

*Charter Township of Kalamazoo
Kalamazoo County, Michigan*

FINANCIAL STATEMENTS

Year ended December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

Township Board
Charter Township of Kalamazoo, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Charter Township of Kalamazoo, Michigan, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements, as listed in the 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 activity, each major fund, and the aggregate remaining fund information of the Charter Township of Kalamazoo, Michigan, as of December 31, 2018, 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

Change in Accounting Principle

As discussed in Note 18 to the basic financial statements, the Township adopted GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in 2018. Our opinions are not modified with respect to this matter.

Required supplementary information

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

Supplementary 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.

Siegfried Crandall P.C.

June 6, 2019

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, 2018. Please read it in conjunction with the Township's financial statements.

FINANCIAL HIGHLIGHTS

- The Township's total net position increased by \$385,898 (3 percent) as a result of this year's operations.
- Of the \$14,582,272 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 \$4,228,506, which represents 56 percent of the actual total General Fund expenditures for the fiscal year.

Overview of the financial statements

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 2018 and 2017 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, deferred outflows of resources, 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 and recycling 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 \$14,582,272. However, \$18,182,677 of this total is invested in capital assets and \$2,483,507 is restricted for public safety, public works, capital outlay, and debt service. Consequently, unrestricted net position has a deficit balance of \$6,083,912.

*Condensed financial information
Net position*

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 19,000,732	\$ 18,539,858	\$ 21,395	\$ 18,177	\$ 19,022,127	\$ 18,558,035
Capital assets	17,967,044	18,272,721	279,895	290,817	18,246,939	18,563,538
Total assets	36,967,776	36,812,579	301,290	308,994	37,269,066	37,121,573
Deferred outflows of resources	813,042	1,197,695	-	-	813,042	1,197,695
Current and other liabilities	7,280,460	8,333,590	-	-	7,280,460	8,333,590
Long-term debt	8,942,638	9,867,268	-	-	8,942,638	9,867,268
Total liabilities	16,223,098	18,200,858	-	-	16,223,098	18,200,858
Deferred inflows of resources	7,276,738	6,381,922	-	-	7,276,738	6,381,922
Net position:						
Net investment in capital assets	17,902,782	18,208,459	279,895	290,817	18,182,677	18,499,276
Restricted	2,483,507	2,808,041	-	-	2,483,507	2,808,041
Unrestricted (deficit)	(6,105,307)	(7,589,006)	21,395	18,177	(6,083,912)	(7,570,829)
Total net position	\$ 14,280,982	\$ 13,427,494	\$ 301,290	\$ 308,994	\$ 14,582,272	\$ 13,736,488

Changes in net position

The Township's total revenues for 2018 were \$10,929,434. Approximately 45 percent of the Township's revenues comes from property taxes and 28 percent represents charges for services. About 21 percent of total revenues comes from state revenue sharing.

The total cost of all the Township's programs for 2018, covering a wide range of services, totaled \$10,543,536. About 66 percent of the Township's total costs relates to public safety, while general government and public works represent 15 percent and 17 percent, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Condensed financial information
Changes in net position

	Governmental activities		Business-type activities		Totals	
	2018	2017	2018	2017	2018	2017
Net position, beginning of year*						
As previously reported	\$ 13,427,494	\$ 16,542,405	\$ 308,994	\$ 313,091	\$ 13,736,488	\$ 16,855,496
Cumulative effect of change in accounting principle	459,886	-	-	-	459,886	-
As restated	<u>13,887,380</u>	<u>16,542,405</u>	<u>308,994</u>	<u>313,091</u>	<u>14,196,374</u>	<u>16,855,496</u>
Program revenues:						
Charges for services	3,055,280	2,721,544	10,000	9,220	3,065,280	2,730,764
Operating grants	273,186	360,763	-	-	273,186	360,763
Capital grants	4,999	117,957	-	-	4,999	117,957
General revenues:						
Property taxes	4,876,585	4,014,324	-	-	4,876,585	4,014,324
State grants	2,274,915	2,218,497	-	-	2,274,915	2,218,497
Local community stabilization	132,709	156,361	-	-	132,709	156,361
Franchise fees	184,744	194,727	-	-	184,744	194,727
Investment income	116,824	104,854	192	-	117,016	104,854
Total revenues	<u>10,919,242</u>	<u>9,889,027</u>	<u>10,192</u>	<u>9,220</u>	<u>10,929,434</u>	<u>9,898,247</u>
Expenses:						
General government	1,535,531	1,583,094	-	-	1,535,531	1,583,094
Public safety	6,953,752	6,887,065	-	-	6,953,752	6,887,065
Public works	1,746,160	4,221,831	-	-	1,746,160	4,221,831
Community and economic development	81,643	81,269	-	-	81,643	81,269
Culture and recreation	8,959	16,726	17,896	13,317	26,855	30,043
Interest on debt	199,595	213,953	-	-	199,595	213,953
Total expenses	<u>10,525,640</u>	<u>13,003,938</u>	<u>17,896</u>	<u>13,317</u>	<u>10,543,536</u>	<u>13,017,255</u>
Changes in net position	<u>\$ 393,602</u>	<u>\$ (3,114,911)</u>	<u>\$ (7,704)</u>	<u>\$ (4,097)</u>	<u>\$ 385,898</u>	<u>\$ (3,119,008)</u>
Net position, end of year	<u>\$ 14,280,982</u>	<u>\$ 13,427,494</u>	<u>\$ 301,290</u>	<u>\$ 308,994</u>	<u>\$ 14,582,272</u>	<u>\$ 13,736,488</u>

* As described in Note 18 to the financial statements, the Township adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* during 2018. In connection with the adoption of this statement, the Township recorded a cumulative effect of a change in an accounting principle in the amount of \$459,886 in 2018. As this pronouncement has been adopted prospectively, there was no restatement of the 2017 financial position or results of operations.

Governmental activities. Governmental activities increased the Township's net position by \$393,602 in 2018 compared to a \$3,114,911 decrease in 2017. The Township's revenues increased by \$1,030,215, due primarily to an \$862,261 increase in property taxes as the millage was increased in the Road Debt Fund. Total governmental expenses were \$2,478,298 lower in 2018 compared to 2017. The difference is primarily due to a \$2,475,671 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 \$10,525,640. After subtracting the direct charges to those who directly benefited from the programs (\$3,055,280) and other operating and capital grants (\$278,185), the "public benefit" portion covered by property taxes, state revenue sharing, and other general revenues was \$7,192,175 in 2018.

Business-type activities. Charges for services in the business-type activities for 2018 were \$10,000 compared to \$9,220 last year. Expenses were \$4,579 higher than the prior year.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

At December 31, 2018, the Township's governmental funds reported a combined fund balance of \$11,094,570, an increase of \$52,725 over the prior year.

The General Fund is the primary operating fund of the Township. General Fund revenues of 8,033,768 were lower than expenditures (\$7,524,651) and transfers out (\$671,350) by \$162,233 in 2018. Fund balance at year end was \$4,228,506.

The Sewer Improvement Fund revenues, comprised of assessments, state grants, and interest, totaled \$320,668, while expenditures totaled \$301,443. As a result, the fund balance increased by \$19,225. The fund balance was \$3,438,435 at the end of 2018.

The Road Bond Fund, had expenditures amounting to \$1,062,402, revenues of \$1,099,638, and transfers in of \$13,014, which resulted in a \$50,250 increase in fund balance. The fund had an ending fund balance of \$68,755.

The net position of the Golf Course Fund, the sole proprietary fund, decreased by \$7,704, as expenses of \$17,896 exceeded revenues of \$10,192 for the year.

General Fund budgetary highlights

The Township amended the original General Fund budget, adopted by the Township Board for 2018, by increasing expenditures by \$9,500.

Revenues were \$579,704 more than anticipated, as state grants and other revenues exceeded the amounts budgeted by \$364,967 and \$123,362, respectively. Actual expenditures were \$738,394 less than budgeted and transfers out were \$13,000 more than anticipated. These conditions resulted in a \$1,305,098 positive budget variance with a \$162,233 decrease in fund balance for the year, compared to a \$1,467,331 budgeted decrease in fund balance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

At December 31, 2018, the Township had invested \$18,246,939, 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 a 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 bonds payable with balances outstanding in the amount of \$8,942,638, a decrease of \$924,630.

Other long-term obligations consisted of a liability for compensated absences of \$416,767, net pension liability of \$2,773,873, and a net other postemployment benefit liability of \$3,116,939.

More detailed information about the Township's long-term debt is presented in Note 7, Note 13, and Note 14 of the notes to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In 2019, 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 2019. 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, 2018

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 10,883,928	\$ 12,375	\$ 10,896,303
Investments	3,379,430	-	3,379,430
Inventory	-	9,020	9,020
Receivables	4,649,441	-	4,649,441
Prepaid items	30,605	-	30,605
Total current assets	<u>18,943,404</u>	<u>21,395</u>	<u>18,964,799</u>
Noncurrent assets:			
Receivables	57,328	-	57,328
Capital assets not being depreciated	504,748	171,000	675,748
Capital assets, net of accumulated depreciation	<u>17,462,296</u>	<u>108,895</u>	<u>17,571,191</u>
Total noncurrent assets	<u>18,024,372</u>	<u>279,895</u>	<u>18,304,267</u>
Total assets	<u>36,967,776</u>	<u>301,290</u>	<u>37,269,066</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension amounts	770,604	-	770,604
Deferred OPEB amounts	<u>42,438</u>	<u>-</u>	<u>42,438</u>
Total deferred outflows of resources	<u>813,042</u>	<u>-</u>	<u>813,042</u>
LIABILITIES			
Current liabilities:			
Payables	725,386	-	725,386
Unearned operating assessment revenue	247,495	-	247,495
Current portion of long-term debt	<u>900,000</u>	<u>-</u>	<u>900,000</u>
Total current liabilities	<u>1,872,881</u>	<u>-</u>	<u>1,872,881</u>
Noncurrent liabilities:			
Noncurrent portion of long-term debt	8,042,638	-	8,042,638
Compensated absences	416,767	-	416,767
Net pension liability	2,773,873	-	2,773,873
Net OPEB liability	<u>3,116,939</u>	<u>-</u>	<u>3,116,939</u>
Total noncurrent liabilities	<u>14,350,217</u>	<u>-</u>	<u>14,350,217</u>
Total liabilities	<u>16,223,098</u>	<u>-</u>	<u>16,223,098</u>
DEFERRED INFLOWS OF RESOURCES			
Property tax revenues levied for the subsequent year	5,030,570	-	5,030,570
Assessments levied for the subsequent year	1,839,280	-	1,839,280
Deferred pension amounts	<u>406,888</u>	<u>-</u>	<u>406,888</u>
Total deferred inflows of resources	<u>7,276,738</u>	<u>-</u>	<u>7,276,738</u>
NET POSITION			
Net investment in capital assets	17,902,782	279,895	18,182,677
Restricted for:			
Public safety	300,389	-	300,389
Public works	277,866	-	277,866
Capital outlay	1,836,497	-	1,836,497
Debt service	68,755	-	68,755
Unrestricted (deficit)	<u>(6,105,307)</u>	<u>21,395</u>	<u>(6,083,912)</u>
Total net position	<u>\$ 14,280,982</u>	<u>\$ 301,290</u>	<u>\$ 14,582,272</u>

See notes to financial statements

STATEMENT OF ACTIVITIES

Year ended December 31, 2018

	Program revenues			Net (expenses) revenues and changes in net position		Totals
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	
Functions/Programs						
Governmental activities:						
General government	\$ 1,535,531	\$ 588,010	\$ -	\$ -	\$ (947,521)	\$ (947,521)
Public safety	6,953,752	1,709,260	10,973	4,999	(5,228,520)	(5,228,520)
Public works	1,746,160	743,620	262,213	-	(740,327)	(740,327)
Community and economic development	81,643	14,390	-	-	(67,253)	(67,253)
Recreation and culture	8,959	-	-	-	(8,959)	(8,959)
Interest on long-term debt	199,595	-	-	-	(199,595)	(199,595)
Total governmental activities	10,525,640	3,055,280	273,186	4,999	(7,192,175)	(7,192,175)
Business-type activities - golf course	17,896	10,000	-	-		\$ (7,896)
Totals	\$ 10,543,536	\$ 3,065,280	\$ 273,186	\$ 4,999	(7,192,175)	(7,896)
General revenues:						
Property taxes					4,876,585	-
State grants					2,274,915	-
Local community stabilization					132,709	-
Franchise fees					184,744	-
Investment income					116,824	192
Total general revenues					7,585,777	192
Changes in net position					393,602	(7,704)
Net position - beginning					13,887,380	308,994
Net position - ending					\$ 14,280,982	\$ 301,290

See notes to financial statements

BALANCE SHEET - governmental funds

December 31, 2018

	<u>General</u>	<u>Sewer Improvement</u>	<u>Road Bond</u>	<u>Nonmajor funds</u>	<u>Total governmental funds</u>
ASSETS					
Cash	\$ 2,660,112	\$ 3,435,060	\$ 554,023	\$ 4,234,733	\$ 10,883,928
Investments	3,379,430	-	-	-	3,379,430
Receivables	3,128,580	115,174	664,148	798,867	4,706,769
Total assets	<u>\$ 9,168,122</u>	<u>\$ 3,550,234</u>	<u>\$ 1,218,171</u>	<u>\$ 5,033,600</u>	<u>\$ 18,970,127</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities:					
Payables	\$ 419,872	\$ 45,610	-	\$ 208,529	\$ 674,011
Unearned operating assessment revenue	-	-	-	247,495	247,495
Total liabilities	<u>419,872</u>	<u>45,610</u>	<u>-</u>	<u>456,024</u>	<u>921,506</u>
Deferred inflows of resources:					
Property tax revenues levied for the subsequent year	3,881,154	-	1,149,416	-	5,030,570
Assessments levied for the subsequent year	638,590	-	-	1,200,690	1,839,280
Unavailable special assessment revenue	-	66,189	-	18,012	84,201
Total deferred inflows of resources	<u>4,519,744</u>	<u>66,189</u>	<u>1,149,416</u>	<u>1,218,702</u>	<u>6,954,051</u>
Fund balances:					
Restricted for:					
Public safety	-	-	-	236,127	236,127
Public works	-	-	-	277,866	277,866
Capital outlay	-	-	-	1,836,497	1,836,497
Debt service	-	-	68,755	-	68,755
Committed for culture and recreation	-	-	-	9,702	9,702
Assigned for:					
Public works	-	3,438,435	-	459,018	3,897,453
Capital outlay	-	-	-	539,664	539,664
Unassigned	<u>4,228,506</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,228,506</u>
Total fund balances	<u>4,228,506</u>	<u>3,438,435</u>	<u>68,755</u>	<u>3,358,874</u>	<u>11,094,570</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 9,168,122</u>	<u>\$ 3,550,234</u>	<u>\$ 1,218,171</u>	<u>\$ 5,033,600</u>	<u>\$ 18,970,127</u>
Reconciliation of the balance sheet to the statement of net position:					
Total fund balance - total governmental funds					\$ 11,094,570
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.					
					17,967,044
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.					
					84,201
Certain pension and OPEB 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.					
					763,550
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.					
					(357,396)
Interest payable, related to long-term liabilities, is not due and payable in the current period and, therefore, is not reported in the funds.					
					(51,375)
Prepaid items are not financial resources and, therefore, are not reported in the funds					
					30,605
Long-term liabilities that are not due and payable in the current period and are not reported in the funds:					
Long-term debt					(8,942,638)
Compensated absences					(416,767)
Net pension liability					(2,773,873)
Net OPEB liability					(3,116,939)
Net position of <i>governmental activities</i>					<u>\$ 14,280,982</u>

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

Year ended December 31, 2018

	<u>General</u>	<u>Sewer Improvement</u>	<u>Road Bond</u>	<u>Nonmajor funds</u>	<u>Total governmental funds</u>
REVENUES					
Property taxes	\$ 4,019,102	\$ -	\$ 1,067,307	\$ -	\$ 5,086,409
Federal grants	334	-	-	5,000	5,334
State grants	2,421,967	250,485	29,391	11,728	2,713,571
Intergovernmental	-	-	-	5,400	5,400
Fines and forfeitures	26,728	-	-	8,386	35,114
Licenses and permits	308,143	-	-	-	308,143
Charges for services	475,851	9,000	-	-	484,851
Interest and rentals	98,766	53,588	2,940	70,833	226,127
Other	682,877	7,595	-	1,461,471	2,151,943
	<u>8,033,768</u>	<u>320,668</u>	<u>1,099,638</u>	<u>1,562,818</u>	<u>11,016,892</u>
Total revenues					
EXPENDITURES					
Current:					
General government	1,481,774	-	-	-	1,481,774
Public safety	5,890,647	-	-	215,052	6,105,699
Public works	17,502	301,443	527	1,161,561	1,481,033
Community and economic development	81,643	-	-	-	81,643
Recreation and culture	5,928	-	-	-	5,928
Capital outlay	47,157	-	-	632,996	680,153
Debt service:					
Principal	-	-	850,000	64,262	914,262
Interest	-	-	211,875	1,800	213,675
	<u>7,524,651</u>	<u>301,443</u>	<u>1,062,402</u>	<u>2,075,671</u>	<u>10,964,167</u>
Total expenditures					
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
	<u>509,117</u>	<u>19,225</u>	<u>37,236</u>	<u>(512,853)</u>	<u>52,725</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	13,014	681,350	694,364
Transfers out	(671,350)	-	-	(23,014)	(694,364)
	<u>(671,350)</u>	<u>-</u>	<u>13,014</u>	<u>658,336</u>	<u>-</u>
Net other financing sources (uses)					
NET CHANGES IN FUND BALANCES					
	(162,233)	19,225	50,250	145,483	52,725
FUND BALANCES - BEGINNING					
	<u>4,390,739</u>	<u>3,419,210</u>	<u>18,505</u>	<u>3,213,391</u>	<u>11,041,845</u>
FUND BALANCES - ENDING					
	<u>\$ 4,228,506</u>	<u>\$ 3,438,435</u>	<u>\$ 68,755</u>	<u>\$ 3,358,874</u>	<u>\$ 11,094,570</u>

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

Year ended December 31, 2018

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) \$ 52,725

Amounts reported for *governmental activities* in the statement of activities (page 12) are different because:

Capital assets:

Assets acquired	663,748
Provision for depreciation	(884,135)
Basis of assets disposed	(85,290)

Principal repayments on long-term debt 914,262

Changes in other assets/liabilities:

Decrease in prepaid expenditures	(405)
Decrease in interest payable	3,712
Decrease in deferred outflows of resources - pension plan interest projections compared to actual	(563,748)
Increase in deferred outflows of resources - pension contributions made after plan year end	(22,010)
Decrease in deferred outflows of resources - change in assumptions	(66,366)
Increase in deferred inflows of resources - difference between expected and actual - pension	4,650
Increase in deferred inflows of resources - difference between expected and actual - OPEB	42,438
Decrease in deferred inflows of resources	(47,114)
Increase in net OPEB liability	(72,119)
Decrease in net pension liability	427,176
Decrease in compensated absences	15,710
Decrease in other accrued liabilities	<u>10,368</u>

Change in net position of *governmental activities* \$ 393,602

STATEMENT OF NET POSITION - proprietary fund

December 31, 2018

	<i>Golf Course Fund</i>
ASSETS	
Current assets:	
Cash	\$ 12,375
Inventory	<u>9,020</u>
Total current assets	<u>21,395</u>
Noncurrent assets:	
Capital assets not being depreciated - land	171,000
Capital assets, net of accumulated depreciation	<u>108,895</u>
Total noncurrent assets	<u>279,895</u>
Total assets	<u>301,290</u>
NET POSITION	
Investment in capital assets	279,895
Unrestricted	<u>21,395</u>
Total net position	<u><u>\$ 301,290</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, 2018

	<u><i>Golf Course Fund</i></u>
OPERATING REVENUES	
Rentals	\$ 10,000
OPERATING EXPENSES	
Operating and maintenance costs	6,974
Depreciation	<u>10,922</u>
Total operating expenses	<u>17,896</u>
OPERATING LOSS	(7,896)
NONOPERATING REVENUES	
Interest	<u>192</u>
CHANGE IN NET POSITION	(7,704)
NET POSITION - BEGINNING	<u>308,994</u>
NET POSITION - ENDING	<u><u>\$ 301,290</u></u>

See notes to financial statements

STATEMENT OF CASH FLOWS - proprietary fund

Year ended December 31, 2018

	<i>Golf Course Fund</i>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 10,000
Payments to suppliers	<u>(6,974)</u>
Net cash provided by operating activities	<u>3,026</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	<u>192</u>
NET CHANGE IN CASH	3,218
CASH - BEGINNING	<u>9,157</u>
CASH - ENDING	<u><u>\$ 12,375</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (7,896)
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>\$ 3,026</u></u>

See notes to financial statements

Charter Township of Kalamazoo

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - *agency funds*

December 31, 2018

ASSETS

Cash	\$ 544,055
Investments	<u>3,400,000</u>
Total assets	<u><u>3,944,055</u></u>

LIABILITIES

Due to others	<u><u>\$ 3,944,055</u></u>
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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 management has determined that there are no other entities for which the Township is 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 the major enterprise fund 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. Revenues are derived primarily property taxes and state shared revenue.

The Sewer Improvement Fund, a capital project fund, accounts for the construction or purchase of major sewer improvements. Revenues are primarily derived from special assessments.

The Road Bond Fund, a debt service fund, accounts for the debt service payments related to bonds issued to improve the Township's roads. 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 two agency funds (The Tax Collection Fund and the Agency Fund). Agency 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 services. Operating expenses for the proprietary fund include the cost of 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:

Cash 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 reported 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." No allowance for uncollectible accounts has been recorded, as the Township considers all receivables 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.

Capital assets - Capital assets, which include property, 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 are defined by the Township as assets with an initial, individual cost of more than \$2,000 (\$10,000 for infrastructure assets) and an estimated useful life in excess of one year. 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.

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

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 two items in this category. The deferred outflows, related to the defined benefit pension plan, are discussed in Note 13. The deferred outflows, related to the other postemployment benefit plan, are discussed in note 14. 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 items related to the 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 they were 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.

Pension - For purposes of measuring the net pension liability, deferred outflows 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Postemployment benefits other than pensions - For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Township of Kalamazoo Township Retiree Health Care Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

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 balance is the residual classification for the General Fund. 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 2017 ad valorem taxes are levied and collectible on December 1, 2017, 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.

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 the Township’s General Fund and special revenue 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 are 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>Final budget</u>	<u>Actual</u>	<u>Variance</u>
General	Transfers out	\$ 658,350	\$ 671,350	\$ 13,000

NOTE 3 - CASH AND INVESTMENTS

At December 31, 2018, cash and investments are classified in the accompanying financial statements, as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Fiduciary activities</u>	<u>Totals</u>
Financial statements:				
Cash and cash equivalents	\$ 10,883,928	\$ 12,375	\$ 544,055	\$ 11,440,358
Investments	<u>3,379,430</u>	<u>-</u>	<u>3,400,000</u>	<u>6,779,430</u>
Totals	<u>\$ 14,263,358</u>	<u>\$ 12,375</u>	<u>\$ 3,944,055</u>	<u>\$ 18,219,788</u>
Notes to financial statements:				
Deposits				\$ 11,440,358
Investments				<u>6,779,430</u>
Total				<u>\$ 18,219,788</u>

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, 2018, \$8,685,326 of the Township’s bank balances of \$12,412,416 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.

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments at December 31, 2018, 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 \$ 5,290,631

Commercial Paper 744,869

Government-sponsored enterprises:

\$535,000 Federal Home Loan Mortgage Corporation Fixed Rate
Bonds - paying interest at 1.10% and maturing 03/23/19 533,384

\$331,000 Federal National Mortgage Association Remic Trust
Bonds - paying interest at 2.50% and maturing 12/25/42 210,546

Total investments \$ 6,779,430

The Township's investments are summarized, as follows:

<u>Investment type</u>	<u>Fair value</u>	<u>Maturity</u>	<u>Rating</u>	<u>Rating organization</u>
CLASS - Michigan investment pool	\$ 5,290,631	N/A	AAAm	S&P
Commercial paper	744,869	2019	A1+	S&P
Government-sponsored enterprises:				
Federal Home Loan Mortgage Corporation Fixed Rate Bonds	533,384	2019	Aaa	Moody's
Federal National Mortgage Association Remic Trust Bonds	<u>210,546</u>	2042	Aaa	Moody's
	<u>\$ 6,779,430</u>			

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

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, 2018, 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.

NOTE 3 - CASH AND INVESTMENTS (Continued)

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. The Township’s investment policy does not contain requirements that would limit the exposure to credit risk for investments. The credit quality ratings of the Township’s investments are identified above.

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. State law and the Township’s investment policy places no limitations on the amount that can be invested in any one issuer. Investments in investment pools and money market funds are not subject to concentration of credit risk. Investments in any one issuer that represent 5% or more of the Township’s total investments are as follows:

<i>Issuer</i>	<i>Fair value</i>	<i>Percentage</i>
Government-sponsored enterprises:		
Federal Home Loan Mortgage Corporation Fixed Rate Bonds	533,384	7.87%
Commercial paper:		
General Electric Commercial Paper	496,081	7.32%

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. The maturities of the Township’s investments are identified above. Investments in investment pools and money market funds are not subject to interest rate risk.

The Township’s investments include 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 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.

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 measurement as of December 31, 2018.

- U.S. government and agency securities are valued using observable fair values of similar assets (Level 2).

The MBIA 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, 2018, for the Township’s individual major and nonmajor funds, in the aggregate, were as follows:

<u>Fund</u>	<u>Taxes</u>	<u>Accounts</u>	<u>Special assessments</u>	<u>Intergovern- mental</u>	<u>Totals</u>
Governmental:					
General	\$ 2,498,875	\$ 38,450	\$ -	\$ 591,255	\$ 3,128,580
Sewer Improvement	-	16,059	53,531	45,584	115,174
Road bond	634,757	29,391	-	-	664,148
Nonmajor	<u>770,228</u>	<u>5,300</u>	<u>18,617</u>	<u>4,722</u>	<u>798,867</u>
Total governmental	<u>\$ 3,903,860</u>	<u>\$ 89,200</u>	<u>\$ 72,148</u>	<u>\$ 641,561</u>	<u>\$ 4,706,769</u>
Amounts due beyond one year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,328</u>	<u>\$ -</u>	<u>\$ 57,328</u>

All receivables are considered to be fully collectible.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018, 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	2,848,371	165,083	-	3,013,454
Equipment	4,141,842	176,526	-	4,318,368
Vehicles	3,829,704	322,139	(106,539)	4,045,304
Infrastructure	22,587,807	-	(90,193)	22,497,614
Subtotal	<u>33,407,724</u>	<u>663,748</u>	<u>(196,732)</u>	<u>33,874,740</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,811,112)	(77,502)	-	(1,888,614)
Equipment	(2,454,489)	(256,197)	-	(2,710,686)
Vehicles	(2,944,661)	(281,934)	106,539	(3,120,056)
Infrastructure	(8,429,489)	(268,502)	4,903	(8,693,088)
Subtotal	<u>(15,639,751)</u>	<u>(884,135)</u>	<u>111,442</u>	<u>(16,412,444)</u>
Total capital assets being depreciated, net	<u>17,767,973</u>	<u>(220,387)</u>	<u>(85,290)</u>	<u>17,462,296</u>
Governmental activities capital assets, net	<u>\$ 18,272,721</u>	<u>\$ (220,387)</u>	<u>\$ (85,290)</u>	<u>\$ 17,967,044</u>

Depreciation expense was charged to the Township's governmental functions, as follows:

Governmental activities:	
General government	\$ 69,963
Public safety	542,640
Public works	268,501
Culture and recreation	<u>3,031</u>
Total governmental activities	<u>\$ 884,135</u>

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	506,895	-	-	506,895
Less accumulated depreciation for:				
Buildings	(94,759)	-	-	(94,759)
Improvements other than buildings	(151,691)	(2,469)	-	(154,160)
Vehicles and equipment	(140,628)	(8,453)	-	(149,081)
Subtotal	(387,078)	(10,922)	-	(398,000)
Total capital assets being depreciated, net	119,817	(10,922)	-	108,895
Business-type activities capital assets, net	<u>\$ 290,817</u>	<u>\$ (10,922)</u>	<u>\$ -</u>	<u>\$ 279,895</u>

NOTE 6 - PAYABLES

Payables as of December 31, 2018, for the Township's individual major and nonmajor funds, in the aggregate, were as follows:

<i>Fund</i>	<i>Accounts</i>	<i>Accrued Payroll</i>	<i>Totals</i>
Governmental:			
General	\$ 242,322	\$ 177,550	\$ 419,872
Sewer Improvement	45,610	-	45,610
Nonmajor	208,529	-	208,529
Total governmental	<u>\$ 496,461</u>	<u>\$ 177,550</u>	<u>\$ 674,011</u>

NOTE 7 - LONG-TERM LIABILITIES

Long-term obligation activity for the year ended December 31, 2018, 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	\$ -	\$ (850,000)	\$ 8,900,000	\$ 900,000
\$187,580 2015 Installment purchase agreement note, payable in annual installments of \$66,060, with 2.8% interest; final payment due September 2018	<u>64,262</u>	<u>-</u>	<u>(64,262)</u>	<u>-</u>	<u>-</u>
Subtotal	9,814,262	-	(914,262)	8,900,000	900,000
Premium on 2015 bonds	<u>53,006</u>	<u>-</u>	<u>(10,368)</u>	<u>42,638</u>	<u>-</u>
Total long term debt	9,867,268	-	(924,630)	8,942,638	900,000
Compensated absences	<u>432,477</u>	<u>366,820</u>	<u>(382,530)</u>	<u>416,767</u>	<u>-</u>
Total governmental activities	<u>\$ 10,299,745</u>	<u>\$ 366,820</u>	<u>\$ (1,307,160)</u>	<u>\$ 9,359,405</u>	<u>\$ 900,000</u>

At December 31, 2018 debt service requirements, with the exception of compensated absences, are as follows:

<u>Year ended December 31:</u>	<u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 900,000	\$ 198,750
2020	950,000	182,500
2021	1,000,000	163,000
2022	1,100,000	142,000
2023	1,100,000	118,625
2024 - 2026	<u>3,850,000</u>	<u>169,875</u>
Totals	<u>\$ 8,900,000</u>	<u>\$ 974,750</u>

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

NOTE 8 - PROPERTY TAXES

The 2017 taxable valuation of the Township approximated \$421,000,000, on which ad valorem taxes levied consisted of 8.9412 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 property tax revenue.

The 2018 taxable valuation of the Township approximated \$434,000,000, on which ad valorem taxes levied consisted of 8.9691 mills for operating purposes and 2.6500 mills for roads, raising approximately \$3,881,000 and \$1,149,000, 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, 2018, the Township abated property taxes totaling \$25,202 under the Industrial Facilities Exemption. Which is authorized by Public Act 198 of 1974.

NOTE 10 - INTERFUND TRANSFERS

The General Fund transferred \$658,350 to a nonmajor capital projects fund (Building and Grounds Fund) to assign funds for future capital acquisitions, and \$13,000 to a nonmajor special revenue fund (Police Training Fund) to support current public safety expenditures.

A nonmajor capital projects fund (Road Improvement Fund) transferred \$13,014 to the Road Bond Fund to cover a portion of current year interest 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 PLAN

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, 2018, the Township and eligible employees made contributions of \$168,301 and \$37,101, respectively. At December 31, 2018, 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.

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.

NOTE 13 - DEFINED BENEFIT PENSION PLAN (Continued)

Employees covered by benefit terms:

At the December 31, 2017, measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	12
Active employees	<u>36</u>
Total	<u><u>48</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, 2018, the Township contributed \$389,279 to the plan.

Net pension liability:

The Township’s net pension liability reported at December 31, 2018, was determined using a measurement of the total pension liability and the pension net position as of December 31, 2017. 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, 2017, 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.

The actuarial assumptions used in the December 31, 2017, valuation were based on the results of the 2015 Experience Study, which is the most recent actuarial experience study.

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%

NOTE 13 - DEFINED BENEFIT PENSION PLAN (Continued)

Discount rate:

The discount rate used to measure the total pension liability is 8.00% for 2017. 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:

	<i>Increase (decrease)</i>		
	<i>Total pension liability (a)</i>	<i>Plan fiduciary net position (b)</i>	<i>Net pension liability (asset) (a) - (b)</i>
Balances at December 31, 2017	\$ 13,160,346	\$ 9,959,297	\$ 3,201,049
Changes for the year:			
Service cost	270,325	-	270,325
Interest	1,044,156	-	1,044,156
Benefit change	(14,947)	-	(14,947)
Difference between expected and actual	(13,823)	-	(13,823)
Employer contributions	-	411,289	(411,289)
Net investment income	-	1,322,517	(1,322,517)
Benefit payments, including refunds	(487,117)	(487,117)	-
Administrative expenses	-	(20,919)	20,919
Net changes	798,594	1,225,770	(427,176)
Balances at December 31, 2018	\$ 13,958,940	\$ 11,185,067	\$ 2,773,873

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

The following schedule 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.

	<i>1% decrease (7.00%)</i>	<i>Current rate (8.00%)</i>	<i>1% increase (9.00%)</i>
Net pension liability	\$ 4,578,531	\$ 2,773,873	\$ 1,265,055

NOTE 13 - DEFINED BENEFIT PENSION PLAN (Continued)

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. 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, 2018, the Township recognized pension expense of \$609,577. At December 31, 2018, the Township reported deferred outflows of resources and deferred inflows 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	\$ -	\$ 234,932
Difference between expected and actual experience	49,492	171,956
Difference in assumptions	<u>331,833</u>	<u>-</u>
	381,325	406,888
Contributions made subsequent to the measurement date	<u>389,279</u>	<u>-</u>
Totals	<u>\$ 770,604</u>	<u>\$ 406,888</u>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in 2019.

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>
2019	\$ 76,265	\$ (5,734)
2020	76,265	22,717
2021	76,265	197,137
2022	76,265	134,300
2023	76,265	28,372
2023 - 2024	<u>-</u>	<u>30,096</u>
	<u>\$ 381,325</u>	<u>\$ 406,888</u>

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

Plan description:

The Charter 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.

Benefits provided:

Summary of Benefits - Medical, dental and prescription coverage for the following period:

Township officers and employees:

Retiree - Three months (3.0) of health insurance coverage for each complete year of full-time Township service (either as an employee or elected official) up to a maximum of sixty (60) months of coverage

Dependent - Three months (3.0) of health insurance coverage for each complete year of full-time Township service (completed by either an employee or elected official) up to a maximum of sixty (60) months of coverage

Police officers:

Retiree - Four and one-quarter (4.25) months for each complete year of continuous Township service

Dependent - Three (3) months for each complete year of continuous Township service

Retiree contribution - Twenty percent (20%) of retiree health care premium

Summary of Plan Participants:

As of December 31, 2018, Plan membership consisted of the following:

Inactive participants receiving benefits	14
Active participants	<u>48</u>
 Total participants	 <u><u>62</u></u>

Contributions:

The Plan was established and is being funded under the authority of the Township’s governing body and under agreements with the unions representing various classes of employees. The Plan’s funding policy is to pay expected plan benefits from general operating funds – pay-as-you-go. Active participants do not make contributions to pre-fund the Plan. There are no long-term contracts for contributions to the plan. The plan has no legally required reserves.

Summary of Significant Accounting Policies:

For purposes of measuring the net Other Post-Employment Benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, have been determined on the same basis as they are reported by the Township.

Actuarial Assumptions:

The Total OPEB Liability was determined by an actuarial valuation as of December 31, 2018 and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	Implicit in expected payroll increases
Payroll increases	1.0% (for purposes of allocating liability)
Investment rate of return	N/A; this plan is not pre-funded
20-year Aa Municipal bond rate	3.0%
Mortality	RP 2014 Headcount weighted, annuitant and non-annuitant, sex-distinct mortality table with MP-2018 improvement scale

As this plan is not pre-funded, no long-term expected rate of return on Plan investments was determined.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Discount Rate:

The discount rate used to measure the total OPEB liability was 3.0%. Because the plan does not have a dedicated OPEB trust, there are not assets projected to be sufficient to make projected future benefit payments of current plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the “depletion date”), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the total OPEB liability. December 31, 2018 is the first year of required compliance with GASB 75, so there is no required discount rate change to disclose.

Changes in the Net OPEB liability:

	<i>Increase (decrease)</i>		
	<i>Total OPEB liability (a)</i>	<i>Plan fiduciary net position (b)</i>	<i>Net OPEB liability (a) - (b)</i>
Balances at December 31, 2017	\$ 3,044,820	\$ -	\$ 3,044,820
Changes for the year:			
Service cost	135,506	-	135,506
Interest	93,757	-	93,757
Experience (gains)/ losses	(46,967)	-	(46,967)
Contributions	-	110,177	(110,177)
Benefit payments	(110,177)	(110,177)	-
Net changes	72,119	-	72,119
Balances at December 31, 2018	\$ 3,116,939	\$ -	\$ 3,116,939
Plan fiduciary net position as a percentage of total OPEB liability			0.00%

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Net OPEB Liability - Discount and trend rate sensitivities:

The following schedule presents the net OPEB liability of the Township, calculated using trend and discount rates 1% higher and lower than base assumptions:

<i>Trend</i>	<u>1% decrease</u>	<u>Current rate</u>	<u>1% increase</u>
Total OPEB liability	\$ 2,737,056	\$ 3,116,939	\$ 3,574,614
Plan fiduciary net position	<u>-</u>	<u>-</u>	<u>-</u>
Net OPEB liability	<u>\$ 2,737,056</u>	<u>\$ 3,116,939</u>	<u>\$ 3,574,614</u>
<i>Discount</i>	<u>1% decrease</u>	<u>Current rate</u>	<u>1% increase</u>
Total OPEB liability	\$ 3,460,456	\$ 3,116,939	\$ 2,841,768
Plan fiduciary net position	<u>-</u>	<u>-</u>	<u>-</u>
Net OPEB liability	<u>\$ 3,460,456</u>	<u>\$ 3,116,939</u>	<u>\$ 2,841,768</u>

Components of OPEB expense for the fiscal year ended December 31, 2018:

Service cost	\$ 135,506
Interest on total OPEB liability	93,757
Experience (gains) / losses	<u>(4,529)</u>
OPEB expense	<u>\$ 224,734</u>

Deferred inflows and outflows of resources related to OPEB Plan:

<u>Source</u>	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Experience (gains) / losses	\$ -	\$ 42,438
Total	<u>\$ -</u>	<u>\$ 42,438</u>

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the OPEB will be recognized in OPEB expense as follows:

<u>Year ended</u>	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
2019	\$ -	\$ 4,529
2020	-	4,529
2021	-	4,529
2022	-	4,529
2023	-	4,529
Thereafter	-	19,793
	<u>\$ -</u>	<u>\$ 42,438</u>

Reconciliation of Net OPEB liability:

Net OPEB liability at December 31, 2017	\$ 3,044,820
Total OPEB expense	224,734
Contributions	(110,177)
Deferred outflow of resources	-
Deferred inflows of resources	<u>(42,438)</u>
Net OPEB liability at December 31, 2018	<u>\$ 3,116,939</u>

OPEB Plan fiduciary net position:

The OPEB Plan fiduciary net position as of December 31, 2018 was \$-0-; this Plan is not pre-funded.

Net OPEB liability, by participant status, at December 31, 2018:

Inactive participants receiving benefits	\$ 506,111
Active participants	<u>2,610,828</u>
Total	<u>\$ 3,116,939</u>

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 - CONTINGENT LIABILITY

The Township is contingently liable to its employees for \$506,189 in accumulated, nonvested sick pay benefits at December 31, 2018.

NOTE 17 - DEFICIT FUND BALANCE

The Recycling Fund, a special revenue fund, had a deficit fund balance at December 31, 2018, in the amount of \$16,323. The deficit will be eliminated through the recognition of assessment revenues in the subsequent year.

NOTE 18 - CHANGE IN ACCOUNTING PRINCIPLE

During the current year, the Charter Township of Kalamazoo adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. As a result, the government-wide financial statements now include a liability for unfunded other postemployment benefits, known as the net OPEB liability. Some of the changes in the net OPEB liability are recognized immediately, as part of OPEB expense, and other changes will be deferred and recognized over future years. See Note 14 for more details.

The cumulative effect of this new accounting standard was an increase of \$459,886 in opening net position of governmental activities at January 1, 2018, to record the net OPEB liability and related deferred outflows of resources. The adoption of GASB Statement No. 75 did not affect the beginning of year equity of any governmental fund.

NOTE 19 - UPCOMING ACCOUNTING PRONOUNCEMENTS

Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and will be effective for periods beginning after December 15, 2018. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for periods beginning after December 15, 2018. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

REQUIRED SUPPLEMENTARY INFORMATION

Charter Township of Kalamazoo

BUDGETARY COMPARISON SCHEDULE - General Fund

Year ended December 31, 2018

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES				
Taxes	\$ 4,051,365	\$ 4,051,365	\$ 4,019,102	\$ (32,263)
Federal grants	31,500	31,500	334	(31,166)
State grants	2,057,000	2,057,000	2,421,967	364,967
Fines and forfeitures	27,000	27,000	26,728	(272)
Licenses and permits	276,700	276,700	308,143	31,443
Charges for services	381,844	381,844	475,851	94,007
Investment income	69,140	69,140	98,766	29,626
Other	559,515	559,515	682,877	123,362
Total revenues	<u>7,454,064</u>	<u>7,454,064</u>	<u>8,033,768</u>	<u>579,704</u>
EXPENDITURES				
General government:				
Legislative	82,580	82,580	43,721	38,859
Supervisor	226,805	226,805	232,161	(5,356)
Finance director	231,225	231,225	223,172	8,053
Elections	60,425	60,425	53,131	7,294
Assessor	204,935	204,935	176,397	28,538
Clerk	86,875	86,875	98,254	(11,379)
Treasurer	36,490	36,490	39,768	(3,278)
General services administration	358,300	358,300	327,224	31,076
Building and grounds	265,720	265,720	258,384	7,336
Cemetery	26,335	26,335	29,562	(3,227)
Total general government	<u>1,579,690</u>	<u>1,579,690</u>	<u>1,481,774</u>	<u>97,916</u>
Public safety:				
Police protection	4,405,245	4,405,245	4,303,085	102,160
Fire protection	1,642,260	1,642,260	1,548,428	93,832
Emergency preparedness	28,000	37,500	39,134	(1,634)
Total public safety	<u>6,075,505</u>	<u>6,085,005</u>	<u>5,890,647</u>	<u>194,358</u>
Public works:				
Streets	250,000	250,000	14,612	235,388
Sidewalks	50,000	50,000	2,890	47,110
Total public works	<u>300,000</u>	<u>300,000</u>	<u>17,502</u>	<u>282,498</u>

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended December 31, 2018

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
EXPENDITURES (Continued)				
Community and economic development - planning and zoning	\$ 87,500	\$ 87,500	\$ 81,643	\$ 5,857
Recreation and culture - parks	11,150	11,150	5,928	5,222
Capital outlay	199,700	199,700	47,157	152,543
Total expenditures	<u>8,253,545</u>	<u>8,263,045</u>	<u>7,524,651</u>	<u>738,394</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(799,481)	(808,981)	509,117	1,318,098
OTHER FINANCING SOURCES (USES)				
Transfers to other funds	<u>5,122,896</u>	<u>(658,350)</u>	<u>(671,350)</u>	<u>(13,000)</u>
NET CHANGES IN FUND BALANCES	4,323,415	(1,467,331)	(162,233)	1,305,098
FUND BALANCES - BEGINNING	<u>4,390,739</u>	<u>4,390,739</u>	<u>4,390,739</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 8,714,154</u>	<u>\$ 2,923,408</u>	<u>\$ 4,228,506</u>	<u>\$ 1,305,098</u>

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

Year ended December 31, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability:				
Service cost	\$ 270,325	\$ 258,547	\$ 249,075	\$ 246,772
Interest	1,044,156	998,036	916,469	855,303
Benefit change	(14,947)	(17,082)	(9,555)	-
Difference between expected and actual experience	(13,823)	(213,149)	79,189	-
Changes in assumptions	-	-	530,931	-
Benefit payments, including refunds	<u>(487,117)</u>	<u>(424,372)</u>	<u>(383,830)</u>	<u>(339,834)</u>
Net change in total pension liability	798,594	601,980	1,382,279	762,241
Total pension liability, beginning of year	<u>13,160,346</u>	<u>12,558,366</u>	<u>11,176,087</u>	<u>10,413,846</u>
Total pension liability, end of year	<u>\$ 13,958,940</u>	<u>\$13,160,346</u>	<u>\$12,558,366</u>	<u>\$11,176,087</u>
Plan fiduciary net position:				
Contributions - employer	\$ 411,289	\$ 379,573	\$ 370,953	\$ 360,234
Net investment income (loss)	1,322,517	1,031,054	(140,110)	547,289
Benefit payments, including refunds	(487,117)	(424,372)	(383,830)	(339,834)
Administrative expenses	<u>(20,919)</u>	<u>(20,338)</u>	<u>(20,232)</u>	<u>(20,166)</u>
Net change in plan fiduciary net position	1,225,770	965,917	(173,219)	547,523
Plan fiduciary net position, beginning of year	<u>9,959,297</u>	<u>8,993,380</u>	<u>9,166,599</u>	<u>8,619,076</u>
Plan fiduciary net position, end of year	<u>\$ 11,185,067</u>	<u>\$ 9,959,297</u>	<u>\$ 8,993,380</u>	<u>\$ 9,166,599</u>
Township's net pension liability, end of year	<u>\$ 2,773,873</u>	<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	80.13%	75.68%	71.61%	82.02%
Covered payroll	\$ 2,273,545	\$ 2,223,101	\$ 2,276,321	\$ 2,225,472
Township's net pension liability as a percentage of covered payroll	122.01%	143.99%	156.61%	90.29%

Note: This schedule is being built prospectively after the implementation of GASB 68 in 2015.

Ultimately, ten years of data will be presented.

Charter Township of Kalamazoo

SCHEDULE OF TOWNSHIP PENSION CONTRIBUTIONS

Last Nine Fiscal Years

Note - 2010 was the first year of the plan	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Actuarially determined contributions	\$ 457,290	\$ 411,289	\$ 379,573	\$ 370,953	\$ 360,234	\$ 322,156	\$ 301,309	\$ 307,036	\$ 197,754
Contributions in relation to the actuarially determined contributions	<u>457,290</u>	<u>411,289</u>	<u>379,573</u>	<u>370,953</u>	<u>360,234</u>	<u>322,156</u>	<u>301,309</u>	<u>307,036</u>	<u>197,754</u>
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	<u>\$ 2,273,545</u>	<u>\$ 2,350,224</u>	<u>\$ 2,276,321</u>	<u>\$ 2,225,472</u>	<u>\$ 2,223,172</u>	<u>\$ 2,127,448</u>	<u>\$ 2,008,353</u>	<u>\$ 2,053,447</u>	<u>\$ 2,072,158</u>
Contributions as a percentage of covered payroll	20.11%	17.50%	16.67%	16.67%	16.20%	15.14%	15.00%	14.95%	9.54%

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of December 31 each year, which is 24 months prior to the beginning of the fiscal year in which the contributions are required.

Methods and assumptions used to determine contribution rates:

Actuarial costs method	Entry-age normal cost
Amortization method	Level percentage of pay, open
Remaining amortization period	22 years
Asset valuation method	5-year smoothed market
Inflation	2.50%
Salary increases	3.75%
Investment rate of return	7.75%, net of investment and administrative expenses, including inflation
Retirement age	Normal retirement age is 60 years
Mortality	50% Female/50% Male blend of the RP-2014 Healthy Annuitant Mortality Tables with rates multiplied by 105%

Charter Township of Kalamazoo

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

Year Ended December 31, 2018

	<u>2018</u>
Total OPEB liability:	
Service cost	\$ 135,506
Interest	93,757
Difference between expected and actual experience	(46,967)
Benefit payments, including refunds	<u>(110,177)</u>
Net change in total OPEB liability	72,119
Total OPEB liability, beginning of year	<u>3,044,820</u>
Total OPEB liability, end of year	<u><u>\$ 3,116,939</u></u>
Plan fiduciary net position:	
Contributions/benefit payments made from general operating funds	\$ 110,177
Benefit payments, including refunds	<u>(110,177)</u>
Net change in plan fiduciary net position	-
Plan fiduciary net position, beginning of year	<u>-</u>
Plan fiduciary net position, end of year	<u><u>\$ -</u></u>
Township's net OPEB liability, end of year	<u><u>\$ 3,116,939</u></u>
Plan fiduciary net position as a percent of total OPEB liability	0.00%
Covered payroll	\$ 3,383,428
Township's net OPEB liability as a percentage of covered payroll	92.12%

Note: This schedule is being built prospectively after the implementation of GASB 75 in 2018.

Ultimately, ten years of data will be presented.

Charter Township of Kalamazoo
SCHEDULE OF TOWNSHIP OPEB CONTRIBUTIONS
 Current Fiscal Year

	<u>2018</u>
Actuarially determined employer contributions:	
Service cost (with interest)	\$ 139,571
Amortization of unfunded liability	<u>238,980</u>
Total	378,551
Employer contribution	<u>110,177</u>
Contribution deficiency / (excess)	\$ <u>268,374</u>
Covered payroll	\$ 3,383,428
Contributions as a percentage of covered payroll	11.19%

Assumptions used in calculation of actuarially determined contribution:

Valuation date December 31, 2018

Actuarial methods:

Cost method Entry age normal (level percent)

Asset valuation method Equal to market value of assets

Actuarial assumptions:

Discount Rate 3.00%
 Rationale – 20-year Aa Municipal bond rate and complies with State of Michigan Public Act 202

Payroll inflation 1.00%
 Rationale – Per employer input

Return on plan assets N/A
 Rationale – Plan is not pre-funded

Mortality rates RP 2014 Headcount weighted, annuitant and sex-distinct mortality table with MP 2018 improvement scale
 Rationale – Contemporary tables

Utilization 45% of active, eligible employees will elect the lower cost plan with dental, 45% the higher cost plan with dental and 10% dental only; Actual coverage used for non-active
 Rationale – Based on current retiree election and not inconsistent with active coverage

Turnover rates Crocker-Sarason-Straight T-3

Rationale – Low turnover table common to municipal employers

Age	Sample rates
20	0.0658
25	0.0527
30	0.0483
35	0.0447
40	0.0384
45	0.0321
50	0.0152

Retirement rates	
53-55	0.06
56-57	0.00
58-59	0.20
60	0.60
61	0.00
62	0.33
63-65	0.00
66	1.00

Rationale – Experience based taking into account eligibility under the plan

Marital assumption 67% of active employees will have covered spouse at retirement with females 3 years younger than males; Actual spouse data used for retirees
 Rationale – Consistent with employer experience

Annual per-capita costs valued

Rationale – Age-weighted per national morbidity studies

Age	Low cost plan		high cost plan	
	male	female	plan male	plan female
50	5,050.28	6,312.85	7,814.01	9,767.51
55	6,717.88	7,322.91	10,548.91	11,330.32
60	8,585.48	8,332.96	13,283.82	12,893.12
Medicare eligible	5,901.24	5,901.24	5,901.24	5,901.24

	Low cost plan		High cost plan	
	Single	2 person	Single	2 person
Pre- 65	413.71	992.90	640.11	1,536.27
Medicare eligible	491.77	983.54	491.77	491.77
Dental	39.19	78.38	39.19	78.38

Health plan premiums (basis for retiree contributions)

Healthcare inflation Pre-65 – 8.5% in 2019 graded down 0.25% per year to 4.5%
 Medicare eligible – 7.0% in 2019 graded down 0.25% per year to 4.5%
 Dental – 3.0%

Rationale – Consistent with national expectation studies and Uniform Assumptions under as required by State of Michigan Public Act 202

Data Collection

Date and form of data All personnel and asset data was prepared by the Plan sponsor or a representative and was generally relied upon as being correct and complete without audit by Watkins Ross

Changes since prior valuation

Mortality table set as published by Society of Actuaries with dynamic future improvements
 Discount rate set at 3.0% based on 20-year Aa Municipal bond rates and Uniform Assumptions under PA 202
 Amortization period set to average future service consistent with updated GASB standards

SUPPLEMENTARY INFORMATION

Charter Township of Kalamazoo

COMBINING BALANCE SHEET - nonmajor governmental funds

December 31, 2018

	Special revenue funds						Capital projects funds						Totals	
	Police Training	Drug Enforcement	Street Lighting	Recycling	Parks	911 Wireless	Police Capital	Fire Capital	Road Improvement	Street	Water	Building and Grounds		911 Wireless Capital
ASSETS														
Cash	\$ 17,234	\$ 94,544	\$ 321,761	\$ 277,771	\$ 9,702	\$ 122,519	\$ 682,441	\$ 1,500,346	\$ 190,159	\$ 194,246	\$ 264,166	\$ 558,000	\$ 1,844	\$ 4,234,733
Receivables	-	-	140,111	217,004	-	4,722	160,168	258,244	-	4,368	14,250	-	-	798,867
Total assets	\$ 17,234	\$ 94,544	\$ 461,872	\$ 494,775	\$ 9,702	\$ 127,241	\$ 842,609	\$ 1,758,590	\$ 190,159	\$ 198,614	\$ 278,416	\$ 558,000	\$ 1,844	\$ 5,033,600
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES														
Liabilities:														
Payables	\$ 2,892	\$ -	\$ 20,399	\$ 41,271	\$ -	\$ -	\$ 35,683	\$ -	\$ 89,948	\$ -	\$ -	\$ 18,336	\$ -	\$ 208,529
Unearned operating assessment revenue	-	-	247,495	-	-	-	-	-	-	-	-	-	-	247,495
Total liabilities	2,892	-	267,894	41,271	-	-	35,683	-	89,948	-	-	18,336	-	456,024
Deferred inflows of resources:														
Assessments levied for the subsequent year	-	-	-	469,827	-	-	274,051	456,812	-	-	-	-	-	1,200,690
Unavailable special assessment revenue	-	-	-	-	-	-	-	-	3,990	14,022	-	-	-	18,012
Total deferred inflows of resources	-	-	-	469,827	-	-	274,051	456,812	-	3,990	14,022	-	-	1,218,702
Fund balances:														
Restricted for:														
Public safety	14,342	94,544	-	-	-	127,241	-	-	-	-	-	-	-	236,127
Public works	-	-	193,978	(16,323)	-	-	-	-	100,211	-	-	-	-	277,866
Capital outlay	-	-	-	-	-	-	532,875	1,301,778	-	-	-	-	1,844	1,836,497
Committed for recreation and culture	-	-	-	-	9,702	-	-	-	-	-	-	-	-	9,702
Assigned for:														
Capital outlay	-	-	-	-	-	-	-	-	-	-	-	539,664	-	539,664
Public works	-	-	-	-	-	-	-	-	194,624	264,394	-	-	-	459,018
Total fund balances (deficit)	14,342	94,544	193,978	(16,323)	9,702	127,241	532,875	1,301,778	100,211	194,624	264,394	539,664	1,844	3,358,874
Total liabilities, deferred inflows of resources, and fund balances	\$ 17,234	\$ 94,544	\$ 461,872	\$ 494,775	\$ 9,702	\$ 127,241	\$ 842,609	\$ 1,758,590	\$ 190,159	\$ 198,614	\$ 278,416	\$ 558,000	\$ 1,844	\$ 5,033,600

Charter Township of Kalamazoo

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND

BALANCES - nonmajor governmental funds

Year ended December 31, 2018

	Special revenue funds						Capital projects funds						Totals	
	Police Training	Drug Enforcement	Street Lighting	Recycling	Parks	911 Wireless	Police Capital	Fire Capital	Road Improvement	Street	Water	Building and Grounds		911 Wireless Capital
REVENUES														
Federal grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,000
State grants	-	-	-	-	-	-	-	-	-	11,728	-	-	-	11,728
Intergovernmental	-	-	-	-	-	-	-	-	-	-	5,400	-	-	5,400
Fines and forfeitures	8,386	-	-	-	-	-	-	-	-	-	-	-	-	8,386
Interest and rentals	-	1,338	4,364	2,695	-	2,275	9,525	38,455	1,039	2,834	5,016	3,292	-	70,833
Other	5,639	7,109	239,649	444,540	-	45,631	266,732	444,126	-	2,537	5,508	-	-	1,461,471
Total revenues	14,025	8,447	244,013	447,235	-	47,906	281,257	482,581	1,039	17,099	15,924	3,292	-	1,562,818
EXPENDITURES														
Current:														
Public safety	19,110	397	-	-	-	182,389	-	-	-	-	-	-	13,156	215,052
Public works	-	-	247,235	478,355	-	-	-	-	416,102	-	19,869	-	-	1,161,561
Capital outlay	-	-	-	-	-	-	261,113	249,905	-	-	-	121,978	-	632,996
Debt service:														
Principal	-	-	-	-	-	-	-	64,262	-	-	-	-	-	64,262
Interest	-	-	-	-	-	-	-	1,800	-	-	-	-	-	1,800
Total expenditures	19,110	397	247,235	478,355	-	182,389	261,113	315,967	416,102	-	19,869	121,978	13,156	2,075,671
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(5,085)	8,050	(3,222)	(31,120)	-	(134,483)	20,144	166,614	(415,063)	17,099	(3,945)	(118,686)	(13,156)	(512,853)
OTHER FINANCING SOURCES (USES)														
Transfers in	13,000	-	-	-	-	-	-	-	-	-	-	658,350	10,000	681,350
Transfers out	-	-	-	-	-	(10,000)	-	-	(13,014)	-	-	-	-	(23,014)
Net other financing sources (uses)	13,000	-	-	-	-	(10,000)	-	-	(13,014)	-	-	658,350	10,000	658,336
NET CHANGES IN FUND BALANCES	7,915	8,050	(3,222)	(31,120)	-	(144,483)	20,144	166,614	(428,077)	17,099	(3,945)	539,664	(3,156)	145,483
FUND BALANCES - BEGINNING	6,427	86,494	197,200	14,797	9,702	271,724	512,731	1,135,164	528,288	177,525	268,339	-	5,000	3,213,391
FUND BALANCES - ENDING	\$ 14,342	\$ 94,544	\$ 193,978	\$ (16,323)	\$ 9,702	\$ 127,241	\$ 532,875	\$ 1,301,778	\$ 100,211	\$ 194,624	\$ 264,394	\$ 539,664	\$ 1,844	\$ 3,358,874