

**CHARTER TOWNSHIP OF MUSKEGON
MUSKEGON COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED DECEMBER 31, 2017**

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| INDEPENDENT AUDITOR'S REPORT | 1 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 5 |
| BASIC FINANCIAL STATEMENTS <hr/> | |
| Government-wide Financial Statements | |
| Statement of Net Position | 17 |
| Statement of Activities | 18 |
| Fund Financial Statements | |
| Governmental Funds | |
| Balance Sheet | 19 |
| Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position | 20 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance | 21 |
| Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances with Statement of Activities | 22 |
| Proprietary Funds | |
| Statement of Net Position | 23 |
| Statement of Revenues, Expenses, and Changes in Net Position | 24 |
| Statement of Cash Flows | 25 |
| Fiduciary Funds | |
| Statement of Fiduciary Net Position | 26 |
| Notes to the Financial Statements | 28 |
| REQUIRED SUPPLEMENTARY INFORMATION <hr/> | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund | 53 |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Public Safety | 54 |
| Schedule of Changes in Net Pension Liability and Related Ratios - MERS Pension Plan | 55 |
| Schedule of Contributions - MERS Pension Plan | 56 |
| Schedule of Changes in OPEB Liability and Related Ratios - Retiree Health Care Plan | 57 |
| Schedule of Contributions - Retiree Health Care Plan | 58 |
| OTHER SUPPLEMENTARY INFORMATION <hr/> | |
| Nonmajor Governmental Funds | |
| Combining Balance Sheet | 60 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balance | 61 |

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Charter Township of Muskegon, Michigan

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of Matter

As described in Note 14 to the financial statements, during the year ended December 31, 2017, the Township adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of implementing this pronouncement, the Township's net OPEB liability has been recognized on the government-wide statements, along with the proprietary fund statements, and, as discussed in Note 12, the 2016 financial statements have been restated. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in dark ink and is positioned above the typed name.

Gabridge & Company, PLC
Grand Rapids, Michigan
June 8, 2018

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Charter Township of Muskegon, Michigan (The "Township" or "government") 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, 2017. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- The assets and deferred outflows of resources of the Township exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$3,334,361 (net position). Of this amount, a deficit \$12,822,632 is shown in governmental activities unrestricted net position and a surplus of \$3,374,490 is shown in business-type activities unrestricted net position.
- At the close of the current fiscal year, the Township's governmental funds reported combined fund balances of \$2,648,616. Approximately 27.3% (\$722,767) of this amount is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$786,182, or approximately 32.2% of total general fund expenditures.

Overview of the Financial Statements

The discussion and analysis provided here is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements. The 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 financial information on all of the Township's assets, deferred outflows, liabilities, and deferred inflows, with the difference 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 related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., long-term debt, defined benefit retirement and OPEB expenses, and compensated absences).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include general government, public safety, public works, and recreation and culture. The business-type activities of the Township include sewer and sanitation services.

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. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental 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 assessing a government'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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township maintains ten 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 and public safety funds, which are considered to be major funds. Data from the other eight governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The Township adopts an annual appropriated budget for the general fund and all special revenue funds. A budgetary comparison schedule for the general fund and each major special revenue fund has been provided to demonstrate compliance with these budgets.

Proprietary Funds. The Township maintains two types of proprietary funds, which are enterprise funds and internal service funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Township uses enterprises funds to account for its sewer and sanitation system operations, which

are both major funds. Internal service funds are accounting devices used to accumulate and allocate costs internally among the Township's various functions.

The Township has one internal service fund to account for its equipment management services. Because these services primarily benefit the Township's governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer and sanitation operations.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The Township maintains four fiduciary funds. These funds report resources held by the Township in a custodial capacity for individuals, private organizations, and other governments.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* demonstrating the Township's compliance with its operating budgets by providing budgetary comparison schedules along with funding information related to its defined benefit pension and OPEB plans.

The combining statements in connection with the Township's nonmajor funds are presented immediately following the required supplementary information.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the Township, assets and deferred outflows exceeded liabilities and deferred inflows by \$3,334,361 at the close of the most recent fiscal year.

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|----------------------------|-----------------------|-----------------------------|----------------------|-----------------------------|---------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| ASSETS | | | | | | |
| <i>Current Assets</i> | | | | | | |
| Cash and Investments | \$ 4,224,829 | \$ 3,319,299 | \$ 4,137,435 | \$ 3,872,955 | \$ 8,362,264 | \$ 7,192,254 |
| Receivables | 1,664,568 | 1,463,637 | 866,610 | 762,137 | 2,531,178 | 2,225,774 |
| Due from Other Governments | 325,896 | 627,726 | 24,696 | 22,301 | 350,592 | 650,027 |
| Prepays | - | 524 | - | - | - | 524 |
| Internal Balances | (84,451) | (128,439) | 84,451 | 128,439 | - | - |
| Total Current Assets | 6,130,842 | 5,282,747 | 5,113,192 | 4,785,832 | 11,244,034 | 10,068,579 |
| <i>Noncurrent Assets</i> | | | | | | |
| Special Assessments Receivable | 84,708 | 126,155 | 34,552 | 78,433 | 119,260 | 204,588 |
| Capital Assets Not Being Depreciated | 613,931 | 613,931 | 53,638 | 53,638 | 667,569 | 667,569 |
| Capital Assets Being Depreciated | 2,451,259 | 2,699,873 | 21,592,122 | 22,427,378 | 24,043,381 | 25,127,251 |
| Total Noncurrent Assets | 3,149,898 | 3,439,959 | 21,680,312 | 22,559,449 | 24,830,210 | 25,999,408 |
| Total Assets | 9,280,740 | 8,722,706 | 26,793,504 | 27,345,281 | 36,074,244 | 36,067,987 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | |
| Pension Related Deferred Outflows | 1,318,139 | 2,184,595 | 99,216 | 164,432 | 1,417,355 | 2,349,027 |
| Total Deferred Outflows of Resources | 1,318,139 | 2,184,595 | 99,216 | 164,432 | 1,417,355 | 2,349,027 |
| LIABILITIES | | | | | | |
| <i>Current Liabilities</i> | | | | | | |
| Accounts Payable | 139,786 | 157,955 | 253,781 | 197,808 | 393,567 | 355,763 |
| Accrued Liabilities | 168,580 | 167,614 | 7,848 | 12,914 | 176,428 | 180,528 |
| Unearned Revenues | 20,000 | 47,656 | - | - | 20,000 | 47,656 |
| Accrued Interest | - | - | 95,135 | 98,181 | 95,135 | 98,181 |
| Current Portion of Compensated Absences | 214,229 | 243,527 | 14,215 | 21,386 | 228,444 | 264,913 |
| Current Portion of Long-term Debt | - | - | 384,840 | 365,403 | 384,840 | 365,403 |
| Total Current Liabilities | 542,595 | 616,752 | 755,819 | 695,692 | 1,298,414 | 1,312,444 |
| <i>Noncurrent Liabilities</i> | | | | | | |
| Long-term Debt | - | - | 12,408,904 | 12,876,625 | 12,408,904 | 12,876,625 |
| Compensated Absences | 148,597 | 168,919 | 9,828 | 14,787 | 158,425 | 183,706 |
| Net Pension Liability | 6,749,613 | 7,003,306 | 508,035 | 527,130 | 7,257,648 | 7,530,436 |
| Other Post-employment Benefits Payable | 8,801,213 | 8,527,181 | 977,912 | 947,464 | 9,779,125 | 9,474,645 |
| Total Noncurrent Liabilities | 15,699,423 | 15,699,406 | 13,904,679 | 14,366,006 | 29,604,102 | 30,065,412 |
| Total Liabilities | 16,242,018 | 16,316,158 | 14,660,498 | 15,061,698 | 30,902,516 | 31,377,856 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Taxes Levied for a Subsequent Period | 3,173,086 | 2,600,439 | - | - | 3,173,086 | 2,600,439 |
| Pension Related Deferred Inflows | 75,920 | 40,303 | 5,716 | 3,034 | 81,636 | 43,337 |
| Total Deferred Inflows of Resources | 3,249,006 | 2,640,742 | 5,716 | 3,034 | 3,254,722 | 2,643,776 |
| NET POSITION | | | | | | |
| Net Investment in Capital Assets | 3,065,190 | 3,313,804 | 8,852,016 | 9,238,988 | 11,917,206 | 12,552,792 |
| Restricted | 865,297 | 765,638 | - | - | 865,297 | 765,638 |
| Unrestricted | (12,822,632) | (12,129,041) | 3,374,490 | 3,205,993 | (9,448,142) | (8,923,048) |
| Total Net Position | \$ (8,892,145) | \$ (8,049,599) | \$ 12,226,506 | \$ 12,444,981 | \$ 3,334,361 | \$ 4,395,382 |

The largest portion of the Township's net position (\$11,917,206) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The Township uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending.

\$865,297 of the Township's net position represents resources that are subject to external restrictions on how they may be used. The remaining deficit balance of \$9,448,142 is unrestricted.

The Township's overall net position decreased \$1,061,021 from the prior fiscal year. The reasons for this overall decrease are discussed in the following sections for governmental activities and business-type activities.

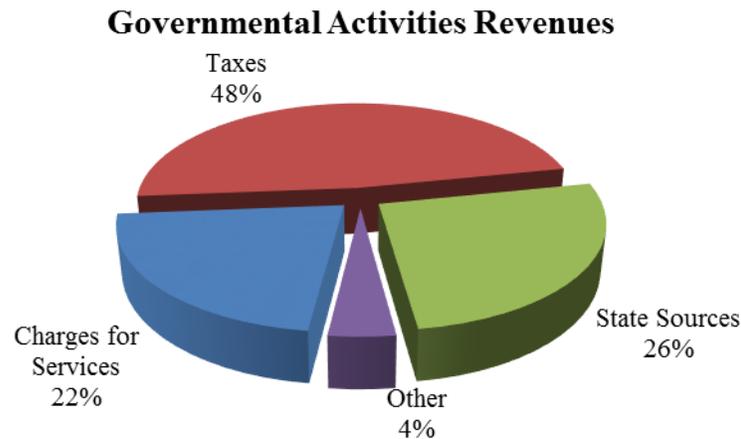
| | Governmental Activities | | Business-type Activities | | Total Government | |
|--|----------------------------|-----------------------|-----------------------------|----------------------|---------------------|---------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Revenue | | | | | | |
| Program Revenues | | | | | | |
| Charges for Services | \$ 1,378,078 | \$ 1,550,575 | \$ 3,544,233 | \$ 3,392,233 | \$ 4,922,311 | \$ 4,942,808 |
| Operating Grants and Contributions | 172,712 | 170,671 | 184,638 | 104,356 | 357,350 | 275,027 |
| Capital Grants and Contributions | - | 24,069 | - | - | - | 24,069 |
| Total Program Revenues | 1,550,790 | 1,745,315 | 3,728,871 | 3,496,589 | 5,279,661 | 5,241,904 |
| General Revenues | | | | | | |
| Taxes | 3,039,123 | 2,935,612 | - | - | 3,039,123 | 2,935,612 |
| State Sources | 1,651,772 | 1,544,118 | - | - | 1,651,772 | 1,544,118 |
| Investment Income | 30,488 | 39,325 | 50,571 | 89,454 | 81,059 | 128,779 |
| Other | 53,617 | 50,994 | - | - | 53,617 | 50,994 |
| Total General Revenues | 4,775,000 | 4,570,049 | 50,571 | 89,454 | 4,825,571 | 4,659,503 |
| Total Revenues | 6,325,790 | 6,315,364 | 3,779,442 | 3,586,043 | 10,105,232 | 9,901,407 |
| Expenses | | | | | | |
| General Government | 1,470,026 | 1,708,412 | - | - | 1,470,026 | 1,708,412 |
| Public Safety | 4,462,591 | 4,164,460 | - | - | 4,462,591 | 4,164,460 |
| Public Works | 814,125 | 930,696 | - | - | 814,125 | 930,696 |
| Community and Economic Development | 287,880 | 271,163 | - | - | 287,880 | 271,163 |
| Recreation and Culture | 133,714 | 119,714 | - | - | 133,714 | 119,714 |
| Sanitation | - | - | 851,280 | 665,667 | 851,280 | 665,667 |
| Sewer | - | - | 3,146,637 | 3,022,247 | 3,146,637 | 3,022,247 |
| Total Expenses | 7,168,336 | 7,194,445 | 3,997,917 | 3,687,914 | 11,166,253 | 10,882,359 |
| Change in Net Position | (842,546) | (879,081) | (218,475) | (101,871) | (1,061,021) | (980,952) |
| <i>Net Position at the Beginning of Period</i> | <i>(8,049,599)</i> | <i>(1,981,296)</i> | <i>12,444,981</i> | <i>13,494,316</i> | <i>4,395,382</i> | <i>11,513,020</i> |
| <i>Prior Period Adjustment (see Note 12)</i> | <i>-</i> | <i>(5,189,222)</i> | <i>-</i> | <i>(947,464)</i> | <i>-</i> | <i>(6,136,686)</i> |
| Net Position at the End of Period | \$ (8,892,145) | \$ (8,049,599) | \$ 12,226,506 | \$ 12,444,981 | \$ 3,334,361 | \$ 4,395,382 |

Governmental Activities

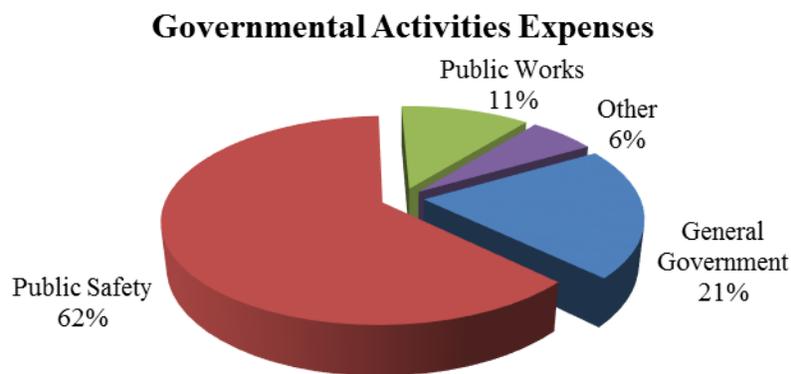
The decrease in the overall net position of the governmental activities of the Township was \$842,546 in 2017 compared to \$879,081 in 2016.

There were no significant changes to assets in 2017. Liabilities decreased due to regular scheduled payments of long-term debt obligations. Net pension liability decreased significantly due to changes in plan assumptions, improved investment performance in the current year, and payments during the current year.

The following charts are the breakdown of the Townships governmental activities revenues:



The following charts are the breakdown of the Townships governmental activities expenses:



Business-type Activities. For the Township’s business-type activities, the results for the current fiscal year show a decrease in overall net position of \$218,475 compared to a decrease of \$101,871 in 2016.

The sanitation fund increased its expenses by \$185,614 in the current year. The main reason for this increase is due to an increase in equipment maintenance expenses.

Financial Analysis of Governmental Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Township’s *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,

unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Township itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Township's Board.

At the close of the current fiscal year, the Township's governmental funds reported combined fund balances of \$2,648,616, an increase of \$302,734 over the prior year. Approximately 27.3% (\$722,767) of this amount is available for spending at the government's discretion (unassigned fund balance). The remainder of the fund balance is either *restricted, committed, or assigned* to indicate that it is: 1) restricted for particular purposes (\$865,297, or 32.7%) or 2) committed for particular purposes (\$1,060,552, or 40.0%).

The general fund is the chief operating fund of the Township. At the end of the current fiscal year, unassigned fund balance of the general fund was \$786,182 while total fund balance decreased by \$11,595 to \$1,221,799. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 32.2% of total general fund expenditures while total fund balance represents approximately 50.1% of that same amount.

General fund revenues were very comparable to the prior year with increases in miscellaneous revenues. Expenditures were also comparable to the prior year. The most significant change in expenditures was an increase to other governmental functions (including retirement costs) due to a change in accounting for the Township's defined benefit pension costs.

The public safety fund, a major fund, had no change in fund balance during the year leaving its fund balance at \$3,294. The fund receives a large transfer in from the general fund every year as the millage is not sufficient to cover all of the public safety expenditures.

Proprietary Funds. The Township's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The sewer fund had a decrease in net position of \$110,949 in 2017 compared to a decrease of \$143,998 in 2016. Increased sewer service revenue and a decrease of interest expense resulted in a much lower decrease in net position in 2017 compared to 2016.

The sanitation fund had a decrease in net position of \$107,526 in 2017 compared to an increase of \$42,127 in 2016. The decrease in net position is mostly attributable to a large increase in operations expense, including equipment purchases, salaries, and equipment maintenance.

General Fund Budgetary Highlights

Original budget compared to final budget. During the year there was no need for any significant amendments to increase either the total general fund original estimated revenues or original budgeted appropriations.

Final budget compared to actual results. During the current fiscal year the Township had no significant expenditures in excess of the appropriated amounts in the general fund.

Capital Assets and Debt Administration

Capital Assets

The Township's investment in capital assets for its governmental and business-type activities as of December 31, 2017 amounts to \$24,710,950 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, vehicles, equipment, and sewer system infrastructure. The total decrease in capital assets for the current fiscal year was approximately 4.4% as a result of depreciation expense exceeding the capital asset additions during the year.

Major capital asset additions during the year included the following:

- Two 2017 Ford Explorers \$69,573

Following is a summary of the changes of the Township's capital assets:

Capital Assets, Net of Accumulated Depreciation

| | Governmental Activities | | Business-type Activities | | Total | |
|----------------------------|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Land | \$ 613,931 | \$ 613,931 | \$ 53,638 | \$ 53,638 | \$ 667,569 | \$ 667,569 |
| Land Improvements | 341,433 | 371,522 | - | - | 341,433 | 371,522 |
| Buildings and Improvements | 1,292,813 | 1,358,425 | - | - | 1,292,813 | 1,358,425 |
| Furniture and Equipment | 99,728 | 119,593 | 58,602 | 48,533 | 158,330 | 168,126 |
| Vehicles | 717,285 | 850,333 | 315,215 | 403,307 | 1,032,500 | 1,253,640 |
| Utility Systems | - | - | 21,083,302 | 21,833,430 | 21,083,302 | 21,833,430 |
| Access Rights | - | - | 135,003 | 142,108 | 135,003 | 142,108 |
| Total | <u>\$ 3,065,190</u> | <u>\$ 3,313,804</u> | <u>\$ 21,645,760</u> | <u>\$ 22,481,016</u> | <u>\$ 24,710,950</u> | <u>\$ 25,794,820</u> |

Further details on capital assets can be found in the notes to the financial statements.

Long-term Debt

At the end of the 2017 fiscal year, the Township had total debt outstanding of \$30,217,386 consisting of general obligation bonds, compensated absences, other postemployment benefits, and net pension liability.

A summary of the changes in the Township’s long-term debt follows:

Outstanding Debt

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Total</u> | |
|-------------------------------|--------------------------------|----------------------|---------------------------------|----------------------|----------------------|----------------------|
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| General Obligation Bonds | \$ - | \$ - | \$ 12,793,744 | \$ 13,242,028 | \$ 12,793,744 | \$ 13,242,028 |
| Compensated Absences | 362,826 | 412,446 | 24,043 | 36,173 | 386,869 | 448,619 |
| Other Postemployment Benefits | 8,801,213 | 8,527,181 | 977,912 | 947,465 | 9,779,125 | 9,474,646 |
| Net Pension Liability | 6,749,613 | 7,003,306 | 508,035 | 527,130 | 7,257,648 | 7,530,436 |
| Total | <u>\$ 15,913,652</u> | <u>\$ 15,942,933</u> | <u>\$ 14,303,734</u> | <u>\$ 14,752,796</u> | <u>\$ 30,217,386</u> | <u>\$ 30,695,729</u> |

The Township’s total debt decreased by \$478,343 during the year. This decrease includes: a \$448,284 decrease in general obligation bonds payable as a result of the Township making scheduled debt service payments, a \$61,750 decrease in compensated absences, a \$304,479 increase in other postemployment benefits as a result of the Township’s actual payments of retiree premiums being less than the actuarially determined annual expense, and a \$272,788 decrease in net pension liability primarily as a result of improved investment income.

Further details on long-term debt can be found in the notes to the financial statements.

Economic Condition and Outlook

The Township’s general fund has two major revenue sources - state revenue sharing and property tax revenue. These two sources comprise approximately 78% of our general fund revenues. In 2015, residential property values increased for the first time in 7 years and we saw a slight increase in 2016. The upward trend continued in 2017 as property values increased by 4.4%, however, the effects of Proposal A of 1994 limited the taxable value increase to .86%. The limitations on the increase of taxable values caused by Proposal A has created a difference between the assessed value and the taxable value of properties, commonly referred to as a “Gap”, that is in excess of \$53.4 million. This “Gap” represents property value that is not subject to taxes and, therefore, is lost revenue. The amount of lost revenue for all funds of Muskegon Township caused by Proposal A is \$486,650. We anticipate property values for all classes of property to increase 2.5 – 3.0% percent in 2018 and continuing to increase at a modest rate in subsequent years. The economy of Michigan continued to expand in 2017, which resulted in higher sales tax collections. This in turn resulted in an increase in our State Revenue Sharing payments of approximately 6.2%. We anticipate revenue sharing to increase between two and three percent in 2018.

In 2014, the voters in Michigan approved the state legislature changes to the General Property Tax Act effecting the taxation of personal property. These changes will result in the gradual phase-out of personal property taxes between 2016 and 2023. These changes will reduce the amount of tax revenue for Muskegon Township by approximately \$400,000, or 10% of our general fund budget. However, part of the changes approved by the voters includes replacement revenues for municipalities to help offset the loss of personal property taxes. Because of the phase-out schedule of personal property and the replacement revenue, we anticipate the reduction of revenue from this change to be similar to what we experienced in 2017.

In 2015, Muskegon Charter Township saw several modest commercial projects either completed or initiated. Some of these projects include the new Jimmy John's store, the new Brooklyn Bagels store, expansion of the Jackson-Merkey and U-Haul complexes, the new Emergency Services structure, and the new Spectrum Health facility. In 2016, we saw the completion of several of these projects, as well as an expansion of the U-Haul facility on Apple Avenue. In 2017, we continued to see the development of modest commercial projects such as; the north side G&L Chili Dogs, Papa Murphy's Pizza, and the new Dollar General store. At the end of 2017, it was announced that Mercy Health Partners would build a new 30,000 square foot facility on Holton Road, directly across from the new Spectrum Health facility. We anticipate modest commercial development in 2018 that will be similar in scope to the past few years.

As for the residential housing market, we experienced some new housing starts with most occurring in the Oak Pointe Subdivision. The Muskegon Area Intermediate School District is developing single-family residences in the Oak Pointe Subdivision as part of the MAISD's Career Tech home building course. The MAISD has built several homes in this subdivision and we look forward to continuing our relationship with them in 2018. In addition, a new residential development has been initiated for the old airport property on River Road. The project consists of 167 acres that fronts along River and Becker Roads and will include 363 residential units. The project will construct new roadways and other infrastructure to support the development and will be developed in phases over several years. The first phase was initiated in 2017 and will include 44 residential units, with construction of the first units occurring in 2018. As a result of this, we anticipate a modest increase in new residential construction to occur in 2018.

Tax collections are based on the property values of the current year. However, the property tax collections for Muskegon Township begin in December, resulting in most of the revenue being reflected in the following year's budget. We anticipate that the increase in home prices will continue at a modest rate in 2018 and continue to increase in coming years. For the 2018 fiscal year, we anticipate tax collections will increase slightly compared with 2017, but will be mitigated by an increase in Disabled Veteran exemptions and negative Tax Tribunal rulings. In 2017, the Township continued a Rental Inspections Program that administers the oversight of residential rental properties in the Township. This program is being subsidized by the general fund as the program attempts to maintain the value of the rental stock in the Township. We believe this program has positively influenced the overall property values in the Township and has encouraged owner-occupied housing over rental property investment. Muskegon Township also administers rental inspection programs for the cities of Roosevelt Park and Norton Shores. The contractual fees received from these arrangements help offset the subsidy to our rental program. We anticipate that we will continue to administer these additional rental inspection programs in 2018.

In 2014, Muskegon Township began actively pursuing contractual agreements to provide building trades services to neighboring municipalities. These contractual agreements provided significant additional income for the Township and provided sustainability to our building trades' inspection department. However, the loss of key Township staff resulted in the termination of most of these agreements and we do not anticipate any new agreements of this type will be entered into during 2018.

The 2016 General Fund budget increased \$99,870 or 2.51% from 2015. With this increase, the 2016 budget was comparable to the 2009 budget and reflects that revenue levels still haven't returned to the levels prior to the financial crisis of 2008-2009. The 2017 General Fund budget was \$4,418,828 and was an increase of \$345,890 (8.49%) compared to the amended 2016 budget and reflected the Township Board's optimism that additional millage revenue would be approved by the voters. However, the Road Maintenance and Repair millage was defeated in May, 2017 and resulted in significant cuts to the 2017 budget. This millage was eventually passed in November 2017 and will provide funds for significant road repair and maintenance activities in 2018. The 2018 General Fund budget was approved at \$4,357,373, a reduction of 1.4% from the General Fund budget approved in 2017, and is a reflection that road repair and maintenance activity is now millage supported. The fiscally conservative approach of the Township Board over the last ten years has allowed the Township to maintain its focus on providing a high level of service for minimal costs and to maintain an "A" credit rating with a stable outlook from Standard and Poor's.

In 2009, Muskegon Charter Township and the Muskegon County Road Commission reached an agreement over the funding for the maintenance of local roads within Muskegon Charter Township. In 2015 the parties agreed on a three-year extension of this agreement with a slight increase in compensation received. This agreement was extended again for 2018-2022 with incremental increases in compensation received by Muskegon Township. This agreement has been beneficial for both parties and it is anticipated that the agreement will continue for the foreseeable future. We anticipate that the compensation received from this agreement, along with the revenue generated by the Road Repair and Maintenance millage, will generate enough revenue to allow the road repair and maintenance activity to be self-funded and will require little or no subsidy from the General Fund.

Contacting the Township

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Township's finances. If you have questions about this report or need additional information, contact the Township Supervisor at:

Muskegon Charter Township
1990 E. Apple Avenue
Muskegon, Michigan 49442
(231) 777-2555

Basic Financial Statements

**Charter Township of Muskegon
Statement of Net Position
December 31, 2017**

| | Primary Government | | |
|---|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| <i>Current Assets</i> | | | |
| Cash and Investments | \$ 4,224,829 | \$ 4,137,435 | \$ 8,362,264 |
| Receivables | 1,664,568 | 866,610 | 2,531,178 |
| Due from Other Governments | 325,896 | 24,696 | 350,592 |
| Internal Balances | (84,451) | 84,451 | -- |
| Total Current Assets | 6,130,842 | 5,113,192 | 11,244,034 |
| <i>Noncurrent Assets</i> | | | |
| Special Assessments Receivable | 84,708 | 34,552 | 119,260 |
| Capital Assets not being Depreciated | 613,931 | 53,638 | 667,569 |
| Capital Assets being Depreciated | 2,451,259 | 21,592,122 | 24,043,381 |
| Total Noncurrent Assets | 3,149,898 | 21,680,312 | 24,830,210 |
| Total Assets | 9,280,740 | 26,793,504 | 36,074,244 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pension Related Deferred Outflows | 1,318,139 | 99,216 | 1,417,355 |
| Total Deferred Outflows of Resources | 1,318,139 | 99,216 | 1,417,355 |
| LIABILITIES | | | |
| <i>Current Liabilities</i> | | | |
| Accounts Payable | 139,786 | 253,781 | 393,567 |
| Accrued Liabilities | 168,580 | 7,848 | 176,428 |
| Unearned Revenue | 20,000 | -- | 20,000 |
| Accrued Interest | -- | 95,135 | 95,135 |
| Current Portion of Compensated Absences | 214,229 | 14,215 | 228,444 |
| Current Portion of Long-term Debt | -- | 384,840 | 384,840 |
| Total Current Liabilities | 542,595 | 755,819 | 1,298,414 |
| <i>Noncurrent Liabilities</i> | | | |
| Long-term Debt | -- | 12,408,904 | 12,408,904 |
| Compensated Absences | 148,597 | 9,828 | 158,425 |
| Net Pension Liability | 6,749,613 | 508,035 | 7,257,648 |
| OPEB | 8,801,213 | 977,912 | 9,779,125 |
| Total Noncurrent Liabilities | 15,699,423 | 13,904,679 | 29,604,102 |
| Total Liabilities | 16,242,018 | 14,660,498 | 30,902,516 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Taxes Levied for a Subsequent Period | 3,173,086 | -- | 3,173,086 |
| Pension Related Deferred Inflows | 75,920 | 5,716 | 81,636 |
| Total Deferred Inflows of Resources | 3,249,006 | 5,716 | 3,254,722 |
| NET POSITION | | | |
| Net Investment in Capital Assets | 3,065,190 | 8,852,016 | 11,917,206 |
| <i>Restricted for:</i> | | | |
| Public Safety | 11,911 | -- | 11,911 |
| Street Lights | 289,029 | -- | 289,029 |
| Hydrants | 76,761 | -- | 76,761 |
| Water Purposes | 387,596 | -- | 387,596 |
| Local Streets | 100,000 | -- | 100,000 |
| <i>Unrestricted</i> | (12,822,632) | 3,374,490 | (9,448,142) |
| Total Net Position | \$ (8,892,145) | \$ 12,226,506 | \$ 3,334,361 |

The Notes to the Financial Statements are an integral part of these Financial Statements

**Charter Township of Muskegon
Statement of Activities
For the Year Ended December 31, 2017**

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense) Revenue</u> | | |
|--|----------------------|-----------------------------|---|---|--------------------------------|---------------------------------|-----------------------|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
| Primary Government | | | | | | | |
| Governmental Activities: | | | | | | | |
| General Government | \$ 1,470,026 | \$ 500,903 | \$ 16,299 | \$ -- | \$ (952,824) | \$ -- | \$ (952,824) |
| Public Safety | 4,462,591 | 684,715 | 77,265 | -- | (3,700,611) | -- | (3,700,611) |
| Public Works | 814,125 | 34,159 | 79,148 | -- | (700,818) | -- | (700,818) |
| Community and Economic Development | 287,880 | 135,561 | -- | -- | (152,319) | -- | (152,319) |
| Recreation and Culture | 133,714 | 22,740 | -- | -- | (110,974) | -- | (110,974) |
| Total Governmental Activities | 7,168,336 | 1,378,078 | 172,712 | -- | (5,617,546) | -- | (5,617,546) |
| Business-type Activities: | | | | | | | |
| Sanitation | 851,280 | 740,279 | -- | -- | -- | (111,001) | (111,001) |
| Sewer | 3,146,637 | 2,803,954 | 184,638 | -- | -- | (158,045) | (158,045) |
| Total Business-type Activities | 3,997,917 | 3,544,233 | 184,638 | -- | -- | (269,046) | (269,046) |
| Total Primary Government | \$ 11,166,253 | \$ 4,922,311 | \$ 357,350 | \$ -- | \$ (5,617,546) | \$ (269,046) | \$ (5,886,592) |
| General Purpose Revenues: | | | | | | | |
| Property Taxes | | | | | 3,039,123 | -- | 3,039,123 |
| Interest Income | | | | | 30,488 | 50,571 | 81,059 |
| Intergovernmental | | | | | 1,651,772 | -- | 1,651,772 |
| Other | | | | | 53,617 | -- | 53,617 |
| Total General Revenues | | | | | 4,775,000 | 50,571 | 4,825,571 |
| Change in Net Position | | | | | (842,546) | (218,475) | (1,061,021) |
| <i>Net Position at Beginning of Period (see Note 12)</i> | | | | | (8,049,599) | 12,444,981 | 4,395,382 |
| Net Position at End of Period | | | | | \$ (8,892,145) | \$ 12,226,506 | \$ 3,334,361 |

The Notes to the Financial Statements are an integral part of these Financial Statements

**Charter Township of Muskegon
Balance Sheet
Governmental Funds
December 31, 2017**

| | <u>Special Revenue</u> | | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------------|----------------------------|---|---|
| | <u>General</u> | <u>Public Safety</u> | | |
| ASSETS | | | | |
| Cash and Investments | \$ 1,712,676 | \$ 611,719 | \$ 1,900,434 | \$ 4,224,829 |
| Receivables | | | | |
| Accounts Receivable | 60,260 | -- | -- | 60,260 |
| Property Taxes Receivable | 761,604 | 474,018 | 353,243 | 1,588,865 |
| Special Assessments Receivable | -- | -- | 89,586 | 89,586 |
| Other Receivables | 2,368 | 7,848 | 349 | 10,565 |
| Due from Other Governments | 291,321 | -- | 34,575 | 325,896 |
| <i>Total Assets</i> | <u>\$ 2,828,229</u> | <u>\$ 1,093,585</u> | <u>\$ 2,378,187</u> | <u>\$ 6,300,001</u> |
| LIABILITIES | | | | |
| Accounts Payable | \$ 69,357 | \$ 13,188 | \$ 57,241 | \$ 139,786 |
| Accrued Liabilities | 30,332 | 97,472 | 40,776 | 168,580 |
| Unearned Revenue | 20,000 | -- | -- | 20,000 |
| Due to Other Funds | -- | -- | 65,225 | 65,225 |
| <i>Total Liabilities</i> | <u>119,689</u> | <u>110,660</u> | <u>163,242</u> | <u>393,591</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Taxes Levied for a Subsequent Period | 1,486,741 | 979,631 | 706,714 | 3,173,086 |
| Unavailable Revenues - Special Assessments | -- | -- | 84,708 | 84,708 |
| <i>Total Liabilities and Deferred Inflows of Resources</i> | <u>1,606,430</u> | <u>1,090,291</u> | <u>954,664</u> | <u>3,651,385</u> |
| FUND BALANCE | | | | |
| Restricted | | | | |
| Public Safety | 8,617 | 3,294 | -- | 11,911 |
| Local Streets | -- | -- | 100,000 | 100,000 |
| Street Lights | -- | -- | 289,029 | 289,029 |
| Hydrants | -- | -- | 76,761 | 76,761 |
| Water Purposes | -- | -- | 387,596 | 387,596 |
| Committed | | | | |
| Buildings and Grounds Improvements | 182,000 | -- | -- | 182,000 |
| Public Safety | 100,000 | -- | 633,552 | 733,552 |
| Compensated Absences | 50,000 | -- | -- | 50,000 |
| Other | 95,000 | -- | -- | 95,000 |
| Unassigned | 786,182 | -- | (63,415) | 722,767 |
| <i>Total Fund Balance</i> | <u>1,221,799</u> | <u>3,294</u> | <u>1,423,523</u> | <u>2,648,616</u> |
| <i>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</i> | <u>\$ 2,828,229</u> | <u>\$ 1,093,585</u> | <u>\$ 2,378,187</u> | <u>\$ 6,300,001</u> |

The Notes to the Financial Statements are an integral part of these Financial Statements

Charter Township of Muskegon
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
December 31, 2017

| | | |
|---|-----------|---------------------------|
| Total Fund Balance - Governmental Funds | \$ | 2,648,616 |
| Net position of internal service funds that are treated as proprietary in the fund level statements are treated as governmental in the entity-wide statements. | | 104,135 |
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. This represents capital assets of \$8,154,100 less accumulated depreciation of \$5,212,271. | | 2,941,829 |
| Other long-term assets, such as special assessments receivable, are not available to pay for current period expenditures and, therefore, are reported as unavailable revenues in the governmental funds. | | 84,708 |
| Long-term liabilities in governmental activities are not due and payable in the current period and, therefore, are not reported in the governmental funds. This represents compensated absences of \$362,826, other postemployment benefits of \$8,801,213, and the net pension liability (and the pension related deferrals) of \$5,507,394. | | (14,671,433) |
| Total Net Position - Governmental Activities | \$ | <u>(8,892,145)</u> |

The Notes to the Financial Statements are an integral part of these Financial Statements

Charter Township of Muskegon
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2017

| | <u>Special Revenue</u> | | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|------------------------|----------------------|---|---|
| | <u>General</u> | <u>Public Safety</u> | | |
| Revenues | | | | |
| Property Taxes | \$ 1,477,393 | \$ 1,004,123 | \$ 557,607 | \$ 3,039,123 |
| Licenses and Permits | 529,644 | -- | -- | 529,644 |
| Intergovernmental | 1,651,772 | 77,265 | 75,000 | 1,804,037 |
| Charges for Services | 447,186 | 8,600 | 349,287 | 805,073 |
| Fines and Forfeitures | 6,973 | 13,046 | -- | 20,019 |
| Interest Income | 19,726 | 918 | 11,820 | 32,464 |
| Other | 62,284 | 23,914 | 46,514 | 132,712 |
| Total Revenues | <u>4,194,978</u> | <u>1,127,866</u> | <u>1,040,228</u> | <u>6,363,072</u> |
| Expenditures | | | | |
| General Government | 820,235 | -- | -- | 820,235 |
| Public Safety | 284,744 | 2,904,985 | 30,856 | 3,220,585 |
| Public Works | 3,542 | -- | 615,160 | 618,702 |
| Community and Economic Development | 266,965 | -- | -- | 266,965 |
| Recreation and Culture | 96,647 | -- | -- | 96,647 |
| Other Governmental Functions | 967,631 | -- | -- | 967,631 |
| Capital Outlay | -- | 69,573 | -- | 69,573 |
| Total Expenditures | <u>2,439,764</u> | <u>2,974,558</u> | <u>646,016</u> | <u>6,060,338</u> |
| Excess of Revenues Over (Under) Expenditures | 1,755,214 | (1,846,692) | 394,212 | 302,734 |
| Other Financing Sources (Uses) | | | | |
| Transfers In | -- | 1,846,692 | 38,117 | 1,884,809 |
| Transfers Out | (1,766,809) | -- | (118,000) | (1,884,809) |
| Net Other Financing Sources (Uses) | <u>(1,766,809)</u> | <u>1,846,692</u> | <u>(79,883)</u> | <u>--</u> |
| Net Change in Fund Balance | (11,595) | -- | 314,329 | 302,734 |
| <i>Fund Balance at Beginning of Period</i> | 1,233,394 | 3,294 | 1,109,194 | 2,345,882 |
| Fund Balance at End of Period | <u>\$ 1,221,799</u> | <u>\$ 3,294</u> | <u>\$ 1,423,523</u> | <u>\$ 2,648,616</u> |

The Notes to the Financial Statements are an integral part of these Financial Statements

Charter Township of Muskegon
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended December 31, 2017

| | | |
|---|-----------|-------------------------|
| Total Net Change in Fund Balances - Governmental Funds | \$ | 302,734 |
| Changes in net position of internal service funds that are treated as enterprise fund changes in net position in the fund level statements are treated as governmental fund changes in net position in the entity-wide statements. | | (22,594) |
| Governmental funds report outlays for capital assets as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This represents current year depreciation expense of \$282,185 less capital outlay expenditures of \$69,573. | | (212,612) |
| Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. | | (37,282) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This represents the change in compensated absences of \$(49,620), the change in other postemployment benefits of \$274,032, and the change in the net pension liability (and pension related deferrals) of \$648,380. | | (872,792) |
| Changes in Net Position - Governmental Activities | \$ | <u>(842,546)</u> |

The Notes to the Financial Statements are an integral part of these Financial Statements

Charter Township of Muskegon
Statement of Net Position
Proprietary Funds
December 31, 2017

| | <u>Business-type Activities - Enterprise Funds</u> | | | <u>Governmental</u> |
|---|--|----------------------|-------------------------|-------------------------|
| | <u>Sanitation</u> | <u>Sewer</u> | <u>Total Enterprise</u> | <u>Activities</u> |
| | | | <u>Funds</u> | <u>Internal Service</u> |
| | | | | <u>Funds</u> |
| ASSETS | | | | |
| <i>Current Assets</i> | | | | |
| Cash and Investments | \$ 480,111 | \$ 3,657,324 | \$ 4,137,435 | \$ -- |
| Accounts Receivable | 160,968 | 683,417 | 844,385 | -- |
| Special Assessments Receivable | -- | 21,250 | 21,250 | -- |
| Other Receivables | 98 | 877 | 975 | -- |
| Due from Other Governments | -- | 24,696 | 24,696 | -- |
| Due from Other Funds | -- | 84,451 | 84,451 | -- |
| Total Current Assets | 641,177 | 4,472,015 | 5,113,192 | -- |
| <i>Noncurrent Assets</i> | | | | |
| Special Assessments Receivable | -- | 34,552 | 34,552 | -- |
| Capital Assets not being Depreciated | -- | 53,638 | 53,638 | -- |
| Capital Assets being Depreciated | 287,914 | 21,304,208 | 21,592,122 | 123,361 |
| Total Noncurrent Assets | 287,914 | 21,392,398 | 21,680,312 | 123,361 |
| Total Assets | 929,091 | 25,864,413 | 26,793,504 | 123,361 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Pension Related Deferred Outflows | 56,695 | 42,521 | 99,216 | -- |
| Total Deferred Outflows of Resources | 56,695 | 42,521 | 99,216 | -- |
| LIABILITIES | | | | |
| <i>Current Liabilities</i> | | | | |
| Accounts Payable | 49,819 | 203,962 | 253,781 | -- |
| Accrued Liabilities | 5,097 | 2,751 | 7,848 | -- |
| Accrued Interest | -- | 95,135 | 95,135 | -- |
| Current Portion of Compensated Absences | 499 | 13,716 | 14,215 | -- |
| Current Portion of Long-term Debt | -- | 384,840 | 384,840 | -- |
| Due to Other Funds | -- | -- | -- | 19,226 |
| Total Current Liabilities | 55,415 | 700,404 | 755,819 | 19,226 |
| <i>Noncurrent Liabilities</i> | | | | |
| Long-term Debt | -- | 12,408,904 | 12,408,904 | -- |
| Compensated Absences | 345 | 9,483 | 9,828 | -- |
| Net Pension Liability | 290,306 | 217,729 | 508,035 | -- |
| OPEB | 488,956 | 488,956 | 977,912 | -- |
| Total Noncurrent Liabilities | 779,607 | 13,125,072 | 13,904,679 | -- |
| Total Liabilities | 835,022 | 13,825,476 | 14,660,498 | 19,226 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Pension Related Deferred Inflows | 3,265 | 2,451 | 5,716 | -- |
| Total Deferred Inflows of Resources | 3,265 | 2,451 | 5,716 | -- |
| NET POSITION | | | | |
| Net Investment in Capital Assets | 287,914 | 8,564,102 | 8,852,016 | 104,135 |
| <i>Unrestricted</i> | (140,415) | 3,514,905 | 3,374,490 | -- |
| Total Net Position | \$ 147,499 | \$ 12,079,007 | \$ 12,226,506 | \$ 104,135 |

The Notes to the Financial Statements are an integral part of these Financial Statements

Charter Township of Muskegon
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2017

| | <u>Business-type Activities - Enterprise Funds</u> | | | <u>Governmental</u> |
|--|--|----------------------|-------------------------|-------------------------|
| | <u>Sanitation</u> | <u>Sewer</u> | <u>Total Enterprise</u> | <u>Activities</u> |
| | | | <u>Funds</u> | <u>Internal Service</u> |
| | | | | <u>Funds</u> |
| Operating Revenues | | | | |
| Charges for Services | \$ 740,279 | \$ 2,803,954 | \$ 3,544,233 | \$ 14,224 |
| Total Operating Revenues | <u>740,279</u> | <u>2,803,954</u> | <u>3,544,233</u> | <u>14,224</u> |
| Operating Expenses | | | | |
| Administration | 58,500 | 157,000 | 215,500 | -- |
| Operations | 713,883 | 1,713,167 | 2,427,050 | -- |
| Depreciation | 78,897 | 773,354 | 852,251 | 36,002 |
| Total Operating Expenses | <u>851,280</u> | <u>2,643,521</u> | <u>3,494,801</u> | <u>36,002</u> |
| Operating Income (Loss) | <u>(111,001)</u> | <u>160,433</u> | <u>49,432</u> | <u>(21,778)</u> |
| Non-Operating Revenues (Expenses) | | | | |
| Interest Income | 3,475 | 47,096 | 50,571 | -- |
| Connection Fee | -- | 60,923 | 60,923 | -- |
| Intergovernmental | -- | 123,715 | 123,715 | -- |
| Interest Expense | -- | (503,116) | (503,116) | (816) |
| Net Non-Operating Revenues (Expenses) | <u>3,475</u> | <u>(271,382)</u> | <u>(267,907)</u> | <u>(816)</u> |
| Change In Net Position | <u>(107,526)</u> | <u>(110,949)</u> | <u>(218,475)</u> | <u>(22,594)</u> |
| <i>Net Position at Beginning of Period</i> | 255,025 | 12,189,956 | 12,444,981 | 126,729 |
| Net Position at End of Period | <u>\$ 147,499</u> | <u>\$ 12,079,007</u> | <u>\$ 12,226,506</u> | <u>\$ 104,135</u> |

The Notes to the Financial Statements are an integral part of these Financial Statements

**Charter Township of Muskegon
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2017**

| | <u>Business-type Activities - Enterprise Funds</u> | | | <u>Governmental Activities</u> |
|--|--|---------------------|---------------------|------------------------------------|
| | <u>Sanitation</u> | <u>Sewer</u> | <u>Total</u> | <u>Internal Service Fund</u> |
| Cash Flows from Operating Activities | | | | |
| Cash Received from Customers | \$ 730,902 | \$ 2,752,739 | \$ 3,483,641 | \$ - |
| Cash Received from Interfund Services Provided | - | - | - | 14,224 |
| Cash Payments for Wages and Benefits | (154,552) | (147,358) | (301,910) | - |
| Cash Payments to Suppliers for Goods and Services | (557,139) | (1,670,915) | (2,228,054) | - |
| Total Cash Flows Provided by Operating Activities | <u>19,211</u> | <u>934,466</u> | <u>953,677</u> | <u>14,224</u> |
| Cash Flows from Non-capital Financing Activities | | | | |
| Change in Interfund Balances | - | 43,988 | 43,988 | (13,408) |
| Total Cash Flows Provided (Used) by Non-capital Financing Activities | <u>-</u> | <u>43,988</u> | <u>43,988</u> | <u>(13,408)</u> |
| Cash Flows from Capital and Related Financing Activities | | | | |
| Cash Received from Connection Fees | - | 60,923 | 60,923 | - |
| Purchase of Capital Assets | (16,995) | - | (16,995) | - |
| Cash Received from Intergovernmental Grants | - | 123,715 | 123,715 | - |
| Interest Payments on Debt | - | (503,116) | (503,116) | (816) |
| Principal Payments on Debt | - | (448,284) | (448,284) | - |
| Total Cash Flows (Used) by Capital and Related Financing Activities | <u>(16,995)</u> | <u>(766,762)</u> | <u>(783,757)</u> | <u>(816)</u> |
| Cash Flows from Investing Activities | | | | |
| Interest Earned | 3,476 | 47,096 | 50,572 | - |
| Total Cash Flows Provided by Investing Activities | <u>3,476</u> | <u>47,096</u> | <u>50,572</u> | <u>-</u> |
| Net Increase in Cash and Cash Equivalents | 5,692 | 258,788 | 264,480 | - |
| Cash and Cash Equivalents - Beginning of Year | 474,419 | 3,398,536 | 3,872,955 | - |
| Cash and Cash Equivalents - End of Year | <u>\$ 480,111</u> | <u>\$ 3,657,324</u> | <u>\$ 4,137,435</u> | <u>\$ -</u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | | | | |
| Operating Income (Loss) | \$ (111,001) | \$ 160,433 | \$ 49,432 | \$ (21,778) |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | | | | |
| Depreciation Expense | 78,897 | 773,354 | 852,251 | 36,002 |
| Changes in Assets and Liabilities | | | | |
| Receivables | (9,377) | (51,215) | (60,592) | - |
| Due from Other Governments | - | (2,396) | (2,396) | - |
| Accounts Payable | 33,856 | 22,117 | 55,973 | - |
| Accrued Interest | - | (3,046) | (3,046) | - |
| Accrued Liabilities | (4,093) | (973) | (5,066) | - |
| Compensated Absences | (12,182) | 52 | (12,130) | - |
| Net Pension Liability | 27,887 | 20,916 | 48,803 | - |
| Other Post-Employment Benefits | 15,224 | 15,224 | 30,448 | - |
| Net Cash Provided by Operating Activities | <u>\$ 19,211</u> | <u>\$ 934,466</u> | <u>\$ 953,677</u> | <u>\$ 14,224</u> |

The Notes to the Financial Statements are an integral part of these Financial Statements

**Charter Township of Muskegon
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2017**

| | <u>Agency</u> | | | | <u>Total Agency Funds</u> |
|--------------------------|-------------------------|---------------------|------------------|-------------------------|-------------------------------|
| | <u>Trust and Agency</u> | <u>Current Tax</u> | <u>Payroll</u> | <u>Central Dispatch</u> | |
| ASSETS | | | | | |
| Cash and Investments | \$ 57,637 | \$ 2,982,890 | \$ 14,337 | \$ 1,272,768 | \$ 4,327,632 |
| Accounts Receivable | -- | -- | -- | 1,000 | 1,000 |
| Prepays | -- | -- | -- | 4,946 | 4,946 |
| <i>Total Assets</i> | <u>57,637</u> | <u>2,982,890</u> | <u>14,337</u> | <u>1,278,714</u> | <u>4,333,578</u> |
| LIABILITIES | | | | | |
| Accounts Payable | -- | -- | -- | 34,147 | 34,147 |
| Accrued Liabilities | -- | -- | 14,337 | -- | 14,337 |
| Due to Other Governments | 9,278 | 2,982,890 | -- | 1,244,567 | 4,236,735 |
| Due to Others | 48,359 | -- | -- | -- | 48,359 |
| <i>Total Liabilities</i> | <u>\$ 57,637</u> | <u>\$ 2,982,890</u> | <u>\$ 14,337</u> | <u>\$ 1,278,714</u> | <u>\$ 4,333,578</u> |

The Notes to the Financial Statements are an integral part of these Financial Statements

Notes to the Financial Statements

Charter Township of Muskegon

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Muskegon (the “Township” or “government”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township.

Reporting entity

The Township is incorporated as a charter township governed by an elected seven-member Board. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 61, "*The Financial Reporting Entity*," these financial statements only present the Township. Management has determined that there are no other units of government that should be included in these financial statements. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

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. For the most part, the effect of interfund activity has been removed from these statements. *Governmental 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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, except for agency funds which do not have a measurement focus.

Charter Township of Muskegon

Notes to the 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 are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, long-term debt expenditures are recorded only when payment is due.

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

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 ***public safety fund*** is used to account for a special tax millage levied by the Township for the operation of the police and fire departments.

The Township reports the following major enterprise funds:

The ***sanitation fund*** accounts for user charges and for operating expenses of the Township's sanitation department.

The ***sewer fund*** operates the Township's sewage pumping station, collection systems and pays for access to the county's sewage treatment plant.

Additionally, the Township reports the following fund types:

The ***special revenue funds*** are used to account for the proceeds of specific revenue sources (other than permanent trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

The ***capital projects fund*** accounts for the accumulation and disbursement of resources for the construction of governmental fund capital projects.

Charter Township of Muskegon

Notes to the Financial Statements

The *internal service fund* accounts for equipment management services provided to other funds of the government on a cost reimbursement basis.

The *agency funds* are custodial in nature and used to account for assets held by the Township as an agent for another organization or individual.

Assets, Liabilities, Deferred Inflows of Resources, and Equity

Cash and Cash Equivalents

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Township are reported at fair value (generally based on quoted market prices).

The Township has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Township to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools, and certain mutual funds.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

As the Township constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. 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 increase its estimated useful life. Donated capital assets are recorded at their acquisition value at the date of donation.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances.

Charter Township of Muskegon

Notes to the Financial Statements

Land and construction in progress are not depreciated. The other property, plant, and equipment of the Township are depreciated or amortized using the straight-line method over the following estimated useful lives:

| <u>Description</u> | <u>Life (years)</u> |
|------------------------------|---------------------|
| Furniture & Office Equipment | 5 - 10 |
| Land Improvements | 20 - 30 |
| Utility Systems | 50 |
| Buildings and Improvements | 30 - 40 |
| Vehicles | 5 - 10 |
| Access Rights | 20 |

Defined Benefit Plan

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 of the Plan and additions to/deductions from the Plan fiduciary net position have been determined on the same basis as they are reported by the Municipal Employees Retirement System (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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Township reports deferred outflows of resources for changes in expected and actual investment returns, assumptions, and contributions made subsequent to the measurement date of its pension plan. More detailed information can be found in Note 7.

In addition to liabilities, the statement of financial position and/or the fund level balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position/fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The Township has three types of deferred inflows of resources, one of which arises only under the modified accrual basis of accounting. Unavailable revenues for special assessments receivable qualify for reporting in this category. Accordingly, these items, unavailable revenues, are reported in the governmental funds balance sheet and are reflected as a reconciling item to the governmental activities. The governmental funds report unavailable revenues from revenues collected subsequent to 60 days after year end. These amounts are deferred and recognized as an inflows of

Charter Township of Muskegon

Notes to the Financial Statements

resources in the period that the amounts become available. The second type of deferred inflows of resources reported at the fund level and the government-wide level is for taxes levied for subsequent periods. Finally, the Township reports deferred outflows of resources for differences in actual experience of its pension plan. More detailed information can be found in Note 7.

Net Position Flow Assumption

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

Fund Balance Flow Assumptions

Sometimes the Township will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Township's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitation on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Township's highest level of decision-making authority. The Township Board is the highest level of decision-making authority for the Township that can, by formal action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by formal action remains in place until a similar action is taken (another formal action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Township for specific purposes but do not meet the criteria to be classified as committed. The Township Board has by resolution authorized the Township Treasurer to assign fund balance. The Township Board may also assign fund balance as it does when appropriating fund balance to cover a gap between

Charter Township of Muskegon

Notes to the Financial Statements

estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The Township Board has adopted a financial policy to maintain a minimum level of unassigned fund balance in the general fund of one month of general fund expenditures (approximately 8.3 percent) or 10 percent of general fund revenues, whichever is greater. This amount is intended to provide fiscal stability when economic downturns and other unexpected events occur. If fund balance falls below the minimum target level because it has been used, essentially as a "revenue" source, as dictated by current circumstances, the policy provides for actions to replenish the amount to the minimum target level. Generally, replenishment is to occur at the earliest possible opportunity.

Property Taxes

All trade and property tax receivables are shown net of allowance for uncollectibles.

The Township bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied and liened on each December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the Township to the County for collection. The County advances the Township all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Township. Taxes levied on December 1 are recorded as receivables and deferred inflows. Taxes are recognized as revenue (and become available for appropriation) in the calendar year following the levy.

The 2016 state taxable value for real/personal property of the Township totaled approximately \$348,578,165. The ad valorem taxes levied consisted of 4.3124, .70, and 2.75 mills for the Township's general operating, street lighting, and public safety purposes, respectively. These amounts are recognized in the general fund, street lighting fund, and public safety fund, respectively. The Township has designated 1.0 mill of its general operating levy for local streets and recognized that amount in the local streets fund.

Compensated Absences

Township employees are granted vacation and sick leave in varying amounts based on length of service and employee group. Employees must use earned vacation time during the anniversary year following the one in which it was earned. Upon termination, employees are paid for unused vacation at their current rates. Sick leave is accumulated at the rate of one day per month of employment. Unused sick leave is accumulated up to 180 days for employees. One half of all unused accumulated sick leave is paid to employees upon retirement. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. The

Charter Township of Muskegon

Notes to the Financial Statements

current portion of this liability is estimated based on historical trends. 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.

Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Property Tax Revenue Recognition

Property taxes are levied each December 1 (lien date) on the taxable valuation of property as of the preceding December 31. Property taxes are considered delinquent on March 1 of the following year, at which time interest and penalties are assessed. Although the Township's 2017 ad valorem taxes are levied on December 1, 2017, it is the Township's policy to recognize revenue from the 2016 tax levy in the current year, when the proceeds are budgeted and made available for the financing of operations.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds.

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations between departments require the approval of the Township Board. The legal level of budgetary control is the department level for the general fund and the fund level for all other governmental funds.

Charter Township of Muskegon

Notes to the Financial Statements

Appropriations in all budgeted funds lapse at the end of the fiscal year.

Excess of Expenditures Over Appropriations

The Township had no expenditures over the amounts appropriated during 2017.

Fund Deficit

As of December 31, 2017, the Township's paving projects capital projects fund had an unassigned fund deficit of \$63,415. The deficit will be eliminated through future special assessment collections.

Note 3 - Deposits and Investments

The Township maintains pooled and individual fund demand deposits, certificates of deposit, and short-term investment accounts.

Following is a reconciliation of deposit and investment balances as of December 31, 2017:

Statement of Net Position

| | |
|----------------------|--------------|
| Cash and Investments | \$ 8,362,264 |
|----------------------|--------------|

Statement of Fiduciary Net Position

| | |
|----------------------|-----------|
| Cash and Investments | 4,327,632 |
|----------------------|-----------|

| | |
|--|-----------------------------|
| <i>Total Deposits and Investments</i> | <u>\$ 12,689,896</u> |
|--|-----------------------------|

Deposits and Investments

| | |
|---------------------------|---------------|
| Cash and Cash Equivalents | \$ 11,010,133 |
|---------------------------|---------------|

| | |
|-------------------------|---------|
| Certificates of Deposit | 953,478 |
|-------------------------|---------|

| | |
|-------------|---------|
| Investments | 725,635 |
|-------------|---------|

| | |
|--------------|-----|
| Cash on Hand | 650 |
|--------------|-----|

| | |
|---------------------|-----------------------------|
| <i>Total</i> | <u>\$ 12,689,896</u> |
|---------------------|-----------------------------|

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Township's deposits might not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year-end, \$3,550,653 of the Township's bank balance of \$4,747,653 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the Township believes it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Charter Township of Muskegon

Notes to the Financial Statements

Custodial Credit Risk - Investments

For an investment, custodial credit risk 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 Township does not have a custodial credit risk policy for investments.

Credit Risk

State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The Township's investment policy does not have specific limits in excess of state law on investment credit risk.

Credit risk ratings, where applicable, are summarized as follows:

| | | | |
|-------------------|------|----|------------------|
| Moody | A1 | \$ | 183,922 |
| Standard & Poor's | AAAm | | 7,678,216 |
| Standard & Poor's | AA+ | | 542,624 |
| | | | <u>542,624</u> |
| | | \$ | <u>8,404,762</u> |

Interest Rate Risk

Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Township's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Maturity dates for investments and certificates of deposit held at year-end are summarized as follows:

| | <u>Certificates of Deposit</u> | <u>Cash Equivalents and Investments</u> |
|------------------|------------------------------------|---|
| No Maturity | \$ - | \$ 7,678,216 |
| Due in 1-5 Years | 953,478 | 726,546 |
| | <u>\$ 953,478</u> | <u>\$ 8,404,762</u> |

Charter Township of Muskegon

Notes to the Financial Statements

Concentration of Credit Risk

The Township does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Township investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. None of the Townships investment in exceed 5% of any one security issuance.

Fair Value Measurement

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

The Township has the following recurring fair value measurements as of December 31, 2017:

- Investments held with Multi-Bank Securities (MBS) totaled \$1,422,635. Investments included in MBS are certificates of deposits, U.S. Government bonds, and municipal bonds. These are valued using Level 2 inputs.
- Investments held with MICLASS totaled \$7,678,216. MICLASS is authorized to invest in the same investment types as local units of government in Michigan. These holdings are valued using Level 2 inputs.

Note 4 - Transfers and Interfund Balances

Interfund transfers consisted of the following during the year:

| Transfer In | Transfer Out | Amount |
|-----------------------------|-----------------------------|---------------|
| Public Safety | Nonmajor Governmental Funds | \$ 118,000 |
| Nonmajor Governmental Funds | General Fund | 38,117 |
| Public Safety | General Fund | 1,728,692 |

Interfund transfers are used to: 1) transfer revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, 2) transfer receipts restricted to debt service from the funds collecting the receipts to the debt service funds as debt service payments become due, and 3) transfer unrestricted revenues collected in the general fund to other funds to finance various programs accounted for in the other funds in accordance with budgetary authorizations.

Charter Township of Muskegon

Notes to the Financial Statements

The amount of interfund balances at December 31, 2017 are as follows:

| Due from Other Funds | Due to Other Funds | Amount |
|-----------------------------|---------------------------|---------------|
| Sewer Fund | Paving Projects Fund | \$ 65,225 |
| Sewer Fund | Equipment Fund | 19,226 |

Interfund balances represent: 1) short-term borrowings between funds for cash flow purposes, 2) to act as an intermediate term loan to finance capital purchases, and 3) to transfer expenses to funds where they should have been recorded.

Note 5 - Capital Assets

Capital asset activity of the Township's governmental activities during the year was as follows:

| | December 31, 2016 | Additions | Disposals | December 31, 2017 |
|--|----------------------|---------------------|-------------|----------------------|
| Governmental Activities: | | | | |
| Capital Assets not being Depreciated | | | | |
| Land | \$ 613,931 | \$ - | \$ - | \$ 613,931 |
| Capital Assets being Depreciated | | | | |
| Land Improvements | 1,145,538 | - | - | 1,145,538 |
| Buildings and Improvements | 2,852,073 | - | - | 2,852,073 |
| Furniture and Equipment | 627,169 | - | - | 627,169 |
| Vehicles | 3,174,838 | 69,573 | - | 3,244,411 |
| Total Capital Assets being Depreciated | 7,799,618 | 69,573 | - | 7,869,191 |
| Less Accumulated Depreciation | | | | |
| Land Improvements | 774,016 | 30,089 | - | 804,105 |
| Buildings and Improvements | 1,493,648 | 65,612 | - | 1,559,260 |
| Furniture and Equipment | 507,576 | 19,865 | - | 527,441 |
| Vehicles | 2,324,505 | 202,621 | - | 2,527,126 |
| Total Accumulated Depreciation | 5,099,745 | 318,187 | - | 5,417,932 |
| Total Capital Assets being Depreciated, Net | 2,699,873 | (248,614) | - | 2,451,259 |
| Capital Assets, Net | \$ 3,313,804 | \$ (248,614) | \$ - | \$ 3,065,190 |

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

| | |
|--------------------------------------|-------------------|
| Governmental Activities | |
| General Government | \$ 26,012 |
| Public Safety | 215,944 |
| Public Works | 10,134 |
| Recreation & Culture | 30,095 |
| Internal Service Fund - Public Works | 36,002 |
| Total Governmental Activities | \$ 318,187 |

Charter Township of Muskegon

Notes to the Financial Statements

Capital asset activity of the Township's business-type activities during the year was as follows:

| | December 31, 2016 | Additions | Disposals | December 31, 2017 |
|--|----------------------|---------------------|-------------|----------------------|
| Business-type Activities: | | | | |
| Capital Assets not being Depreciated | | | | |
| Land | \$ 53,638 | \$ - | \$ - | \$ 53,638 |
| Capital Assets being Depreciated | | | | |
| Utility Systems | 37,508,555 | - | | 37,508,555 |
| Furniture and Equipment | 52,918 | 16,995 | - | 69,913 |
| Vehicles | 1,339,181 | - | - | 1,339,181 |
| Access Rights | 213,162 | - | - | 213,162 |
| Total Capital Assets being Depreciated | <u>39,113,816</u> | <u>16,995</u> | <u>-</u> | <u>39,130,811</u> |
| Less Accumulated Depreciation | | | | |
| Utility Systems | 15,675,125 | 750,128 | - | 16,425,253 |
| Furniture and Equipment | 4,385 | 6,926 | - | 11,311 |
| Vehicles | 935,874 | 88,092 | - | 1,023,966 |
| Access Rights | 71,054 | 7,105 | - | 78,159 |
| Total Accumulated Depreciation | <u>16,686,438</u> | <u>852,251</u> | <u>-</u> | <u>17,538,689</u> |
| Total Capital Assets being Depreciated, Net | <u>22,427,378</u> | <u>(835,256)</u> | <u>-</u> | <u>21,592,122</u> |
| Capital Assets, Net | <u>\$ 22,481,016</u> | <u>\$ (835,256)</u> | <u>\$ -</u> | <u>\$ 21,645,760</u> |

Depreciation expense was charged to business-type activities of the Township as follows:

| | |
|--------------------------------|-------------------|
| Business-type Activities | |
| Sanitation Fund | \$ 78,897 |
| Sewer Fund | <u>773,354</u> |
| Total Business-type Activities | <u>\$ 852,251</u> |

Charter Township of Muskegon

Notes to the Financial Statements

Note 6 - Long-term Debt

The following is a summary of the changes in the long-term debt for the year ended December 31, 2017:

| | <u>December 31, 2016 *</u> | <u>Additions</u> | <u>Reductions</u> | <u>December 31, 2017</u> | <u>Due Within One Year</u> |
|---------------------------------------|--------------------------------|-------------------|-------------------|------------------------------|--------------------------------|
| Governmental Activities | | | | | |
| Compensated Absences | \$ 412,446 | \$ - | \$ 49,620 | \$ 362,826 | \$ 214,229 |
| OPEB | 8,527,182 | 274,031 | - | 8,801,213 | - |
| Total Governmental Activities | <u>8,939,628</u> | <u>274,031</u> | <u>49,620</u> | <u>9,164,039</u> | <u>214,229</u> |
| Business-type Activities | | | | | |
| General Obligation Bonds | 12,237,123 | - | 365,403 | 11,871,720 | 384,840 |
| Premium | 1,004,905 | - | 82,881 | 922,024 | - |
| Compensated Absences | 36,173 | - | 12,130 | 24,043 | 14,215 |
| OPEB | 947,464 | 30,448 | - | 977,912 | - |
| Total Business-type Activities | <u>13,278,201</u> | <u>30,448</u> | <u>460,414</u> | <u>12,817,787</u> | <u>399,055</u> |
| Total Primary Government | <u>\$22,217,829</u> | <u>\$ 304,479</u> | <u>\$ 510,034</u> | <u>\$21,981,826</u> | <u>\$ 613,284</u> |

For governmental activities, OPEB and compensated absences are generally liquidated by the general fund.

In 2005, the County of Muskegon began making improvements to the regional sewer treatment facilities. The project was funded with \$17,500,000 bonds issued through the State of Michigan Clean Water Revolving Fund Loan Program. The County operates the system and makes payments on the bonds with user charges to the local units. The Township has pledged its limited tax full faith and credit for the payment of its portion of the debt should user charges collected by the County be insufficient to make the debt payments. The Township's portion of the debt on December 31, 2017 was \$866,841. The Township is unaware of any circumstances that would cause a shortfall in the near future.

The County of Muskegon issued a \$9,215,000 Water Supply System Bond in 2008 to fund improvements to the Northside Water System which includes part of the Township. The Township has pledged its full faith and credit for a portion of the debt should user charges collected by the County be insufficient to make the debt payments. The Township's portion of the debt on December 31, 2017 was \$1,454,121. The Township is unaware of any circumstances that would cause a shortfall in the near future.

The County of Muskegon issued a \$6,550,000 Water Supply System Refunding Bond in 2015 to refund bonds which had been issued to fund improvements to the Northside Water System which includes part of the Township. The Township has pledged its full faith and credit for a portion of the debt should user charges collected by the County be insufficient to make the debt payments. The Township's portion of the debt on December 31, 2017 was \$1,644,500. The Township is unaware of any circumstances that would cause a shortfall in the near future.

Charter Township of Muskegon

Notes to the Financial Statements

In 2015, the County of Muskegon, on behalf of the Township and two other local units, issued \$16,185,000 in Wastewater Management – Number One Bonds of 2015 to refund the outstanding balance of the Wastewater Management – Number One Bonds of 2006. The County refunded the Wastewater Management – Number One Bonds of 2006 to reduce total debt service payments over 22 years by \$1,978,543 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,415,276. The Township’s share of both the savings and debt is 77.75%.

Annual debt service requirements to maturity for debt outstanding as of December 31, 2017 follows:

| Year Ended December 31 | Business-type Activities | |
|-----------------------------------|---------------------------------|---------------------|
| | Principal | Interest |
| 2018 | \$ 384,840 | \$ 570,773 |
| 2019 | 404,276 | 551,531 |
| 2020 | 423,712 | 531,317 |
| 2021 | 450,923 | 510,131 |
| 2022 | 474,247 | 487,585 |
| 2023-2027 | 2,756,073 | 2,062,764 |
| 2028-2032 | 3,475,219 | 1,389,446 |
| 2033-2036 | 3,502,430 | 449,368 |
| | <u>\$ 11,871,720</u> | <u>\$ 6,552,915</u> |

Note 7 - Pension Plans

Defined Contribution Pension Plan

The Township also maintains a defined contribution plan offered by MERS for its full-time employees hired after the defined benefit plan was closed to new participants.

Benefit terms, including contribution requirements, for the MERS defined contribution plan are established and may be amended by the Township Board as determined by negotiated labor contracts. The Township is required to contribute 2 percent of a qualified employees’ annual compensation each year and also match employee contributions for up to an additional 6 percent (maximum Township contribution of 8 percent). Employees are not required to contribute. For the year ended December 31, 2017, Township and employee contributions were \$68,805 and \$53,602, respectively.

Employees are immediately vested in their own contributions and earnings on those contributions and become vested in Township contributions and earnings on Township contributions by 20 percent for each full year of service, leaving employees fully vested after five years of service. Nonvested Township contributions are forfeited upon termination of employment. Such forfeitures

Charter Township of Muskegon

Notes to the Financial Statements

are used to cover a portion of the pension plan's administrative expenses. For the year ended December 31, 2017, there were no forfeitures.

Deferred Compensation Plan

The Township offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time Township employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency. The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

Defined Benefit Pension Plan

Plan Description

The employer's defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. Public Act 427 of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Retirement benefits for employees are calculated as follows:

| <u>Division</u> | <u>Benefit Multiplier</u> | <u>Benefit Maximum</u> | <u>Final Average Compensation (Years)</u> | <u>Normal Retirement Age</u> | <u>Unreduced Benefit (Age/Years of Service)</u> | <u>Reduced Benefit (Age/Years of Service)</u> | <u>Vesting (Years)</u> |
|-----------------------|---------------------------|------------------------|---|------------------------------|---|---|------------------------|
| General - Closed | 2.50% | 80% | 5 | 60 | 50/25 or 55/15 | NA | 10 |
| Police - Closed | 2.50% | 80% | 5 | 60 | 50/25 or 55/15 | NA | 10 |
| Fire - Closed | 2.50% | 80% | 5 | 60 | 50/25 or 55/15 | NA | 10 |
| Clerical DPW - Closed | 2.50% | 80% | 5 | 60 | 50/25 or 55/15 | NA | 10 |

Benefit terms, within the parameters established by MERS, are generally established and amended by authority of the Township, generally after negotiations of these terms with the affected unions. Police and fire employee benefit terms may be subject to binding arbitration in certain circumstances.

Charter Township of Muskegon

Notes to the Financial Statements

Employees Covered by Benefit Terms

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

| | |
|---|-----------|
| Inactive plan members or beneficiaries currently receiving benefits | 40 |
| Inactive plan members entitled to but not yet receiving benefits | 3 |
| Active plan members | <u>40</u> |
| Total employees covered by MERS | <u>83</u> |

Contributions

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS retirement board. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members 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.

For the year ended December 31, 2017, the Township had the following contribution rates:

| <u>Division</u> | <u>Employee Contributions</u> | <u>Employer Contributions</u> |
|-----------------------|-------------------------------|-------------------------------|
| General - Closed | 10.00% | \$ 176,304 |
| Police - Closed | 10.00% | 158,028 |
| Fire - Closed | 10.00% | 127,728 |
| Clerical DPW - Closed | 10.00% | 108,588 |

Net Pension Liability

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

Charter Township of Muskegon

Notes to the Financial Statements

Changes in the net pension liability during the measurement year were as follows:

| Changes in Net Pension Liability | Increase (Decrease) | | |
|---|----------------------------|-------------------|--------------------------|
| | Total Pension Liability | Plan Net Position | Net Pension Liability |
| Balance at December 31, 2015 | \$ 21,125,464 | \$ 13,595,028 | \$ 7,530,436 |
| Service cost | 383,721 | - | 383,721 |
| Interest | 1,666,365 | - | 1,666,365 |
| Contributions - Employer | - | 480,936 | (480,936) |
| Contributions - Employee | - | 238,752 | (238,752) |
| Difference between expected and actual experience | (89,950) | - | (89,950) |
| Changes in Assumptions | - | - | - |
| Net investment income | - | 1,543,703 | (1,543,703) |
| Benefit payments, including refunds | (975,557) | (975,557) | - |
| Administrative expenses | - | (30,467) | 30,467 |
| Net changes | 984,579 | 1,257,367 | (272,788) |
| Balance at December 31, 2016 | \$ 22,110,043 | \$ 14,852,395 | \$ 7,257,648 |

Net pension liabilities are generally liquidated by the general fund within the governmental activities.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2017, the Township recognized pension expense of \$1,267,832. At December 31, 2017, the Township reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| Source | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Net difference between projected and actual earnings on pension plan investments | \$ 507,057 | \$ - |
| Differences in experience | - | 81,636 |
| Differences in assumptions | 339,649 | - |
| Employer contributions to the plan subsequent to the measurement date | 570,649 | - |
| Total | \$ 1,417,355 | \$ 81,636 |

Charter Township of Muskegon

Notes to the Financial Statements

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

| Years Ending December 31, | Amount |
|------------------------------|------------|
| 2018 | \$ 502,179 |
| 2019 | 184,196 |
| 2020 | 172,206 |
| 2021 | (93,511) |

Actuarial Assumptions

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

Inflation: 2.5% (3-4% for 2014)

Salary Increases: base wage inflation of 3.75% in the long-term (plus merit and longevity from 0 to 11% based on age) (4.5 for 2014)

Investment rate of return: 7.75%, net of investment expense, including inflation

Mortality rates used for non-disabled plan member were based on a weighted blend of RP-2014 mortality tables of a 50% Male and 50% Female blend. Mortality rates used for disabled plan member were based on a blend of RP-2014 disabled retire mortality tables of a 50% Male and 50% Female blend of disabled retirees. (1994 group annuity tables is 2014)

The actuarial assumptions used in the valuation were based on the results of the most recent actuarial experience study.

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

Charter Township of Muskegon

Notes to the Financial Statements

The target allocation and best estimates of 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 | Expected Money Weighted Rate of Return |
|----------------------------------|-------------------|--|--|
| Global equity | 57.50% | 6.27% | 3.60% |
| Global fixed income | 20.00% | 3.43% | 0.68% |
| Real assets | 12.50% | 5.48% | 0.69% |
| Diversifying strategies | 10.00% | 7.81% | 0.78% |
| | | | |
| Inflation | | | 2.00% |
| Administrative fee | | | 0.25% |
| Investment rate of return | | | 8.00% |

Discount Rate

The discount rate used to measure the total pension liability is 8.00%. 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 plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

| | 1% Decrease (7.00%) | Current Discount Rate (8.00%) | 1% Increase (9.00%) |
|---------------------------------------|------------------------|-------------------------------------|------------------------|
| Net pension liability of the Township | \$ 10,011,049 | \$ 7,257,648 | \$ 4,949,565 |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued plan financial statements.

Charter Township of Muskegon

Notes to the Financial Statements

Note 8 - Other Postemployment Benefits

Retiree Healthcare Plan

Plan Description

The Township administers a single-employer defined benefit healthcare plan (the “Retiree Healthcare Plan” or “Plan”). The Retiree Healthcare Plan provides health insurance to eligible retirees and their spouses. Act No. 149 of the Public Acts of 1999 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the Retiree Healthcare Plan to the respective employer entities; that authority rests with the Township. The Retiree Healthcare Plan does not issue a publicly available financial report and a legal trust has not been established for the Plan.

Funding Policy

Plan members are not required to contribute to the Plan. The contribution requirements of plan members and the Township are established and may be amended by the Township Board. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the Township.

Benefits Provided

The plan provides medical benefits to retirees who are eligible for the benefits. Eligibility is determined based on tenure at the Township as well as position and classification and is maintained until the employee’s & spouse death (or, if hired after January 1, 2013, the age of 65).

Membership of the Plan consisted of the following at the date of the last actuarial valuation (December 31, 2017):

| | |
|---|-----------|
| Inactive plan members or beneficiaries currently receiving benefits | 50 |
| Inactive plan members entitled to but not yet receiving benefits | 0 |
| Active plan members | <u>47</u> |
| Total employees covered by Plan | <u>97</u> |

Contributions

The Township Retiree Healthcare Plan was established and is being funded under the authority of the Township Board of Trustees and under agreements with the unions representing various classes of employees. The plan’s funding policy is that the employer will contribute any required amounts on a pay-as-you-go basis. This is, contributions will be made to the extent necessary to cover retiree medical costs as they occur. There are no long-term contracts for contributions to the plan. The plan has no legally required reserves.

Charter Township of Muskegon

Notes to the Financial Statements

Methods and Assumptions

The total OPEB liability was determined by an actuarial valuation as of December 31, 2017 and the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|------------------|---|
| Salary increases | 2.50% |
| Discount rate | 3.16% (4.00% in 2016) |
| Mortality | As set forth in IRS Regulations for Non-annuitants, separately for males and females as well as annuitants and non-annuitants. Based on Rp-2000 Tables with Scale AA. |

Discount Rate

The discount rate used to measure the total OPEB liability was 3.16%. The projection of cash flows used to determine the discount rate assumed that Township contributions will be made at rates equal to the most recent recommended contribution expressed as a percentage of covered payroll. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the "depletion date"), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the Total OPEB Liability. December 31, 2017 is the first year of compliance with GASB 74/75. Previously, the discount rate used to calculate liabilities under GASB 43/45 was 4.0%.

Charter Township of Muskegon

Notes to the Financial Statements

Changes in the net OPEB liability during the measurement year were as follows:

| Changes in OPEB Liability | Increase (Decrease) | | |
|--|-------------------------|-------------------|----------------|
| | Total OPEB Liability | Plan Net Position | OPEB Liability |
| Balance at December 31, 2016 | \$ 9,474,645 | \$ - | \$ 9,474,645 |
| Service cost | 220,673 | - | 220,673 |
| Interest | 305,517 | - | 305,517 |
| Differences Between Expected & Actual Experience | - | - | - |
| Changes in Assumptions | - | - | - |
| Change in Plan Terms | - | - | - |
| Contributions - Employer | - | 221,710 | (221,710) |
| Net investment income | - | - | - |
| Benefit payments, including refunds | (221,710) | (221,710) | - |
| Administrative expenses | - | - | - |
| Net changes | 304,480 | - | 304,480 |
| Balance at December 31, 2017 | \$ 9,779,125 | \$ - | \$ 9,779,125 |

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the employer, calculated using the discount rate of 3.16%, as well as what the employer's net OPEB liability would be using a discount rate that is 1 percentage point lower or higher than the current rate:

| | Current Discount | | |
|------------------------------------|------------------|--------------|--------------|
| | 1% Decrease | Rate | 1% Increase |
| Net OPEB liability of the Township | \$ 11,716,926 | \$ 9,779,125 | \$ 8,264,733 |

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the employer, calculated using the healthcare cost trend rate of 8.0% to 5.0% depending on coverage type, as well as what the employer's net OPEB liability would be using a healthcare cost trend rate that is 1 percentage point lower or higher than the current rate:

| | Current Healthcare | | |
|------------------------------------|--------------------|-----------------|---------------|
| | 1% Decrease | Cost Trend Rate | 1% Increase |
| Net OPEB liability of the Township | \$ 8,200,249 | \$ 9,779,125 | \$ 11,803,789 |

Charter Township of Muskegon

Notes to the Financial Statements

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB Plan

For the year ended December 31, 2017 the employer recognized OPEB expense of \$304,480. The Township reported no deferred outflows or inflows of resources related to the OPEB plan.

Note 9 - Other Information

Contingent Liabilities

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

Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters for which the Township carries commercial insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Township manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Self-Insurance Fund (MMWCSIF), a public entity risk pool providing workers' compensation coverage to its participating members. The Township pays an annual premium to MMWCSIF for its workers' compensation coverage. The MMWCSIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally insuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Township carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 10 - Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through June 8, 2018, which is the date the financial statements were available to be issued. During the April 2, 2018 Board of Trustees meeting, the Board approved buying a new sanitation truck for \$336,648 and a new plow truck for \$223,668.

Charter Township of Muskegon

Notes to the Financial Statements

Note 11 - Tax Abatements

The Township received reduced property tax revenues during 2017 as a result of industrial facilities tax exemptions (IFT's) and Tool and Die Recovery Zones ("Recovery Zones").

The IFT's were entered into based upon the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption), PA 198 of 1974, as amended. IFT's provide a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assist in the building of new facilities, and to promote the establishment of high tech facilities. Properties qualifying for IFT status are taxed at 50% of the millage rate applicable to other real and personal property in the Township. The abatements amounted to \$27,703 in reduced Township tax revenues for 2017.

The Recovery Zones were entered into under the Michigan Renaissance Zone Act, PA 376 of 1996 and have a duration of not less than five years and not more than fifteen years as determined by the board of the Michigan Strategic Fund. The recovery zones are intended to offer tax incentives to participants who enhance economic effectiveness utilizing collaborative agreements for specified products and services. Properties qualifying for Recovery Zone status are taxed at 25% of the millage rate applicable to other real and personal property in the Township. The abatements amounted to \$5,216 in reduced Township tax revenues for 2017.

Note 12 - Prior Period Restatements

The financial statements for the year ended December 31, 2016 have been restated. The Township has elected to early-implement GASB Statement No. 75. To implement GASB 75, the balances of debt and net position/fund balance needed to be restated as follows:

| | Governmental Activities | Business-type Activities |
|--|------------------------------------|-------------------------------------|
| Net Position/Fund Balance - December 31, 2016 (As previously reported) | \$ (2,860,377) | \$ 13,392,445 |
| Adjustment to OPEB Valuation | (5,189,222) | (947,464) |
| Net Position/Fund Balance - December 31, 2016 (As restated) | <u>\$ (8,049,599)</u> | <u>\$ 12,444,981</u> |

Additionally, adjustments were made to the debt balances presented for the year ended December 31, 2016 as follows:

| | | |
|---|---------------------|----------------------|
| Long-term Debt - December 31, 2016 (As previously reported) | \$ 3,750,405 | \$ 13,278,201 |
| Adjustment to Beginning Long-term Debt Balance | 5,189,222 | 947,464 |
| Long-term Debt - December 31, 2016 (As restated) | <u>\$ 8,939,627</u> | <u>\$ 14,225,665</u> |

Required Supplementary Information

Charter Township of Muskegon
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended December 31, 2017

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance |
|--|-------------------------|-------------------|---------------------|--|
| | <u>Original</u> | <u>Final</u> | | Positive (Negative) Final to Actual |
| Revenues | | | | |
| Property Taxes | \$ 1,409,837 | \$ 1,469,149 | \$ 1,477,393 | \$ 8,244 |
| Licenses and Permits | 542,100 | 549,100 | 529,644 | (19,456) |
| Intergovernmental | 1,552,000 | 1,646,000 | 1,651,772 | 5,772 |
| Charges for Services | 461,430 | 454,178 | 447,186 | (6,992) |
| Fines and Forfeitures | 6,500 | 6,500 | 6,973 | 473 |
| Interest and Rental | 15,000 | 15,000 | 19,726 | 4,726 |
| Other | 47,700 | 42,700 | 62,284 | 19,584 |
| Total Revenues | <u>4,029,567</u> | <u>4,182,627</u> | <u>4,194,978</u> | <u>12,351</u> |
| Expenditures | | | | |
| General Government | | | | |
| Board of Trustees | 36,592 | 36,592 | 35,953 | 639 |
| Supervisor | 80,963 | 80,963 | 79,845 | 1,118 |
| Elections | 7,680 | 28,192 | 26,455 | 1,737 |
| Assessing | 162,770 | 161,916 | 157,860 | 4,056 |
| Professional Services | 56,000 | 26,790 | 24,782 | 2,008 |
| Clerk | 228,371 | 226,149 | 215,270 | 10,879 |
| Treasurer | 200,958 | 197,858 | 193,693 | 4,165 |
| Township Hall | 75,895 | 88,780 | 83,989 | 4,791 |
| Board of Appeals | 5,744 | 6,464 | 2,388 | 4,076 |
| Total General Government | <u>854,973</u> | <u>853,704</u> | <u>820,235</u> | <u>33,469</u> |
| Public Safety | | | | |
| Inspection Department | 295,400 | 295,400 | 284,744 | 10,656 |
| Public Works | | | | |
| Leaf Collection | 18,518 | 18,518 | 3,542 | 14,976 |
| Community and Economic Development | | | | |
| Planning | 31,952 | 28,317 | 26,102 | 2,215 |
| Zoning | 103,871 | 93,610 | 80,384 | 13,226 |
| Rental Inspections | 132,905 | 163,261 | 160,479 | 2,782 |
| Total Community and Economic Development | <u>268,728</u> | <u>285,188</u> | <u>266,965</u> | <u>18,223</u> |
| Recreation and Culture | | | | |
| Parks and Recreation | 96,769 | 96,769 | 96,647 | 122 |
| Other Governmental Functions | | | | |
| Insurance | 338,000 | 338,000 | 324,872 | 13,128 |
| Retirement | 540,923 | 545,023 | 544,818 | 205 |
| Payroll Benefits | 45,435 | 95,032 | 92,664 | 2,368 |
| Other | 4,125 | 6,025 | 5,277 | 748 |
| Total Other Governmental Functions | <u>928,483</u> | <u>984,080</u> | <u>967,631</u> | <u>16,449</u> |
| Total Expenditures | <u>2,462,871</u> | <u>2,533,659</u> | <u>2,439,764</u> | <u>93,895</u> |
| Other Financing Uses | | | | |
| Transfers Out | 1,955,957 | 1,955,957 | 1,766,809 | 189,148 |
| Total Expenditures and Other Financing Uses | <u>4,418,828</u> | <u>4,489,616</u> | <u>4,206,573</u> | <u>283,043</u> |
| Net Change in Fund Balance | <u>(384,261)</u> | <u>(306,989)</u> | <u>(11,595)</u> | <u>295,394</u> |
| <i>Fund Balance at Beginning of Period</i> | 1,233,394 | 1,233,394 | 1,233,394 | -- |
| Fund Balance at End of Period | <u>\$ 849,133</u> | <u>\$ 926,405</u> | <u>\$ 1,221,799</u> | <u>\$ 295,394</u> |

Charter Township of Muskegon
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Public Safety
For the Year Ended December 31, 2017

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance |
|---|-------------------------|------------------|------------------|--|
| | <u>Original</u> | <u>Final</u> | | Positive (Negative) Final to Actual |
| Revenues | | | | |
| Property Taxes | \$ 1,023,029 | \$ 1,023,029 | \$ 1,004,123 | \$ (18,906) |
| Intergovernmental | 78,912 | 78,912 | 77,265 | (1,647) |
| Charges for Services | 6,100 | 7,620 | 8,600 | 980 |
| Fines and Forfeitures | 15,000 | 15,000 | 13,046 | (1,954) |
| Interest and Rental | -- | -- | 918 | 918 |
| Other | 15,000 | 24,000 | 23,914 | (86) |
| Total Revenues | <u>1,138,041</u> | <u>1,148,561</u> | <u>1,127,866</u> | <u>(20,695)</u> |
| Other Financing Sources | | | | |
| Transfers In | 1,879,001 | 1,879,001 | 1,846,692 | (32,309) |
| Total Revenues and Other Financing Sources | <u>3,017,042</u> | <u>3,027,562</u> | <u>2,974,558</u> | <u>(53,004)</u> |
| Expenditures | | | | |
| Township Hall | -- | 10,520 | 10,520 | -- |
| Police Department | 1,596,315 | 1,596,315 | 1,576,440 | 19,875 |
| Fire Department | 1,358,727 | 1,358,727 | 1,318,025 | 40,702 |
| Capital Outlay | 62,000 | 62,000 | 69,573 | (7,573) |
| Total Expenditures | <u>3,017,042</u> | <u>3,027,562</u> | <u>2,974,558</u> | <u>53,004</u> |
| Net Change in Fund Balance | <u>--</u> | <u>--</u> | <u>--</u> | <u>--</u> |
| <i>Fund Balance at Beginning of Period</i> | 3,294 | 3,294 | 3,294 | -- |
| Fund Balance at End of Period | <u>\$ 3,294</u> | <u>\$ 3,294</u> | <u>\$ 3,294</u> | <u>\$ --</u> |

Charter Township of Muskegon
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios - MERS Pension Plan
Last Three Fiscal Years *

| | 2016 | 2015 | 2014 |
|--|----------------------|----------------------|----------------------|
| Total Pension Liability | | | |
| Service Cost | \$ 383,721 | \$ 378,951 | \$ 372,585 |
| Interest | 1,666,365 | 1,558,449 | 1,480,346 |
| Differences Between Expected & Actual Experience | (89,950) | (65,004) | - |
| Changes in Assumptions | - | 1,018,947 | - |
| Benefit Payments, Including Refunds | (975,557) | (933,370) | (885,473) |
| Net Change in Pension Liability | <u>984,579</u> | <u>1,957,973</u> | <u>967,458</u> |
| <i>Total Pension Liability - Beginning</i> | 21,125,464 | 19,167,491 | 18,200,033 |
| Total Pension Liability - Ending (a) | <u>\$ 22,110,043</u> | <u>\$ 21,125,464</u> | <u>\$ 19,167,491</u> |
| Plan Fiduciary Net Position | | | |
| Contributions - Employer | \$ 480,936 | \$ 402,696 | \$ 375,012 |
| Contributions - Member | 238,752 | 236,590 | 215,262 |
| Net Investment Income | 1,543,703 | (211,091) | 856,532 |
| Benefit Payments, Including Refunds | (975,557) | (933,370) | (885,473) |
| Administrative Expenses | (30,467) | (30,840) | (31,458) |
| Net Change in Plan Fiduciary Net Position | <u>1,257,367</u> | <u>(536,015)</u> | <u>529,875</u> |
| <i>Plan Fiduciary Net Position - Beginning</i> | 13,595,028 | 14,131,043 | 13,601,168 |
| Plan Fiduciary Net Position - Ending (b) | <u>\$ 14,852,395</u> | <u>\$ 13,595,028</u> | <u>\$ 14,131,043</u> |
| Net Pension Liability - Ending (a) - (b) | \$ 7,257,648 | \$ 7,530,436 | \$ 5,036,448 |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 67.17% | 64.35% | 73.72% |
| Covered Employee Payroll | \$ 2,368,116 | \$ 2,365,902 | \$ 2,326,293 |
| Net Pension Liability as a Percentage of Covered Employee Payroll | 306.47% | 318.29% | 216.50% |

* Built prospectively upon implementation on GASB 68

**Charter Township of Muskegon
Required Supplementary Information
Schedule of Contributions - MERS Pension Plan
Last Ten Fiscal Years**

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Actuarially Determined Contribution | \$ 480,936 | \$ 444,692 | \$ 402,696 | \$ 375,012 | \$ 383,471 | \$ 340,936 | \$ 323,061 | \$ 313,921 | \$ 307,745 | \$ 294,419 |
| Contributions in Relation to the Actuarially Determined Contribution | 480,936 | 444,692 | 402,696 | 375,012 | 383,471 | 340,936 | 323,061 | 313,921 | 307,745 | 294,419 |
| Contribution Deficiency (Excess) | <u>\$ -</u> |
| Covered Employee Payroll | 2,368,116 | 2,365,902 | 2,326,293 | 2,326,293 | 2,477,312 | 2,660,739 | 2,633,655 | 2,671,357 | 2,747,478 | 2,804,472 |
| Contributions as a Percentage of Covered Employee Payroll | 20.3% | 18.8% | 17.3% | 16.1% | 15.5% | 12.8% | 12.3% | 11.8% | 11.2% | 10.5% |

Notes

Valuation Date

Actuarially determined contribution amounts are calculated as of December 31 each year, which is two years prior to the beginning of the fiscal year in which the contributions are required.

Methods and assumptions used to determine contribution rates

| | |
|-------------------------------|---|
| Actuarial cost method | Entry-age Normal |
| Amortization method | Level percentage of pay, closed |
| Remaining amortization period | 22 Years |
| Asset valuation method | 10-year smoothed market |
| Inflation | 2.75% |
| Salary increases | 2.50% in the long-term |
| Investment rate of return | 7.75% |
| Retirement Age | Experience-based tables of rates that are specific to the type of eligibility condition |
| Mortality | 50% Male - 50% Female blend of the RP-2014 Group Annuity Mortality Table |

**Build prospectively upon implementation of GASB 68*

**Charter Township of Muskegon
Required Supplementary Information
Schedule of Changes in OPEB Liability and Related Ratios - Retiree Health Care Plan**

| | 2017 |
|---|--------------|
| Total OPEB Liability | |
| Service Cost | \$ 220,673 |
| Interest | 305,517 |
| Benefit Payments, Including Refunds | (221,710) |
| <i>Net Change in Pension Liability</i> | 304,480 |
| <i>Total OPEB Liability - Beginning</i> | 9,474,645 |
| <i>Total OPEB Liability - Ending (a)</i> | \$ 9,779,125 |
| | |
| Plan Fiduciary Net Position | |
| Contributions - Employer | \$ 221,710 |
| Benefit Payments, Including Refunds | (221,710) |
| <i>Net Change in Plan Fiduciary Net Position</i> | - |
| <i>Plan Fiduciary Net Position - Beginning</i> | - |
| <i>Plan Fiduciary Net Position - Ending (b)</i> | \$ - |
| | |
| <i>Net OPEB Liability - Ending (a) - (b)</i> | \$ 9,779,125 |
| | |
| Plan Fiduciary Net Position as a Percentage of Total OPEB Liability | 0.00% |
| | |
| Covered Employee Payroll | \$ 2,368,116 |
| | |
| Net OPEB Liability as a Percentage of Covered Employee Payroll | 412.95% |

**Charter Township of Muskegon
Required Supplementary Information
Schedule of Contributions - Retiree Health Care Plan
Last Two Fiscal Years**

| | 2017 | 2016 |
|--|---------------|---------------|
| Actuarially Determined Contribution | \$ 552,730 | \$ 552,730 |
| Contributions in Relation to the Actuarially Determined Contribution | 221,710 | 209,563 |
| Contribution Deficiency (Excess) | \$ 331,020 | \$ 343,167 |
| Covered Employee Payroll | 2,918,734 | 2,847,545 |
| Contributions as a Percentage of Covered Employee Payroll | 7.6% | 7.4% |

Notes

Valuation Date

Actuarially determined contribution amounts are calculated as of December 31 each year, which is one year prior to the beginning of the fiscal year in which the contributions are required.

Methods and assumptions used to determine contribution rates

| | |
|---------------------------|---|
| Actuarial cost method | Entry-age Normal - Level Percent of P |
| Inflation | 2.75% |
| Salary increases | 2.50% in the long-term |
| Investment rate of return | N/A |
| Retirement Age | Experience-based tables of rates that are specific to the type of eligibility condition |
| Mortality | 50% Male - 50% Female blend of the RP-2014 Group Annuity Mortality Table |

Combining and Individual Fund Statements and Schedules

**Charter Township of Muskegon
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2017**

| | Special Revenue | | | | | | Capital Projects | Total Nonmajor Governmental Funds | |
|--|-------------------|-------------------|-------------------|------------------|---------------------------|---------------------------|----------------------------|---|---------------------|
| | Local Streets | Fire Equipment | Street Lighting | Hydrant | Northside Water System | Southside Water System | Local Water Improvement | | Paving Projects |
| ASSETS | | | | | | | | | |
| Cash and Investments | \$ 397,406 | \$ 610,402 | \$ 400,124 | \$ 77,797 | \$ 143,443 | \$ 38,093 | \$ 233,146 | \$ 23 | \$ 1,900,434 |
| Receivables | | | | | | | | | |
| Property Taxes Receivable | 258,452 | -- | 94,791 | -- | -- | -- | -- | -- | 353,243 |
| Special Assessments Receivable | -- | -- | -- | -- | -- | 38,892 | -- | 50,694 | 89,586 |
| Other Receivables | 44 | 188 | 86 | -- | -- | -- | 31 | -- | 349 |
| Due from Other Governments | -- | 23,485 | -- | -- | -- | -- | 11,090 | -- | 34,575 |
| Total Assets | \$ 655,902 | \$ 634,075 | \$ 495,001 | \$ 77,797 | \$ 143,443 | \$ 76,985 | \$ 244,267 | \$ 50,717 | \$ 2,378,187 |
| LIABILITIES | | | | | | | | | |
| Accounts Payable | \$ 21,357 | \$ 523 | \$ 16,382 | \$ 1,036 | \$ 613 | \$ 17,214 | \$ 116 | \$ -- | \$ 57,241 |
| Accrued Liabilities | 17,421 | -- | -- | -- | -- | 23,198 | 157 | -- | 40,776 |
| Advances from Other Funds | -- | -- | -- | -- | -- | -- | -- | 65,225 | 65,225 |
| Total Liabilities | 38,778 | 523 | 16,382 | 1,036 | 613 | 40,412 | 273 | 65,225 | 163,242 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | | | | |
| Taxes Levied for a Subsequent Period | 517,124 | -- | 189,590 | -- | -- | -- | -- | -- | 706,714 |
| Unavailable Revenues - Special Assessment | -- | -- | -- | -- | -- | 35,801 | -- | 48,907 | 84,708 |
| Total Liabilities and Deferred Inflows of Resources | 555,902 | 523 | 205,972 | 1,036 | 613 | 76,213 | 273 | 114,132 | 954,664 |
| FUND BALANCE | | | | | | | | | |
| Restricted | 100,000 | -- | 289,029 | 76,761 | 142,830 | 772 | 243,994 | -- | 853,386 |
| Committed | -- | 633,552 | -- | -- | -- | -- | -- | -- | 633,552 |
| Unassigned | -- | -- | -- | -- | -- | -- | -- | (63,415) | (63,415) |
| Total Fund Balance | 100,000 | 633,552 | 289,029 | 76,761 | 142,830 | 772 | 243,994 | (63,415) | 1,423,523 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balance | \$ 655,902 | \$ 634,075 | \$ 495,001 | \$ 77,797 | \$ 143,443 | \$ 76,985 | \$ 244,267 | \$ 50,717 | \$ 2,378,187 |

Charter Township of Muskegon
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended December 31, 2017

| | Special Revenue | | | | | | Capital Projects | Total Nonmajor Governmental Funds |
|---|-------------------|-------------------|-------------------|------------------|---------------------------|---------------------------|----------------------------|---|
| | Local Streets | Fire Equipment | Street Lighting | Hydrant | Northside Water System | Southside Water System | Local Water Improvement | |
| Revenues | | | | | | | | |
| Property Taxes | \$ 342,373 | \$ -- | \$ 215,234 | \$ -- | \$ -- | \$ -- | \$ -- | \$ 557,607 |
| Intergovernmental | 75,000 | -- | -- | -- | -- | -- | -- | 75,000 |
| Charges for Services | -- | 330,483 | -- | -- | -- | 18,804 | -- | 349,287 |
| Interest Income | 1,976 | 4,960 | 3,859 | -- | -- | 181 | 838 | 11,820 |
| Other | 78 | -- | 28 | -- | -- | 31,357 | 448 | 46,514 |
| Total Revenues | <u>419,427</u> | <u>335,443</u> | <u>219,121</u> | <u>--</u> | <u>--</u> | <u>31,538</u> | <u>20,090</u> | <u>1,040,228</u> |
| Expenditures | | | | | | | | |
| Public Safety | -- | 30,856 | -- | -- | -- | -- | -- | 30,856 |
| Public Works | 342,544 | -- | 190,812 | 27,577 | 573 | 31,357 | 19,670 | 615,160 |
| Total Expenditures | <u>342,544</u> | <u>30,856</u> | <u>190,812</u> | <u>27,577</u> | <u>573</u> | <u>31,357</u> | <u>19,670</u> | <u>646,016</u> |
| Excess of Revenues Over (Under) Expenditures | 76,883 | 304,587 | 28,309 | (27,577) | (573) | 181 | 420 | 394,212 |
| Other Financing Sources (Uses) | | | | | | | | |
| Transfers In | 23,117 | -- | -- | -- | -- | -- | 15,000 | 38,117 |
| Transfers Out | -- | (118,000) | -- | -- | -- | -- | -- | (118,000) |
| Net Other Financing Sources (Uses) | <u>23,117</u> | <u>(118,000)</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>15,000</u> | <u>(79,883)</u> |
| Net Change in Fund Balance | 100,000 | 186,587 | 28,309 | (27,577) | (573) | 181 | 420 | 314,329 |
| <i>Fund Balance at Beginning of Period</i> | -- | 446,965 | 260,720 | 104,338 | 143,403 | 591 | 243,574 | 1,109,194 |
| Fund Balance at End of Period | \$ 100,000 | \$ 633,552 | \$ 289,029 | \$ 76,761 | \$ 142,830 | \$ 772 | \$ 243,994 | \$ (63,415) |
| | | | | | | | | \$ 1,423,523 |

June 8, 2018

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Muskegon, Michigan for the year ended December 31, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 26, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Township are described in Note 1 to the financial statements. The Township implemented GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* during 2017. Refer to Note 12 to the financial statements for more information on how implementing the new OPEB standard impacted the Township's financial statements as of and during the year ended December 31, 2017. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Township's financial statements was:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the accrued compensated absences and the related pay rates as of December 31, 2017.

- Management’s assumptions used to calculate the actuarial report and the net present value of post-employment benefits, including health and pension benefits.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit’s financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 8, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis and budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining nonmajor fund statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of Trustees and management of the Charter Township of Muskegon and is not intended to be, and should not be, used by anyone other than these specified parties

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in dark ink and is positioned above the printed name of the company.

Gabridge & Company, PLC
Grand Rapids, MI