18, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is intended as a narrative overview of the Charter Township of Kalamazoo's operations over the fiscal year and its financial condition on December 31, 2017. Please read it in conjunction with the Township's financial statements.

### **FINANCIAL HIGHLIGHTS**

- The Township's total net position decreased \$3,119,008 (19 percent) as a result of this year's operations.
- Of the \$13,705,185 total net position reported, \$0 is available to be used to meet the Township's ongoing obligations to its citizens and customers, without constraints established by debt covenants, enabling legislation, or other legal requirements.
- The General Fund's unassigned fund balance at the end of the fiscal year was \$3,587,258, which represents 49 percent of the actual total General Fund expenditures for the fiscal year.

### **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 (GASB) Statement No. 34. The Township's annual report is 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.
  - Governmental funds statements explain 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-term and long-term financial information about the activities the government operates like a business. The Township has one proprietary fund to account for its golf course.
  - Fiduciary funds statements provide information about the financial relationships in which the Township acts solely as an agent for the benefit of others to whom the resources in question belong.

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 sections of required supplementary information and other supplementary information that further explain and support the information in the financial statements.

A comparative analysis of the government-wide financial statements for 2017 and 2016 is also presented.

### **Government-wide financial 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 Position includes all of the Township's assets and deferred outflows of resources, and liabilities and deferred inflows of resources. 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 position and how it has changed. Net position (the difference between the Township's assets and deferred outflows of resources, and liabilities and deferred inflows of resources) is one way to measure the Township's financial health, or position.

- Over time, increases or decreases in the Township's net position 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 golf course.

### **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 (like street, water, and sewer improvements) or to show that it is properly using certain taxes and other revenues (like street lighting, recycling, and public safety capital asset revenues).

The Township has three types of funds:

- *Governmental funds.* Most of the Township's basic services are included in its 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 that explains the relationship between them.
- *Proprietary funds.* Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds statements, like the government-wide statements, provide both long-term and short-term financial information.
- *Fiduciary funds.* These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the Township. The Township is responsible for ensuring that the assets reported in the fiduciary funds are used for their intended purpose. The Township's fiduciary balances are reported in a separate Statement of Fiduciary Assets and Liabilities. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.



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

**Net position**

Total net position at the end of the fiscal year was \$13,736,488. However, \$18,499,276 of this total is invested in capital assets and \$2,808,041 is restricted for public safety, public works, and capital outlay. Consequently, unrestricted net position has a deficit balance of \$7,570,829.

	<i>Net position</i>					
	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 18,539,858	\$ 20,616,410	\$ 18,177	\$ 11,352	\$ 18,558,035	\$ 20,627,762
Capital assets	<u>18,272,721</u>	<u>18,870,280</u>	<u>290,817</u>	<u>301,739</u>	<u>18,563,538</u>	<u>19,172,019</u>
Total assets	<u>36,812,579</u>	<u>39,486,690</u>	<u>308,994</u>	<u>313,091</u>	<u>37,121,573</u>	<u>39,799,781</u>
Deferred outflows of resources	<u>1,197,695</u>	<u>1,696,557</u>	<u>-</u>	<u>-</u>	<u>1,197,695</u>	<u>1,696,557</u>
Current and other liabilities	<u>8,333,590</u>	<u>9,116,475</u>	<u>-</u>	<u>-</u>	<u>8,333,590</u>	<u>9,116,475</u>
Long-term debt	<u>9,867,268</u>	<u>10,212,739</u>	<u>-</u>	<u>-</u>	<u>9,867,268</u>	<u>10,212,739</u>
Total liabilities	<u>18,200,858</u>	<u>19,329,214</u>	<u>-</u>	<u>-</u>	<u>18,200,858</u>	<u>19,329,214</u>
Deferred inflows of resources	<u>6,381,922</u>	<u>5,311,628</u>	<u>-</u>	<u>-</u>	<u>6,381,922</u>	<u>5,311,628</u>
Net position:						
Net investment in capital assets	<u>18,208,459</u>	<u>18,471,387</u>	<u>290,817</u>	<u>301,739</u>	<u>18,499,276</u>	<u>18,773,126</u>
Restricted	<u>2,808,041</u>	<u>5,235,837</u>	<u>-</u>	<u>-</u>	<u>2,808,041</u>	<u>5,235,837</u>
Unrestricted	<u>(7,589,006)</u>	<u>(7,164,819)</u>	<u>18,177</u>	<u>11,352</u>	<u>(7,570,829)</u>	<u>(7,153,467)</u>
Total net position	<u>\$ 13,427,494</u>	<u>\$ 16,542,405</u>	<u>\$ 308,994</u>	<u>\$ 313,091</u>	<u>\$ 13,736,488</u>	<u>\$ 16,855,496</u>

**Changes in net position**

The Township's total revenues for 2017 were \$9,898,247. Approximately 41 percent of the Township's revenues comes from property taxes and 28 percent is received as charges for services. About 22 percent of total revenues comes from state revenue sharing.<sup>1</sup>

The total cost of all the Township's programs for 2017, covering a wide range of services, totaled \$13,017,255. About 53 percent of the Township's total costs relates to public safety, while general government and public works represent 12 percent and 32 percent, respectively.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

Condensed financial information  
Changes in net position

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Program revenues:						
Charges for services	\$ 2,721,544	\$ 2,853,576	\$ 9,220	\$ 11,846	\$ 2,730,764	\$ 2,865,422
Operating grants	360,763	119,028	-	-	360,763	119,028
Capital grants	117,957	399,460	-	-	117,957	399,460
General revenues:						
Property taxes	4,014,324	4,137,021	-	-	4,014,324	4,137,021
State grants	2,218,497	2,086,233	-	-	2,218,497	2,086,233
Local community stabilization	156,361	157,377	-	-	156,361	157,377
Franchise fees	194,727	209,352	-	-	194,727	209,352
Investment income	104,854	74,827	-	-	104,854	74,827
Total revenues	<u>9,889,027</u>	<u>10,036,874</u>	<u>9,220</u>	<u>11,846</u>	<u>9,898,247</u>	<u>10,048,720</u>
Expenses:						
General government	1,583,094	1,792,091	-	-	1,583,094	1,792,091
Public safety	6,887,065	6,702,498	-	-	6,887,065	6,702,498
Public works	4,221,831	4,960,992	-	-	4,221,831	4,960,992
Community and economic development	81,269	130,140	-	-	81,269	130,140
Culture and recreation	16,726	10,459	13,317	9,356	30,043	19,815
Interest on debt	213,953	237,632	-	-	213,953	237,632
Total expenses	<u>13,003,938</u>	<u>13,833,812</u>	<u>13,317</u>	<u>9,356</u>	<u>13,017,255</u>	<u>13,843,168</u>
Changes in net position	<u>\$ (3,114,911)</u>	<u>\$ (3,796,938)</u>	<u>\$ (4,097)</u>	<u>\$ 2,490</u>	<u>\$ (3,119,008)</u>	<u>\$ (3,794,448)</u>
Net position, end of year	<u>\$ 13,427,494</u>	<u>\$ 16,542,405</u>	<u>\$ 308,994</u>	<u>\$ 313,091</u>	<u>\$ 13,736,488</u>	<u>\$ 16,855,496</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**Governmental activities.** Governmental activities decreased the Township's net position by \$3,114,911 in 2017 compared to a \$3,794,448 decrease in 2016. The Township received \$132,032 less in charges for services in 2017. Total governmental expenses combined were \$829,874 lower in 2017 compared to 2016. The difference is primarily due to a \$739,161 decrease in public works expense, related to road projects funded by bonds received in the previous year.

The total cost of governmental activities this year was \$13,003,938. After subtracting the direct charges to those who directly benefited from the programs (\$2,721,544) and other operating and capital grants (\$478,720), the "public benefit" portion covered by property taxes, state revenue sharing, and other general revenues was \$9,803,674 in 2017.

**Business-type activities.** Charges for services in the business-type activities for 2017 were \$9,220 compared to \$11,846 last year. Expenses were \$3,961 higher than the prior year.

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

At December 31, 2017, the Township's governmental funds reported a combined fund balance of \$11,041,845, a decrease of \$1,949,066 over the prior year.

General Fund revenues of \$7,768,812 exceeded expenditures (\$7,339,420) and transfers out (\$13,000) by \$416,392 in 2017. Fund balance at year end was \$4,390,739.

The Sewer Improvement Fund revenues, comprised of assessments, state grants, and interest, totaled \$376,077, while expenditures totaled \$306,501. As a result, the fund balance increased by \$69,576. The fund balance was \$3,419,210 at the end of 2017.

The Road Improvement Fund, had expenditures amounting to \$2,910,416, causing a \$2,910,416 decrease in fund balance. The fund had an ending fund balance of \$528,288.

The Road Bond Fund, had expenditures amounting to \$218,750 and revenues of \$217,920, which resulted in an \$830 decrease in fund balance. The fund had an ending fund balance of \$18,505.

The net position of the Golf Course Fund, the sole proprietary fund, decreased by \$4,097, as expenses of \$13,317 exceeded \$9,220 in revenues for the year.

**General Fund budgetary highlights**

The Township amended the original General Fund budget adopted by the Township Board for 2017 by increasing unforeseen expenditures by \$51,300 and decreasing revenues by \$25,000.

Revenues were \$231,962 more than anticipated, as state grants and other revenues exceeded the amounts budgeted by \$97,990 and \$93,880, respectively. Actual expenditures and transfers were \$941,330 less than budgeted. These conditions resulted in a \$1,173,292 positive budget variance and a \$416,392 increase in fund balance for the year, compared to a \$756,900 budgeted decrease.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital assets**

At December 31, 2017, the Township had invested \$18,563,538, net of depreciation, in various capital assets, including its land, buildings, equipment, and infrastructure.

This year's major capital asset additions included:

- \$42,879 for new fire vehicles
- \$77,670 for police vehicles.
- \$57,150 for new roof on Westwood fire station

More detailed information about the Township's capital assets is presented in Note 5 of the notes to the basic financial statements.

### **Debt**

At the end of the fiscal year, the Township had installment purchase notes and bonds payable with balances outstanding in the amount of \$9,867,268, a decrease of \$334,631. The decrease was the result of total debt principal payments of \$334,631.

Other long-term obligations consisted of a liability for compensated absences of \$432,477, net pension liability of \$3,201,049, and a net other postemployment benefit obligation of \$3,504,706.

More detailed information about the Township's long-term debt is presented in Note 7, Note 12, and Note 13 of the notes to the basic financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

In 2018, the Township plans to primarily use current revenues to provide essential services in order to maintain current fund balances. Property tax revenues are expected to increase slightly in 2018. The Township continues to review all budget areas for opportunities to reduce expenditures.

## **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 resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Dexter A. Mitchel, Township Manager  
Charter Township of Kalamazoo  
1720 Riverview Drive  
Kalamazoo, MI 49004

Phone: (269) 381-8085

## **BASIC FINANCIAL STATEMENTS**

**STATEMENT OF NET POSITION**

December 31, 2017

	<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Totals</i>
<b>ASSETS</b>			
Current assets:			
Cash	\$ 10,674,148	\$ 9,156	\$ 10,683,304
Investments	3,648,129	-	3,648,129
Receivables, net	4,118,693	-	4,118,693
Prepaid items	31,010	9,021	40,031
Total current assets	<u>18,471,980</u>	<u>18,177</u>	<u>18,490,157</u>
Noncurrent assets:			
Receivables, net	67,878	-	67,878
Capital assets not being depreciated	504,748	171,000	675,748
Capital assets, net of accumulated depreciation	<u>17,767,973</u>	<u>119,817</u>	<u>17,887,790</u>
Total noncurrent assets	<u>18,340,599</u>	<u>290,817</u>	<u>18,631,416</u>
Total assets	<u>36,812,579</u>	<u>308,994</u>	<u>37,121,573</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension	<u>1,197,695</u>	-	<u>1,197,695</u>
<b>LIABILITIES</b>			
Current liabilities:			
Payables	510,521	-	510,521
Unearned operating assessment revenue	684,837	-	684,837
Current portion of long-term debt	<u>924,630</u>	-	<u>924,630</u>
Total current liabilities	<u>2,119,988</u>	-	<u>2,119,988</u>
Noncurrent liabilities:			
Noncurrent portion of long-term debt	8,942,638	-	8,942,638
Compensated absences	432,477	-	432,477
Net pension liability	3,201,049	-	3,201,049
Net other postemployment benefit obligation	<u>3,504,706</u>	-	<u>3,504,706</u>
Total noncurrent liabilities	<u>16,080,870</u>	-	<u>16,080,870</u>
Total liabilities	<u>18,200,858</u>	-	<u>18,200,858</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property tax revenues levied for the subsequent year	4,860,359	-	4,860,359
Assessments levied for the subsequent year	1,335,058	-	1,335,058
Pension	<u>186,505</u>	-	<u>186,505</u>
Total deferred inflows of resources	<u>6,381,922</u>	-	<u>6,381,922</u>
<b>NET POSITION</b>			
Net investment in capital assets	18,208,459	290,817	18,499,276
Restricted for:			
Public safety	396,356	-	396,356
Public works	740,285	-	740,285
Capital outlay	1,652,895	-	1,652,895
Debt services	18,505	-	18,505
Unrestricted	<u>(7,589,006)</u>	<u>18,177</u>	<u>(7,570,829)</u>
Total net position	<u>\$ 13,427,494</u>	<u>\$ 308,994</u>	<u>\$ 13,736,488</u>

See notes to financial statements

**STATEMENT OF ACTIVITIES**

Year ended December 31, 2017

	<u>Program revenues</u>				<u>Net (expenses) revenues and changes in net position</u>		
	<u>Expenses</u>	<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
<b>Functions/Programs</b>							
Governmental activities:							
General government	\$ 1,583,094	\$ 502,488	\$ 11,107	\$ -	\$ (1,069,499)		\$ (1,069,499)
Public safety	6,887,065	1,540,826	49,161	62,722	(5,234,356)		(5,234,356)
Public works	4,221,831	666,425	300,495	55,235	(3,199,676)		(3,199,676)
Community and economic development	81,269	11,805	-	-	(69,464)		(69,464)
Culture and recreation	16,726	-	-	-	(16,726)		(16,726)
Interest on long-term debt	213,953	-	-	-	(213,953)		(213,953)
Total governmental activities	13,003,938	2,721,544	360,763	117,957	(9,803,674)		(9,803,674)
Business-type activities - golf course	13,317	9,220	-	-		\$ (4,097)	(4,097)
Totals	<u>\$ 13,017,255</u>	<u>\$ 2,730,764</u>	<u>\$ 360,763</u>	<u>\$ 117,957</u>	(9,803,674)	(4,097)	(9,807,771)
General revenues:							
Taxes					4,014,324	-	4,014,324
State grants					2,218,497	-	2,218,497
Local community stabilization share					156,361	-	156,361
Franchise fees					194,727	-	194,727
Investment income					104,854	-	104,854
Total general revenues					6,688,763	-	6,688,763
Changes in net position					(3,114,911)	(4,097)	(3,119,008)
Net position - beginning					16,542,405	313,091	16,855,496
Net position - ending					<u>\$ 13,427,494</u>	<u>\$ 308,994</u>	<u>\$ 13,736,488</u>

See notes to financial statements

Charter Township of Kalamazoo  
**BALANCE SHEET - governmental funds**  
 December 31, 2017

	<u>General</u>	<u>Sewer Improvement</u>	<u>Road Improvement</u>	<u>Road Bond</u>	<u>Nonmajor funds</u>	<u>Total governmental funds</u>
<b>ASSETS</b>						
Cash	\$ 2,600,833	\$ 3,457,459	\$ 575,328	\$ 575,398	\$ 3,465,130	\$ 10,674,148
Investments	3,648,129	-	-	-	-	3,648,129
Receivables	2,889,492	83,466	-	508,797	704,816	4,186,571
Total assets	<u>\$ 9,138,454</u>	<u>\$ 3,540,925</u>	<u>\$ 575,328</u>	<u>\$ 1,084,195</u>	<u>\$ 4,169,946</u>	<u>\$ 18,508,848</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>						
Liabilities:						
Payables	\$ 298,755	\$ 47,931	\$ 47,040	\$ -	\$ 61,708	\$ 455,434
Unearned operating assessment revenue	-	-	-	-	684,837	684,837
Total liabilities	<u>298,755</u>	<u>47,931</u>	<u>47,040</u>	<u>-</u>	<u>746,545</u>	<u>1,140,271</u>
Deferred inflows of resources:						
Property tax revenues levied for the subsequent year	3,794,669	-	-	1,065,690	-	4,860,359
Assessments levied for the subsequent year	622,580	-	-	-	712,478	1,335,058
Unavailable police revenue	31,711	-	-	-	-	31,711
Unavailable special assessment revenue	-	73,784	-	-	25,820	99,604
Total deferred inflows of resources	<u>4,448,960</u>	<u>73,784</u>	<u>-</u>	<u>1,065,690</u>	<u>738,298</u>	<u>6,326,732</u>
Fund balances:						
Restricted for:						
Public safety	-	-	-	-	364,645	364,645
Public works	-	-	528,288	-	211,997	740,285
Capital outlay	-	-	-	-	1,652,895	1,652,895
Debt services	-	-	-	18,505	-	18,505
Committed for culture and recreation	-	-	-	-	9,702	9,702
Assigned for:						
Public works	-	3,419,210	-	-	445,864	3,865,074
Subsequent year expenditures	803,481	-	-	-	-	803,481
Unassigned	<u>3,587,258</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,587,258</u>
Total fund balances	<u>4,390,739</u>	<u>3,419,210</u>	<u>528,288</u>	<u>18,505</u>	<u>2,685,103</u>	<u>11,041,845</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 9,138,454</u>	<u>\$ 3,540,925</u>	<u>\$ 575,328</u>	<u>\$ 1,084,195</u>	<u>\$ 4,169,946</u>	<u>\$ 18,508,848</u>

Reconciliation of the balance sheet to the statement of net position:

Total fund balance - total governmental funds	\$ 11,041,845
Amounts reported for <i>governmental activities</i> in the statement of net position (page 11) are different because:	
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the funds.	18,272,721
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.	131,315
Certain pension contributions and unamortized changes in pension plan net position are reported as deferred outflows of resources in the statement of net position but are not reported in the funds.	1,197,695
Certain pension unamortized changes in pension plan net position are reported as deferred inflows of resources in the statement of net position but are not reported in the funds.	(186,505)
Interest payable, related to long-term liabilities, is not due and payable in the current period and, therefore, is not reported in the funds.	(55,087)
Prepaid items are not financial resources and, therefore, are not reported in the funds	31,010
Long-term liabilities that are not due and payable in the current period and are not reported in the funds:	
Long-term debt	(9,867,268)
Compensated absences	(432,477)
Net pension liability	(3,201,049)
Other postemployment obligation, net	<u>(3,504,706)</u>
Net position of <i>governmental activities</i>	<u>\$ 13,427,494</u>

See notes to financial statements



**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - governmental funds**

Year ended December 31, 2017

	<u>General</u>	<u>Sewer Improvement</u>	<u>Road Improvement</u>	<u>Road Bond</u>	<u>Nonmajor funds</u>	<u>Total governmental funds</u>
<b>REVENUES</b>						
Taxes	\$ 4,026,564	\$ -	\$ -	\$ 213,397	\$ -	\$ 4,239,961
Federal grants	42,384	-	-	-	98,115	140,499
State grants	2,379,990	288,889	-	-	11,807	2,680,686
Intergovernmental	-	-	-	-	213,010	213,010
Fines and forfeitures	29,510	-	-	-	14,592	44,102
Licenses and permits	253,436	-	-	-	-	253,436
Charges for services	292,205	25,135	-	-	-	317,340
Interest and rentals	99,593	24,294	-	4,523	37,739	166,149
Other	645,130	37,759	-	-	1,460,567	2,143,456
	<u>7,768,812</u>	<u>376,077</u>	<u>-</u>	<u>217,920</u>	<u>1,835,830</u>	<u>10,198,639</u>
<b>EXPENDITURES</b>						
Current:						
General government	1,489,733	-	-	-	-	1,489,733
Public safety	5,675,245	-	-	-	22,842	5,698,087
Public works	44,172	306,501	2,910,416	500	661,431	3,923,020
Community and economic development	81,269	-	-	-	-	81,269
Culture and recreation	9,926	-	-	-	-	9,926
Capital outlay	38,460	-	-	-	344,494	382,954
Debt service:						
Principal	615	-	-	-	334,016	334,631
Interest	-	-	-	218,250	9,835	228,085
	<u>7,339,420</u>	<u>306,501</u>	<u>2,910,416</u>	<u>218,750</u>	<u>1,372,618</u>	<u>12,147,705</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>						
	<u>429,392</u>	<u>69,576</u>	<u>(2,910,416)</u>	<u>(830)</u>	<u>463,212</u>	<u>(1,949,066)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	-	-	-	13,000	13,000
Transfers out	(13,000)	-	-	-	-	(13,000)
	<u>(13,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,000</u>	<u>-</u>
<b>NET CHANGES IN FUND BALANCES</b>						
	416,392	69,576	(2,910,416)	(830)	476,212	(1,949,066)
<b>FUND BALANCES - BEGINNING</b>						
	<u>3,974,347</u>	<u>3,349,634</u>	<u>3,438,704</u>	<u>19,335</u>	<u>2,208,891</u>	<u>12,990,911</u>
<b>FUND BALANCES - ENDING</b>						
	<u>\$ 4,390,739</u>	<u>\$ 3,419,210</u>	<u>\$ 528,288</u>	<u>\$ 18,505</u>	<u>\$ 2,685,103</u>	<u>\$ 11,041,845</u>

See notes to financial statements

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - governmental funds (Continued)**

Year ended December 31, 2017

Reconciliation of the statement of revenues, expenditures, and changes in fund balances to the statement of activities:

Net change in fund balance - total governmental funds (page 14)	\$ (1,949,066)
Amounts reported for <i>governmental activities</i> in the statement of activities (page 12) are different because:	
Capital assets:	
Assets acquired	258,998
Provision for depreciation	(856,557)
Principal repayments on long-term debt	334,631
Changes in other assets/liabilities:	
Decrease in prepaid expenditures	(2,418)
Decrease in interest payable	3,292
Decrease in deferred outflows of resources - pension plan interest projections compared to actual	(454,313)
Increase in deferred outflows of resources - pension contributions made after plan year end	31,716
Decrease in deferred outflows of resources - change in assumptions	(66,366)
Increase in deferred inflows of resources - difference between expected and actual	(196,404)
Decrease in deferred inflows of resources	(298,579)
Increase in net other postemployment obligation	(298,753)
Decrease in net pension liability	363,937
Decrease in compensated absences	4,131
Decrease in other accrued liabilities	<u>10,840</u>
Change in net position of <i>governmental activities</i>	<u>\$ (3,114,911)</u>

See notes to financial statements

**STATEMENT OF NET POSITION - proprietary fund**

December 31, 2017

	<u>Golf Course Fund</u>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 9,156
Prepaid items	<u>9,021</u>
Total current assets	<u>18,177</u>
Noncurrent assets:	
Capital assets not being depreciated - land	171,000
Capital assets, net of accumulated depreciation	<u>119,817</u>
Total noncurrent assets	<u>290,817</u>
Total assets	<u>308,994</u>
<b>NET POSITION</b>	
Investment in capital assets	290,817
Unrestricted	<u>18,177</u>
Total net position	<u><u>\$ 308,994</u></u>

See notes to financial statements

*Charter Township of Kalamazoo*

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN  
NET POSITION - *proprietary fund***

*Year ended December 31, 2017*

	<u><i>Golf Course Fund</i></u>
<b>OPERATING REVENUES</b>	
Rentals	\$ 9,220
<b>OPERATING EXPENSES</b>	
Operating and maintenance costs	2,395
Depreciation	<u>10,922</u>
Total operating expenses	<u>13,317</u>
<b>CHANGE IN NET POSITION</b>	(4,097)
<b>NET POSITION - BEGINNING</b>	<u>313,091</u>
<b>NET POSITION - ENDING</b>	<u><u>\$ 308,994</u></u>

*See notes to financial statements*

**STATEMENT OF CASH FLOWS - proprietary fund**

Year ended December 31, 2017

	<b><i>Golf Course Fund</i></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 9,220
Payments to suppliers	<u>(2,395)</u>
Net cash provided by operating activities	<u>6,825</u>
<b>NET INCREASE IN CASH</b>	6,825
<b>CASH - BEGINNING</b>	<u>2,331</u>
<b>CASH - ENDING</b>	<u><u>\$ 9,156</u></u>
<b>Reconciliation of operating gain to net cash provided by operating activities:</b>	
Operating loss	\$ (4,097)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	<u>10,922</u>
Net cash provided by operating activities	<u><u>\$ 6,825</u></u>

See notes to financial statements

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - *agency funds***

*December 31, 2017*

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**ASSETS**

Cash \$ 4,794,948

**LIABILITIES**

Due to others \$ 4,794,948

*See notes to financial statements*

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

The accounting policies of the Charter Township of Kalamazoo, Michigan (the Township), conform to accounting principles generally accepted in the United States of America (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the more significant accounting policies.

*Reporting entity:*

The Township is governed by an elected seven-member board. As required by generally accepted accounting principles, these financial statements present only the Township (located in Kalamazoo County), as there are no other entities for which the Township is considered to be financially accountable.

*Government-wide and fund financial statements:*

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Township. The effect of 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 revenues.

Separate financial statements are provided for governmental funds, the proprietary fund, 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.

*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 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.

Governmental funds 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 revenues of the current period. All other revenue items are considered to be measurable only when cash is received by the Township.

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

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

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 Sewer Improvement Fund accounts for the construction or purchase of major sewer improvements. Revenues are primarily derived from special assessments.

The Road Improvement Fund accounts for the construction or improvement of Township roads.

The Road Bond Fund accounts for the debt service payments of Township related to road bonds. Revenues are primarily derived from property taxes.

The Township also reports fiduciary funds, which account for assets held by the Township as an agent for individuals, private organizations, and other governments. The Township currently reports agency funds. Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary fund relate to charges to customers for sales and services. Operating expenses for the proprietary fund 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.

*Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position or equity:*

*Bank deposits and investments* - 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. Investments are stated at fair value. Pooled investment income is proportionately allocated to all funds.

*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.

*Prepaid items* - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the government-wide financial statements.



**NOTES TO FINANCIAL STATEMENTS (Continued)**

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

*Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position or equity (continued):*

*Capital assets* - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., sewer and water systems), 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 \$2,000 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 acquisition value as of the date received. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets prospectively, beginning January 1, 2004.

Buildings	40 - 60 years
Improvements	15 - 30 years
Vehicles	5 - 10 years
Equipment	3 - 15 years
Sewer infrastructure	50 - 75 years

*Deferred outflows of resources* - The statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element reflects a decrease in net position that applies to a future period. The related expense will not be recognized until a future event occurs. The Township has one item in this category. The deferred outflows, related to the defined benefit pension plan, are discussed in Note 13. No deferred outflows of resources affect the governmental funds financial statements.

*Compensated absences* - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Vested compensated absences are accrued when earned in the government-wide and proprietary funds financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

*Unearned revenue* - Unearned revenue represents resources related to operating assessments, which have not yet been earned, due to performance of service.

*Deferred inflows of resources* - The statement of net position and the governmental funds balance sheet include a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position that applies to a future period. The related revenues will not be recognized until a future event occurs. The Township has four items that are included in this category: property taxes, special assessments, unavailable revenues, and defined benefit pension plan. Property tax revenues and certain operating special assessments, which are levied to finance the following period's budget, are deferred and recognized as an inflow of resources in the period that it was intended to finance. Other special assessment revenue and grant proceeds, which are not available (collected later than 60 days after the end of the Township's fiscal year) are deferred in the governmental funds and recognized as an inflow of resources in the period that the assessments become available. The deferred inflows, related to the defined benefit pension plan, are discussed in Note 13.

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

*Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position or equity (continued):*

*Pension* - For purposes of measuring the net pension liability, deferred outflows of resources related to pensions, deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis, as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The Township and its defined pension plan share the same year-end date. Accordingly, the Township has elected to measure its net pension liability as of the prior December 31.

*Net position* - Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. The Township reports three categories of net position, as follows: (1) *Net investment in capital assets* consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets, and increases by balances related to those assets; (2) *Restricted net position* is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations, such as federal or state laws or buyers of the Township's debt. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets; (3) *Unrestricted net position* consists of all other net position that does not meet the definition of the above components and is available for general use by the Township.

*Net position flow assumption* - Sometimes, the Township will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary funds financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Township's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

*Fund equity* - In the fund financial statements, governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws and regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Township Board. A formal resolution of the Township Board is required to establish, modify, or rescind a fund balance commitment. The Township Board retains the authority to assign fund balances. Unassigned fund balances are amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted or assigned to those purposes. When the Township incurs an expenditure for purposes for which various fund balance classifications can be used, it is the Township's policy to use the restricted fund balance first, followed by committed fund balance, then assigned fund balance, and, finally, unassigned fund balance.

*Property tax revenue recognition* - Property taxes are levied each December 1 (lien date) on the taxable valuation of property (as defined by State statutes) located in the Township as of the preceding December 31. Property taxes are considered delinquent on March 1 of the following year, at which time interest and penalties are assessed.

Although the Township's 2016 ad valorem taxes are levied and collectible on December 1, 2016, it is Township's policy to recognize revenue from that tax levy in the current year, when the proceeds are budgeted and made available for the financing of operations.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

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

*Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position or equity (continued):*

*Use of estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

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

*Budgetary information* - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the function level. Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

*Excess of expenditures over appropriations* - During the year, the Township incurred reportable expenditures in a budgeted fund, which were in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Function</u>	<u>budget</u>	<u>Actual</u>	<u>Variance</u>
General	Capital outlay	\$ 33,500	\$ 38,460	\$ 4,960
General	Debt service	-	615	615

**NOTE 3 - CASH AND INVESTMENTS**

A reconciliation of cash and investments to the Township’s deposits and investments, as shown in the government-wide statement of net position and the fiduciary fund statement of fiduciary assets and liabilities, is as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Fiduciary activities</u>	<u>Totals</u>
Financial statements:				
Cash and cash equivalents	\$ 10,674,148	\$ 9,156	\$ 4,794,948	\$ 15,478,252
Investments	3,648,129	-	-	3,648,129
Totals	<u>\$ 14,322,277</u>	<u>\$ 9,156</u>	<u>\$ 4,794,948</u>	<u>\$ 19,126,381</u>
Notes to financial statements				
Deposits				\$ 15,478,252
Investments				<u>3,648,129</u>
Total				<u>\$ 19,126,381</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

*Deposits* - Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) and the Township’s investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Township will not be able to recover its deposits. The Township’s investment policy does not specifically address custodial credit risk for deposits. At December 31, 2017, \$11,122,227 of the Township’s bank balances of \$14,088,084 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Investments* - State statutes and the Township’s investment policy authorize the Township to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper, with two (2) highest rate classifications by at least two (2) rating services, maturing not later than 270 days; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers’ acceptances; e) mutual funds composed of otherwise legal investments; and f) qualified investment pools.

Investments at year end, which are reported at fair value, consist of the following:

Governmental activities:	
Cooperative Liquid Assets Securities System - Michigan, a local investment pool established under Michigan state statutes for participating Michigan municipalities	\$ 407,212
Commercial Paper	1,258,310
Repurchase agreement with Mercantile bank	691,152
<i>Government-sponsored enterprises:</i>	
\$535,000 Federal Farm CR BKS CONS System Wide Bonds zero coupon bonds - paying interest at 1.10% and maturing 10/18/17	530,201
\$280,000 Lincoln MI School District Municipal Bonds - paying interest at 1.77% and maturing 5/1/18	279,605
\$250,000 Federal National Mortgage Association Remic Trust Bonds - paying interest at 0.875% and maturing 12/20/2017	253,007
\$331,000 Federal National Mortgage Association Remic Trust Bonds - paying interest at 2.50% and maturing 12/25/42	<u>228,642</u>
Total investments	<u>\$ 3,648,129</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)****NOTE 3 - CASH AND INVESTMENTS (Continued)**

The Township's investments are subject to several types of risk, which are discussed below:

<u>Investment type</u>	<u>Fair value</u>	<u>Rating</u>	<u>Rating organization</u>
CLASS - Michigan investment pool	\$ 407,212	AAAm	S&P
Commercial paper	1,258,310	A1+	S&P
Repurchase agreement	691,152	NA	NA
Government-sponsored enterprises:			
Federal National Mortgage Association Remic Trust	253,007	Aaa	Moody's
Lincoln MI School Municipal Bonds	279,605	AA-	S&P
Federal Home Loan Mortgage	530,201	Aaa	Moody's
Federal National Mortgage Association Remic Trust	<u>228,642</u>	Aaa	Moody's
	<u>\$ 3,648,129</u>		

*Custodial credit risk.* Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the Township will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Township's investment policy does not contain requirements that would limit the exposure to custodial credit risk for investments. As of December 31, 2017, all of the Township's investments, excluding investments in investment pools and repurchase agreements, are subject to custodial credit risk as they are uninsured, unregistered, and held by the same counterparty that purchased the securities for the Township.

*Credit risk.* Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. At year end, the credit quality ratings of the Township's investments are as follows:

*Concentration of credit risk.* Concentration of credit risk is the risk of loss attributable to the magnitude of the Township's investment in a single holding. The Township's investment policy places no limitations on the amount that can be invested in any one issuer. Of the Township's investments, the Federal National Mortgage Association Remic Trust, the Lincoln MI School Municipal bonds, and the Federal Home Loan Mortgage Corporation bonds each represent less than 5% of the Township's total investments. Investments in investment pools and money market funds are not subject to concentration of credit risk.

*Interest rate risk.* Interest rate risk is the risk that the value of an investment will decrease as a result of an increase in market interest rates. Generally, longer investment maturities generate more sensitivity to changes in an investment's fair value due to changes in market rates. The Township's investment policy has no specific limitations with respect to maturities of investments. Investments in investment pools and money market funds are not subject to interest rate risk.

The Township's investments consist of holdings in the Cooperative Liquid Assets Securities System - Michigan (CLASS), which is a local government investment pool established under Michigan state statutes for participating Michigan municipalities. This pool, which is a nonrisk categorized qualifying investment, is carried at fair market value. The fair value of the Township's position in the pool is the same as the value of its pool shares. The fund operates like a money market fund with each share valued at \$1, and is rated AAAM by Standard and Poor's (credit risk); it is not subject to regulatory oversight; the pool issues a separate report, which is available at 15309 Meadowwood Drive, Grand Haven, Michigan, 49417.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

Fair value measurement - The Township categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Township has the following recurring fair value measurements as of December 31, 2017.

- U.S. government and agency securities are valued using observable fair values of similar assets (Level 2).
- The Michigan CLASS Fund was measured at net asset value (or its equivalent) as a practical expedient, and, accordingly, has not been classified in the fair value hierarchy.

**NOTE 4 - RECEIVABLES**

Receivables as of December 31, 2017, for the Township’s individual major and aggregate nonmajor funds, were as follows:

	<u>Taxes</u>	<u>Accounts</u>	<u>Special assessments</u>	<u>Intergovern- mental</u>	<u>Totals</u>
Governmental funds:					
General	\$ 2,116,232	\$ 55,831	\$ -	\$ 717,429	\$ 2,889,492
Sewer Improvement	-	-	83,466	-	83,466
Road bond	508,797	-	-	-	508,797
Nonmajor funds	-	21,727	683,089	-	704,816
Total governmental funds	<u>\$ 2,625,029</u>	<u>\$ 77,558</u>	<u>\$ 766,555</u>	<u>\$ 717,429</u>	<u>\$ 4,186,571</u>
Amounts due beyond one year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,878</u>	<u>\$ -</u>	<u>\$ 67,878</u>

All receivables are considered to be fully collectible.

**NOTES TO FINANCIAL STATEMENTS (Continued)****NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2017, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 504,748	\$ -	\$ -	\$ 504,748
Capital assets being depreciated:				
Buildings and improvements	2,768,147	80,224	-	2,848,371
Equipment	4,097,267	44,575	-	4,141,842
Vehicles	3,709,155	120,549	-	3,829,704
Infrastructure	<u>22,574,157</u>	<u>13,650</u>	<u>-</u>	<u>22,587,807</u>
Subtotal	<u>33,148,726</u>	<u>258,998</u>	<u>-</u>	<u>33,407,724</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,736,301)	(74,811)	-	(1,811,112)
Equipment	(2,205,660)	(248,829)	-	(2,454,489)
Vehicles	(2,681,328)	(263,333)	-	(2,944,661)
Infrastructure	<u>(8,159,905)</u>	<u>(269,584)</u>	<u>-</u>	<u>(8,429,489)</u>
Subtotal	<u>(14,783,194)</u>	<u>(856,557)</u>	<u>-</u>	<u>(15,639,751)</u>
Total capital assets being depreciated, net	<u>18,365,532</u>	<u>(597,559)</u>	<u>-</u>	<u>17,767,973</u>
Governmental activities capital assets, net	<u>\$ 18,870,280</u>	<u>\$ (597,559)</u>	<u>\$ -</u>	<u>\$ 18,272,721</u>

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

Governmental activities:	
General government	\$ 60,087
Public safety	520,086
Public works	269,584
Culture and recreation	<u>6,800</u>
Total governmental activities	<u>\$ 856,557</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

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

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Business-type activities:				
Capital assets not being depreciated - land	\$ 171,000	\$ -	\$ -	\$ 171,000
Capital assets being depreciated:				
Buildings	94,759	-	-	94,759
Improvements other than buildings	241,045	-	-	241,045
Vehicles and equipment	171,091	-	-	171,091
Subtotal	<u>506,895</u>	<u>-</u>	<u>-</u>	<u>506,895</u>
Less accumulated depreciation for:				
Buildings	(94,758)	-	-	(94,758)
Improvements other than buildings	(143,979)	(9,507)	-	(153,486)
Vehicles and equipment	(137,419)	(1,415)	-	(138,834)
Subtotal	<u>(376,156)</u>	<u>(10,922)</u>	<u>-</u>	<u>(387,078)</u>
Total capital assets being depreciated, net	<u>130,739</u>	<u>(10,922)</u>	<u>-</u>	<u>119,817</u>
Business-type activities capital assets, net	<u>\$ 301,739</u>	<u>\$ (10,922)</u>	<u>\$ -</u>	<u>\$ 290,817</u>

**NOTE 6 - PAYABLES**

Payables as of December 31, 2017, for the Township’s individual major and aggregate nonmajor funds, were as follows:

	<i>Accounts</i>	<i>Accrued payroll</i>	<i>Totals</i>
Governmental funds:			
General	\$ 115,521	\$ 183,234	\$ 298,755
Sewer Improvement	47,931	-	47,931
Road fund	47,040	-	47,040
Nonmajor funds	<u>61,708</u>	<u>-</u>	<u>61,708</u>
Total governmental funds	<u>\$ 272,200</u>	<u>\$ 183,234</u>	<u>\$ 455,434</u>



**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 7 - LONG-TERM LIABILITIES**

Long-term obligation activity for the year ended December 31, 2017, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Governmental activities:					
\$9,750,000 2015 General Obligation Unlimited Tax bonds, payable in annual installments of \$850,000 to \$1,350,000, including interest at 1.5%-3.0%; final payment due April 2026	\$ 9,750,000	\$ -	\$ -	\$ 9,750,000	\$ 850,000
\$199,024 2014 Installment purchase agreement note, payable in annual installments of \$69,780, with 2.23% interest, final payment due June 2017	68,033	-	(68,033)	-	-
\$936,118 2014 Installment purchase agreement note, payable in annual installments of \$208,010, with 2.23% interest; final payment due June 2017	203,473	-	(203,473)	-	-
\$187,580 2015 Installment purchase agreement note, payable in annual installments of \$66,060, with 2.8% interest; final payments due September 2018	126,772	-	(62,510)	64,262	64,262
\$12,300 2012 Installment purchase agreement note, payable in annual installments of \$2,460, with zero interest; final payments due March 2017	<u>615</u>	<u>-</u>	<u>(615)</u>	<u>-</u>	<u>-</u>
Subtotal	10,148,893	-	(334,631)	9,814,262	914,262
Premium on 2015 bonds	<u>63,846</u>	<u>-</u>	<u>(10,840)</u>	<u>53,006</u>	<u>10,368</u>
Total long term debt	10,212,739	-	(345,471)	9,867,268	924,630
Compensated absences	436,608	445,871	(450,002)	432,477	-
Net pension liability	3,564,986	(363,937)	-	3,201,049	-
Postemployment healthcare benefits	<u>3,205,953</u>	<u>424,609</u>	<u>(125,856)</u>	<u>3,504,706</u>	<u>-</u>
Total governmental activities	<u>\$ 17,420,286</u>	<u>\$ 506,543</u>	<u>\$ (921,329)</u>	<u>\$ 17,005,500</u>	<u>\$ 924,630</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 7 - LONG-TERM LIABILITIES (Continued)**

At December 31, 2017, debt service requirements, excluding premiums, compensated absences and postemployment healthcare benefits, were as follows:

<i>Year ended</i> <u>December 31:</u>	<u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 914,262	\$ 213,674
2019	900,000	198,750
2020	950,000	182,500
2021	1,000,000	163,000
2022	1,100,000	142,000
2023 - 2026	<u>4,950,000</u>	<u>288,500</u>
Totals	<u>\$ 9,814,262</u>	<u>\$ 1,188,424</u>

All debt is secured by the full faith and credit of the Township.

**NOTE 8 - PROPERTY TAXES**

The 2016 taxable valuation of the Township approximated \$417,000,000, on which ad valorem taxes levied consisted of 8.9691 mills for operating purposes and 0.5094 mills for roads, raising approximately \$3,784,000 and \$213,000, respectively. This amount is recognized in the respective fund financial statements as property tax revenue.

The 2017 taxable valuation of the Township approximated \$421,000,000, on which ad valorem taxes levied consisted of 8.9691 mills for operating purposes and 2.5200 mills for roads, raising approximately \$3,777,000 and \$1,062,000, respectively. This amount is recognized in the respective fund financial statements as deferred inflows of resources, based upon the period for which the proceeds are budgeted and will be made available for the financing of operations.

**NOTE 9 - TAX ABATEMENTS**

The Township enters into property tax abatement agreements with local businesses for the purpose of attracting or retaining businesses within the Township. Each agreement was negotiated under a state law, which allows local units to abate property taxes for a variety of economic development purposes. The abatements may be granted to local businesses located within the Township or promising to relocate within the Township. Depending on the statute referenced for a particular abatement, the Township may grant abatements of up to 50% of annual property taxes through a direct reduction of the entity’s property tax bill or not tax the entity on improvements to a property for a period of time, not to exceed twelve years. Depending on the terms of the agreement and state law, abated taxes may be subject to recapture upon default of the entity. The Township has not made any commitments as part of the agreements other than to reduce taxes. The Township is not subject to any tax abatement agreements entered into by other governmental entities.

For the fiscal year ended December 31, 2017, the Township abated property taxes totaling \$22,786 under these programs as follows:

- Investment in real and personal property PA 198 of 1974 - 50% abated. Township taxes abated \$22,786.

**NOTE 10 - INTERFUND TRANSFERS**

The transfer from the General Fund to the Police Training Fund represents the transfer of available resources required to cover current public safety expenditures.

**NOTE 11 - RISK MANAGEMENT**

The Township is exposed to various risks of loss related 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, workers' compensation, employee medical, and casualty are managed through purchased commercial insurance. For all 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 - DEFINED CONTRIBUTION RETIREMENT PLANS**

The Township and its employees contribute to the Kalamazoo Township Pension Plan, a defined contribution pension, individual account plan, which is administered by a third-party administrator. The plan covers four classes of employees, as allowed under Internal Revenue Code Section 401(a). The first class of employees includes all elected officials. The second class of employees includes paid on-call firefighters. The third class includes all full time employees, except elected officials and police hired after January 1, 2013. The fourth class includes all-full time employees, except elected officials and police hired before January 1, 2013.

Benefit terms, including contribution requirements, for the Plan are established, and may be amended, by the Township Board. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate as described above. The Township contributes 10% of compensation to the first class of qualifying employees. The Township contributes 6.20% of compensation to the second class of qualifying employees, with an equal percentage contributed by all covered employees in the second class. The Township contributes 10% of compensation to the third class. The Township contributes 12% of compensation to the fourth class. Employees are permitted to make contributions to the Plan, up to applicable Internal Revenue Code limits. For the year ended December 31, 2017, the Township and eligible employees made contributions of \$168,828 and \$36,357, respectively. At December 31, 2017, the Township reported no accrued liability as part of the contributions to the plan.

The Township's contributions for each employee (and investment earnings allocated to the employee's account) are fully vested on the day the employee is eligible to participate in the plan, which occurs after 48 months of service.

The Township is not a trustee of the defined contribution pension plan, nor is the Township responsible for investment management of the pension plan assets. Accordingly, plan assets, and changes therein, are not reported in these financial statements.

**NOTE 13 - DEFINED BENEFIT PENSION PLAN**

*Plan description:*

The Township participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent, multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine-member Retirement Board. MERS issues a publicly-available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing the MERS website at [www.mersofmich.com](http://www.mersofmich.com).

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 13 - DEFINED BENEFIT PENSION PLAN (Continued)**

*Benefits provided:*

The Township’s defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries and covers the full-time employees of the Township. Retirement benefits for eligible employees are calculated as 2.5% of the employee’s three-year final average compensation times the employee’s years of service with a maximum of 80% of final average compensation. Normal retirement age is 60, with early retirement at a reduced benefit at age 50, with 25 years of service, or age 55, with 15 years of service. Deferred retirement benefits vest after 6 years of credited service but are not paid until the date retirement would have occurred had the member remained an employee. Covered employees are required to contribute 2.06% of wages to the plan. An employee who leaves service may withdraw their contributions, plus any accumulated interest. Benefit terms, within the parameters of MERS, are established and amended by the authority of the Township Board.

*Employees covered by benefit terms:*

At the December 31, 2016, measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	11
Active employees	<u>35</u>
 Total	 <u><u>46</u></u>

*Contributions:*

The Township is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Covered employees are required to contribute 2.06% of wages to the plan. For the fiscal year ended December 31, 2017, the Township contributed \$411,289 to the plan.

*Net pension asset:*

The Township’s net pension liability reported at December 31, 2017, was determined using a measurement of the total pension liability and the pension net position as of December 31, 2016. The total pension liability was determined by an annual actuarial valuation as of that date.

*Actuarial assumptions:*

The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%	
Salary increases	3.75%	In the long term
Investment rate of return	7.75%	net of investment expense, including inflation

Mortality rates were based on a blend of the RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105 percent; RP-2014 Employee Mortality Tables; and RP-2014 Juvenile Mortality Tables all with a 50 percent male and 50 percent female blend. For disabled retirees, the RP-2014 Disabled Retiree Mortality Table with a 50 percent male and 50 percent female blend is used to reflect the higher expected mortality rates of disabled members.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 13 - DEFINED BENEFIT PENSION PLAN (Continued)**

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following schedule:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Global equity	55.50%	8.65%
Global fixed income	18.50%	3.76%
Real assets	13.50%	9.72%
Diversifying strategies	12.50%	7.50%

*Discount rate:*

The discount rate used to measure the total pension liability is 8.00% for 2016. The projection of cash flows used to determine the discount rate assumes that employer contributions will be made at the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Changes in the net pension liability:*

	<u>Increase (decrease)</u>		
	<u>Total pension liability</u> <i>(a)</i>	<u>Plan fiduciary net position</u> <i>(b)</i>	<u>Net pension liability (asset)</u> <i>(a)-(b)</i>
Balances at December 31, 2015	\$ 12,558,366	\$ 8,993,380	\$ 3,564,986
Changes for the year:			
Service cost	258,547	-	258,547
Interest	998,036	-	998,036
Benefit change	(17,082)	-	(17,082)
Difference between expected and actual	(213,149)	-	(213,149)
Employer contributions	-	379,573	(379,573)
Net investment income	-	1,031,054	(1,031,054)
Benefit payments, including refunds	(424,372)	(424,372)	-
Administrative expenses	-	(20,338)	20,338
Net changes	<u>601,980</u>	<u>965,917</u>	<u>(363,937)</u>
Balances at December 31, 2016	<u>\$ 13,160,346</u>	<u>\$ 9,959,297</u>	<u>\$ 3,201,049</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 13 - DEFINED BENEFIT PENSION PLAN (Continued)**

*Sensitivity of the net pension liability to changes in the discount rate:*

The following presents the net pension liability of the Township, calculated using the discount rate of 8.00%, as well as what the Township's net pension liability would be using a discount rate that is 1 percentage point lower (7.00%) or 1 percentage point higher (9.00%) than the current rate.

	<u>1% decrease (7.00%)</u>	<u>Current rate (8.00%)</u>	<u>1% increase (9.00%)</u>
Net pension liability	\$ 4,915,693	\$ 3,201,049	\$ 1,771,053

*Pension plan fiduciary net position:*

Detailed information about the pension plan's fiduciary net position is available in the separately issued MERS financial report, which can be found at [www.mersofmich.com](http://www.mersofmich.com). The plan's fiduciary net position has been determined on the same basis used by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due. Benefit payments are recognized as expense when due and payable in accordance with benefit terms.

*Pension expense and deferred outflows of resources related to pensions:*

For the fiscal year ended December 31, 2017, the Township recognized pension expense of \$732,629. At December 31, 2017, the Township reported deferred outflows of resources related to pensions from the following sources:

<u>Source</u>	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Difference between projected and actual earnings	\$ 328,816	\$ -
Difference between expected and actual experience	59,391	186,505
Difference in assumptions	<u>398,199</u>	<u>-</u>
	786,406	186,505
Contributions made subsequent to the measurement date	<u>411,289</u>	<u>-</u>
Totals	<u>\$ 1,197,695</u>	<u>\$ 186,505</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)****NOTE 13 - DEFINED BENEFIT PENSION PLAN (Continued)**

Amounts reported as deferred outflows of resources and deferred inflows of resources, related to pensions, will be recognized in pension expense as follows:

<u>Year ended</u>	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
2018	\$ 216,299	\$ 26,644
2019	216,300	26,644
2020	187,849	26,644
2021	13,428	26,644
2022	76,265	26,644
2023-2024	<u>76,265</u>	<u>53,285</u>
	<u>\$ 786,406</u>	<u>\$ 186,505</u>

**NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS**

*Plan description.* The Township of Kalamazoo Retiree Health Care Plan is a single-employer defined benefit healthcare plan administered by the Township, which provides medical insurance benefits to eligible retirees and their spouses.

*Funding policy.* The Township pays 80% of the cost of coverage of these benefits for retirees and their spouses on a pay-as-you-go basis. Currently, fourteen retirees are eligible for postemployment health benefits. The Township obtains health care coverage through private insurers. The Township has the authority to establish the funding policy for the plan and to amend the obligations of both the Township and members. Active members are not obligated to make contributions to the plan at this time. For the year ended December 31, 2017, the Township contributed \$125,856 to the plan.

*Annual OPEB cost and net OPEB obligation.* The Township's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*. The Township has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following schedule shows the components of the Township's annual OPEB cost for the year ended December 31, 2017, the amount actually contributed to the plan, and changes in the Township's net OPEB obligation:

Annual required contribution (ARC)	\$ 454,609
Interest on net OPEB obligation	128,238
Adjustment to annual required contribution	<u>(158,238)</u>
Annual OPEB cost (expense)	424,609
Contributions made	<u>(125,856)</u>
Increase in net OPEB obligation	298,753
Net OPEB obligation - beginning of year	<u>3,205,953</u>
Net OPEB obligation - end of year	<u>\$ 3,504,706</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (Continued)**

The Township’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current and two prior years were as follows:

<u>Year</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
2015	\$ 430,298	30.50%	\$ 2,897,064
2016	429,525	28.09%	3,205,953
2017	424,609	12.12%	3,504,706

*Funded status and funding progress.* As of December 31, 2015, the most recent valuation date, the plan had not been funded, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,612,975. The covered payroll (annual payroll of active employees covered by the plan) was \$3,349,827, and the ratio of the UAAL to the covered payroll was 138%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future.

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 value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Methods and assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

*Retirement age for active employees* - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 55, or at the first subsequent year in which the member would qualify for benefits.

*Marital status* - Marital status of members at the calculation date was assumed to continue throughout retirement.

*Mortality* - Life expectancies were based on mortality tables from the National Vital Statistics Reports. The Life Tables for U.S. Males and Females, 2007 version, were used.

*Turnover* - Non-group specific, age-based turnover data from GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

*Healthcare cost trend rate* - The expected rate of increase in healthcare insurance premiums was based on projections of the National Institute of Health Expenditure Projections, Table 3, 2005 - 2020. A rate of 5.5% initially, increased to an ultimate rate of 6.5% after six years, was used.



**NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (Continued)**

*Health insurance premium* - 2017 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

*Payroll growth rate* - The expected long-term payroll growth rate of 1% was used.

*Inflation rate* - The expected long-term inflation assumption of 4% was used.

**NOTE 15 - JOINT VENTURE**

The Township is a member of the Kalamazoo Area Building Authority (the Authority), which is a joint venture of the Charter Townships of Comstock and Kalamazoo. The administrative board of the Authority consists of members appointed by each participating unit and a member at-large. The Authority was established to administer and enforce the Michigan State Construction Code within its constituent municipalities. Complete audited financial statements for the Authority can be obtained by contacting the Authority at 2322 Nazareth Road, Kalamazoo, MI 49048.

The Township does not expect to receive residual equity from the joint venture. The Township is unaware of any indication that the joint venture is accumulating significant financial resources or is experiencing fiscal stress that may cause an additional financial benefit or burden on the Township in the near future.

**NOTE 16 - COMMITMENTS AND CONTINGENCIES**

*Contingent liabilities:*

*Litigation.* The Township is the defendant in various lawsuits arising principally in the normal course of operations. In the opinion of management, the outcome of these lawsuits will not have a materially adverse effect on the accompanying basic financial statements and, accordingly, no provision for losses has been recorded.

*Accumulated non-vested sick pay.* The Township is contingently liable to its employees for approximately \$529,070 in accumulated non-vested sick pay benefits.

**REQUIRED SUPPLEMENTARY INFORMATION**

Charter Township of Kalamazoo

**BUDGETARY COMPARISON SCHEDULE - General Fund**

Year ended December 31, 2017

	<i>Original budget</i>	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
<b>REVENUES</b>				
Taxes	\$ 4,004,000	\$ 4,004,000	\$ 4,026,564	\$ 22,564
Federal grants	15,500	15,500	42,384	26,884
State grants	2,282,000	2,282,000	2,379,990	97,990
Fines and forfeitures	35,000	35,000	29,510	(5,490)
Licenses and permits	272,500	252,500	253,436	936
Charges for services	344,600	344,600	292,205	(52,395)
Investment income	52,000	52,000	99,593	47,593
Other	556,250	551,250	645,130	93,880
	<u>7,561,850</u>	<u>7,536,850</u>	<u>7,768,812</u>	<u>231,962</u>
Total revenues				
<b>EXPENDITURES</b>				
General government:				
Legislative	79,950	79,950	56,785	23,165
Supervisor	148,925	155,225	154,757	468
Elections	61,100	61,100	27,379	33,721
Assessor	209,650	209,650	192,471	17,179
Clerk	23,450	23,450	24,155	(705)
Treasurer	26,750	31,450	30,830	620
General services administration	904,250	904,250	708,904	195,346
Building and grounds	259,600	273,600	266,501	7,099
Cemetery	25,325	28,625	27,951	674
	<u>1,739,000</u>	<u>1,767,300</u>	<u>1,489,733</u>	<u>277,567</u>
Total general government				
Public safety:				
Police protection	4,586,100	4,586,100	4,183,256	402,844
Fire protection	1,575,050	1,575,050	1,482,390	92,660
Emergency preparedness	-	-	9,599	(9,599)
	<u>6,161,150</u>	<u>6,161,150</u>	<u>5,675,245</u>	<u>485,905</u>
Total public safety				
Public works:				
Streets	165,000	165,000	6,592	158,408
Sidewalks	50,000	50,000	37,580	12,420
	<u>215,000</u>	<u>215,000</u>	<u>44,172</u>	<u>170,828</u>
Total public works				

**BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**

Year ended December 31, 2017

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<i>Variance with final budget positive (negative)</i>
<b>EXPENDITURES (Continued)</b>				
Community and economic development - planning and zoning	\$ 91,800	\$ 91,800	\$ 81,269	\$ 10,531
Culture and recreation - parks	7,500	10,000	9,926	74
Capital outlay	13,000	33,500	38,460	(4,960)
Debt service:				
Principal	-	-	615	(615)
Total expenditures	<u>8,227,450</u>	<u>8,278,750</u>	<u>7,339,420</u>	<u>939,330</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(665,600)	(741,900)	429,392	1,171,292
<b>OTHER FINANCING USES</b>				
Transfers to other funds	<u>(15,000)</u>	<u>(15,000)</u>	<u>(13,000)</u>	<u>2,000</u>
<b>NET CHANGES IN FUND BALANCES</b>	(680,600)	(756,900)	416,392	1,173,292
<b>FUND BALANCES - BEGINNING</b>	<u>3,974,347</u>	<u>3,974,347</u>	<u>3,974,347</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 3,293,747</u>	<u>\$ 3,217,447</u>	<u>\$ 4,390,739</u>	<u>\$ 1,173,292</u>

**SCHEDULE OF CHANGES IN THE TOWNSHIP'S NET PENSION LIABILITY AND RELATED RATIOS**

*Last three fiscal years only (schedule is built prospectively upon implementation of GASB 68)*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability:			
Service cost	\$ 258,547	\$ 249,075	\$ 246,772
Interest	998,036	916,469	855,303
Benefit change	(17,082)	(9,555)	-
Difference between expected and actual	(213,149)	79,189	-
Changes in assumptions	-	530,931	-
Benefit payments, including refunds	<u>(424,372)</u>	<u>(383,830)</u>	<u>(339,834)</u>
Net change in total pension liability	601,980	1,382,279	762,241
Total pension liability, beginning of year	<u>12,558,366</u>	<u>11,176,087</u>	<u>10,413,846</u>
Total pension liability, end of year	<u>\$ 13,160,346</u>	<u>\$12,558,366</u>	<u>\$11,176,087</u>
Plan fiduciary net position:			
Contributions - employer	\$ 379,573	\$ 370,953	\$ 360,234
Net investment income (loss)	1,031,054	(140,110)	547,289
Benefit payments, including refunds	(424,372)	(383,830)	(339,834)
Administrative expenses	<u>(20,338)</u>	<u>(20,232)</u>	<u>(20,166)</u>
Net change in plan fiduciary net position	965,917	(173,219)	547,523
Plan fiduciary net position, beginning of year	<u>8,993,380</u>	<u>9,166,599</u>	<u>8,619,076</u>
Plan fiduciary net position, end of year	<u>\$ 9,959,297</u>	<u>\$ 8,993,380</u>	<u>\$ 9,166,599</u>
Township's net pension liability, end of year	<u>\$ 3,201,049</u>	<u>\$ 3,564,986</u>	<u>\$ 2,009,488</u>
Plan fiduciary net position as a percent of total pension liability	75.68%	71.61%	82.02%
Covered employee payroll	\$ 2,223,101	\$ 2,276,321	\$ 2,225,472
Township's net pension liability as a percentage of covered employee payroll	143.99%	156.61%	90.29%



**SCHEDULE OF FUNDING PROGRESS FOR THE POSTEMPLOYMENT HEALTHCARE PLAN**

Year ended December 31, 2017

The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the date indicated.

<i>Valuation date, December 31,</i>	<i>Actuarial accrued liability (AAL) (a)</i>	<i>Market value of assets (b)</i>	<i>Unfunded AAL (UAAL) (a-b)</i>	<i>Funded ratio (b/a)</i>	<i>Covered payroll (c)</i>	<i>UAAL as a percentage of covered payroll ((a-b)/c)</i>
2009	\$ 5,195,070	\$ -	\$ 5,195,070	0%	\$ 3,165,386	164%
2012	5,284,865	-	5,284,865	0%	3,268,697	162%
2015	4,612,975	-	4,612,975	0%	3,288,578	140%

**SUPPLEMENTARY INFORMATION**



Charter Township of Kalamazoo

**COMBINING BALANCE SHEET - nonmajor governmental funds**

December 31, 2017

	Special revenue funds					Capital projects funds						Totals
	Police Training	Drug Enforcement	Street Lighting	Recycling	Parks	911 Wireless	Police Capital	Fire Capital	Street	Water	911 Wireless Capital	
<b>ASSETS</b>												
Cash	\$ 7,675	\$ 87,860	\$ 337,880	\$ 330,334	\$ 9,702	\$ 260,046	\$ 648,067	\$ 1,332,570	\$ 176,291	\$ 269,705	\$ 5,000	\$ 3,465,130
Receivables	-	-	118,659	166,319	-	11,678	131,816	247,920	7,525	20,899	-	704,816
Total assets	\$ 7,675	\$ 87,860	\$ 456,539	\$ 496,653	\$ 9,702	\$ 271,724	\$ 779,883	\$ 1,580,490	\$ 183,816	\$ 290,604	\$ 5,000	\$ 4,169,946
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>												
Liabilities:												
Accounts payable	\$ 1,248	\$ 1,366	\$ 19,042	\$ 37,316	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,736	\$ -	\$ 61,708
Unearned operating assessment revenue	-	-	240,297	444,540	-	-	-	-	-	-	-	684,837
Total liabilities	1,248	1,366	259,339	481,856	-	-	-	-	-	2,736	-	746,545
Deferred inflows of resources:												
Assessments levied for the subsequent year	-	-	-	-	-	-	267,152	445,326	-	-	-	712,478
Unavailable special assessment revenue	-	-	-	-	-	-	-	-	6,291	19,529	-	25,820
Total deferred inflows of resources	-	-	-	-	-	-	267,152	445,326	6,291	19,529	-	738,298
Fund balances:												
Restricted for:												
Public safety	6,427	86,494	-	-	-	271,724	-	-	-	-	-	364,645
Public works	-	-	197,200	14,797	-	-	-	-	-	-	-	211,997
Capital outlay	-	-	-	-	-	-	512,731	1,135,164	-	-	5,000	1,652,895
Committed for culture and recreation	-	-	-	-	9,702	-	-	-	-	-	-	9,702
Assigned for public works	-	-	-	-	-	-	-	-	177,525	268,339	-	445,864
Total fund balances	6,427	86,494	197,200	14,797	9,702	271,724	512,731	1,135,164	177,525	268,339	5,000	2,685,103
Total liabilities, deferred inflows of resources, and fund balances	\$ 7,675	\$ 87,860	\$ 456,539	\$ 496,653	\$ 9,702	\$ 271,724	\$ 779,883	\$ 1,580,490	\$ 183,816	\$ 290,604	\$ 5,000	\$ 4,169,946

Charter Township of Kalamazoo

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND

BALANCES - nonmajor governmental funds

Year ended December 31, 2017

	Special revenue funds						Capital projects funds					Totals
	Police Training	Drug Enforcement	Street Lighting	Recycling	Parks	911 Wireless	Police Capital	Fire Capital	Street	Water	911 Wireless Capital	
<b>REVENUES</b>												
Federal grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,645	\$ 96,470	\$ -	\$ -	\$ -	\$ 98,115
State grants	-	-	-	-	-	-	-	-	11,807	-	-	11,807
Intergovernmental	-	-	-	-	-	-	-	-	-	-	213,010	213,010
Fines and forfeitures	4,250	10,342	-	-	-	-	-	-	-	-	-	14,592
Interest and rentals	-	-	1,804	1,156	-	1,546	3,904	26,122	556	2,651	-	37,739
Other	2,620	-	218,873	443,548	-	47,811	268,236	438,203	7,375	33,901	-	1,460,567
<b>Total revenues</b>	<b>6,870</b>	<b>10,342</b>	<b>220,677</b>	<b>444,704</b>	<b>-</b>	<b>49,357</b>	<b>273,785</b>	<b>560,795</b>	<b>19,738</b>	<b>36,552</b>	<b>213,010</b>	<b>1,835,830</b>
<b>EXPENDITURES</b>												
Current:												
Public safety	22,092	750	-	-	-	-	-	-	-	-	-	22,842
Public works	-	-	223,515	437,916	-	-	-	-	-	-	-	661,431
Capital outlay	-	-	-	-	-	-	166,854	138,138	-	39,502	-	344,494
Debt service:												
Principal	-	-	-	-	-	-	-	130,543	-	-	203,473	334,016
Interest	-	-	-	-	-	-	-	5,298	-	-	4,537	9,835
<b>Total expenditures</b>	<b>22,092</b>	<b>750</b>	<b>223,515</b>	<b>437,916</b>	<b>-</b>	<b>-</b>	<b>166,854</b>	<b>273,979</b>	<b>-</b>	<b>39,502</b>	<b>208,010</b>	<b>1,372,618</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(15,222)</b>	<b>9,592</b>	<b>(2,838)</b>	<b>6,788</b>	<b>-</b>	<b>49,357</b>	<b>106,931</b>	<b>286,816</b>	<b>19,738</b>	<b>(2,950)</b>	<b>5,000</b>	<b>463,212</b>
<b>OTHER FINANCING SOURCES</b>												
Transfers in	13,000	-	-	-	-	-	-	-	-	-	-	13,000
<b>NET CHANGES IN FUND BALANCES</b>	<b>(2,222)</b>	<b>9,592</b>	<b>(2,838)</b>	<b>6,788</b>	<b>-</b>	<b>49,357</b>	<b>106,931</b>	<b>286,816</b>	<b>19,738</b>	<b>(2,950)</b>	<b>5,000</b>	<b>476,212</b>
<b>FUND BALANCES - BEGINNING</b>	<b>8,649</b>	<b>76,902</b>	<b>200,038</b>	<b>8,009</b>	<b>9,702</b>	<b>222,367</b>	<b>405,800</b>	<b>848,348</b>	<b>157,787</b>	<b>271,289</b>	<b>-</b>	<b>2,208,891</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 6,427</b>	<b>\$ 86,494</b>	<b>\$ 197,200</b>	<b>\$ 14,797</b>	<b>\$ 9,702</b>	<b>\$ 271,724</b>	<b>\$ 512,731</b>	<b>\$ 1,135,164</b>	<b>\$ 177,525</b>	<b>\$ 268,339</b>	<b>\$ 5,000</b>	<b>\$ 2,685,103</b>