

*Charter Township of Kalamazoo
Kalamazoo County, Michigan*

FINANCIAL STATEMENTS

Year ended December 31, 2015

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Charter Township of Kalamazoo
Kalamazoo County, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Kalamazoo, Michigan (the Township), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Kalamazoo, Michigan, as of December 31, 2015, 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.

Changes in Accounting Principles

As discussed in Note 16 to the financial statements, the Township implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, during the year. As a result, the financial statements now recognize the Township's unfunded defined pension benefit obligation as a liability for the first time and more comprehensively and comparably measures the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). Our opinions are not modified with respect to this matter.

The Township also implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*, during the year. As a result, the Township recognized a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 8, 2016

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, 2015. Please read it in conjunction with the Township's financial statements.

FINANCIAL HIGHLIGHTS

- The Township's total net position decreased \$172,874 (less than 1 percent) as a result of this year's operations.
- Of the \$23,641,441 total net position reported, \$2,548,176 is unrestricted.
- The General Fund's unassigned fund balance at the end of the fiscal year was \$3,037,555, which represents 42 percent of the actual total General Fund expenditures for the fiscal year.

Overview of the financial statements

This discussion and analysis introduces the Township's basic financial statements that follow this section. These financial statements are presented to comply with Governmental Accounting Standards Board (GASB) Statement No. 34. The Township's annual report is comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township government, reporting the Township's operations in more detail than the government-wide financial statements.
 - Governmental funds statements explain how general government services, like public works and public safety, were financed in the short-term, as well as what remains for future spending.
 - Proprietary funds statements offer short-term and long-term financial information about the activities the government operates like a business. The Township has one proprietary fund to account for its golf course.
 - Fiduciary funds statements provide information about the financial relationships in which the Township acts solely as an agent for the benefit of others to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by sections of required supplementary information and other supplementary information that further explain and support the information in the financial statements.

A comparative analysis of the government-wide financial statements for 2015 and 2014 is also presented.

Government-wide financial statements

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

The two government-wide statements report the Township's net position and how it has changed. Net position (the difference between the Township's assets and deferred outflows of resources, and liabilities and deferred inflows of resources) is one way to measure the Township's financial health, or position.

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

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

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

Fund financial statements

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

- Some funds are required by state law and by grant agreements.
- The Township Board establishes other funds to control and manage money for particular purposes (like street, water, and sewer improvements) or to show that it is properly using certain taxes and other revenues (like street lighting, recycling, and public safety capital asset revenues).

The Township has three types of funds:

- *Governmental funds*. Most of the Township's basic services are included in its governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flows in and out, and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship between them.
- *Proprietary funds*. Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds statements, like the government-wide statements, provide both long-term and short-term financial information.
- *Fiduciary funds*. These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the Township. The Township is responsible for ensuring that the assets reported in the fiduciary funds are used for their intended purpose. The Township's fiduciary balances are reported in a separate Statement of Fiduciary Assets and Liabilities. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Net position

Total net position at the end of the fiscal year was \$23,641,441. However, \$19,282,324 of this total is invested in capital assets and \$1,810,941 is restricted for public safety, public works, and capital outlay. Consequently, unrestricted net position is \$2,548,441, or 11 percent of the total.

*Condensed financial information
Net position*

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 22,983,514	\$ 14,765,800	\$ 34,466	\$ 21,713	\$ 23,017,980	\$ 14,787,513
Capital assets	22,034,072	19,113,193	276,135	285,153	22,310,207	19,398,346
Total assets	45,017,586	33,878,993	310,601	306,866	45,328,187	34,185,859
Deferred outflows of resources	484,750	-	-	-	484,750	-
Current and other liabilities	6,392,749	3,903,377	-	-	6,392,749	3,903,377
Long-term debt	10,364,628	9,231	-	-	10,364,628	9,231
Total liabilities	16,757,377	3,912,608	-	-	16,757,377	3,912,608
Deferred inflows of resources	5,414,119	5,023,739	-	-	5,414,119	5,023,739
Net position:						
Net investment in capital assets	19,006,189	19,103,962	276,135	285,153	19,282,324	19,389,115
Restricted	1,810,941	1,412,525	-	-	1,810,941	1,412,525
Unrestricted	2,513,710	4,426,159	34,466	21,713	2,548,176	4,447,872
Total net position	\$ 23,330,840	\$ 24,942,646	\$ 310,601	\$ 306,866	\$ 23,641,441	\$ 25,249,512

Changes in net position

The Township's total revenues for 2015 were \$9,050,816. Approximately 42 percent of the Township's revenues comes from property taxes and 30 percent is received as charges for services. About 23 percent of total revenues comes from state revenue sharing.

The total cost of all the Township's programs for 2015, covering a wide range of services, totaled \$9,223,690. About 66 percent of the Township's total costs relates to public safety, while general government and public works represent 18 percent and 13 percent, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Condensed financial information
Changes in net position

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Net position, beginning of year*						
As previously reported	\$ 24,942,646	\$ 24,341,057	\$ 306,866	\$ 311,816	\$ 25,249,512	\$ 24,652,873
Cumulative effect of change in accounting principle	(1,435,197)	-	-	-	(1,435,197)	-
As restated	<u>23,507,449</u>	<u>24,341,057</u>	<u>306,866</u>	<u>311,816</u>	<u>23,814,315</u>	<u>24,652,873</u>
Program revenues:						
Charges for services	2,706,606	2,724,289	13,028	9,948	2,719,634	2,734,237
Operating grants	97,246	95,550	-	-	97,246	95,550
Capital grants	140,178	526,420	-	-	140,178	526,420
General revenues:						
Property taxes	3,779,743	3,770,680	-	-	3,779,743	3,770,680
State grants	2,043,520	2,065,330	-	-	2,043,520	2,065,330
Franchise fees	208,891	208,534	-	-	208,891	208,534
Investment income	61,604	58,257	-	-	61,604	58,257
Total revenues	<u>9,037,788</u>	<u>9,449,060</u>	<u>13,028</u>	<u>9,948</u>	<u>9,050,816</u>	<u>9,459,008</u>
Expenses:						
General government	1,696,114	1,731,574	-	-	1,696,114	1,731,574
Public safety	6,127,229	6,011,129	-	-	6,127,229	6,011,129
Public works	1,158,239	1,019,048	-	-	1,158,239	1,019,048
Community and economic development	87,418	72,136	-	-	87,418	72,136
Culture and recreation	13,495	13,448	9,293	14,898	22,788	28,346
Interest on debt	131,902	136	-	-	131,902	136
Total expenses	<u>9,214,397</u>	<u>8,847,471</u>	<u>9,293</u>	<u>14,898</u>	<u>9,223,690</u>	<u>8,862,369</u>
Changes in net position	<u>\$ (176,609)</u>	<u>\$ 601,589</u>	<u>\$ 3,735</u>	<u>\$ (4,950)</u>	<u>\$ (172,874)</u>	<u>\$ 596,639</u>
Net position, end of year	<u>\$ 23,330,840</u>	<u>\$ 24,942,646</u>	<u>\$ 310,601</u>	<u>\$ 306,866</u>	<u>\$ 23,641,441</u>	<u>\$ 25,249,512</u>

*As discussed in Note 16 to the financial statements, the Township adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in 2015. 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 \$1,435,197 in 2015. As this pronouncement has been adopted prospectively, there was no restatement of the 2014 financial position or results of operations.

Governmental activities. Governmental activities decreased the Township's net position by \$176,609 in 2015 compared to a \$601,589 increase in 2014. The Township received \$386,242 less in capital grants in 2015. Total governmental expenses combined were approximately \$366,926 more in 2015 compared to 2014. The difference is primarily due to increases in employee costs due to rate increases for fire and police employees and a \$131,766 increase in interest expense related to interest due on new debt issues in 2015.

The total cost of governmental activities this year was \$9,214,397. After subtracting the direct charges to those who directly benefited from the programs (\$2,706,606) and other operating and capital grants (\$237,424), the "public benefit" portion covered by property taxes, state revenue sharing, and other general revenues was \$6,270,367 in 2015.

Business-type activities. Charges for services in the business-type activities for 2015 were \$13,028 compared to \$9,948 last year. Expenses decreased by \$5,605 due to a reduction in maintenance costs.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

At December 31, 2015, the Township's governmental funds reported a combined fund balance of \$16,404,174, an increase of \$8,036,228 over the prior year.

General Fund revenues of \$7,428,575 exceeded expenditures (\$7,196,680) and transfers out (\$13,000) by \$218,895 in 2015. Fund balance at year end was \$3,599,260.

The Sewer Improvement Fund revenues, comprised of assessments and interest, totaled \$87,560, while expenditures totaled \$34,726. As a result, the fund balance increased by \$52,834. The fund balance was \$3,264,758 at the end of 2015.

The Road Fund, received debt proceeds (\$9,835,527) and interest revenue (\$6,366) during the year, while expenditures amounted to \$2,440,704, causing a \$7,401,189 increase in fund balance. The fund had an ending fund balance of \$7,401,189.

The net position of the Golf Course Fund, the sole proprietary fund, increased by \$3,735, as revenues of \$13,028 exceeded \$9,293 in expenses for the year.

General Fund budgetary highlights

There were no significant differences between the original and final General Fund budget adopted by the Township Board for 2015.

Revenues were \$84,292 more than anticipated, as charges for services and other revenues exceeded the amounts budgeted by \$76,221 and \$74,249 respectively. Actual expenditures and transfers were \$490,938 less than budgeted. These conditions resulted in a \$575,230 positive budget variance and a \$218,895 increase in fund balance for the year, compared to a \$356,335 budgeted decrease.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

At December 31, 2015, the Township had invested \$22,463,235, net of depreciation, in various capital assets, including its land, buildings, equipment, and infrastructure.

This year's major capital asset additions included:

- \$2,583,306 for road and sidewalk infrastructure
- \$936,119 for a public safety communication project
- \$496,930 for new vehicles
- \$201,674 for a deposit on a fire truck

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

Debt

At the end of the fiscal year, the Township had installment purchase notes and bonds payable with balances outstanding in the amount of \$10,364,628, an increase of \$10,355,397. The increase was the result of issuance of new debt in the amount of \$10,970,669, net of premium of \$10,840, and total debt principal payments of \$604,432.

Other long-term obligations consisted of a liability for compensated absences of \$426,654, net pension liability of \$2,009,488, and a net other postemployment benefit obligation of \$2,897,064.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In 2016, 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 in 2016 due to recognition of revenue on the 2015 road levy. 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:

Ronald E. Reid, Supervisor
Charter Township of Kalamazoo
1720 Riverview Drive
Kalamazoo, MI 49004

Phone: (269) 381-8080

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

December 31, 2015

	<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Totals</i>
ASSETS			
Current assets:			
Cash	\$ 17,419,471	\$ 25,445	\$ 17,444,916
Investments	1,192,749	-	1,192,749
Receivables, net	4,182,620	-	4,182,620
Prepaid items	18,189	9,021	27,210
Total current assets	<u>22,813,029</u>	<u>34,466</u>	<u>22,847,495</u>
Noncurrent assets:			
Receivables, net	170,485	-	170,485
Capital assets not being depreciated	706,422	171,000	877,422
Capital assets, net of accumulated depreciation	<u>21,327,650</u>	<u>105,135</u>	<u>21,432,785</u>
Total noncurrent assets	<u>22,204,557</u>	<u>276,135</u>	<u>22,480,692</u>
Total assets	<u>45,017,586</u>	<u>310,601</u>	<u>45,328,187</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension	<u>484,750</u>	<u>-</u>	<u>484,750</u>
LIABILITIES			
Current liabilities:			
Payables	397,557	-	397,557
Unearned operating assessment revenue	661,986	-	661,986
Current portion of long-term debt	<u>278,662</u>	<u>-</u>	<u>278,662</u>
Total current liabilities	<u>1,338,205</u>	<u>-</u>	<u>1,338,205</u>
Noncurrent liabilities:			
Noncurrent portion of long-term debt	10,085,966	-	10,085,966
Compensated absences	426,654	-	426,654
Net pension liability	2,009,488	-	2,009,488
Net other postemployment benefit obligation	<u>2,897,064</u>	<u>-</u>	<u>2,897,064</u>
Total noncurrent liabilities	<u>15,419,172</u>	<u>-</u>	<u>15,419,172</u>
Total liabilities	<u>16,757,377</u>	<u>-</u>	<u>16,757,377</u>
DEFERRED INFLOWS OF RESOURCES			
Property tax revenues levied for the subsequent year	4,119,678	-	4,119,678
Assessments levied for the subsequent year	<u>1,294,441</u>	<u>-</u>	<u>1,294,441</u>
Total deferred inflows of resources	<u>5,414,119</u>	<u>-</u>	<u>5,414,119</u>
NET POSITION			
Net investment in capital assets	19,006,189	276,135	19,282,324
Restricted for:			
Public safety	263,428	-	263,428
Public works	250,193	-	250,193
Capital outlay	1,297,320	-	1,297,320
Unrestricted	<u>2,513,710</u>	<u>34,466</u>	<u>2,548,176</u>
Total net position	<u>\$ 23,330,840</u>	<u>\$ 310,601</u>	<u>\$ 23,641,441</u>

See notes to financial statements

STATEMENT OF ACTIVITIES

Year ended December 31, 2015

	Program revenues				Net (expenses) revenues and changes in net position		
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Totals
Functions/Programs							
Governmental activities:							
General government	\$ 1,696,114	\$ 446,398	\$ -	\$ -	\$ (1,249,716)		\$ (1,249,716)
Public safety	6,127,229	1,529,138	88,294	50,775	(4,459,022)		(4,459,022)
Public works	1,158,239	682,695	8,952	89,403	(377,189)		(377,189)
Community and economic development	87,418	48,375	-	-	(39,043)		(39,043)
Culture and recreation	13,495	-	-	-	(13,495)		(13,495)
Interest on long-term debt	131,902	-	-	-	(131,902)		(131,902)
Total governmental activities	9,214,397	2,706,606	97,246	140,178	(6,270,367)		(6,270,367)
Business-type activities - golf course	9,293	13,028	-	-		\$ 3,735	3,735
Totals	<u>\$ 9,223,690</u>	<u>\$ 2,719,634</u>	<u>\$ 97,246</u>	<u>\$ 140,178</u>	(6,270,367)	3,735	(6,266,632)
General revenues:							
Taxes					3,779,743	-	3,779,743
State grants					2,043,520	-	2,043,520
Franchise fees					208,891	-	208,891
Investment income					61,604	-	61,604
Total general revenues					6,093,758	-	6,093,758
Changes in net position					(176,609)	3,735	(172,874)
Restated net position - beginning					23,507,449	306,866	23,814,315
Net position - ending					<u>\$ 23,330,840</u>	<u>\$ 310,601</u>	<u>\$ 23,641,441</u>

See notes to financial statements

BALANCE SHEET - governmental funds

December 31, 2015

	<u>General</u>	<u>Sewer Improvement</u>	<u>Road Fund</u>	<u>Nonmajor funds</u>	<u>Total governmental funds</u>
ASSETS					
Cash	\$ 4,238,702	\$ 3,258,375	\$ 6,885,283	\$ 3,037,111	\$ 17,419,471
Investments	1,192,749	-	-	-	1,192,749
Receivables	<u>2,787,383</u>	<u>187,879</u>	<u>515,906</u>	<u>861,937</u>	<u>4,353,105</u>
Total assets	<u>\$ 8,218,834</u>	<u>\$ 3,446,254</u>	<u>\$ 7,401,189</u>	<u>\$ 3,899,048</u>	<u>\$ 22,965,325</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities:					
Payables	\$ 213,999	\$ 23	\$ -	\$ 57,672	\$ 271,694
Unearned operating assessment revenue	-	-	-	661,986	661,986
Total liabilities	<u>213,999</u>	<u>23</u>	<u>-</u>	<u>719,658</u>	<u>933,680</u>
Deferred inflows of resources:					
Property tax revenues levied for the subsequent year	3,801,986	-	-	317,692	4,119,678
Assessments levied for the subsequent year	603,589	-	-	690,852	1,294,441
Unavailable special assessment revenue	-	<u>181,473</u>	-	<u>31,879</u>	<u>213,352</u>
Total deferred inflows of resources	<u>4,405,575</u>	<u>181,473</u>	<u>-</u>	<u>1,040,423</u>	<u>5,627,471</u>
Fund balances:					
Nonspendable - advance to joint venture	3,352	-	-	-	3,352
Restricted for:					
Public safety	-	-	-	263,428	263,428
Public works	-	-	7,401,189	185,749	7,586,938
Capital outlay	-	-	-	1,297,320	1,297,320
Committed for culture and recreation	-	-	-	9,702	9,702
Assigned for:					
Public works	-	3,264,758	-	382,768	3,647,526
Subsequent year expenditures	549,853	-	-	-	549,853
Unassigned	<u>3,046,055</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,046,055</u>
Total fund balances	<u>3,599,260</u>	<u>3,264,758</u>	<u>7,401,189</u>	<u>2,138,967</u>	<u>16,404,174</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 8,218,834</u>	<u>\$ 3,446,254</u>	<u>\$ 7,401,189</u>	<u>\$ 3,899,048</u>	<u>\$ 22,965,325</u>
Reconciliation of the balance sheet to the statement of net position:					
Total fund balance - total governmental funds					\$ 16,404,174
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.					
					22,034,072
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.					
					213,352
Certain pension contributions and unamortized changes in pension plan net position are reported as deferred outflows of resources in the statement of net position but are not reported in the funds.					
					484,750
Interest payable, related to long-term liabilities, is not due and payable in the current period and, therefore, is not reported in the funds.					
					(125,863)
Prepaid items are not financial resources and, therefore, are not reported in the funds					
					18,189
Long-term liabilities that are not due and payable in the current period and are not reported in the funds:					
Long-term debt					(10,364,628)
Compensated absences					(426,654)
Net pension liability					(2,009,488)
Other postemployment obligation, net					<u>(2,897,064)</u>
Net position of <i>governmental activities</i>					<u>\$ 23,330,840</u>

See notes to financial statements

Charter Township of Kalamazoo

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

Year ended December 31, 2015

	<u>General</u>	<u>Sewer Improvement</u>	<u>Road Fund</u>	<u>Nonmajor funds</u>	<u>Total governmental funds</u>
REVENUES					
Taxes	\$ 3,997,058	\$ -	\$ -	\$ -	\$ 3,997,058
Federal grants	21,062	-	-	250,775	271,837
State grants	2,110,228	-	-	14,936	2,125,164
Intergovernmental	-	-	-	48,822	48,822
Fines and forfeitures	38,314	-	-	7,102	45,416
Licenses and permits	268,508	-	-	-	268,508
Charges for services	297,345	-	-	-	297,345
Investment income	69,302	19,128	6,366	26,703	121,499
Other	626,758	68,432	-	1,381,247	2,076,437
	<u>7,428,575</u>	<u>87,560</u>	<u>6,366</u>	<u>1,729,585</u>	<u>9,252,086</u>
Total revenues					
EXPENDITURES					
Current:					
General government	1,550,708	-	-	-	1,550,708
Public safety	5,326,116	-	-	27,705	5,353,821
Public works	170,198	34,726	77,448	673,638	956,010
Community and economic development	87,418	-	-	-	87,418
Culture and recreation	5,736	-	-	-	5,736
Capital outlay	50,348	-	2,363,256	1,197,919	3,611,523
Debt service:					
Principal	6,156	-	-	598,276	604,432
Interest	-	-	-	16,879	16,879
	<u>7,196,680</u>	<u>34,726</u>	<u>2,440,704</u>	<u>2,514,417</u>	<u>12,186,527</u>
Total expenditures					
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>231,895</u>	<u>52,834</u>	<u>(2,434,338)</u>	<u>(784,832)</u>	<u>(2,934,441)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from debt	-	-	9,835,527	1,135,142	10,970,669
Transfers in	-	-	-	47,462	47,462
Transfers out	(13,000)	-	-	(34,462)	(47,462)
	<u>(13,000)</u>	<u>-</u>	<u>9,835,527</u>	<u>1,148,142</u>	<u>10,970,669</u>
Net other financing sources (uses)					
NET CHANGES IN FUND BALANCES	218,895	52,834	7,401,189	363,310	8,036,228
FUND BALANCES - BEGINNING	<u>3,380,365</u>	<u>3,211,924</u>	<u>-</u>	<u>1,775,657</u>	<u>8,367,946</u>
FUND BALANCES - ENDING	<u>\$ 3,599,260</u>	<u>\$ 3,264,758</u>	<u>\$ 7,401,189</u>	<u>\$ 2,138,967</u>	<u>\$ 16,404,174</u>

See notes to financial statements

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

Year ended December 31, 2015

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) \$ 8,036,228

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

Capital assets:

Assets acquired	3,825,277
Provision for depreciation	(900,129)
Basis of assets disposed	(4,269)

Proceeds from debt issued	(10,959,829)
Principal repayments on long-term debt	604,432

Changes in other assets/liabilities:

Increase in prepaid expenditures	18,189
Increase in interest payable	(125,863)
Increase in deferred outflows of resources - pension plan interest projections compared to actual	113,797
Decrease in deferred outflows of resources - pension contributions made after plan year end	11,380
Decrease in deferred inflows of resources	(264,933)
Increase in net other postemployment obligation	(299,039)
Increase in net pension liability	(214,718)
Increase in other accrued liabilities	<u>(17,132)</u>

Change in net position of *governmental activities* \$ (176,609)

STATEMENT OF NET POSITION - proprietary fund

December 31, 2015

	<u>Golf Course Fund</u>
ASSETS	
Current assets:	
Cash	\$ 25,445
Prepaid items	<u>9,021</u>
Total current assets	<u>34,466</u>
Noncurrent assets:	
Capital assets not being depreciated - land	171,000
Capital assets, net of accumulated depreciation	<u>105,135</u>
Total noncurrent assets	<u>276,135</u>
Total assets	<u>310,601</u>
NET POSITION	
Investment in capital assets	276,135
Unrestricted	<u>34,466</u>
Total net position	<u><u>\$ 310,601</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, 2015

	<u><i>Golf Course Fund</i></u>
OPERATING REVENUES	
Rentals	\$ 13,028
OPERATING EXPENSES	
Operating and maintenance costs	275
Depreciation	<u>9,018</u>
Total operating expenses	<u>9,293</u>
CHANGE IN NET POSITION	3,735
NET POSITION - BEGINNING	<u>306,866</u>
NET POSITION - ENDING	<u><u>\$ 310,601</u></u>

See notes to financial statements

STATEMENT OF CASH FLOWS - proprietary fund

Year ended December 31, 2015

	<u>Golf Course Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 13,028
Payments to suppliers	<u>(275)</u>
Net cash provided by operating activities	12,753
CASH - BEGINNING	<u>12,692</u>
CASH - ENDING	<u>\$ 25,445</u>
Reconciliation of operating gain to net cash provided by operating activities:	
Operating gain	\$ 3,735
Adjustments to reconcile operating gain to net cash provided by operating activities:	
Depreciation expense	<u>9,018</u>
Net cash provided by operating activities	<u>\$ 12,753</u>

See notes to financial statements

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - *agency funds*

December 31, 2015

ASSETS

Cash \$ 4,690,074

LIABILITIES

Due to others \$ 4,690,074

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. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity*, these financial statements present only the Township (the primary government), located in Kalamazoo County. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and existence of a financial benefit or burden, and whether the financial statements would be misleading if data were not included. Management of the Township has determined that no other entity qualifies for inclusion as a component unit.

Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Township. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the Township generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenues of the current period. All other revenue items are considered to be measurable only when cash is received by the Township.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Township reports the following major governmental funds:

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

The Sewer Improvement Fund accounts for the construction or purchase of major sewer improvements.

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

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

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

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

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

Bank deposits and investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is proportionately allocated to all funds.

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

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

Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the Township as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. 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
Road infrastructure	5 - 40 years
Sewer infrastructure	50 - 75 years

Deferred outflows of resources - The statement of net position includes a separate section for deferred outflows of resources related to contributions made after the measurement date and the net difference between projected and actual earnings on pension plan investments. The deferred pension amount is being amortized over a closed five-year period using the straight-line method. This separate financial statement element reflects a decrease in net position that applies to a future period. No deferred outflows of resources affect the governmental fund's financial statements in the current year.

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 two items that are included in this category: property taxes and special assessments. Property tax revenues and certain operating special assessments, which are levied to finance the following period's budget, are deferred and recognized as an inflow of resources in the period that it was intended to finance. Other special assessment revenue and grant proceeds, which are not available (collected later than 60 days after the end of the Township's fiscal year) are deferred in the governmental funds and recognized as an inflow of resources in the period that the assessments become available.

Pension - For purposes of measuring the net pension liability and 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):

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

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

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

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

Although the Township's 2014 ad valorem taxes are levied and collectible on December 1, 2014, 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 governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the function level. Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of expenditures over appropriations - During the year, the Township incurred 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>
Recycling	Public works	\$ 415,000	\$ 417,414	\$ 2,414
Police Training	Public safety	18,000	19,195	1,195

NOTE 3 - CASH AND INVESTMENTS

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

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Fiduciary activities</u>	<u>Totals</u>
Financial statements:				
Cash and cash equivalents	\$ 17,419,471	\$ 25,445	\$ 4,690,074	\$ 22,134,990
Investments	1,192,749	-	-	1,192,749
Totals	<u>\$ 18,612,220</u>	<u>\$ 25,445</u>	<u>\$ 4,690,074</u>	<u>\$ 23,327,739</u>
Notes to financial statements:				
Deposits				\$ 22,134,990
Investments				1,192,749
Total				<u>\$ 23,327,739</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. At December 31, 2015, the Township held \$489,338 of deposits in financial institutions located outside the State of 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, 2015, \$17,424,983 of the Township’s bank balances of \$22,184,851 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 three (3) 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 year end, which are reported at fair value, consist of the following:

Governmental activities:

Cooperative Liquid Assets Securities System - Michigan, a local investment pool established under Michigan state statutes for participating Michigan municipalities	\$ 100,771
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Government-sponsored enterprises:

\$530,000 Federal Farm CR BKS CONS Systemwide Bonds zero coupon bonds - paying interest at 0.71% and maturing 10/20/17	525,946
\$530,000 Genesee County Municipal Bonds - paying interest at 5.21% and maturing 9/1/16	214,826
\$100,000 Whitemore Lake Michigan Public School zero coupon bonds - paying interest at 1.36% and maturing 5/1/17	100,130
\$331,000 Federal National Mortgage Association Remic Trust Bonds - paying interest at 2.50% and maturing 12/25/42	<u>251,076</u>
Total investments	<u>\$ 1,192,749</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, 2015, all of the Township’s investments, excluding investments in investment pools, are subject to custodial credit risk as they are uninsured, unregistered, and held by the same counterparty that purchased the securities for the Township.

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

<u>Investment type</u>	<u>Fair value</u>	<u>Rating</u>	<u>Rating organization</u>
CLASS - Michigan investment pool	\$ 100,771	AAAm	S&P
Government-sponsored enterprises:			
Whitemore Lake Michigan Public School District	100,130	AA	S&P
Genesee County Municipal Bonds	214,826	SP1+	S&P
Federal Farm CR BKS CONS Systemwide	525,946	Aaa	Moody's
Federal National Mortgage Association Remic Trust	251,076	Aaa	Moody's

NOTE 3 - CASH AND INVESTMENTS (Continued)

Concentration of credit risk. Concentration of credit risk is the risk of loss attributable to the magnitude of the Township’s investment in a single holding. The Township’s investment policy places no limitations on the amount that can be invested in any one issuer. Of the Township’s investments, the Federal Farm Credit Bank bonds, and the Federal Home Loan Mortgage Corporation bonds each represent more than 5% of the Township’s total investments. Investments in investment pools and money market funds are not subject to concentration of credit risk.

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

The CLASS - Michigan is a local investment pool established under Michigan state statutes for participating Michigan municipalities. This pool is not subject to regulatory oversight and is not registered with the SEC. The fair value of the Township’s position in the pool is the same as the value of its pool shares. A separate report can be obtained from the CLASS office at 15309 Meadowwood Drive, Grand Haven, Michigan, 49417.

NOTE 4 - RECEIVABLES

Receivables as of December 31, 2015, for the Township’s individual major and aggregate nonmajor funds, were as follows:

	<u>Taxes</u>	<u>Accounts</u>	<u>Special assessments</u>	<u>Intergovern- mental</u>	<u>Totals</u>
Governmental funds:					
General	\$ 2,273,369	\$ 73,137	\$ -	\$ 440,877	\$ 2,787,383
Sewer Improvement	-	-	187,879	-	187,879
Road	-	-	-	515,906	515,906
Nonmajor funds	<u>163,257</u>	<u>-</u>	<u>685,819</u>	<u>12,861</u>	<u>861,937</u>
Total governmental funds	<u>\$ 2,436,626</u>	<u>\$ 73,137</u>	<u>\$ 873,698</u>	<u>\$ 969,644</u>	<u>\$ 4,353,105</u>
Amounts due beyond one year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 170,485</u>	<u>\$ -</u>	<u>\$ 170,485</u>

All receivables are considered to be fully collectible.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 504,748	\$ -	\$ -	\$ 504,748
Deposit on communication equipment	337,365	-	(337,365)	-
Deposit on fire equipment	213,664	201,674	(213,664)	201,674
	<u>1,055,777</u>	<u>201,674</u>	<u>(551,029)</u>	<u>706,422</u>
Total capital assets not being depreciated				
Capital assets being depreciated:				
Buildings and improvements	2,746,408	79,219	-	2,825,627
Equipment	2,733,626	1,015,177	(73,861)	3,674,942
Vehicles	3,244,836	496,930	(218,541)	3,523,225
Infrastructure	23,260,359	2,583,306	-	25,843,665
	<u>31,985,229</u>	<u>4,174,632</u>	<u>(292,402)</u>	<u>35,867,459</u>
Subtotal				
Less accumulated depreciation for:				
Buildings and improvements	(1,599,299)	(74,161)	-	(1,673,460)
Equipment	(1,739,096)	(290,671)	73,861	(1,955,906)
Vehicles	(2,827,176)	(271,170)	214,272	(2,884,074)
Infrastructure	(7,762,242)	(264,127)	-	(8,026,369)
	<u>(13,927,813)</u>	<u>(900,129)</u>	<u>288,133</u>	<u>(14,539,809)</u>
Subtotal				
Total capital assets being depreciated, net	<u>18,057,416</u>	<u>3,274,503</u>	<u>(4,269)</u>	<u>21,327,650</u>
Governmental activities capital assets, net	<u>\$ 19,113,193</u>	<u>\$ 3,476,177</u>	<u>\$ (555,298)</u>	<u>\$ 22,034,072</u>

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

Governmental activities:	
General government	\$ 89,161
Public safety	435,995
Public works	367,376
Culture and recreation	<u>7,597</u>
Total governmental activities	<u>\$ 900,129</u>

From time to time, the Township records capitalizable costs of governmental activities, within current expenditure functions, for purposes of administrative control. In 2015, the Township recorded \$165,147 of capitalizable costs as public works in the statement of revenues, expenditures, and changes in fund balances (page 14).

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued)

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Business-type activities:				
Capital assets not being depreciated - land	\$ 171,000	\$ -	\$ -	\$ 171,000
Capital assets being depreciated:				
Buildings	94,759	-	-	94,759
Improvements other than buildings	235,380	-	-	235,380
Vehicles and equipment	142,191	-	-	142,191
Subtotal	<u>472,330</u>	<u>-</u>	<u>-</u>	<u>472,330</u>
Less accumulated depreciation for:				
Buildings	(94,758)	-	-	(94,758)
Improvements other than buildings	(130,601)	(6,618)	-	(137,219)
Vehicles and equipment	(132,818)	(2,400)	-	(135,218)
Subtotal	<u>(358,177)</u>	<u>(9,018)</u>	<u>-</u>	<u>(367,195)</u>
Total capital assets being depreciated, net	<u>114,153</u>	<u>(9,018)</u>	<u>-</u>	<u>105,135</u>
Business-type activities capital assets, net	<u>\$ 285,153</u>	<u>\$ (9,018)</u>	<u>\$ -</u>	<u>\$ 276,135</u>

NOTE 6 - PAYABLES

Payables as of December 31, 2015, for the Township’s individual major and aggregate nonmajor funds, were as follows:

	<i>Accounts</i>	<i>Accrued payroll</i>	<i>Totals</i>
Governmental funds:			
General	\$ 99,939	\$ 114,060	\$ 213,999
Sewer Improvement	23	-	23
Nonmajor funds	<u>57,672</u>	<u>-</u>	<u>57,672</u>
Total governmental funds	<u>\$ 157,634</u>	<u>\$ 114,060</u>	<u>\$ 271,694</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - LONG-TERM LIABILITIES

Long-term obligation activity for the year ended December 31, 2015, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Reductions</i>	<i>Ending balance</i>	<i>Due within one year</i>
Governmental activities:					
\$9,750,000 2015 General Obligation Unlimited Tax Bonds, payable in annual installments of \$850,000 to \$1,350,000, including interest at 1.5% - 3.0%; final payment due April 2026	\$ -	\$ 9,750,000	\$ -	\$ 9,750,000	\$ -
\$199,024 2014 Installment purchase agreement note, payable in annual installments of \$69,780, with 2.5% interest; final payment due September 2017	-	199,025	(64,665)	134,360	66,328
\$936,118 2014 Installment purchase agreement note, payable in annual installments of \$208,010, with 2.23% interest; final payment due June 2017	-	936,118	(533,611)	402,507	199,034
\$11,088 2013 Installment purchase agreement note, payable in annual installments of \$3,696, with zero interest	3,696	-	(3,696)	-	-
\$12,300 2012 Installment purchase agreement note, payable in annual installments of \$2,460, with zero interest; final payment due March 2017	<u>5,535</u>	<u>-</u>	<u>(2,460)</u>	<u>3,075</u>	<u>2,460</u>
Subtotal	9,231	10,885,143	(604,432)	10,289,942	267,822
Premium on 2015 bonds	<u>-</u>	<u>85,526</u>	<u>(10,840)</u>	<u>74,686</u>	<u>10,840</u>
Total long term debt	9,231	10,970,669	(615,272)	10,364,628	278,662
Compensated absences	409,522	415,950	(398,818)	426,654	-
Postemployment healthcare benefits	<u>2,598,025</u>	<u>430,298</u>	<u>(131,259)</u>	<u>2,897,064</u>	<u>-</u>
Total governmental activities	<u>\$ 3,016,778</u>	<u>\$ 11,816,917</u>	<u>\$ (1,145,349)</u>	<u>\$ 13,688,346</u>	<u>\$ 278,662</u>

NOTE 7 - LONG-TERM LIABILITIES (Continued)

At December 31, 2015, debt service requirements, excluding compensated absences and postemployment healthcare benefits, were as follows:

<i>Year ended</i> <u>December 31:</u>	<u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 267,822	\$ 310,704
2017	272,120	428,009
2018	850,000	211,875
2019	900,000	198,750
2020	950,000	182,500
2021 - 2025	5,700,000	573,250
2026	<u>1,350,000</u>	<u>20,250</u>
Totals	<u>\$ 10,289,942</u>	<u>\$ 1,925,338</u>

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

NOTE 8 - PROPERTY TAXES

The 2014 taxable valuation of the Township approximated \$416,884,000, on which ad valorem taxes levied consisted of 8.9691 mills for operating purposes, raising approximately \$3,752,000. This amount is recognized in the respective fund financial statements as property tax revenue.

The 2015 taxable valuation of the Township approximated \$421,100,000, on which ad valorem taxes levied consisted of 8.9691 mills for operating purposes and 0.7508 mills for roads, raising approximately \$3,802,000 and \$318,000, 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 - INTERFUND TRANSFERS

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

The transfer from the 911 Wireless Capital Fund to the 911 Wireless Fund and to the Police Capital Fund represents a proportionate refund of a transfer in the previous year for the purchase of capital.

NOTE 10 - 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 11 - DEFINED CONTRIBUTION RETIREMENT PLANS

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

Benefit terms, including contribution requirements, for the Plan are established, and may be amended, by the Township Board. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate as described above. The Township contributes 10% of compensation to the first class of qualifying employees. The Township contributes 6.20% of compensation to the second class of qualifying employees, with an equal percentage contributed by all covered employees in the second class. The Township contributes 10% of compensation to the third class. The Township contributes 12% of compensation to the fourth class. Employees are permitted to make contributions to the Plan, up to applicable Internal Revenue Code limits. For the year ended December 31, 2015, the Township and eligible employees made contributions of \$173,701 and \$23,369, respectively. At December 31, 2015, 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 12 - 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 10 years of credited service but are not paid until the date retirement would have occurred had the member remained an employee. Covered employees are not required to contribute 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 12 - DEFINED BENEFIT PENSION PLAN (Continued)

Employees covered by benefit terms:

At the December 31, 2014, measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	8
Active employees	<u>36</u>
Total	<u><u>44</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 not required to contribute to the plan. For the fiscal year ended December 31, 2015, the Township contributed \$370,953 to the plan.

Net pension liability:

The Township’s net pension liability reported at December 31, 2015, was determined using a measurement of the total pension liability and the pension net position as of December 31, 2014. 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, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3 - 4%	
Salary increases	4.50%	In the long term (2% and 3% for calendar years 2015 and 2016, respectively, including inflation)
Investment rate of return	8.25%	Gross of pension plan investment expense, including inflation

Mortality rates were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used, with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in the December 31, 2014, valuation were based on the results of the most recent actuarial experience study in 2008.

NOTE 12 - DEFINED BENEFIT PENSION PLAN (Continued)

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

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Global equity	57.50%	5.02%
Global fixed income	20.00%	2.18%
Real assets	12.50%	4.23%
Diversifying strategies	10.00%	6.56%

Discount rate:

The discount rate used to measure the total pension liability is 8.25% for 2014. The projection of cash flows used to determine the discount rate assumes that employer contributions will be made at the actuarially determined rates for employers. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the net pension liability:

	<u>Increase (decrease)</u>		
	<u>Total pension liability</u> <u>(a)</u>	<u>Plan fiduciary net position</u> <u>(b)</u>	<u>Net pension liability</u> <u>(a) - (b)</u>
Balances at December 31, 2013	\$ 10,413,846	\$ 8,619,076	\$ 1,794,770
Changes for the year:			
Service cost	246,772	-	246,772
Interest	855,303	-	855,303
Employer contributions	-	360,234	(360,234)
Net investment income	-	547,289	(547,289)
Benefit payments, including refunds	(339,834)	(339,834)	-
Administrative expenses	-	(20,166)	20,166
Net changes	<u>762,241</u>	<u>547,523</u>	<u>214,718</u>
Balances at December 31, 2014	<u>\$ 11,176,087</u>	<u>\$ 9,166,599</u>	<u>\$ 2,009,488</u>

NOTE 12 - DEFINED BENEFIT PENSION PLAN (Continued)

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

The following presents the net pension liability of the Township, calculated using the discount rate of 8.25%, as well as what the Township’s net pension liability would be using a discount rate that is 1 percentage point lower (7.25%) or 1 percentage point higher (9.25%) than the current rate.

	<u>1% decrease (7.25%)</u>	<u>Current rate (8.25%)</u>	<u>1% increase (9.25%)</u>
Net pension liability	\$ 3,438,273	\$ 2,009,488	\$ 814,761

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, 2015, the Township recognized pension expense of \$461,155. At December 31, 2015, 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>
Net difference between projected and actual earnings on pension plan investments	\$ 113,797
Contributions made subsequent to the measurement date	<u>370,953</u>
Total	<u>\$ 484,750</u>

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

<u>Year ended</u>	<u>Deferred outflows of resources</u>
2016	\$ 399,402
2017	28,449
2018	28,449
2019	<u>28,450</u>
	<u>\$ 484,750</u>

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

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

Funding policy. The Township pays the full cost of coverage of these benefits for retirees and their spouses on a pay-as-you-go basis. Currently, fourteen retirees are eligible for postemployment health benefits. The Township obtains health care coverage through private insurers. The Township has the authority to establish the funding policy for the plan and to amend the obligations of both the Township and members. Active members are not obligated to make contributions to the plan at this time. For the year ended December 31, 2015, the Township contributed \$131,259 to the plan.

Annual OPEB cost and net OPEB obligation. The Township's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*. The Township has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following schedule shows the components of the Township's annual OPEB cost for the year ended December 31, 2015, the amount actually contributed to the plan, and changes in the Township's net OPEB obligation:

Annual required contribution (ARC)	\$ 454,609
Interest on net OPEB obligation	103,921
Adjustment to annual required contribution	<u>(128,232)</u>
Annual OPEB cost (expense)	430,298
Contributions made	<u>(131,259)</u>
Increase in net OPEB obligation	299,039
Net OPEB obligation - beginning of year	<u>2,598,025</u>
Net OPEB obligation - end of year	<u><u>\$ 2,897,064</u></u>

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

<u>Year</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
2013	\$ 617,588	23.42%	\$ 2,124,373
2014	616,522	23.17%	2,598,025
2015	430,298	30.50%	2,897,064

Funded status and funding progress. As of December 31, 2015, the most recent valuation date, the plan had not been funded, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,612,975. The covered payroll (annual payroll of active employees covered by the plan) was \$3,288,578, and the ratio of the UAAL to the covered payroll was 140%.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The following simplifying assumptions were made:

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

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

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

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

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

Health insurance premium - 2015 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

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

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

NOTE 14 - 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, Kalamazoo, Oshtemo, and Cooper. 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. In 2012, the Township advanced the Authority \$41,000 (non-interest bearing) as its proportionate share of initial startup costs. As of December 31, 2015, the balance of the advance of \$3,352 is collectible, subject to the Authority’s cash requirements. Complete audited financial statements for the Authority can be obtained by contacting the Authority at P.O. Box 292, Oshtemo, MI 49077.

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 15 - COMMITMENTS AND CONTINGENCIES

Contingent liabilities:

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

Accumulated non-vested sick pay. The Township is contingently liable to its employees for approximately \$425,000 in accumulated non-vested sick pay benefits.

Commitments:

Installment purchase contracts. The Township has entered into a contract for the installment purchase of a fire truck, to be delivered in 2016, with the remaining contract amount of \$187,580.

NOTE 16 - CHANGES IN ACCOUNTING PRINCIPLE

In 2015, the Township adopted the provisions of GASB Statements No. 68, *Accounting and Financial Reporting for Pensions*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*. As a result, the government-wide financial statements now include a liability for underfunded pension costs, known as the net pension liability. Some of the changes in the net pension liability are recognized immediately, as part of pension expense, and other changes will be deferred and recognized over future years. See Note 12 for more details.

The cumulative effect of this new accounting standard was a decrease in opening net position of governmental activities of \$1,435,197, at January 1, 2015, as follows. The adoption of GASB Statement No. 68 did not affect the beginning of year fund balance of any fund.

Net position of governmental activities, beginning of year, as previously reported	\$ 24,942,646
Cumulative effect of change in accounting principle:	
Net pension liability	(1,794,770)
Deferred outflows for contributions to the plan after the measurement date	<u>359,573</u>
	<u>(1,435,197)</u>
Net position of governmental activities, beginning of year, as restated	<u>\$ 23,507,449</u>

NOTE 17 - PENDING ACCOUNTING PRONOUNCEMENT

In December 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost, for financial reporting purposes. If an external investment pool meets the criteria, the pool's participants also should measure their investments in that external investment pool at amortized cost. This Statement also establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost and for governments that participate in those pools. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. The Township is currently evaluating the impact this Statement will have on the financial statements when adopted during the year ending December 31, 2016.

In August 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires disclosure of tax abatement information about (1) the Township's own tax abatement agreements and (2) those that are entered into by other governments which reduce the Township's tax revenues. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The Township is currently evaluating the impact this Statement will have on the financial statements when adopted during the year ending December 31, 2016.

NOTE 18 – SUBSEQUENT EVENT

Subsequent to year end, the Township entered into a road construction contract in the amount of \$3,793,869. The project is being funded by proceeds from the 2015 General Obligation Unlimited Tax Bonds.

REQUIRED SUPPLEMENTARY INFORMATION

Charter Township of Kalamazoo

BUDGETARY COMPARISON SCHEDULE - General Fund

Year ended December 31, 2015

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES				
Taxes	\$ 4,016,850	\$ 4,016,850	\$ 3,997,058	\$ (19,792)
Federal grants	34,500	34,500	21,062	(13,438)
State grants	2,186,000	2,186,000	2,110,228	(75,772)
Fines and forfeitures	40,300	40,300	38,314	(1,986)
Licenses and permits	253,000	253,000	268,508	15,508
Charges for services	221,124	221,124	297,345	76,221
Investment income	40,000	40,000	69,302	29,302
Other	552,509	552,509	626,758	74,249
Total revenues	<u>7,344,283</u>	<u>7,344,283</u>	<u>7,428,575</u>	<u>84,292</u>
EXPENDITURES				
General government:				
Legislative	80,985	80,985	75,687	5,298
Supervisor	82,050	82,050	81,780	270
Elections	35,400	35,400	44,692	(9,292)
Assessor	203,400	203,400	189,277	14,123
Clerk	179,700	179,700	169,029	10,671
Treasurer	158,400	158,400	158,773	(373)
General services administration	624,000	624,000	555,974	68,026
Building and grounds	245,650	245,650	250,440	(4,790)
Cemetery	21,350	21,350	25,056	(3,706)
Total general government	<u>1,630,935</u>	<u>1,630,935</u>	<u>1,550,708</u>	<u>80,227</u>
Public safety:				
Police protection	4,196,783	4,172,183	3,911,895	260,288
Fire protection	1,509,750	1,485,149	1,410,633	74,516
Emergency preparedness	2,000	2,000	3,588	(1,588)
Total public safety	<u>5,708,533</u>	<u>5,659,332</u>	<u>5,326,116</u>	<u>333,216</u>
Public works:				
Streets	175,000	175,000	160,746	14,254
Sidewalks	50,000	50,000	9,452	40,548
Total public works	<u>225,000</u>	<u>225,000</u>	<u>170,198</u>	<u>54,802</u>

Charter Township of Kalamazoo

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended December 31, 2015

	<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	\$ 87,650	\$ 87,650	\$ 87,418	\$ 232
Culture and recreation - parks	4,500	7,500	5,736	1,764
Capital outlay	31,000	71,000	50,348	20,652
Debt service:				
Principal	-	6,156	6,156	-
Interest	-	45	-	45
Total expenditures	<u>7,687,618</u>	<u>7,687,618</u>	<u>7,196,680</u>	<u>490,938</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(343,335)	(343,335)	231,895	575,230
OTHER FINANCING USES				
Transfers to other funds	<u>(13,000)</u>	<u>(13,000)</u>	<u>(13,000)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	(356,335)	(356,335)	218,895	575,230
FUND BALANCES - BEGINNING	<u>3,380,365</u>	<u>3,380,365</u>	<u>3,380,365</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 3,024,030</u>	<u>\$ 3,024,030</u>	<u>\$ 3,599,260</u>	<u>\$ 575,230</u>

Charter Township of Kalamazoo

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

Last fiscal year only (schedule is built prospectively upon implementation of GASB 68)

	<u>2015</u>
Total pension liability:	
Service cost	\$ 246,772
Interest	855,303
Benefit payments, including refunds	<u>(339,834)</u>
Net change in total pension liability	762,241
Total pension liability, beginning of year	<u>10,413,846</u>
Total pension liability, end of year	<u>\$ 11,176,087</u>
Plan fiduciary net position:	
Contributions - employer	\$ 360,234
Net investment income	547,289
Benefit payments, including refunds	(339,834)
Administrative expenses	<u>(20,166)</u>
Net change in plan fiduciary net position	547,523
Plan fiduciary net position, beginning of year	<u>8,619,076</u>
Plan fiduciary net position, end of year	<u>\$ 9,166,599</u>
Township's net pension liability, end of year	<u>\$ 2,009,488</u>
Plan fiduciary net position as a percent of total pension liability	82.02%
Covered employee payroll	\$ 2,225,472
Township's net pension liability as a percentage of covered employee payroll	90.29%

Charter Township of Kalamazoo

SCHEDULE OF TOWNSHIP CONTRIBUTIONS

Last Six Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Note - 2010 was the first year of the plan						
Actuarially determined contributions	\$ 370,953	\$ 360,234	\$ 322,156	\$ 301,309	\$ 307,036	\$ 197,754
Contributions in relation to the actuarially determined contributions	<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	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	<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	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	26 years
Asset valuation method	10-year smoothed market
Inflation	3 - 4%
Salary increases	4.5%
Investment rate of return	8.25%
Retirement age	Experience-based tables of rates that are specific to the type of eligibility condition
Mortality	50% Male - 50% Female blend of the 1994 Group Annuity Mortality Table

SCHEDULE OF FUNDING PROGRESS FOR THE POSTEMPLOYMENT HEALTHCARE PLAN

Year ended December 31, 2015

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

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

SUPPLEMENTARY INFORMATION

Charter Township of Kalamazoo

COMBINING BALANCE SHEET - nonmajor governmental funds

December 31, 2015

	Special revenue funds					Debt service	Capital projects funds					Totals	
	Police Training	Drug Enforcement	Street Lighting	Recycling	Parks	911 Wireless	Road Bonds	Police Capital	Fire Capital	Street	Water		911 Wireless Capital
ASSETS													
Cash	\$ 16,416	\$ 70,413	\$ 302,647	\$ 308,764	\$ 9,702	\$ 168,803	\$ 154,435	\$ 649,376	\$ 977,000	\$ 142,203	\$ 237,352	\$ -	\$ 3,037,111
Receivables	-	-	120,848	168,083	-	12,861	163,257	134,282	227,514	16,855	18,237	-	861,937
Total assets	\$ 16,416	\$ 70,413	\$ 423,495	\$ 476,847	\$ 9,702	\$ 181,664	\$ 317,692	\$ 783,658	\$ 1,204,514	\$ 159,058	\$ 255,589	\$ -	\$ 3,899,048
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES													
Liabilities:													
Accounts payable	\$ 5,065	\$ -	\$ 16,865	\$ 35,742	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 57,672
Unearned operating assessment revenue	-	-	232,926	429,060	-	-	-	-	-	-	-	-	661,986
Total liabilities	5,065	-	249,791	464,802	-	-	-	-	-	-	-	-	719,658
Deferred inflows of resources:													
Property tax revenues levied for the subsequent year	-	-	-	-	-	-	317,692	-	-	-	-	-	317,692
Assessments levied for the subsequent year	-	-	-	-	-	-	-	259,017	431,835	-	-	-	690,852
Unavailable special assessment revenue	-	-	-	-	-	-	-	-	-	15,966	15,913	-	31,879
Total deferred inflows of resources	-	-	-	-	-	-	317,692	259,017	431,835	15,966	15,913	-	1,040,423
Fund balances:													
Restricted for:													
Public safety	11,351	70,413	-	-	-	181,664	-	-	-	-	-	-	263,428
Public works	-	-	173,704	12,045	-	-	-	-	-	-	-	-	185,749
Capital outlay	-	-	-	-	-	-	-	524,641	772,679	-	-	-	1,297,320
Committed for culture and recreation	-	-	-	-	9,702	-	-	-	-	-	-	-	9,702
Assigned for public works	-	-	-	-	-	-	-	-	-	143,092	239,676	-	382,768
Total fund balances	11,351	70,413	173,704	12,045	9,702	181,664	-	524,641	772,679	143,092	239,676	-	2,138,967
Total liabilities, deferred inflows of resources, and fund balances	\$ 16,416	\$ 70,413	\$ 423,495	\$ 476,847	\$ 9,702	\$ 181,664	\$ 317,692	\$ 783,658	\$ 1,204,514	\$ 159,058	\$ 255,589	\$ -	\$ 3,899,048

Charter Township of Kalamazoo

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND

BALANCES - nonmajor governmental funds

Year ended December 31, 2015

	Special revenue funds					Debt service	Capital projects funds					Totals	
	Police Training	Drug Enforcement	Street Lighting	Recycling	Parks	911 Wireless	Road Bonds	Police Capital	Fire Capital	Street	Water		911 Wireless Capital
REVENUES													
Federal grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 250,775	\$ 250,775
State grants	5,984	-	-	-	-	-	-	-	-	8,952	-	-	14,936
Intergovernmental	-	-	-	-	-	48,822	-	-	-	-	-	-	48,822
Fines and forfeitures	-	7,102	-	-	-	-	-	-	-	-	-	-	7,102
Investment income	-	-	1,097	714	-	967	-	2,619	17,795	755	2,756	-	26,703
Other	-	-	228,738	428,745	-	-	-	268,368	424,082	2,301	29,013	-	1,381,247
Total revenues	5,984	7,102	229,835	429,459	-	49,789	-	270,987	441,877	12,008	31,769	250,775	1,729,585
EXPENDITURES													
Current:													
Public safety	19,195	220	-	-	-	8,290	-	-	-	-	-	-	27,705
Public works	-	-	224,898	417,414	-	-	-	-	-	-	31,326	-	673,638
Capital outlay	-	-	-	-	-	-	-	122,218	468,644	-	-	607,057	1,197,919
Debt service:													
Principal	-	-	-	-	-	-	-	-	64,665	-	-	533,611	598,276
Interest	-	-	-	-	-	-	-	-	5,115	-	-	11,764	16,879
Total expenditures	19,195	220	224,898	417,414	-	8,290	-	122,218	538,424	-	31,326	1,152,432	2,514,417
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(13,211)	6,882	4,937	12,045	-	41,499	-	148,769	(96,547)	12,008	443	(901,657)	(784,832)
OTHER FINANCING SOURCES (USES)													
Proceeds from debt	-	-	-	-	-	-	-	-	199,024	-	-	936,118	1,135,142
Transfers in	13,000	-	-	-	-	17,231	-	17,231	-	-	-	-	47,462
Transfers out	-	-	-	-	-	-	-	-	-	-	-	(34,462)	(34,462)
Net other financing sources (uses)	13,000	-	-	-	-	17,231	-	17,231	199,024	-	-	901,656	1,148,142
NET CHANGES IN FUND BALANCES	(211)	6,882	4,937	12,045	-	58,730	-	166,000	102,477	12,008	443	(1)	363,310
FUND BALANCES - BEGINNING	11,562	63,531	168,767	-	9,702	122,934	-	358,641	670,202	131,084	239,233	1	1,775,657
FUND BALANCES - ENDING	\$ 11,351	\$ 70,413	\$ 173,704	\$ 12,045	\$ 9,702	\$ 181,664	\$ -	\$ 524,641	\$ 772,679	\$ 143,092	\$ 239,676	\$ -	\$ 2,138,967