

Charter Township of Kalamazoo

Financial Statements

December 31, 2019



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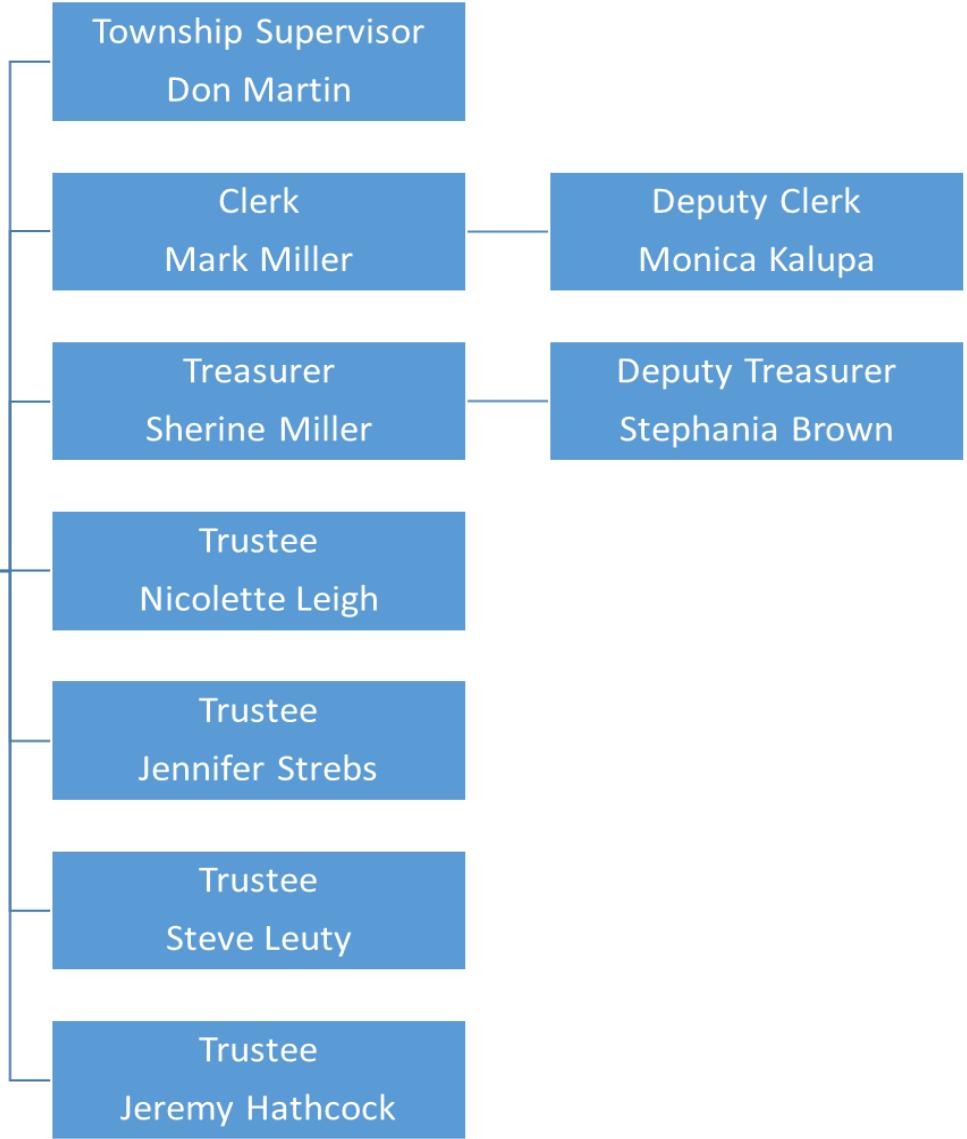
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Charter Township of Kalamazoo
List of Elected and Appointed Officials
December 31, 2019



Residents of the Charter
Township of Kalamazoo





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Independent Auditors' Report

To the Board of Trustees
Charter Township of Kalamazoo
Kalamazoo, Michigan

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Charter Township of Kalamazoo, as of and for the year ended December 31, 2019, 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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, each major fund, and the aggregate remaining fund information of the Charter Township of Kalamazoo, as of December 31, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Adjustments

As described in Note 13 to the financial statements, the Township restated the General Fund's beginning fund balance to remove previously expensed compensated absences and to incorporate the Golf Course Fund into the General Fund. The governmental activities were also restated in relation to the above-mentioned items. As a result, proprietary fund and business-type activities were restated to \$0 and are not displayed. Our opinions are not modified with respect to that matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, municipal employees' retirement system schedules and other post-employment benefit 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Kalamazoo's basic financial statements. The other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The other supplementary 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 other supplementary information, as identified in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2020 on our consideration of the Charter Township of Kalamazoo's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Charter Township of Kalamazoo's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter Township of Kalamazoo's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Portage, MI
June 22, 2020

Charter Township of Kalamazoo
Management's Discussion & Analysis
December 31, 2019

As management of the Charter Township of Kalamazoo (Township), we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended December 31, 2019. The financial statements are prepared in conformity with Generally Accepted Accounting Principles ("GAAP"). We encourage readers to evaluate the information presented here in conjunction with the accompanying Notes to the Financial Statements. The Notes to the Financial Statements are an integral part of the financial statements and provide useful explanations and detailed information on the financial statements.

Financial Highlights

- The assets of the Township exceeded its liabilities at year end by \$15,549,012 (net position). Unrestricted net position has a deficit balance (\$5,230,682) due to the road bond debt, which is unrelated to capital or restricted assets.
- The Township's total net position at December 31, 2019 increased by \$966,740 from December 31, 2018.
- As of the close of the current fiscal year, The Township's governmental funds reported combined ending fund balances of \$11,857,246, an increase of \$762,676 in comparison with the prior year. Less than half of this total amount, \$5,036,938 is unrestricted, undesignated fund balance and will be used to finance the Township's operations in 2020.

- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$5,036,938 or 62% of total general fund expenditures.
- The Township's total debt decreased by \$864,807 during the fiscal year. The net decrease in debt is attributable to the payment of principal on the road bonds and the addition of a capital lease agreement for the leasing two Xerox copiers. It is a sixty-month agreement with a monthly lease payment of \$297 consisting of a principal and interest portion.
- During the year, the criteria to determine the treatment of the Golf Course fund was analyzed. An enterprise fund is used to report any activity for which a fee is charged to external users for goods or services. Based on the Township's agreement with the management company of the golf course, this fund does not meet the criteria of an enterprise fund and therefore will be combined with the general fund for financial statement purposes.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Charter Township of Kalamazoo
Management's Discussion & Analysis
December 31, 2019

Government-Wide Financial Statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private -sector business.

The Statement of Net Position presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The Statement of Activities presents information showing how the Township's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes). Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the Township include general government, public safety, public works, community and economic development, and recreation and culture. The government-wide financial statements can be found in section 4 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The

Township's funds can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the Township's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Township's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Township maintains 17 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and some capital projects funds which are considered to be major funds. Data from the other non-major funds is combined into a single aggregated presentation. Funds that are not enabled by legislation or legal requirements are combined with the general fund. Individual data

**Charter Township of Kalamazoo
Management's Discussion & Analysis
December 31, 2019**

for the non-major funds is provided in the *other supplementary information* section of this report (6-1). The basic governmental fund financial statements can be found in section 4-4 of this report.

Fiduciary Funds are used to account for resources *held* for the benefit of parties outside the Township. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's activities. The basic fiduciary fund financial statements can be found in section 4-10 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found in section 4-11 of this report.

Other information. This report also presents certain *required supplementary information* concerning the Township's progress in funding its obligation to provide pension benefits to its employees (5-4).

A budget comparison schedule is provided for the General fund to review the actual versus budgeted revenues and expenditures for the Township (5-1).

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pensions (6-1)

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. The Township's assets exceeded its liabilities by \$15,549,012 at year end.

The largest portion of the Township's net position is its investments in capital assets. The Township uses these capital assets to provide services to citizens. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position represents 17% of total net position. Restricted net position represents resources that are subject to external restrictions on how they may be used.

**Charter Township of Kalamazoo
Management's Discussion & Analysis
December 31, 2019**

Condensed Statement of Net Position

	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 19,839,337	\$ 19,022,127
Capital assets	<u>18,103,409</u>	<u>18,246,939</u>
Total assets	<u>37,942,746</u>	<u>37,269,066</u>
Deferred outflows of resources	<u>1,453,904</u>	<u>813,042</u>
Current and other liabilities	8,927,866	7,280,460
Long-term debt	<u>7,085,628</u>	<u>8,942,638</u>
Total liabilities	<u>16,013,494</u>	<u>16,223,098</u>
Deferred inflows of resources	7,834,144	7,276,738
Net position		
Net investment in capital assets	18,089,841	18,182,677
Restricted	2,689,853	2,483,507
Unrestricted	<u>(5,230,682)</u>	<u>(6,083,912)</u>
Total net position	<u>\$ 15,549,012</u>	<u>\$ 14,582,272</u>

Condensed Statement of Activities

	<u>2019</u>	<u>2018</u>
Net position, beginning of year	\$ 14,280,982	\$ 13,736,488
Prior period adjustment	<u>328,966</u>	<u>459,886</u>
Net position, beginning of year as restated	<u>14,609,948</u>	<u>14,196,374</u>
Program revenues		
Charges for services	3,323,679	3,250,024
Operating grants	934,272	405,895
Capital grants	-	4,999
General revenues		
Property taxes	5,343,350	4,876,585
State shared	2,356,372	2,274,915
Miscellaneous	78,164	-
Investment income	<u>323,622</u>	<u>117,016</u>
Total revenues	<u>12,359,459</u>	<u>10,929,434</u>
Expenses		
General government	1,729,981	1,535,531
Public safety	7,150,789	6,953,752
Public works	2,219,353	1,746,160
Community and economic development	99,801	81,643
Recreation and culture	34,721	26,855
Interest	<u>185,750</u>	<u>199,595</u>
Total expenses	<u>11,420,395</u>	<u>10,543,536</u>
Changes in net position	<u>939,064</u>	<u>385,898</u>
Net position, end of year	<u>\$ 15,549,012</u>	<u>\$ 14,582,272</u>

**Charter Township of Kalamazoo
Management's Discussion & Analysis
December 31, 2019**

Governmental Activities. Key changes in net position are as follows:

- Operating grants increased by \$528,377 from the prior fiscal year. The majority of the increase is attributable to the SAW grant from the State to conduct water and sewer infrastructure mapping.
- Property tax revenue increased \$466,765 with \$255,253 increase due to the re-grouping of tax admin fees and tax collection fees. These fees were grouped into a different category in the prior year. Overall, property tax revenue increased by \$211,512.
- Investment income increased by \$206,606.
- General government expenditures increased by \$194,450. Of the increase, \$74,480 was related to an increase in depreciation expense from the prior year due to the acquisition of new assets.
- Expenses related to public safety increased \$197,037 from the previous year due to the acquisition of assets during the fiscal year.
- Public Works increased \$473,193 primarily related to the expenses for engineering costs to conduct water and sewer infrastructure mapping as a condition of the SAW grant.

Condensed Statement of Revenues, Expenditures and Changes in Fund Balance – General Fund

	<u>2019</u>	<u>2018</u>	<u>Difference</u>
Revenues			
Taxes	\$ 4,826,665	\$ 4,019,102	\$ 807,563
Licenses and permits	327,187	308,143	19,044
Federal grants	1,487	334	1,153
State-shared revenue	2,356,372	2,421,967	(65,595)
Other state grants	57,201	-	57,201
Local contributions	54,097	-	54,097
Charges for services	769,362	475,851	293,511
Fines and forfeitures	5,092	26,728	(21,636)
Interest and rentals	126,543	98,766	27,777
Other revenue	<u>85,690</u>	<u>682,877</u>	<u>(597,187)</u>
Total revenues	<u>8,609,696</u>	<u>8,033,768</u>	<u>575,928</u>
Expenditures			
General government	1,482,382	1,481,774	608
Public safety	6,284,775	5,890,647	394,128
Public works	147,581	17,502	130,079
Community and economic development	89,898	81,643	8,255
Recreation and culture	34,615	5,928	28,687
Capital outlay	21,151	47,157	(26,006)
Debt service	<u>2,369</u>	<u>-</u>	<u>2,369</u>
Total expenditures	<u>8,062,771</u>	<u>7,524,651</u>	<u>538,120</u>
Excess revenues over expenditures	546,925	509,117	37,808
Other financing sources (uses)	<u>276,302</u>	<u>(671,350)</u>	<u>947,652</u>
Net change in fund balance	823,227	(162,233)	985,460
Fund balance, beginning of year, restated	<u>4,277,577</u>	<u>4,390,739</u>	<u>(113,162)</u>
Fund balance, end of year	<u>\$ 5,100,804</u>	<u>\$ 4,228,506</u>	<u>\$ 872,298</u>

**Charter Township of Kalamazoo
Management's Discussion & Analysis
December 31, 2019**

Financial Analysis of the Township's Funds

The Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Townships governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Total net position at the end of the fiscal year was \$15,549,012. \$2,689,853 is restricted for public works, capital outlay, and debt service. Unrestricted net position has a deficit balance of (\$5,230,682). The Township's primary liability consists of its road bond debt (\$8 million), net pension liability (\$3.9 million) and other post-employment benefits (OPEB) liability (\$3.1 million).

The general fund is the operating fund of the Township. In addition to general operating expenses, the general fund includes all costs related to police and fire. Revenue increased by \$575,000 primarily from property tax revenue. General fund expenditures increased \$538,000 from the prior year mostly in the areas of public safety and public works.

General Fund Budgetary Highlights

The Township adopts an annual appropriated budget for its general fund and its special revenue funds. Actual expenditures were less than budgeted amounts by \$1,033,094. Primarily in the areas of public safety and public works. A budgetary comparison statement has been provided for the General fund in section 5-1 of this report.

Capital Asset & Debt Administration

Capital Assets. The Township's investment in capital assets for its governmental activities as of December 31, 2019, decreased slightly by \$143,000. The Township purchased fixed asset software to maintain its assets. The Township purchased new assets totaling \$873,372. Additional information on capital assets can be found in Note 5 in the Notes to the Financial Statements section of this document. Major asset purchases include:

- New HVAC system at Township Hall - \$435,067
- Equipment and Improvements for Fire - public safety - \$174,540
- Vehicles and equipment for Police – public safety - \$ 244,224

Long-term Debt. The Township entered into a capital lease agreement with Xerox copiers for the lease of two copiers in the administration and police departments. The total cost of the lease payments over five years is \$17,771.

In 2015, the Township issued bonds to finance the rehabilitation of Township roads in poor condition. The total amount of the issuance was \$9,750,000. As of yearend, the outstanding principal on the debt

**Charter Township of Kalamazoo
Management's Discussion & Analysis
December 31, 2019**

is \$8,000,000. Additional information on long term debt can be found in Note 8 in the Notes to the Financial Statements section of this document.

Economic Factors and Next Year's Budget and Rates

The Township plans to use fund balance and revenues to finance Township operations in 2020. Property tax revenues are expected to increase slightly in 2020. The Township is in negotiations with the police union to enter into a new police agreement. A contingency account has been set up to provide for funds, if necessary, to the police budget as a result of the settlement of the police agreement.

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. It is used to demonstrate the Township's accountability for the resources it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Nancy Desai, Director of Finance
nbdesai@ktpw.org or (269) 381-8080

Charter Township of Kalamazoo
Statement of Net Position
December 31, 2019

	<u>Governmental Activities</u>
Assets	
Pooled cash and investments	\$ 15,291,466
Receivables	
Taxes and assessments	3,764,213
Customers	758,392
Due from other units of government	20,546
Prepaid items	4,720
Capital assets not being depreciated	655,686
Capital assets, net of accumulated depreciation	<u>17,447,723</u>
Total assets	<u>37,942,746</u>
 Deferred Outflows of Resources	
Deferred amount relating to net pension liability	<u>1,453,904</u>

Charter Township of Kalamazoo
Statement of Net Position
December 31, 2019

	Governmental Activities
Liabilities	
Accounts payable	\$ 222,937
Accrued and other liabilities	211,006
Noncurrent liabilities	
Debt due within one year	1,408,970
Debt due in more than one year	7,085,628
Net pension liability	3,920,325
Total OPEB liability	3,164,628
Total liabilities	16,013,494
Deferred Inflows of Resources	
Taxes and assessments	7,461,203
Deferred amount relating to net pension liability	281,923
Deferred amount relating to total OPEB liability	91,018
Total deferred inflows of resources	7,834,144
Net Position	
Net investment in capital assets	18,089,841
Restricted for	
Public works	196,587
Capital projects	2,343,681
Debt service	149,585
Unrestricted	(5,230,682)
Total net position	\$ 15,549,012

See Accompanying Notes to the Financial Statements

Charter Township of Kalamazoo
Statement of Activities
For the Year Ended December 31, 2019

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	
Primary government				
Governmental activities				
General government	\$ 1,729,981	\$ 439,302	\$ 89,371	\$ -
Public safety	7,150,789	1,951,213	193,152	-
Public works	2,219,353	933,063	651,749	-
Community and economic development	99,801	-	-	-
Recreation and culture	34,721	101	-	-
Interest and fiscal charges on long-term debt	185,750	-	-	-
Total governmental activities	<u>\$ 11,420,395</u>	<u>\$ 3,323,679</u>	<u>\$ 934,272</u>	<u>\$ -</u>
General revenues				
Property taxes				5,343,350
State-shared revenue				2,356,372
Unrestricted investment earnings				323,622
Miscellaneous				78,164
Total general revenues				<u>8,101,508</u>
Change in net position				<u>939,064</u>
Net position - beginning of year				14,280,982
Prior period adjustment				<u>328,966</u>
Net position - beginning of year, as restated				<u>14,609,948</u>
Net position - end of year				<u>\$ 15,549,012</u>

See Accompanying Notes to the Financial Statements

Charter Township of Kalamazoo
Governmental Funds
Balance Sheet
December 31, 2019

	General	Capital Projects Funds		Debt	Nonmajor Governmental Funds	Total Governmental Funds
		Sewer Improvement	Fire Capital	Service Fund Road Bond		
Assets						
Pooled cash and investments	\$ 7,085,011	\$ 3,565,241	\$ 1,956,815	\$ 756,016	\$ 1,948,929	\$ 15,312,012
Receivables						
Taxes and assessments	2,382,958	35,759	246,559	602,434	496,503	3,764,213
Customers	669,329	58,317	-	30,746	-	758,392
Due from other units of government	-	-	-	-	20,546	20,546
Prepaid items	4,720	-	-	-	-	4,720
Total assets	\$ 10,142,018	\$ 3,659,317	\$ 2,203,374	\$ 1,389,196	\$ 2,465,978	\$ 19,859,883

Charter Township of Kalamazoo
Governmental Funds
Balance Sheet
December 31, 2019

	General	Capital Projects Funds		Debt	Nonmajor Governmental Funds	Total Governmental Funds
		Sewer Improvement	Fire Capital	Service Fund Road Bond		
Liabilities						
Accounts payable	\$ 83,922	\$ 75,845	\$ -	\$ -	\$ 63,170	\$ 222,937
Checks written against future deposits	-	-	-	-	20,546	20,546
Accrued and other liabilities	163,238	-	-	-	-	163,238
Total liabilities	247,160	75,845	-	-	83,716	406,721
Deferred Inflows of Resources						
Taxes and assessments	4,690,087	49,090	473,984	1,191,843	1,056,199	7,461,203
Grants	103,967	-	-	30,746	-	134,713
Total deferred inflows of resources	4,794,054	49,090	473,984	1,222,589	1,056,199	7,595,916
Fund Balances						
Non-spendable						
Prepaid items	4,720	-	-	-	-	4,720
Restricted for						
Public safety	-	-	-	-	108,213	108,213
Public works	-	-	-	-	196,587	196,587
Capital projects	-	-	1,729,390	-	614,291	2,343,681
Debt service	-	-	-	166,607	-	166,607
Assigned for						
Public works	-	3,534,382	-	-	299,233	3,833,615
Capital projects	-	-	-	-	166,885	166,885
Unassigned (deficit)	5,096,084	-	-	-	(59,146)	5,036,938
Total fund balances	5,100,804	3,534,382	1,729,390	166,607	1,326,063	11,857,246
Total liabilities, deferred inflows of resources, and fund balances	\$ 10,142,018	\$ 3,659,317	\$ 2,203,374	\$ 1,389,196	\$ 2,465,978	\$ 19,859,883

See Accompanying Notes to the Financial Statements

Charter Township of Kalamazoo
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Position of Governmental Activities
December 31, 2019

Total fund balances for governmental funds	\$ 11,857,246
Total net position for governmental activities in the statement of net position is different because:	
Capital assets net of accumulated depreciation used in governmental activities are not financial resources and therefore are not reported in the funds.	17,447,723
Capital assets not being depreciated used in governmental activities are not financial resources and therefore are not reported in the funds.	655,686
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	134,713
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(47,768)
Compensated absences	(447,787)
Deferred outflows (inflows) of resources.	
Deferred inflows of resources resulting from net pension liability	(281,923)
Deferred inflows of resources resulting from total OPEB liability	(91,018)
Deferred outflows of resources resulting from net pension liability	1,453,904
Long-term liabilities applicable to governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities.	
Net pension liability	(8,046,811)
Total OPEB liability	(3,920,325)
	(3,164,628)
Net position of governmental activities	<u>\$ 15,549,012</u>

Charter Township of Kalamazoo
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2019

	General	Capital Projects Funds		Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
		Sewer Improvement	Fire Capital	Road Bond		
Revenues						
Taxes	\$ 4,826,665	\$ 7,038	\$ 456,791	\$ 1,155,186	\$ 996,527	\$ 7,442,207
Licenses and permits	327,187	-	-	-	-	327,187
Federal grants	1,487	-	-	-	80,683	82,170
State-shared revenue	2,356,372	-	-	-	-	2,356,372
Other state grants	57,201	600,672	73,637	37,977	2,454	771,941
Local contributions	54,097	-	-	-	5,482	59,579
Charges for services	769,362	7,500	-	-	-	776,862
Fines and forfeitures	5,092	-	-	-	4,239	9,331
Interest income	83,029	114,319	55,053	2,890	68,331	323,622
Rental income	43,514	-	17,372	-	-	60,886
Other revenue	85,690	-	-	-	13,100	98,790
Total revenues	8,609,696	729,529	602,853	1,196,053	1,170,816	12,308,947

See Accompanying Notes to the Financial Statements

Charter Township of Kalamazoo
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2019

	General	Capital Projects Funds		Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
		Sewer Improvement	Fire Capital	Road Bond		
Expenditures						
Current						
General government	\$ 1,482,382	\$ -	\$ -	\$ -	\$ -	\$ 1,482,382
Public safety	6,284,775	-	-	-	108,502	6,393,277
Public works	147,581	628,582	-	-	1,326,781	2,102,944
Community and economic development	89,898	-	-	-	-	89,898
Recreation and culture	34,615	-	-	-	-	34,615
Capital outlay	21,151	-	193,119	-	252,414	466,684
Debt service						
Principal retirement	1,828	-	-	900,000	-	901,828
Interest and fiscal charges	541	-	-	198,211	-	198,752
Total expenditures	<u>8,062,771</u>	<u>628,582</u>	<u>193,119</u>	<u>1,098,211</u>	<u>1,687,697</u>	<u>11,670,380</u>
Excess (deficiency) of revenues over expenditures	<u>546,925</u>	<u>100,947</u>	<u>409,734</u>	<u>97,842</u>	<u>(516,881)</u>	<u>638,567</u>
Other Financing Sources (Uses)						
Transfers in	306,237	-	-	10	48,000	354,247
Transfers out	(48,000)	(5,000)	-	-	(301,247)	(354,247)
Bond/note/capital lease proceeds	15,396	-	-	-	-	15,396
Sale of capital assets	2,669	-	17,878	-	39,095	59,642
Total other financing sources and uses	<u>276,302</u>	<u>(5,000)</u>	<u>17,878</u>	<u>10</u>	<u>(214,152)</u>	<u>75,038</u>
Net change in fund balance	<u>823,227</u>	<u>95,947</u>	<u>427,612</u>	<u>97,852</u>	<u>(731,033)</u>	<u>713,605</u>
Fund balance - beginning of year	4,228,506	3,438,435	1,301,778	68,755	2,057,096	11,094,570
Prior period adjustment	49,071	-	-	-	-	49,071
Fund balance - beginning of year (restated)	<u>4,277,577</u>	<u>3,438,435</u>	<u>1,301,778</u>	<u>68,755</u>	<u>2,057,096</u>	<u>11,143,641</u>
Fund balance - end of year	<u>\$ 5,100,804</u>	<u>\$ 3,534,382</u>	<u>\$ 1,729,390</u>	<u>\$ 166,607</u>	<u>\$ 1,326,063</u>	<u>\$ 11,857,246</u>

See Accompanying Notes to the Financial Statements

Charter Township of Kalamazoo
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2019

Net change in fund balances - total governmental funds	\$ 713,605
Total change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report inventory purchases and prepaid items as expenditures. However in the statement of activities purchases are recognized as inventory and expensed when consumed.	(30,605)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(962,693)
Capital outlay	1,025,582
Sale of capital assets (net book value)	(206,419)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Grants	134,713
Other revenue	(84,201)
Expenses are recorded when incurred in the statement of activities.	
Accrued interest	3,607
Compensated absences	(31,020)
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Net change in net pension liability	(1,146,452)
Net change in the deferred inflow of resources related to the net pension liability	124,965
Net change in the deferred outflow of resources related to the net pension liability	683,300
The statement of net position reports the total OPEB liability and deferred outflows of resources and deferred inflows related to the total OPEB liability and pension expense. However, the amount recorded on the governmental funds equals actual OPEB contributions.	
Net change in total OPEB liability	(47,689)
Net change in the deferred inflow of resources related to the total OPEB liability	(91,018)
Net change in the deferred outflow of resources related to the total OPEB liability	(42,438)
Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	
Debt issued	(15,396)
Repayments of long-term debt	901,828
Amortization of premiums, discounts and similar items	9,395
Change in net position of governmental activities	\$ 939,064

See Accompanying Notes to the Financial Statements

Charter Township of Kalamazoo
Fiduciary Funds
Statement of Assets and Liabilities
December 31, 2019

	<u>Agency Funds</u>
Assets	
Pooled cash and investments	\$ 4,818,902
Receivables	
Accounts	<u>765</u>
Total assets	<u>\$ 4,819,667</u>
Liabilities	
Accounts payable	\$ 19,216
Accrued and other liabilities	69,460
Due to other units of government	<u>4,730,991</u>
Total liabilities	<u>\$ 4,819,667</u>

See Accompanying Notes to the Financial Statements

Charter Township of Kalamazoo
Notes to the Financial Statements
December 31, 2019

Note 1 - Summary of Significant Accounting Policies

Reporting entity

The Charter Township of Kalamazoo is governed by an elected seven-member Board. The accompanying financial statements present only the Township. Management has determined there are no other entities for which the Township is financially accountable.

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

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

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 primary government and its component units. *Government activities*, which normally are 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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. Currently, the Township does not report any business-type activities or component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments 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, proprietary funds, and fiduciary funds, even though the latter are excluded from the 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 and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they

Charter Township of Kalamazoo
Notes to the Financial Statements
December 31, 2019

are 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, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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, a capital projects fund, accounts for the construction or purchase of major sewer improvements. Revenues are primarily derived from special assessments.

The Fire Capital Fund, a capital projects fund, accounts for the construction or purchase of major fire improvements. Revenues are primarily derived from special assessments.

The Road Bond Fund, a debt service fund, accounts for the debt service payments related to bonds issued to improve the Township's roads. Revenues are primarily derived from property taxes.

Additionally, the Township reports the following:

The Nonmajor Special Revenue Funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative requirements.

The Nonmajor Capital Projects Funds account for the outlays related to restricted or assigned fund balance for specific capital outlays.

The Fiduciary Funds are comprised of a Trust and Agency Fund, Current Tax Collection Fund, and the Southwest Enforcement Team, which accounts for property tax and other deposits collected on behalf of other units and individuals.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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.

Assets, liabilities, and net position or equity

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

Charter Township of Kalamazoo
Notes to the Financial Statements
December 31, 2019

Investments are stated at fair value based on quoted market price or net asset value. Certificate of deposits are stated at cost which approximates 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 a lending/borrowing arrangement 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 shown as net of allowance for uncollectible amounts. The Township considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The 2018 taxable valuation of the government totaled \$433,655,353, on which ad valorem taxes consisted of 8.9412 mills for operating purposes and 2.6500 mills for roads. This resulted in \$3,859,543 for operating expenses and \$1,147,499 for roads, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Inventories and prepaid items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed, although significant amounts of inventory are capitalized at year end.

Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the Township

follows the consumption method, and they therefore are capitalized as prepaid items in both government-wide and fund financial statements.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$2,000 (\$10,000 for infrastructure assets) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the Township values these capital assets at the estimated acquisition value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

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

Deferred outflows of resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. The Township reports deferred outflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions and experience differences relating to the net pension liability are deferred and amortized over the expected

Charter Township of Kalamazoo
Notes to the Financial Statements
December 31, 2019

remaining services lives of the employees and retirees in the plan. The Township also reported deferred outflows of resources for pension contributions made after the measurement date. This amount will reduce net pension liability in the following year.

Compensated absences – It is the Township’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay is accrued when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS’ fiduciary net position have been determined on the same basis as they are reported to MERS. 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.

Other postemployment benefits (OPEB) – For purposes of measuring the net OPEB liability and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Charter Township of Kalamazoo Retiree Health Care Plan (RHCP) and additions to/deductions from RHCP’s fiduciary net position have been determined on the same basis as they are reported by RHCP. For this purpose, RHCP recognizes benefit payments when due and payable in accordance with the benefit terms. The plan is not prefunded and contributes on the pay-as-you-go basis.

Deferred inflows of resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. The Township reports deferred inflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions and experience differences relating to the net pension liability and net OPEB liability are deferred and amortized over the expected remaining services lives of the employees and retirees in the plan.

Fund Equity – In the fund financial statements, governmental funds may report fund balance in the following categories:

Non-spendable – assets that are not available in a spendable form.

Charter Township of Kalamazoo
Notes to the Financial Statements
December 31, 2019

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts constrained on use imposed by the government's highest level of decision-making, its Board of Trustees. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Trustees.

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Trustees. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the government's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the government's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

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, deferred outflows, liabilities, deferred inflows 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. Actual results could differ from those estimates.

Adoption of New Accounting Standards

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* improves the information that is disclosed in notes to the financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities should be included when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

Statement No. 90, *Majority Equity Interests* improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain components.

Statement No. 92, *Omnibus 2020* enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and Includes specific provisions about the following: (1) The effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports (2) Reporting of intra-entity transfers of assets between a primary government employer and a

Charter Township of Kalamazoo
Notes to the Financial Statements
December 31, 2019

component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan. (3) The applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits. (4) The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements. (5) Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition. (6) Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers. (7) Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature. (8) Terminology used to refer to derivative instruments.

Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic and provides postponement of effective dates for certain GASB Statements. This statement was effective upon issuance in May of 2020.

Upcoming Accounting and Reporting Changes

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The criteria generally is on (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending December 31, 2020.

Statement No. 87, *Leases* increases the usefulness of the financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about leasing activities. The requirements of this Statement are effective for the fiscal year ending December 31, 2022.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending December 31, 2021.

Statement No. 91, *Conduit Debt Obligations* provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by

Charter Township of Kalamazoo
Notes to the Financial Statements
December 31, 2019

clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This statement is effective for the year ending December 31, 2022.

Statement No. 93, *Replacement of Interbank Offered Rates* establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this Statement apply to the financial statements of all state and local governments. This statement is effective for the year ending December 31, 2022.

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs).

As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. This statement is effective for the year ending December 31, 2023.

The Township is evaluating the impact that the above GASB Statements will have on its financial reporting.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary information

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the function level. The Director of Finance is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the Board of Trustees.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received, or services rendered.

Charter Township of Kalamazoo
Notes to the Financial Statements
December 31, 2019

Excess of expenditures over appropriations

	<u>Appropriations</u>	<u>Actual</u>	<u>Budget Variance</u>
General Fund			
Community and economic development	\$ 83,785	\$ 89,898	\$ 6,113
Debt service	-	2,369	2,369

Note 3 - Deposits and Investments

At year end the government's deposits and investments were reported in the financial statements in the following categories:

	<u>Pooled Cash and Investments</u>
Governmental activities	\$15,291,466
Fiduciary funds	<u>4,818,902</u>
Total	<u>\$20,110,368</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 10,727,704	\$ 4,818,902	\$ 15,546,606
Investments in securities, mutual funds and similar vehicles	4,563,562	-	4,563,562
Petty cash and cash on hand	<u>200</u>	<u>-</u>	<u>200</u>
	<u>\$ 15,291,466</u>	<u>\$ 4,818,902</u>	<u>\$ 20,110,368</u>

As of year end, the government had the following investments:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturities</u>	<u>Rating</u>	<u>Organization</u>
Federal National Mortgage Association				
Remic Trust Bonds	\$ 232,036	2042	Aaa	Moody's
CLASS - Michigan Investment Pool	<u>4,331,526</u>	N/A	AAAm	S&P
	<u>\$ 4,563,562</u>			

Interest rate risk – The government does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates

Credit risk – State statutes and the Township's investment policy authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial

Charter Township of Kalamazoo
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paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Concentration of credit risk – The Township has no policy that would limit the amount that may be issued in any one issuer.

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of bank failure, the Township’s deposits may not be returned to it. The Township does not have a policy for custodial credit risk. As of year end, \$8,440,232 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The following investment securities were uninsured and unregistered and held in the following manner:

Investment Type	Carrying Value	How Held
Federal National Mortgage Association Remic Trust Bonds	\$ <u>232,036</u>	By counterparty in the Township's name

Note 4 - Fair Value Measurements

The Township categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant

other observable inputs; and Level 3 inputs are significant unobservable inputs.

The Township has the following recurring fair value measurements as of December 31, 2019:

- U.S. agency securities of \$232,036 are valued using observable fair values of similar assets (Level 2 inputs).

The Township’s investments include holdings in the Cooperative Liquid Assets Securities System – Michigan (CLASS), which is a local government investment pool established under Michigan state statues for participating Michigan municipalities. This pool, which is a nonrisk categorized qualifying investment, is carried at net asset value. There is no redemption period and no unfunded commitments. A separately issued financial statement is available at 15309 Meadowwood Drive, Grand Haven, Michigan 49417.

Charter Township of Kalamazoo
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Note 5 - Capital Assets

Capital assets activity of the primary government for the current year is as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities					
Capital assets not being depreciated					
Land	\$ 675,748	\$ 23,640	\$ 55,559	\$ 6,102	\$ 649,931
Construction-in-progress	-	5,755	-	-	5,755
Total capital assets not being depreciated	<u>675,748</u>	<u>29,395</u>	<u>55,559</u>	<u>6,102</u>	<u>655,686</u>
Capital assets being depreciated					
Buildings and improvements	3,108,213	550,397	154,008	134,414	3,639,016
Equipment	4,489,459	331,434	1,301,119	(135,471)	3,384,303
Vehicles	4,045,304	114,356	253,095	-	3,906,565
Land improvements	241,045	-	940	(5,045)	235,060
Infrastructure	22,497,614	-	-	-	22,497,614
Total capital assets being depreciated	<u>34,381,635</u>	<u>996,187</u>	<u>1,709,162</u>	<u>(6,102)</u>	<u>33,662,558</u>
Less accumulated depreciation for					
Buildings and improvements	1,983,373	103,598	87,536	98,948	2,098,383
Equipment	2,859,767	272,764	1,216,731	(115,422)	1,800,378
Vehicles	3,120,056	318,086	253,095	-	3,185,047
Land improvements	154,160	-	940	16,474	169,694
Infrastructure	8,693,088	268,501	-	-	8,961,589
Total accumulated depreciation	<u>16,810,444</u>	<u>962,949</u>	<u>1,558,302</u>	<u>-</u>	<u>16,215,091</u>
Net capital assets being depreciated	<u>17,571,191</u>	<u>33,238</u>	<u>150,860</u>	<u>(6,102)</u>	<u>17,447,467</u>
Governmental activities capital assets, net	<u>\$ 18,246,939</u>	<u>\$ 62,633</u>	<u>\$ 206,419</u>	<u>\$ -</u>	<u>\$ 18,103,153</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities	
General government	\$ 144,443
Public safety	606,658
Public works	202,219
Community and economic development	<u>9,629</u>
Total governmental activities	<u>\$ 962,949</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The details for interfund transfers are as follows:

Funds Transferred From	Funds Transferred To	Amount
General Fund	Nonmajor funds	\$ 48,000
Sewer Improvement Fund	General Fund	5,000
Nonmajor funds	General Fund	301,237
Nonmajor funds	Road Bond Fund	10
		<u>\$ 354,247</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the Township must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs. Transfers into the General Fund are to close other funds or make reimbursements for amounts paid through the General Fund.

Charter Township of Kalamazoo
Notes to the Financial Statements
December 31, 2019

Note 7 - Leases

Capital leases

The Township has a capital lease for copiers. The future minimum lease payments are as follows:

<u>Year ending December 31,</u>	
2020	\$ 3,554
2021	3,554
2022	3,554
2023	3,554
2024	<u>1,232</u>
Total minimum lease payments	15,448
Less amount representing interest	<u>1,880</u>
Present value of minimum lease payments	<u>\$ 13,568</u>
Asset	
Equipment	\$ 15,396
Less accumulated depreciation	<u>2,053</u>
Total	<u>\$ 13,343</u>

Charter Township of Kalamazoo
Notes to the Financial Statements
December 31, 2019

Note 8 - Long-Term Debt

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. long-term obligations include compensated absences. Compensated absences are typically liquidated with funds from the General Fund.

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities									
Bonds									
General obligation bonds									
2015 Unlimited Tax Road Bonds	\$ 9,750,000	2026	2.0% - 3.0%	\$950,000 - \$1,350,000	\$ 8,900,000	\$ -	\$ 900,000	\$ 8,000,000	\$ 950,000
Less deferred amounts for issuance premiums					42,638	-	9,395	33,243	8,366
Total					8,942,638	-	909,395	8,033,243	958,366
Capital leases									
Xerox copiers					-	15,396	1,828	13,568	2,817
Compensated absences									
					416,767	519,499	488,479	447,787	447,787
Total governmental activities					<u>\$ 9,359,405</u>	<u>\$ 534,895</u>	<u>\$ 1,399,702</u>	<u>\$ 8,494,598</u>	<u>\$ 1,408,970</u>

Charter Township of Kalamazoo
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Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending December 31,	Governmental Activities	
	Bonds	
	Principal	Interest
2020	\$ 950,000	\$ 182,500
2021	1,000,000	163,000
2022	1,100,000	142,000
2023	1,100,000	118,625
2024	1,200,000	91,250
2025-2026	<u>2,650,000</u>	<u>78,625</u>
	<u>\$ 8,000,000</u>	<u>\$ 776,000</u>

Note 9 - Risk Management

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 10 - Employee Retirement and Benefit Systems

Defined contribution pension plan

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

fourth class includes all full-time employees, except elected officials and police hired before January 1, 2013.

Benefit terms, including contribution requirements, for the Plan are established, and may be amended, by the Township Board. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate as described above. The Township contributes 10% of compensation to the first class of qualifying employees. The Township contributes 6.20% of compensation to the second class of qualifying employees, with an equal percentage contributed by all covered employees in the second class. The Township contributes 10% of compensation to the third class. The Township contributes 12% of compensation to the fourth class. Employees are permitted to make contributions to the Plan, up to applicable Internal Revenue Code limits. For the year ended December 31, 2019, the Township and eligible employees made contributions of \$181,442 and \$27,701, respectively. At December 31, 2019, 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.

Defined benefit pension plan

Plan description – The government participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer, statewide public employee defined benefit pension plan that covers all employees of the government. The plan was

Charter Township of Kalamazoo
Notes to the Financial Statements
December 31, 2019

established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine-member Retirement Board. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917 or on the web at <http://www.mersofmich.com>.

Benefits provided – Benefits provided includes a plan with a multiplier of 2.50%. The vesting period is 10 years. Normal retirement age is 60 with early retirement at 53 with 25 years of service (unreduced), 50 with 25 years of service (reduced) and 55 with 15 years of service (reduced). Final average compensation is calculated based on 3 years. Member contributions are 3.48%.

Employees covered by benefit terms – At the December 31, 2018 valuation date, the following employees were covered by benefit terms:

Inactive employees or beneficiaries currently receiving benefits	15
Inactive employees entitled to, but not yet receiving benefits	2
Active employees	<u>31</u>
	<u>48</u>

Contributions – The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by 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. The employer may establish contribution rates to be paid by its covered employees. Employer contributions are 17.5% based on annual payroll for open divisions.

Net pension liability – The employer’s net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

Actuarial assumptions – The total pension liability in the December 31, 2018 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement include: 1) Inflation 2.5%; 2) Salary increases 3.75% in the long-term; 3) Investment rate of return of 7.75%, net of investment expense, including inflation.

Although no specific price inflation assumptions are needed for the valuation, the 3.75% long-term wage inflation assumption would be consistent with a price inflation of 2.5%.

Mortality rates used were based on the 2014 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 valuation were based on the results of the most recent actuarial experience study.

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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 or arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	55.5%	3.41%
Global fixed income	18.5%	0.23%
Real assets	13.5%	0.97%
Diversifying strategies	12.5%	0.63%

Discount rate – The discount rate used to measure the total pension liability is 8.0%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plans 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 Net Pension Liability

Total Pension Liability

Service cost	\$ 243,525
Interest on the total pension liability	1,101,472
Experience differences	(166,007)
Benefit changes	(35,847)
Benefit payments and refunds	<u>(624,611)</u>

Net change in total pension liability	518,532
Total pension liability - beginning	<u>13,958,940</u>

Total pension liability - ending (a)	<u>\$ 14,477,472</u>
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Plan Fiduciary Net Position

Employer contributions	\$ 389,278
Employee contributions	68,011
Pension plan net investment income (loss)	(438,876)
Benefit payments and refunds	(624,611)
Pension plan administrative expense	<u>(21,722)</u>

Net change in plan fiduciary net position	(627,920)
Plan fiduciary net position - beginning	<u>11,185,067</u>

Plan fiduciary net position - ending (b)	<u>\$ 10,557,147</u>
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Net pension liability (a-b)	<u>\$ 3,920,325</u>
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Plan fiduciary net position as a percentage of total pension liability	72.92%
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Covered payroll	\$ 2,012,606
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Net pension liability as a percentage of covered payroll	194.79%
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Charter Township of Kalamazoo
Notes to the Financial Statements
December 31, 2019

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the employer, calculated using the discount rate of 8.0%, as well as what the employer’s net pension liability would be using a discount rate that is 1% point lower (7%) or 1% higher (9%) than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net pension liability	<u>\$ 5,756,303</u>	<u>\$ 3,920,325</u>	<u>\$ 2,384,276</u>

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions – For the year ended December 31, 2019, the employer recognized pension expense of \$695,172. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Total to Amortize</u>
Differences in experience	\$ 39,593	\$ (281,923)	\$ (242,330)
Differences in assumptions	265,467	-	265,467
Net difference between projected and actual earning on plan investments	791,858	-	791,858
Contributions subsequent to the measurement date*	<u>356,986</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,453,904</u>	<u>\$ (281,923)</u>	<u>\$ 814,995</u>

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending 2020.

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

<u>Year ended December 31,</u>	
2020	\$ 291,104
2021	116,683
2022	179,522
2023	285,449
2024	(56,036)
2025	<u>(1,727)</u>
	<u>\$ 814,995</u>

Note 11 - Other Postemployment Benefits

Plan description – The Township administers the Charter Township of Kalamazoo Retiree Health Care Plan – a single employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all eligible retirees and their spouses.

Benefits provided – The Plan provides medical, dental and prescription coverage. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the plan. The Township Board of Trustees has the authority to make amendments to the plan.

Township officers and employees:

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

Dependent – Three months of health insurance coverage for each complete year of full-time Township service (completed

Charter Township of Kalamazoo
Notes to the Financial Statements
December 31, 2019

by either an employee or elected official) up to a maximum of sixty months of coverage.

Police officers:

Retiree – Four and one-quarter months for each complete year of continuous Township service.

Dependent – Three months for each complete year of continuous Township service.

Employees covered by benefit terms – At December 31, 2019, the plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	14
Active employees	<u>48</u>
	<u><u>62</u></u>

Contributions – The Plan was established and is being funded under the authority of the Township’s governing body and under agreements with the unions representing various classes of employees. The Plan’s funding policy is to pay expected plan benefits from general operating funds – pay-as-you-go. Active participants do not make contributions to pre-fund the Plan.

Actuarial assumptions – The total OPEB liability was determined by an actuarial valuation as of December 31, 2018, using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation	Implicit in expected payroll increases	1.0% (for purpose of allocating liability)
Salary increases		N/A; this plan is not pre-funded
Investment rate of return		3.26% (S&P Municipal Bond 20-Year High Grade Rate Index)
20-year Aa Municipal bond rate		Pre-65 - 8.5% in 2019 graded down .25% per year to 4.5%
		Medicare eligible - 7.0% in 2019 graded down .25% per year to 4.5%
		Dental - 3.0%
Healthcare cost trend rates		2010 Public General Employees and Healthy Retirees, Headcount weighted - MP-2019
Mortality		

Discount rate – The discount rate used to measure the total OPEB liability was 3.26%. Because the Plan does not have a dedicated OPEB trust, there are not assets projected to be sufficient to make projected future benefit payments of current plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the “depletion date”), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the total OPEB liability. As of December 31, 2018, the discount rate used to value OPEB liabilities was 3.0%.

Charter Township of Kalamazoo
Notes to the Financial Statements
December 31, 2019

Changes in Total OPEB Liability

Total OPEB Liability

Service cost	\$ 139,571
Interest	95,769
Differences between expected and actual experience	(35,658)
Changes in assumptions	(23,598)
Benefit payments	<u>(128,395)</u>
 Net change in total OPEB liability	 47,689
 Total OPEB liability - beginning	 <u>3,116,939</u>
 Total OPEB liability - ending	 <u>\$ 3,164,628</u>

Sensitivity of the total OPEB liability to changes in the discount rate – The following presents the total OPEB liability of the Township, as well as what the Township’s total OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.26%) or 1% higher (4.26%) than the current discount rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Total OPEB liability	<u>\$ 3,516,736</u>	<u>\$ 3,164,628</u>	<u>\$ 2,853,060</u>

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates – The following presents the total OPEB liability of the Township, as well as what the Township’s total OPEB liability would be if were calculated using healthcare cost trend rates that are 1% lower (7.5%) or 1% higher (9.5%) than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Total OPEB liability	<u>\$ 2,750,699</u>	<u>\$ 3,164,628</u>	<u>\$ 3,665,442</u>

OPEB expense and deferred inflows of resources related to OPEB – For the year ended December 31, 2019 the employer recognized OPEB expense of \$224,664. The employer reported deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Inflows of Resources</u>
Differences in experience	\$ (69,868)
Differences in assumptions	<u>(21,150)</u>
Total	<u>\$ (91,018)</u>

Charter Township of Kalamazoo
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December 31, 2019

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

<u>Year ended December 31,</u>		
2020	\$	(10,676)
2021		(10,676)
2022		(10,676)
2023		(10,676)
2024		(10,676)
Thereafter		<u>(37,638)</u>
	\$	<u>(91,018)</u>

Note 12 - Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

Note 13 - Prior Period Adjustments

The Township restated the General Fund's beginning fund balance by \$49,071, from \$4,228,506 to \$4,277,577, to remove previously expensed compensated absences and to incorporate the Golf Course Fund into the General Fund. The governmental activities were restated by \$328,966, from \$14,280,982 to \$14,609,948, in relation to the above-mentioned items. As a result, proprietary fund and business-type activities were restated to \$0 and are not displayed.

Note 14 - Subsequent Events

As result of the global coronavirus pandemic of 2020, many organizations' financial picture has seen an unanticipated change.

The duration and full effects of the outbreak are currently unknown, as the global picture continues to change daily. While management is hopeful that the impact is temporary in nature, a description of known and anticipated circumstances expected to have a significant impact on the Township as of the date of management's review is as follows:

Investments – The stock market has experienced significant, double digit percentage declines and extreme volatility over the past several weeks leading up to the report date. The Township's investment performance is expected to experience similar volatility over the same period. The Township currently has no immediate plans to liquidate investments and remains focused on long term appreciation.

Revenues and Liquidity – The Township does not foresee significant liquidity issues at this time, however, the effect the pandemic may have on revenues is unknown. It is uncertain if taxable values will be impacted. In addition, future state shared revenues are expected to be lower as a result of fewer sales tax collections.

Accounts Receivable – The Township is prepared to see future delays in collection of accounts receivable; however, the extent of any future delays in payment remains uncertain. As of the date of the report, the Township has not experienced significant issues.

Charter Township of Kalamazoo
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2019

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
Revenues				
Taxes				
Property taxes	\$ 3,868,823	\$ 3,868,823	\$ 3,865,407	\$ (3,416)
Other taxes	674,990	686,690	686,688	(2)
Penalties and interest	3,500	3,500	6,708	3,208
Administration fee	256,190	256,190	267,862	11,672
Licenses and permits	254,100	254,100	327,187	73,087
Federal grants	14,000	14,000	1,487	(12,513)
State-shared revenue	2,272,580	2,272,580	2,356,372	83,792
State grants	166,900	166,900	57,201	(109,699)
Local contributions	31,000	31,000	54,097	23,097
Charges for services	710,385	710,385	769,362	58,977
Fines and forfeitures	3,000	3,000	5,092	2,092
Interest income	46,600	46,600	83,029	36,429
Rental income	49,100	49,100	43,514	(5,586)
Other revenue	138,100	138,100	85,690	(52,410)
Sale of capital assets	1,500	1,500	2,669	1,169
Bond/note/capital lease proceeds	-	-	15,396	15,396
Transfers in	121,937	121,937	306,237	184,300
Total revenues	<u>8,612,705</u>	<u>8,624,405</u>	<u>8,933,998</u>	<u>309,593</u>

Charter Township of Kalamazoo
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2019

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
Expenditures				
General government				
Legislative	\$ 61,300	\$ 61,300	\$ 42,059	\$ (19,241)
Supervisor	238,625	240,725	235,335	(5,390)
Finance director	234,200	232,200	218,317	(13,883)
Clerk	91,150	93,950	93,395	(555)
Treasurer	35,375	37,375	36,298	(1,077)
Assessor	194,900	194,900	195,633	733
Elections	33,450	33,450	34,394	944
Buildings and grounds	269,540	274,340	265,841	(8,499)
General services administration	369,065	357,865	327,820	(30,045)
Cemetery	31,575	31,575	33,290	1,715
Total general government	<u>1,559,180</u>	<u>1,557,680</u>	<u>1,482,382</u>	<u>(75,298)</u>
Public safety				
Police protection	4,973,350	4,973,350	4,557,295	(416,055)
Fire protection	1,721,050	1,721,050	1,727,480	6,430
Emergency preparedness	10,000	10,000	-	(10,000)
Total public safety	<u>6,704,400</u>	<u>6,704,400</u>	<u>6,284,775</u>	<u>(419,625)</u>
Public works				
Sidewalks	50,000	50,000	1,705	(48,295)
Streets	250,000	250,000	145,876	(104,124)
Total public works	<u>300,000</u>	<u>300,000</u>	<u>147,581</u>	<u>(152,419)</u>

Charter Township of Kalamazoo
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2019

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Community and economic development				
Planning and zoning	\$ 82,285	\$ 83,785	\$ 89,898	\$ 6,113
Recreation and culture				
Parks and golf course	40,000	60,000	34,615	(25,385)
Capital outlay	10,000	25,000	21,151	(3,849)
Debt service				
Principal retirement	-	-	1,828	1,828
Interest and fiscal charges	-	-	541	541
Total debt service	-	-	2,369	2,369
Transfers out	463,000	413,000	48,000	(365,000)
Total expenditures	9,158,865	9,143,865	8,110,771	(1,033,094)
Excess (deficiency) of revenues over expenditures	(546,160)	(519,460)	823,227	1,342,687
Fund balance - beginning of year	4,228,506	4,228,506	4,228,506	-
Prior period adjustment	49,071	49,071	49,071	-
Fund balance - beginning of year (restated)	4,277,577	4,277,577	4,277,577	-
Fund balance - end of year	<u>\$ 3,731,417</u>	<u>\$ 3,758,117</u>	<u>\$ 5,100,804</u>	<u>\$ 1,342,687</u>

Charter Township of Kalamazoo
Required Supplementary Information
Municipal Employees Retirement System of Michigan
Schedule of Changes in Net Pension Liability and Related Ratios
December 31, 2019

	2019	2018	2017	2016	2015
Total Pension Liability					
Service cost	243,525	270,325	258,547	249,075	246,772
Interest on the total pension liability	1,101,472	1,044,156	998,036	916,469	855,303
Benefit change	(35,847)	(14,947)	(17,082)	(9,555)	-
Difference between expected and actual experience	(166,007)	(13,823)	(213,149)	79,189	-
Changes in assumptions	-	-	-	530,931	-
Benefit payments and refunds	(624,611)	(487,117)	(424,372)	(383,830)	(339,834)
Net change in total pension liability	518,532	798,594	601,980	1,382,279	762,241
Total pension liability - beginning	13,958,940	13,160,346	12,558,366	11,176,087	10,413,846
Total pension liability - ending (a)	<u>\$ 14,477,472</u>	<u>\$ 13,958,940</u>	<u>\$ 13,160,346</u>	<u>\$ 12,558,366</u>	<u>\$ 11,176,087</u>
Plan Fiduciary Net Position					
Employer contributions	389,278	411,289	379,573	370,953	360,234
Employee contributions	68,011	-	-	-	-
Pension plan net investment income (loss)	(438,876)	1,322,517	1,031,054	(140,110)	547,289
Benefit payments and refunds	(624,611)	(487,117)	(424,372)	(383,830)	(339,834)
Pension plan administrative expense	(21,722)	(20,919)	(20,338)	(20,232)	(20,166)
Net change in plan fiduciary net position	(627,920)	1,225,770	965,917	(173,219)	547,523
Plan fiduciary net position - beginning	11,185,067	9,959,297	8,993,380	9,166,599	8,619,076
Plan fiduciary net position - ending (b)	<u>10,557,147</u>	<u>11,185,067</u>	<u>9,959,297</u>	<u>8,993,380</u>	<u>9,166,599</u>
Net pension liability (a-b)	<u>\$ 3,920,325</u>	<u>\$ 2,773,873</u>	<u>\$ 3,201,049</u>	<u>\$ 3,564,986</u>	<u>\$ 2,009,488</u>
Plan fiduciary net position as a percentage of total pension liability	72.92%	80.13%	75.68%	71.61%	82.02%
Covered payroll	\$ 2,012,606	\$ 2,273,545	\$ 2,223,101	\$ 2,276,321	\$ 2,225,472
Net pension liability as a percentage of covered employee payroll	194.79%	122.01%	143.99%	156.61%	90.29%

Note: GASB Statement No. 68 was implemented for the fiscal year ended December 31, 2015 and does not require retroactive implementation. Data will be added as information is available until 10 years of such data is available.

**Charter Township of Kalamazoo
Required Supplementary Information
Municipal Employees Retirement System of Michigan
Schedule of Employer Contributions
December 31, 2019**

Fiscal Year Ended	Annual Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2010	\$ 197,754	\$ 197,754	\$ -	\$ 2,072,158	9.5%
2011	307,036	307,036	-	2,053,447	15.0%
2012	301,309	301,309	-	2,008,353	15.0%
2013	322,156	322,156	-	2,127,448	15.1%
2014	360,234	360,234	-	2,223,172	16.2%
2015	370,953	370,953	-	2,225,472	16.7%
2016	379,573	379,573	-	2,276,321	16.7%
2017	411,289	411,289	-	2,350,224	17.5%
2018	389,278	389,278	-	2,273,545	17.1%
2019	356,986	356,986	-	2,044,596	17.5%

Notes to Schedule of Employer Contributions:

Valuation date: December 31, 2018

Notes: Actuarially determined contribution amounts are calculated as of December 31 each year, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method Entry-age normal cost
Amortization method Level percentage of pay, open
Remaining amortization period 21 years
Asset valuation method 5-year smoothed market
Inflation 2.50%
Salary increases 3.75%
Investment rate of return 7.75%, net of investment and administrative expenses, including inflation
Retirement age 60
Mortality 50% female / 50% male blend of the RP-2014 Healthy Annuitant Mortality Tables with rates multiplied by 105%

Charter Township of Kalamazoo
Required Supplementary Information
Other Post Employment Benefits
Schedule of Changes in Total OPEB Liability and Related Ratios
December 31, 2019

	2019	2018
Total OPEB Liability		
Service cost	\$ 139,571	\$ 135,506
Interest	95,769	93,757
Differences between expected and actual experience	(35,658)	(46,967)
Changes in assumptions	(23,598)	-
Benefit payments	(128,395)	(110,177)
Net change in total OPEB liability	47,689	72,119
Total OPEB liability - beginning	3,116,939	3,044,820
Total OPEB liability - ending (a)	\$ 3,164,628	\$ 3,116,939
Plan fiduciary net position as a percentage of total OPEB liability	- %	- %
Covered payroll	\$ 3,231,324	\$ 3,383,428
Total OPEB liability as a percentage of covered payroll	97.94%	92.12%

Note: GASB Statement No. 75 was implemented for the fiscal year ended December 31, 2018 and does not require retroactive implementation. Data will be added as information is available until 10 years of such data is available.

**Charter Township of Kalamazoo
Required Supplementary Information
Other Post Employment Benefits
Schedule of Employer Contributions
December 31, 2019**

Fiscal Year Ending	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2018	\$ 378,551	\$ 110,177	\$ 268,374	\$ 3,383,428	3.26%
2019	403,436	128,395	275,041	3,231,324	3.97%

Notes to Schedule of Employer Contributions

Valuation date: December 31, 2018

Notes: Actuarially determined contribution amounts are calculated as of December 31 each year, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percentage of payroll
Remaining amortization period	14 years
Asset valuation method	N/A
Inflation	Implicit in expected payroll increases
Healthcare cost trend rates	Pre-65 - 8.5% in 2019 graded down .25% per year to 4.5%
	Medicare eligible - 7.0% in 2019 graded down .25% per year to 4.5%
	Dental - 3.0%
Salary increases	1.00%
Investment rate of return	N/A
Mortality	2010 Public General Employees and Healthy Retirees, Headcount weighted scale MP -2019

Charter Township of Kalamazoo
Other Supplementary Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2019

Special Revenue Funds

	SWET Grant	Police Training	Drug Enforcement	Street Lighting	Recycling	Parks	911 Wireless
Assets							
Pooled cash and investments	\$ -	\$ 8,099	\$ 100,754	\$ 324,116	\$ 279,484	\$ -	\$ -
Receivables							
Taxes and assessments	-	-	-	135,735	205,474	-	-
Due from other units of government	20,546	-	-	-	-	-	-
	<u>20,546</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 20,546</u>	<u>\$ 8,099</u>	<u>\$ 100,754</u>	<u>\$ 459,851</u>	<u>\$ 484,958</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities							
Accounts payable	\$ -	\$ 640	\$ -	\$ 2,452	\$ 43,464	\$ -	\$ -
Checks written against future deposits	20,546	-	-	-	-	-	-
	<u>20,546</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>20,546</u>	<u>640</u>	<u>-</u>	<u>2,452</u>	<u>43,464</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources							
Taxes and assessments	-	-	-	260,812	500,640	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>260,812</u>	<u>500,640</u>	<u>-</u>	<u>-</u>
Fund Balances							
Restricted for							
Public safety	-	7,459	100,754	-	-	-	-
Public works	-	-	-	196,587	-	-	-
Capital projects	-	-	-	-	-	-	-
Assigned							
Public works	-	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-
Unassigned (deficit)	-	-	-	-	(59,146)	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(59,146)</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>-</u>	<u>7,459</u>	<u>100,754</u>	<u>196,587</u>	<u>(59,146)</u>	<u>-</u>	<u>-</u>
	<u>\$ 20,546</u>	<u>\$ 8,099</u>	<u>\$ 100,754</u>	<u>\$ 459,851</u>	<u>\$ 484,958</u>	<u>\$ -</u>	<u>\$ -</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 20,546</u>	<u>\$ 8,099</u>	<u>\$ 100,754</u>	<u>\$ 459,851</u>	<u>\$ 484,958</u>	<u>\$ -</u>	<u>\$ -</u>

Charter Township of Kalamazoo
Other Supplementary Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2019

	Capital Projects Funds						Total Nonmajor Governmental Funds
	Police Capital	Road Improvement	Street	Water	Building and Grounds	911 Wireless Capital	
Assets							
Cash and cash equivalents	\$ 764,954	\$ -	\$ 38,047	\$ 264,190	\$ 169,285	\$ -	\$ 1,948,929
Receivables							
Taxes and assessments	147,862	-	368	7,064	-	-	496,503
Due from other units of government	-	-	-	-	-	-	20,546
Total assets	\$ 912,816	\$ -	\$ 38,415	\$ 271,254	\$ 169,285	\$ -	\$ 2,465,978
Liabilities							
Accounts payable	\$ 14,214	\$ -	\$ -	\$ -	\$ 2,400	\$ -	\$ 63,170
Checks written against future deposits	-	-	-	-	-	-	20,546
Total liabilities	14,214	-	-	-	2,400	-	83,716
Deferred Inflows of Resources							
Taxes and assessments	284,311	-	-	10,436	-	-	1,056,199
Fund Balances							
Restricted for							
Public safety	-	-	-	-	-	-	108,213
Public works	-	-	-	-	-	-	196,587
Capital projects	614,291	-	-	-	-	-	614,291
Assigned							
Public works	-	-	38,415	260,818	-	-	299,233
Capital projects	-	-	-	-	166,885	-	166,885
Unassigned (deficit)	-	-	-	-	-	-	(59,146)
Total fund balances	614,291	-	38,415	260,818	166,885	-	1,326,063
Total liabilities, deferred inflows of resources, and fund balances	\$ 912,816	\$ -	\$ 38,415	\$ 271,254	\$ 169,285	\$ -	\$ 2,465,978

Charter Township of Kalamazoo
Other Supplementary Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended December 31, 2019

Special Revenue Funds

	SWET Grant	Police Training	Drug Enforcement	Street Lighting	Recycling	Parks	911 Wireless
Revenues							
Taxes and assessments	\$ -	\$ -	\$ -	\$ 247,485	\$ 469,827	\$ -	\$ -
Federal grants	80,683	-	-	-	-	-	-
Other state grants	-	2,454	-	-	-	-	-
Local contributions	-	5,482	-	-	-	-	-
Fines and forfeitures	-	-	4,239	-	-	-	-
Interest income	-	-	1,971	10,246	7,183	-	-
Other revenue	-	-	-	-	-	-	-
Total revenues	<u>80,683</u>	<u>7,936</u>	<u>6,210</u>	<u>257,731</u>	<u>477,010</u>	<u>-</u>	<u>-</u>
Expenditures							
Current							
Public safety	80,683	27,819	-	-	-	-	-
Public works	-	-	-	255,122	519,833	-	-
Capital outlay	-	-	-	-	-	-	-
Total expenditures	<u>80,683</u>	<u>27,819</u>	<u>-</u>	<u>255,122</u>	<u>519,833</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>(19,883)</u>	<u>6,210</u>	<u>2,609</u>	<u>(42,823)</u>	<u>-</u>	<u>-</u>
Other Financing Sources (Uses)							
Transfers in	-	13,000	-	-	-	-	-
Transfers out	-	-	-	-	-	(9,702)	(127,241)
Sale of capital assets	-	-	-	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>13,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,702)</u>	<u>(127,241)</u>
Net change in fund balance	<u>-</u>	<u>(6,883)</u>	<u>6,210</u>	<u>2,609</u>	<u>(42,823)</u>	<u>(9,702)</u>	<u>(127,241)</u>
Fund balance (deficit) - beginning of year	<u>-</u>	<u>14,342</u>	<u>94,544</u>	<u>193,978</u>	<u>(16,323)</u>	<u>9,702</u>	<u>127,241</u>
Fund balance (deficit) - end of year	<u>\$ -</u>	<u>\$ 7,459</u>	<u>\$ 100,754</u>	<u>\$ 196,587</u>	<u>\$ (59,146)</u>	<u>\$ -</u>	<u>\$ -</u>

Charter Township of Kalamazoo
Other Supplementary Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended December 31, 2019

	Capital Projects Funds						Total Nonmajor Governmental Funds
	Police Capital	Road Improvement	Street	Water	Building and Grounds	911 Wireless Capital	
Revenues							
Taxes	\$ 274,039	\$ -	\$ 1,590	\$ 3,586	\$ -	\$ -	\$ 996,527
Federal grants	-	-	-	-	-	-	80,683
Other state grants	-	-	-	-	-	-	2,454
Local contributions	-	-	-	-	-	-	5,482
Fines and forfeitures	-	-	-	-	-	-	4,239
Interest income	20,696	146	4,651	9,250	14,188	-	68,331
Other revenue	-	-	-	-	13,100	-	13,100
Total revenues	<u>294,735</u>	<u>146</u>	<u>6,241</u>	<u>12,836</u>	<u>27,288</u>	<u>-</u>	<u>1,170,816</u>
Expenditures							
Current							
Public safety	-	-	-	-	-	-	108,502
Public works	-	100,347	-	16,412	435,067	-	1,326,781
Capital outlay	252,414	-	-	-	-	-	252,414
Total expenditures	<u>252,414</u>	<u>100,347</u>	<u>-</u>	<u>16,412</u>	<u>435,067</u>	<u>-</u>	<u>1,687,697</u>
Excess (deficiency) of revenues over expenditures	<u>42,321</u>	<u>(100,201)</u>	<u>6,241</u>	<u>(3,576)</u>	<u>(407,779)</u>	<u>-</u>	<u>(516,881)</u>
Other Financing Sources (Uses)							
Transfers in	-	-	-	-	35,000	-	48,000
Transfers out	-	(10)	(162,450)	-	-	(1,844)	(301,247)
Sale of capital assets	39,095	-	-	-	-	-	39,095
Total other financing sources and uses	<u>39,095</u>	<u>(10)</u>	<u>(162,450)</u>	<u>-</u>	<u>35,000</u>	<u>(1,844)</u>	<u>(214,152)</u>
Net change in fund balance	<u>81,416</u>	<u>(100,211)</u>	<u>(156,209)</u>	<u>(3,576)</u>	<u>(372,779)</u>	<u>(1,844)</u>	<u>(731,033)</u>
Fund balance (deficit) - beginning of year	<u>532,875</u>	<u>100,211</u>	<u>194,624</u>	<u>264,394</u>	<u>539,664</u>	<u>1,844</u>	<u>2,057,096</u>
Fund balance (deficit) - end of year	<u>\$ 614,291</u>	<u>\$ -</u>	<u>\$ 38,415</u>	<u>\$ 260,818</u>	<u>\$ 166,885</u>	<u>\$ -</u>	<u>\$ 1,326,063</u>



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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditors' Report

Management and the Board of Trustees
Charter Township of Kalamazoo
Kalamazoo, MI

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Charter Township of Kalamazoo, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Charter Township of Kalamazoo's basic financial statements, and have issued our report thereon dated June 22, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Charter Township of Kalamazoo's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter Township of Kalamazoo's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter Township of Kalamazoo's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2019-001 and 2019-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter Township of Kalamazoo's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with

which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2019-002.

Charter Township of Kalamazoo's Responses to Findings and Corrective Action Plan

The Charter Township of Kalamazoo's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses and corrective action plans. The Charter Township of Kalamazoo's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Yeo & Yeo, P.C.

Portage, MI
June 22, 2020

**Charter Township of Kalamazoo
Schedule of Findings and Responses
December 31, 2019**

Finding 2019-001 - Material Weakness - Prior Period Adjustments

Criteria:	Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.
Condition:	A material adjustment was required during the audit to adjust the Golf Course Fund into the General Fund and likewise combine the business-type activities into the governmental activities. This adjustment was a restatement to beginning fund balance or net position.
Cause and Effect:	The adjustment was posted as a result of audit procedures in order to appropriately classify the nature of the Golf Course Fund. This adjustment had a material effect on the financial statements.
Recommendation:	We recommend the Township consider the financial statement classification for all other funds to determine whether other reclassifications are necessary.
Views of Responsible Officials:	Management agrees with the finding.
Corrective Action Plan:	See attached corrective action plan.

Finding 2019-002 - Material Weakness and Material Noncompliance - Untimely Tax Remittances

Criteria:	The Township is responsible to disburse taxes collected for others within 10 business days for collections on hand as of the 1 st and 15 th of the month in accordance with Michigan Common Law (MCL) 211.43.
Condition:	Tax collections were not disbursed in a timely manner.
Cause and Effect:	The Township experienced delays issuing checks to other units for tax collections and therefore disbursed untimely.
Recommendation:	We recommend the Township implement a tax collection disbursement schedule and appropriate review procedures to ensure timely distribution of tax collections to all units.
Views of Responsible Officials:	Management agrees with the finding.
Corrective Action Plan:	See attached corrective action plan.



1720 Riverview Drive
Kalamazoo, MI 49004-1056
Tele: (269) 381-8080
Fax: (269) 381-3550
www.ktwp.org

**Charter Township of Kalamazoo
Corrective Action Plans
December 31, 2019**

Finding 2019-001 - Material Weakness - Prior Period Adjustments

Criteria:	Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.
Condition:	A material adjustment was required during the audit to adjust the Golf Course Fund into the General Fund and likewise combine the business-type activities into the governmental activities. This adjustment was a restatement to beginning fund balance or net position.
Cause and Effect:	The adjustment was posted as a result of audit procedures in order to appropriately classify the nature of the Golf Course Fund. This adjustment had a material effect on the financial statements.
Recommendation:	We recommend the Township consider the financial statement classification for all other funds to determine whether other reclassifications are necessary.
Views of Responsible Officials:	Management agrees with the finding.
Corrective Action Plan:	Management was not made aware of the criteria and proper classification of the Golf Course Fund by its previous two auditing firms. Management will review the classification of all its funds to determine whether any reclassifications are necessary during fiscal year 2020 to agree to the GASB determinations.

Finding 2019-002 - Material Weakness and Material Noncompliance - Untimely Tax Remittances

- Criteria:** The Township is responsible to disburse taxes collected for others within 10 business days for collections on hand as of the 1st and 15th of the month in accordance with Michigan Common Law (MCL) 211.43.
- Condition:** Tax collections were not disbursed in a timely manner.
- Cause and Effect:** The Township experienced delays issuing checks to other units for tax collections and therefore disbursed untimely.
- Recommendation:** We recommend the Township implement a tax collection disbursement schedule and appropriate review procedures to ensure timely distribution of tax collections to all units.
- Views of Responsible Officials:** Management agrees with the finding.
- Corrective Action Plan:** The Township performs a meticulous review process when distributing taxes to the taxing authorities. The Treasurer and Finance departments will work together to ensure that taxes are remitted to the taxing authorities within 10 business days after the 1st and 15th of each month.

Management appreciates the diligence with which the audit was performed and takes all material weakness comments seriously and will work on making the necessary changes to its processes to correct all comments within the following fiscal year.

Sincerely,



Nancy B Desai
Director of Finance