

Watertown Charter Township,  
Michigan

Year Ended  
December 31,  
2017

Financial  
Statements

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# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

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## INDEPENDENT AUDITORS' REPORT

May 16, 2018

Board of Trustees  
Watertown Charter Township  
Grand Ledge, Michigan

### Report on 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 *Watertown Charter Township, 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.

#### *Independent Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Township'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 Watertown Charter Township as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis, as listed 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 fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the basic financial statements. The 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Management's Discussion and Analysis

As the Board of Watertown Charter Township, Clinton County, Michigan, we offer readers of the Township's financial statements this narrative overview and analysis as an explanation of the financial activities of the Township for the fiscal year ended December 31, 2017.

### Financial Highlights

· Total net position	\$14,622,888
· Change in total net position	97,153
· Fund balances, governmental funds	5,122,746
· Change in fund balances, governmental funds	(8,164)
· Unassigned fund balance, general fund	1,735,202
· Change in fund balance, general fund	(13,690)
· Installment debt outstanding	1,145,000
· Change in installment debt	(400,000)

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements 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 information on all of the Township's assets, liabilities and deferred inflows of resources 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 government'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 in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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 legislative, general government, public safety and health, public works, community and economic development and recreation and culture. The business-type activities of the Township include sanitary sewer and water distribution operations.

**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 evaluating a government's near-term financing requirements.

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Management's Discussion and Analysis

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 three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, which is considered to be a major fund, and for the two nonmajor funds, the Township improvement revolving fund and the cemetery improvement fund, in the aggregate. The general fund is where the Township funds are held to cover budgeted expenditures for the year. In layman terms this is like a household checking account, out of which the township pays for its bills. Within the Township general fund is an account called fund balance. The fund balance is like a savings account, it is where the Township saves for special projects/needs and where unspent budgeted funds are kept for future use.

The Township adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided herein to demonstrate compliance with those budgets.

**Proprietary Funds.** Enterprise funds, the only propriety fund type used by the Township, are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses enterprise funds to account for its sanitary sewer and for water distribution operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements provide separate information for the sanitary sewer and water distribution systems, both of which are considered to be major funds of the Township. Proprietary funds are where the user fees collected on behalf of the township are held for specific purposes. For example, sewer use bills, fire hydrant user fees, special assessments and special fees are used to pay for the sewer system operation, fire hydrants, bond payments for the developments for which they are collected.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Fiduciary funds are all the money's collected by the Township meant for another agency, for example, school taxes, Township taxes, library taxes, escrow accounts.

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

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Watertown Charter Township, assets for all activities exceeded liabilities and deferred inflows of resources by \$14,622,888 at the close of the most recent fiscal year.

Of the Township's net position, \$4,562,395 (31 percent) reflects its investment in capital assets (e.g. land, land improvements, buildings and improvements, equipment, vehicles, and sewage disposal system); less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

## WATERTOWN CHARTER TOWNSHIP, MICHIGAN

### Management's Discussion and Analysis

At the end of the current year, due to conservative fiscal management, the Township is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

The government's net position for all activities increased by \$97,153 during the current fiscal year.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 6,753,216	\$ 6,771,214	\$ 5,284,901	\$ 5,729,054	\$12,038,117	\$12,500,268
Capital assets, net	266,568	237,207	5,023,726	5,240,750	5,290,294	5,477,957
Total assets	<u>7,019,784</u>	<u>7,008,421</u>	<u>10,308,627</u>	<u>10,969,804</u>	<u>17,328,411</u>	<u>17,978,225</u>
Other liabilities	67,387	61,859	104,842	479,698	172,229	541,557
Long-term debt	274,282	329,577	917,718	1,257,598	1,192,000	1,587,175
Total liabilities	<u>341,669</u>	<u>391,436</u>	<u>1,022,560</u>	<u>1,737,296</u>	<u>1,364,229</u>	<u>2,128,732</u>
Total deferred inflows of resources	<u>1,341,294</u>	<u>1,323,758</u>	-	-	<u>1,341,294</u>	<u>1,323,758</u>
Net position:						
Net Investment in capital assets	266,568	237,207	4,295,827	4,287,308	4,562,395	4,524,515
Restricted	210,017	436,026	1,075,775	1,272,964	1,285,792	1,708,990
Unrestricted	4,860,236	4,619,994	3,914,465	3,672,236	8,774,701	8,292,230
Total net position	<u>\$ 5,336,821</u>	<u>\$ 5,293,227</u>	<u>\$ 9,286,067</u>	<u>\$ 9,232,508</u>	<u>\$14,622,888</u>	<u>\$14,525,735</u>

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Management's Discussion and Analysis

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Program revenues -						
Charges for services	\$ 355,609	\$ 288,020	\$ 752,967	\$ 694,538	\$ 1,108,576	\$ 982,558
General revenues:						
Property taxes	1,317,149	1,285,096	-	-	1,317,149	1,285,096
Other	635,092	621,711	51,386	95,500	686,478	717,211
Total revenues	<u>2,307,850</u>	<u>2,194,827</u>	<u>804,353</u>	<u>1,329,301</u>	<u>3,112,203</u>	<u>3,524,128</u>
Expenses:						
Legislative	32,051	36,657	-	-	32,051	36,657
General government	1,061,307	1,042,039	-	-	1,061,307	1,042,039
Public safety and health	543,735	478,083	-	-	543,735	478,083
Public works	416,611	592,732	-	-	416,611	592,732
Community and economic development	123,464	115,605	-	-	123,464	115,605
Recreation and culture	47,643	9,790	-	-	47,643	9,790
Interest on long-term debt	9,445	13,167	-	-	9,445	13,167
Sewage disposal	-	-	675,887	622,118	675,887	622,118
Water extension	-	-	104,907	105,832	104,907	105,832
Total expenses	<u>2,234,256</u>	<u>2,288,073</u>	<u>780,794</u>	<u>727,950</u>	<u>3,015,050</u>	<u>3,016,023</u>
Change in net position, before transfers	73,594	(93,246)	23,559	601,351	97,153	508,105
Transfers	(30,000)	(40,000)	30,000	40,000	-	-
Change in net position	<u>43,594</u>	<u>(133,246)</u>	<u>53,559</u>	<u>641,351</u>	<u>97,153</u>	<u>508,105</u>
Net position:						
Beginning of year	5,293,227	5,426,473	9,232,508	8,591,157	14,525,735	14,017,630
End of year	<u>\$ 5,336,821</u>	<u>\$ 5,293,227</u>	<u>\$ 9,286,067</u>	<u>\$ 9,232,508</u>	<u>\$14,622,888</u>	<u>\$14,525,735</u>

**Governmental Activities.** The net position of the governmental activities increased by \$43,594. This is due to a slight increase in state revenue sharing and a conservative fiscal spending approach by department heads.

**Business-type Activities.** The net position of the business-type activities increased by \$53,559. This is primarily due to the increase in sewer connections. Operating expenses were relatively stable compared to the prior year.

### Financial Analysis of the Township's 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 spending at the end of the fiscal year.

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Management's Discussion and Analysis

As of the end of 2017, the Township's governmental funds reported combined ending fund balances of \$5,122,746, a decrease of \$8,164 in comparison with the prior year. Approximately 33 percent of this total amount, or \$1,735,202, constitutes unassigned fund balance, which is an adequate amount to keep the Township operating in the case of unforeseen emergencies. The nonspendable portion of the fund balance, \$13,687, represents amounts prepaid for 2018 expenses in 2017. The restricted portion of the governmental fund balance, \$218,228, is special assessments payments received for future bond payments. The assigned amount of \$885,598 is for Township Hall improvements. The remainder of the fund balance, \$2,270,031, is committed and acts as the Township's savings account for specific needs and projects.

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 \$1,735,202 while total fund balance was \$4,832,536. The fund balance of the Township's general fund decreased by a total \$13,690 during the current fiscal year. The decrease in fund balance is directly related to the automatic millage reduction caused by the Headlee Amendment.

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

Unrestricted net position of the sewer fund and water extension funds at the end of the year amounted to \$3,308,277 and \$606,188, respectively. The sewer fund had a decrease for the year of \$7,772 and the water fund had an increase for the year of \$61,331, in total net position.

### General Fund Budgetary Highlights

Differences between the original and final amended budgets were caused by construction costs being higher than anticipated. This led to increased building, electrical, mechanical, and plumbing inspection fees owed to inspectors. The Board also made several supplemental budgetary appropriations throughout the year which were not considered material.

### Capital Asset and Debt Administration

Capital Assets. The Township's investment in capital assets for its governmental and business-type activities as of December 31, 2017, amounted to \$5,290,294 (net of accumulated depreciation). Capital assets balances for the current year and the previous year ended December 31 were as follows:

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 93,846	\$ 93,846	\$ 82,887	\$ 82,887	\$ 176,733	\$ 176,733
Land improvements	82,702	85,286	-	-	82,702	85,286
Buildings and improvements	76,411	45,931	-	-	76,411	45,931
Equipment	13,609	12,144	-	-	13,609	12,144
Sewage disposal system	-	-	4,940,839	5,157,863	4,940,839	5,157,863
<b>Total capital assets, net</b>	<b>\$ 266,568</b>	<b>\$ 237,207</b>	<b>\$ 5,023,726</b>	<b>\$ 5,240,750</b>	<b>\$ 5,290,294</b>	<b>\$ 5,477,957</b>

The decrease in the Township's investment in capital assets for the current fiscal year of \$187,663 resulted primarily from depreciation expense exceeding capital asset additions. Additional information on capital assets can be found in the notes to the financial statements.

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Management's Discussion and Analysis

Long-term Debt. At the end of the current fiscal year, the Township had total bonded debt outstanding of \$1,145,000. The entire debt is backed by the full faith and credit of the Township. Special assessment revenue is being collected to pay these bonds. Outstanding balances for the current year and the previous year ended December 31 were as follows:

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Special assessment bonds	\$ 230,000	\$ 290,000	\$ 735,000	\$ 1,015,000	\$ 965,000	\$ 1,305,000
Sewage disposal system bonds	-	-	180,000	240,000	180,000	240,000
<b>Total bonded debt outstanding</b>	<b>\$ 230,000</b>	<b>\$ 290,000</b>	<b>\$ 915,000</b>	<b>\$ 1,255,000</b>	<b>\$ 1,145,000</b>	<b>\$ 1,545,000</b>

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total assessed valuation. Additional information on long-term debt outstanding can be found in the notes to the financial statements.

### Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the Township's budget for the 2018 fiscal year:

- The uncertainty of State revenue sharing.
- Department managers operating with a conservative and fiscally responsible budget approach.
- An increase in costs for the fire and ambulance services.
- Sewer infrastructure improvements.
- The Board of Trustees has passed a conservative balanced budget for 2018.

### Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information are welcomed and should be addressed to the Township Manager, Watertown Charter Township, 12803 S. Wacousta Road, Grand Ledge, Michigan 48837, email: JTubbs@watertowntownship.com.

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## BASIC FINANCIAL STATEMENTS

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# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Statement of Net Position

December 31, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 4,117,476	\$ 1,532,350	\$ 5,649,826
Restricted cash and cash equivalents	20,814	176,692	197,506
Investments	1,372,750	1,213,658	2,586,408
Restricted investments	197,414	446,787	644,201
Receivables	990,955	703,155	1,694,110
Prepaid items	13,687	-	13,687
Assets held for resale	40,120	-	40,120
Investment in joint venture	-	1,212,259	1,212,259
Capital assets not being depreciated	93,846	82,887	176,733
Capital assets being depreciated, net	172,722	4,940,839	5,113,561
<b>Total assets</b>	<b>7,019,784</b>	<b>10,308,627</b>	<b>17,328,411</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	67,387	104,842	172,229
Long-term debt:			
Due within one year	73,285	334,885	408,170
Due in more than one year	200,997	582,833	783,830
<b>Total liabilities</b>	<b>341,669</b>	<b>1,022,560</b>	<b>1,364,229</b>
<b>Deferred inflows of resources</b>			
Taxes levied but intended for subsequent periods	1,341,294	-	1,341,294
<b>Net position</b>			
Net investment in capital assets	266,568	4,295,827	4,562,395
Restricted for debt service	210,017	1,075,775	1,285,792
Unrestricted	4,860,236	3,914,465	8,774,701
<b>Total net position</b>	<b>\$ 5,336,821</b>	<b>\$ 9,286,067</b>	<b>\$ 14,622,888</b>

The accompanying notes are an integral part of these financial statements.

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Statement of Activities

For the Year Ended December 31, 2017

Functions / Programs	Expenses	Program Revenues	Net (Expense) Revenues
		Charges for Services	
<b>Primary government</b>			
Governmental activities:			
Legislative	\$ 32,051	\$ -	\$ (32,051)
General government	1,061,307	55,916	(1,005,391)
Public safety and health	543,735	14,600	(529,135)
Public works	416,611	-	(416,611)
Community and economic development	123,464	279,205	155,741
Recreation and culture	47,643	5,888	(41,755)
Interest on long-term debt	9,445	-	(9,445)
Total governmental activities	<u>2,234,256</u>	<u>355,609</u>	<u>(1,878,647)</u>
Business-type activities:			
Sewage disposal	675,887	594,628	(81,259)
Water extension	104,907	158,339	53,432
Total business-type activities	<u>780,794</u>	<u>752,967</u>	<u>(27,827)</u>
Total primary government	<u>\$ 3,015,050</u>	<u>\$ 1,108,576</u>	<u>\$ (1,906,474)</u>

continued...

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Statement of Activities

For the Year Ended December 31, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net position			
Net expenses	\$ (1,878,647)	\$ (27,827)	\$ (1,906,474)
General revenues:			
Property taxes	1,317,149	-	1,317,149
Grants and contributions not restricted to specific programs	429,286	-	429,286
Other unrestricted revenues	159,399	-	159,399
Unrestricted investment earnings	46,407	50,300	96,707
Gain on investment in joint venture	-	1,086	1,086
Transfers - internal activities	(30,000)	30,000	-
Total general revenues and transfers	1,922,241	81,386	2,003,627
Change in net position	43,594	53,559	97,153
Net position, beginning of year	5,293,227	9,232,508	14,525,735
Net position, end of year	\$ 5,336,821	\$ 9,286,067	\$ 14,622,888

concluded.

The accompanying notes are an integral part of these financial statements.

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Balance Sheet

Governmental Funds

December 31, 2017

	General	Nonmajor Funds	Totals
<b>Assets</b>			
Cash and cash equivalents	\$ 3,867,972	\$ 249,504	\$ 4,117,476
Restricted cash and cash equivalents	20,814	-	20,814
Investments	1,332,044	40,706	1,372,750
Restricted investments	197,414	-	197,414
Accounts receivable	61,419	-	61,419
Taxes receivable	605,025	-	605,025
Special assessments receivable	193,264	-	193,264
Due from other governments	131,247	-	131,247
Assets held for resale	40,120	-	40,120
Prepaid items	13,687	-	13,687
<b>Total assets</b>	<b>\$ 6,463,006</b>	<b>\$ 290,210</b>	<b>\$ 6,753,216</b>
<b>Liabilities</b>			
Accounts payable	\$ 38,236	\$ -	\$ 38,236
Accrued wages	22,529	-	22,529
Other liabilities	2,703	-	2,703
<b>Total liabilities</b>	<b>63,468</b>	<b>-</b>	<b>63,468</b>
<b>Deferred inflows of resources</b>			
Taxes levied but intended for subsequent period	1,341,294	-	1,341,294
Unavailable revenue	15,130	-	15,130
Unavailable assets held for resale	40,120	-	40,120
Unavailable special assessments receivable	170,458	-	170,458
<b>Total deferred inflows of resources</b>	<b>1,567,002</b>	<b>-</b>	<b>1,567,002</b>
<b>Fund balances</b>			
Nonspendable	13,687	-	13,687
Restricted	218,228	-	218,228
Committed	1,979,821	290,210	2,270,031
Assigned	885,598	-	885,598
Unassigned	1,735,202	-	1,735,202
<b>Total fund balances</b>	<b>4,832,536</b>	<b>290,210</b>	<b>5,122,746</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 6,463,006</b>	<b>\$ 290,210</b>	<b>\$ 6,753,216</b>

The accompanying notes are an integral part of these financial statements.

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Reconciliation

Fund Balances of Governmental Funds  
to Net Position of Governmental Activities  
December 31, 2017

Fund balances - total governmental funds	\$ 5,122,746
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.	
Capital assets not being depreciated	93,846
Capital assets being depreciated, net	172,722
The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows of resources in the governmental funds, and thus are not included in fund balance.	
Unavailable revenue	15,130
Unavailable assets held for resale	40,120
Unavailable long-term special assessments receivable	170,458
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Bonds payable	(230,000)
Accrued interest on long-term debt	(3,919)
Compensated absences	(44,282)
Net position of governmental activities	<u>\$ 5,336,821</u>

The accompanying notes are an integral part of these financial statements.

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2017

	General	Nonmajor Funds	Totals
<b>Revenues</b>			
Taxes	\$ 1,317,149	\$ -	\$ 1,317,149
Special assessments	70,950	-	70,950
Licenses and permits	421,597	-	421,597
State revenue	427,112	-	427,112
Charges for services	25,630	7,080	32,710
Interest	46,407	3,746	50,153
Rentals	11,255	-	11,255
Contributions and donations	2,174	-	2,174
Other	10,037	-	10,037
<b>Total revenues</b>	<b>2,332,311</b>	<b>10,826</b>	<b>2,343,137</b>
<b>Expenditures</b>			
Current:			
Legislative	32,051	-	32,051
General government	1,025,365	-	1,025,365
Public safety and health	316,525	-	316,525
Public works	462,382	-	462,382
Community and economic development	350,674	-	350,674
Recreation and culture	4,702	-	4,702
Capital outlay	57,468	300	57,768
Debt service:			
Principal	60,000	-	60,000
Interest	11,834	-	11,834
<b>Total expenditures</b>	<b>2,321,001</b>	<b>300</b>	<b>2,321,301</b>
<b>Revenues over expenditures</b>	<b>11,310</b>	<b>10,526</b>	<b>21,836</b>
<b>Other financing sources (uses)</b>			
Transfers in	5,000	-	5,000
Transfers out	(30,000)	(5,000)	(35,000)
<b>Total other financing uses</b>	<b>(25,000)</b>	<b>(5,000)</b>	<b>(30,000)</b>
<b>Net change in fund balances</b>	<b>(13,690)</b>	<b>5,526</b>	<b>(8,164)</b>
<b>Fund balances, beginning of year</b>	<b>4,846,226</b>	<b>284,684</b>	<b>5,130,910</b>
<b>Fund balances, end of year</b>	<b>\$ 4,832,536</b>	<b>\$ 290,210</b>	<b>\$ 5,122,746</b>

The accompanying notes are an integral part of these financial statements.

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
For the Year Ended December 31, 2017

Net change in fund balances - total governmental funds	\$ (8,164)
Amounts reported for <i>governmental activities</i> in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital assets purchased	45,771
Depreciation expense	(16,410)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.	
Net change in unavailable special assessments receivable	(50,417)
Net change in unavailable revenue	15,130
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the statement of net position.	
Principal payments on long-term debt	60,000
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 governmental funds.	
Change in accrued interest on long-term debt	2,389
Change in the accrual for compensated absences	(4,705)
Change in net position of governmental activities	<u>\$ 43,594</u>

The accompanying notes are an integral part of these financial statements.

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - General Fund For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
<b>Revenues</b>				
Taxes	\$ 1,314,003	\$ 1,314,003	\$ 1,317,149	\$ 3,146
Special assessments	67,943	67,943	70,950	3,007
Licenses and permits:				
Landfill	18,000	18,000	18,000	-
Planning, zoning and building	80,720	257,720	279,205	21,485
Franchise fees	83,000	83,000	124,392	41,392
State revenue	371,991	371,991	427,112	55,121
Charges for services:				
Fire runs	5,000	5,000	495	(4,505)
Cemetery	10,000	10,000	16,960	6,960
Parks and recreation	1,500	1,500	578	(922)
Other	6,000	6,000	7,597	1,597
Interest	33,704	33,704	46,407	12,703
Rentals:				
Parks	5,000	5,000	4,755	(245)
Other	7,800	7,800	6,500	(1,300)
Contributions and donations -				
G.L.I.T.	1,800	1,800	2,174	374
Other	9,516	9,516	10,037	521
<b>Total revenues</b>	<b>2,015,977</b>	<b>2,192,977</b>	<b>2,332,311</b>	<b>139,334</b>
<b>Expenditures</b>				
Legislative -				
Township board	51,338	51,338	32,051	(19,287)
General government:				
Supervisor	33,055	33,055	31,578	(1,477)
Elections	5,800	5,800	169	(5,631)
Assessor	70,600	70,600	69,140	(1,460)
Attorney	20,000	20,000	3,759	(16,241)
Clerk	77,771	77,771	75,641	(2,130)
Board of review	2,403	2,403	1,084	(1,319)
Treasurer	85,486	85,486	83,504	(1,982)
General services administration	488,352	488,352	456,875	(31,477)
Buildings and grounds	155,321	155,321	149,656	(5,665)
Other property	136,862	136,862	112,153	(24,709)
Cemetery	13,572	13,572	11,266	(2,306)
Insurance	28,800	30,700	30,351	(349)
Refunds and rebates	10,060	10,060	189	(9,871)
<b>Total general government</b>	<b>1,128,082</b>	<b>1,129,982</b>	<b>1,025,365</b>	<b>(104,617)</b>

continued...

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - General Fund For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
<b>Expenditures (continued)</b>				
Public safety and health:				
Public safety and health	\$ 381,200	\$ 381,200	\$ 315,826	\$ (65,374)
Building inspection	216	816	699	(117)
Total public safety and health	<u>381,416</u>	<u>382,016</u>	<u>316,525</u>	<u>(65,491)</u>
Public works:				
Drains at large	23,000	23,000	21,546	(1,454)
Highways, streets, and bridges	300,354	415,354	414,991	(363)
Street lighting	24,644	27,294	25,845	(1,449)
Total public works	<u>347,998</u>	<u>465,648</u>	<u>462,382</u>	<u>(3,266)</u>
Community and economic development -				
Planning and zoning	<u>194,719</u>	<u>371,719</u>	<u>350,674</u>	<u>(21,045)</u>
Recreation and culture -				
Parks and recreation	<u>7,025</u>	<u>7,025</u>	<u>4,702</u>	<u>(2,323)</u>
Capital outlay	<u>21,500</u>	<u>66,500</u>	<u>57,468</u>	<u>(9,032)</u>
Debt service:				
Principal	60,000	60,000	60,000	-
Interest	11,834	11,834	11,834	-
Total debt service	<u>71,834</u>	<u>71,834</u>	<u>71,834</u>	<u>-</u>
Total expenditures	<u>2,203,912</u>	<u>2,546,062</u>	<u>2,321,001</u>	<u>(225,061)</u>
Revenues over (under) expenditures	<u>(187,935)</u>	<u>(353,085)</u>	<u>11,310</u>	<u>364,395</u>
Other financing sources (uses)				
Transfers in	51,500	51,500	5,000	(46,500)
Transfers out	<u>(30,000)</u>	<u>(30,000)</u>	<u>(30,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>21,500</u>	<u>21,500</u>	<u>(25,000)</u>	<u>(46,500)</u>
Net change in fund balance	(166,435)	(331,585)	(13,690)	317,895
Fund balance, beginning of year	<u>4,846,226</u>	<u>4,846,226</u>	<u>4,846,226</u>	<u>-</u>
Fund balance, end of year	<u>\$ 4,679,791</u>	<u>\$ 4,514,641</u>	<u>\$ 4,832,536</u>	<u>\$ 317,895</u>

concluded.

The accompanying notes are an integral part of these financial statements.

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Statement of Net Position

Proprietary Funds

December 31, 2017

	Sewage Disposal	Water Extension	Totals
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 1,281,495	\$ 250,855	\$ 1,532,350
Restricted cash and cash equivalents	163,984	12,708	176,692
Investments	742,332	471,326	1,213,658
Restricted investments	396,441	50,346	446,787
Accounts receivable	34,977	-	34,977
Interest receivable	37,214	9,611	46,825
Current portion of special assessments receivable	173,988	68,282	242,270
<b>Total current assets</b>	<b>2,830,431</b>	<b>863,128</b>	<b>3,693,559</b>
Noncurrent assets:			
Special assessments receivable, net of current portion	353,671	25,412	379,083
Investment in joint venture	1,212,259	-	1,212,259
Capital assets not being depreciated	82,887	-	82,887
Capital assets being depreciated, net	4,940,839	-	4,940,839
<b>Total noncurrent assets</b>	<b>6,589,656</b>	<b>25,412</b>	<b>6,615,068</b>
<b>Total assets</b>	<b>9,420,087</b>	<b>888,540</b>	<b>10,308,627</b>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	-	89,226	89,226
Accrued interest payable	12,309	3,307	15,616
Current portion of bonds payable	220,548	114,337	334,885
<b>Total current liabilities</b>	<b>232,857</b>	<b>206,870</b>	<b>439,727</b>
Long-term debt -			
Bonds payable, net of current portion	507,351	75,482	582,833
<b>Total liabilities</b>	<b>740,208</b>	<b>282,352</b>	<b>1,022,560</b>
<b>Net position</b>			
Net investment in capital assets	4,295,827	-	4,295,827
Restricted for debt service	1,075,775	-	1,075,775
Unrestricted	3,308,277	606,188	3,914,465
<b>Total net position</b>	<b>\$ 8,679,879</b>	<b>\$ 606,188</b>	<b>\$ 9,286,067</b>

The accompanying notes are an integral part of these financial statements.

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended December 31, 2017

	Sewage Disposal	Water Extension	Totals
Operating revenues			
User fee charges	\$ 487,528	\$ 96,739	\$ 584,267
Hook-up fees and permits	107,100	61,600	168,700
Total operating revenues	<u>594,628</u>	<u>158,339</u>	<u>752,967</u>
Operating expenses			
General administration	56,411	57	56,468
Sewage plant administration	340,261	-	340,261
Developments	25,735	-	25,735
Other operating costs	-	93,065	93,065
Depreciation	217,024	-	217,024
Total operating expenses	<u>639,431</u>	<u>93,122</u>	<u>732,553</u>
Operating income (loss)	<u>(44,803)</u>	<u>65,217</u>	<u>20,414</u>
Nonoperating revenues (expenses)			
Interest income	42,401	7,899	50,300
Interest expense	(36,456)	(11,785)	(48,241)
Gain on investment in joint venture	1,086	-	1,086
Total nonoperating revenues (expenses)	<u>7,031</u>	<u>(3,886)</u>	<u>3,145</u>
Income (loss) before transfers	<u>(37,772)</u>	<u>61,331</u>	<u>23,559</u>
Transfers in	<u>30,000</u>	<u>-</u>	<u>30,000</u>
Change in net position	<u>(7,772)</u>	<u>61,331</u>	<u>53,559</u>
Net position, beginning of year	<u>8,687,651</u>	<u>544,857</u>	<u>9,232,508</u>
Net position, end of year	<u>\$ 8,679,879</u>	<u>\$ 606,188</u>	<u>\$ 9,286,067</u>

The accompanying notes are an integral part of these financial statements.

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2017

	Sewage Disposal	Water Extension	Totals
Cash flows from operating activities			
Cash received from customers	\$ 913,609	\$ 158,339	\$ 1,071,948
Cash payments to suppliers for goods and services	(791,942)	(92,562)	(884,504)
Net cash provided by operating activities	<u>121,667</u>	<u>65,777</u>	<u>187,444</u>
Cash flows from noncapital financing activities			
Transfers in	<u>30,000</u>	<u>-</u>	<u>30,000</u>
Cash flows from capital and related financing activities			
Payments received on special assessments	179,486	70,175	249,661
Principal payments	(225,000)	(115,000)	(340,000)
Interest payments	(40,818)	(13,184)	(54,002)
Net cash used in capital and related financing activities	<u>(86,332)</u>	<u>(58,009)</u>	<u>(144,341)</u>
Cash flows from investing activities			
Proceeds from sale of investments	255,233	8,928	264,161
Interest received	52,022	11,414	63,436
Net cash provided by investing activities	<u>307,255</u>	<u>20,342</u>	<u>327,597</u>
Net change in cash and cash equivalents	372,590	28,110	400,700
Cash and cash equivalents, beginning of year	<u>1,072,889</u>	<u>235,453</u>	<u>1,308,342</u>
Cash and cash equivalents, end of year	<u>\$ 1,445,479</u>	<u>\$ 263,563</u>	<u>\$ 1,709,042</u>
Reconciliation to the Statement of Net Position			
Cash and cash equivalents	\$ 1,281,495	\$ 250,855	\$ 1,532,350
Restricted cash and cash equivalents	<u>163,984</u>	<u>12,708</u>	<u>176,692</u>
	<u>\$ 1,445,479</u>	<u>\$ 263,563</u>	<u>\$ 1,709,042</u>

continued...

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2017

	Sewage Disposal	Water Extension	Totals
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ (44,803)	\$ 65,217	\$ 20,414
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	217,024	-	217,024
Change in operating assets and liabilities:			
Accounts receivable	(27,861)	-	(27,861)
Due from other governments	346,842	-	346,842
Accounts payable	(369,535)	560	(368,975)
Net cash provided by operating activities	<u>\$ 121,667</u>	<u>\$ 65,777</u>	<u>\$ 187,444</u>

concluded.

The accompanying notes are an integral part of these financial statements.

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Statement of Fiduciary Assets and Liabilities

Agency Fund  
December 31, 2017

### Assets

Cash and cash equivalents	\$ 853,165
Investments	<u>1,502,824</u>

### Total assets

\$ 2,355,989

### Liabilities

Current tax distributions and deposits payable	<u>\$ 2,355,989</u>
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The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Notes To Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

Watertown Charter Township, Michigan is a municipal corporation governed by an elected supervisor and a seven-member board. The Township has determined that no entities should be consolidated into the financial statements as component units. The criteria for including a component unit include significant operational or financial relationships with the government.

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

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

#### *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Notes To Financial Statements

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

The Township reports the following major governmental fund -

The *general fund* is the government's primary operating fund. It accounts for all the financial resources of the general government, except those accounted for and reported in another fund.

The Township reports the following major proprietary funds:

The *sewage disposal fund* accounts for the activities of the government's sewage disposal system.

The *water extension fund* accounts for the debt payments of the government's water distribution system.

Additionally, the Township reports the following fund types:

*Capital projects funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

*Agency funds* are custodial in nature and do not present results of operations or have a measurement focus. These funds are used to account for assets that the government holds for others in an agency capacity (such as taxes collected for other governments).

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

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

Restricted net position includes assets that are subject to restrictions beyond the government's control. The restrictions may be externally imposed or imposed by law. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Notes To Financial Statements

### Assets, Liabilities, Deferred Inflows of Resources, and Equity

#### *Deposits and Investments*

The government'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.

State statutes and Township policy authorize the Township to invest in:

Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.

Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.

Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

Bankers' acceptances of United States banks.

Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.

Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

#### *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

#### *Prepaid Items*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items when purchased in both government-wide and fund financial statements.

#### *Capital Assets*

Capital assets, which include land, land improvements, buildings and improvements, equipment, vehicles, and the sewer system, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated acquisition cost as of the date of donation.

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Notes To Financial Statements

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the asset constructed.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	Years
Land improvements	15-40
Buildings and improvements	15-40
Sewage disposal system	34-40
Equipment	3-10
Vehicles	5-10

### *Compensated Absences*

It is the government’s policy to permit eligible employees to accumulate earned but unused vacation and sick pay benefits. Union employees are allowed to accumulate an unlimited amount of sick leave and non-union employees are allowed to accumulate 480 hours of sick leave, which is paid only upon illness while in the employ of the Township or at a rate of 50% upon termination of employment. Union employees are allowed to accumulate five days of vacation time and non-union employees are allowed to accumulate up to twenty days of vacation time. Employees are only paid for unused vacation at the time of termination. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

### *Long-term Obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Notes To Financial Statements

### *Deferred Inflows of Resources*

In addition to liabilities, the statement of net position 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 that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time. The governmental funds report unavailable revenues, which arises only under a modified accrual basis of accounting, from special assessments receivable, accounts receivable, and assets held for resale. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In addition, deferred inflows of resources are reported in the government-wide and governmental fund financial statements for property taxes levied during the year that were intended to finance future periods.

### *Fund Equity*

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance* is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Trustees (the government's highest level of decision-making authority). A motion by the Board of Trustees is required to establish, modify, or rescind a fund balance commitment. The Township reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Trustees will assign any fund balance amounts. *Unassigned fund balance* is the residual classification for the general fund.

When the government incurs an expenditure for purposes for which various fund balance classifications can be used, it is the government's policy to use restricted fund balance first, then committed fund balance, assigned fund balance (if applicable), and finally unassigned fund balance.

### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates. The Township utilizes various investment instruments which are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

## 2. BUDGETARY INFORMATION

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end.

The budget for the general fund is adopted at the department level. The government does not utilize encumbrance accounting.

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Notes To Financial Statements

### 3. EXCESS OF EXPENDITURES OVER BUDGET

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. For the year ended December 31, 2017, there were no expenditures in excess of appropriations.

### 4. DEPOSITS AND INVESTMENTS

A reconciliation of cash and investments as shown on the Statement of Net Position and Statement of Fiduciary Assets and Liabilities to deposits and investments as classified for note disclosure purposes is as follows:

#### Statement of Net Position

Cash and cash equivalents	\$ 5,649,826
Restricted cash and cash equivalents	197,506
Investments	2,586,408
Restricted investments	644,201

#### Statement of Fiduciary Assets and Liabilities

Cash and cash equivalents	853,165
Investments	<u>1,502,824</u>

Total \$ 11,433,930

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

#### Deposits and investments

##### Bank deposits:

Checking and savings accounts	\$ 2,864,925
Certificates of deposit	3,835,172
Investments	4,733,433
Cash on hand	<u>400</u>

Total \$ 11,433,930

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may 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, \$2,746,971 of the Township's bank balance of \$6,689,742 was exposed to custodial credit risk because it was uninsured and uncollateralized.

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Notes To Financial Statements

The Township chooses to disclose its investments by specifically identifying each. As of year end, the Township had the following investments:

	Fair Value	Credit Rating	Maturity
Money market accounts	\$ 3,352,227	N/A	N/A
Commercial paper	200,000	A-1 S&P	<1 year
U.S. agencies:			
Federal Home Loan Mortgage Corporation	396,928	AA+ S&P	1-5 years
Federal Home Loan Bank	298,293	AA+ S&P	<1 year
Federal Home Loan Bank	122,705	AA+ S&P	1-5 years
Federal National Mortgage Association	<u>363,280</u>	AA+ S&P	1-5 years
<b>Total</b>	<u>\$ 4,733,433</u>		

*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. State law does not require and the Township does not have a policy for investment custodial credit risk. None of the Township's investments were exposed to custodial credit risk at year end.

*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 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, have been identified above for the Township's investments.

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the 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. Maturities of investments, where applicable, have been identified above for the Township's investments.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the accounting policies. The Township's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

*Fair Value.* 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. These levels are determined by the Township's investment manager, and are determined at the fund level based on a review of the investment's class, structure, and what kind of securities are held in the funds. The investment manager will request the information from the fund manager, if necessary.

The Township's recurring fair value measurements as of December 31, 2017 were related to its investments in government agency funds, commercial paper and money market accounts. These investments are valued using significant other observable inputs of the underlying securities and bonds (Level 2 inputs).

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Notes To Financial Statements

### 5. RECEIVABLES

Receivables are comprised of the following at year-end:

	General Fund / Governmental Activities	Amounts Not Expected to be Collected Within One Year
Accounts	\$ 61,419	\$ -
Taxes	605,025	-
Special assessments	193,264	120,041
Due from other governments	131,247	-
	<u>\$ 990,955</u>	<u>\$ 120,041</u>

	Sewage Disposal Enterprise Fund	Water Extension Enterprise Fund	Total Business-type Activities	Amounts Not Expected to be Collected Within One Year
Accounts	\$ 34,977	\$ -	\$ 34,977	\$ -
Interest	37,214	9,611	46,825	-
Special assessments	527,659	93,694	621,353	379,083
	<u>\$ 599,850</u>	<u>\$ 103,305</u>	<u>\$ 703,155</u>	<u>\$ 379,083</u>

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Notes To Financial Statements

### 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Payables are comprised of the following at year-end:

	General Fund	Government-Wide Statements	Total Governmental Activities
Accounts	\$ 38,236	\$ -	\$ 38,236
Accrued wages	22,529	-	22,529
Other liabilities	2,703	-	2,703
Accrued interest	-	3,919	3,919
	<u>\$ 63,468</u>	<u>\$ 3,919</u>	<u>\$ 67,387</u>

  

	Sewage Disposal Enterprise Fund	Water Extension Enterprise Fund	Total Business-type Activities
Accounts	\$ -	\$ 89,226	\$ 89,226
Accrued interest	12,309	3,307	15,616
	<u>\$ 12,309</u>	<u>\$ 92,533</u>	<u>\$ 104,842</u>

### 7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

Interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. At December 31, 2017, there were no due to/due from other funds present.

For the year ended December 31, 2017, interfund transfers consisted of \$30,000 from the general fund to the sewage disposal enterprise fund for repayment of sewer debt. In addition, the capital projects cemetery improvement nonmajor governmental fund transferred \$5,000 to the general fund for cost reimbursement.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorizations.

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Notes To Financial Statements

### 8. CAPITAL ASSETS

#### Primary government

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

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Governmental Activities</b>					
Capital assets not being depreciated -					
Land	\$ 93,846	\$ -	\$ -	\$ -	\$ 93,846
Capital assets being depreciated:					
Land improvements	103,375	-	-	-	103,375
Buildings and improvements	191,692	35,353	-	-	227,045
Equipment	92,697	10,418	(12,466)	-	90,649
Vehicles	29,763	-	-	-	29,763
	<u>417,527</u>	<u>45,771</u>	<u>(12,466)</u>	<u>-</u>	<u>450,832</u>
Less accumulated depreciation for:					
Land improvements	(18,089)	(2,584)	-	-	(20,673)
Buildings and improvements	(145,761)	(4,873)	-	-	(150,634)
Equipment	(80,553)	(8,953)	12,466	-	(77,040)
Vehicles	(29,763)	-	-	-	(29,763)
	<u>(274,166)</u>	<u>(16,410)</u>	<u>12,466</u>	<u>-</u>	<u>(278,110)</u>
Total capital assets being depreciated, net	<u>143,361</u>	<u>29,361</u>	<u>-</u>	<u>-</u>	<u>172,722</u>
Governmental activities capital assets, net	<u>\$ 237,207</u>	<u>\$ 29,361</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 266,568</u>

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Notes To Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Business-type Activities</b>					
Capital assets not being depreciated -					
Land	\$ 82,887	\$ -	\$ -	\$ -	\$ 82,887
Capital assets being depreciated -					
Sewage disposal system	8,678,889	-	-	-	8,678,889
Less accumulated depreciation for -					
Sewage disposal system	(3,521,026)	(217,024)	-	-	(3,738,050)
Total capital assets being depreciated, net	5,157,863	(217,024)	-	-	4,940,839
Business-type activities capital assets, net	\$ 5,240,750	\$ (217,024)	\$ -	\$ -	\$ 5,023,726

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

Depreciation of governmental activities by function	
General government	\$ 13,482
Recreation and culture	2,928
	<u>\$ 16,410</u>
Depreciation of business-type activities by function	
Sewage disposal	\$ 217,024

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Notes To Financial Statements

### 9. LONG-TERM DEBT

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

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
\$345,000 special assessment bonds due in annual installments of \$5,000 to \$25,000 through August 1, 2021, interest at 5%	\$ 115,000	\$ -	\$ (25,000)	\$ 90,000	\$ 25,000
\$535,000 special assessment bonds due in annual installments of \$20,000 to \$40,000 through August 1, 2021, interest at 3.875%	175,000	-	(35,000)	140,000	35,000
Subtotal - installment debt	290,000	-	(60,000)	230,000	60,000
Compensated absences	39,577	38,325	(33,620)	44,282	13,285
<b>Total</b>	<b>\$ 329,577</b>	<b>\$ 38,325</b>	<b>\$ (93,620)</b>	<b>\$ 274,282</b>	<b>\$ 73,285</b>
<b>Business-type Activities</b>					
\$995,000 sewage disposal system bonds due in annual installments of \$50,000 to \$60,000 through March 1, 2020, interest at 5.1% to 7.5%	\$ 240,000	\$ -	\$ (60,000)	\$ 180,000	\$ 60,000
\$360,000 special assessment bonds due in annual installments of \$25,000 to \$30,000 through August 1, 2018, interest at 2.3% to 4.1%	60,000	-	(30,000)	30,000	30,000
\$990,000 special assessment bonds due in annual installments of \$70,000 to \$75,000 through August 1, 2018, interest at 2.6% to 4.6%	150,000	-	(75,000)	75,000	75,000

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Notes To Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
\$150,000 special assessment bonds due in annual installments of \$10,000 to \$15,000 through August 1, 2018, interest at 2.3% to 4.1%	\$ 30,000	\$ -	\$ (15,000)	\$ 15,000	\$ 15,000
\$2,010,000 special assessment bonds due in annual installments of \$85,000 to \$150,000 through August 1, 2021, interest at 3.875%	650,000	-	(135,000)	515,000	130,000
\$395,000 special assessment bonds due in annual installments of \$15,000 to \$30,000 through August 1, 2021, interest at 3.875%	125,000	-	(25,000)	100,000	25,000
Subtotal - installment debt	1,255,000	-	(340,000)	915,000	335,000
Unamortized bond discounts	(2,129)	-	1,067	(1,062)	(1,062)
Unamortized bond premiums	4,727	-	(947)	3,780	947
Total	\$ 1,257,598	\$ -	\$ (339,880)	\$ 917,718	\$ 334,885

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

Annual debt service requirements to maturity for long-term debt are as follows:

Year Ended December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 60,000	\$ 9,403	\$ 335,000	\$ 37,841
2019	60,000	6,959	215,000	23,075
2020	55,000	4,503	215,000	13,574
2021	55,000	2,256	150,000	5,808
	\$ 230,000	\$ 23,121	\$ 915,000	\$ 80,298

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Notes To Financial Statements

### 10. JOINT VENTURES

#### *Southern Clinton Township Municipal Utilities Authority*

The Southern Clinton Township Municipal Utilities Authority was created by contractual agreement between the Township, DeWitt Charter Township, Bath Charter Township, and the City of DeWitt to operate, maintain, administer and manage the sewage disposal system for the benefit of the contracting municipalities. Currently, the Township's ownership percentage in the joint venture is 16.202%. As of December 31, 2016, the date of the most recent audit report of the Authority, the Township's share of the Authority's net position was \$1,212,259. Separate financial statements for the Southern Clinton Township Municipal Utilities Authority are available at the office of the Authority at 3671 W. Herbison Road, DeWitt, MI 48820.

#### *Looking Glass Regional Fire Authority*

The Township created a joint fire department with Eagle Township to be known as the Looking Glass Regional Fire Authority. The Authority provides fire protection services to the entire geographical area comprising Eagle Township and the Charter Township of Watertown, and may contract with other municipalities to provide fire protection services. Currently, the Authority is funded primarily through contributions from Watertown Charter Township (63%) and Eagle Township (37%). During the year ended December 31, 2017, the Township contributed \$312,330 to the Authority. Separate financial statements for the Looking Glass Regional Fire Authority are available at the office of the Authority at 7720 W. Grand River Avenue, Grand Ledge, MI 48837.

### 11. 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. The government carried commercial insurance to cover all risks of losses during the year ended December 31, 2017. The Township has had no settled claims from these risks that exceeded its commercial coverage in any of the past three fiscal years.

### 12. PROPERTY TAXES

The government's property taxes are levied on the assessed taxable value of property in the Township each December 1, which is the lien date, and are due in full by March 1 of the succeeding year, at which time uncollected taxes become delinquent. The December 1 levy is recorded as receivable and deferred inflows at year end because it is intended to fund expenditures of the following fiscal year.

Assessed values as established annually by the government, and subject to acceptance by the Township, are equalized by the State at an estimated 50% of current market value. Real and personal property in the Township for the 2016 levy were assessed and equalized at \$267,436,718 (not including properties subject to Industrial Facilities Tax exemption), representing roughly 50% of estimated current market value. The government's general operating tax rate for the 2016 levy was 4.5272 mills.

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Notes To Financial Statements

### 13. TAX ABATEMENTS

The Township received reduced property tax revenues during 2017 as a result of industrial facilities tax exemptions (IFT's).

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 \$3,867 in reduced Township tax revenues for 2017.

### 14. CONTINGENT LIABILITIES

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

### 15. PENSION PLAN

The Watertown Charter Township Group Pension Plan is a defined contribution pension plan established by the Township to provide retirement benefits to all participating full-time employees of the Township. The Township has an agreement with Michigan Employees Retirement System (MERS) to administer the Plan. Plan provisions and contribution requirements are established and may be amended by the Township Board. The Township is required to contribute from 8% of employee gross earnings, and the Township matches employee contributions up to 6%. Employee contributions are optional. Employee contributions vest immediately, whereas employer contributions vest at a rate of 20% per year. There are 12 participants in the plan.

For the year ended December 31, 2017, the Township's contribution to the Plan was \$83,277. Employee contributions were \$30,188.

### 16. STATE CONSTRUCTION CODE ACT COMPLIANCE

Public Act 245 of 1999 amended the State Construction Act to require Michigan municipal governments to establish fees that bear a reasonable relationship to the cost of operating their building departments, effective January 1, 2000. The Township has elected to record this activity in the general fund.

Public Act 245 of 1999 amended the State Construction Act to require Michigan municipal governments to establish fees that bear a reasonable relationship to the cost of operating their building departments, effective January 1, 2000. The Township has elected to record this activity in the general fund.

Revenue - building fee revenue	\$ 263,983
Expenditures	<u>(268,058)</u>
Current year loss	<u>\$ (4,075)</u>
Loss absorbed in 2001-2017	<u>\$ (166,906)</u>

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Notes To Financial Statements

### 17. FUND BALANCES - GOVERNMENTAL FUNDS

The Township classifies fund balances primarily to the extent of which it is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is as follows:

	General Fund	Nonmajor Funds	Total
Nonspendable - Prepays	\$ 13,687	\$ -	\$ 13,687
Restricted for - Debt service	218,228	-	218,228
Committed for:			
Parks	37,900	-	37,900
Other properties	51,300	-	51,300
Office building and grounds	292,338	-	292,338
Roads and bridges	655,886	-	655,886
Fire expenditures and capital improvements	692,397	-	692,397
Legal expenditures	250,000	-	250,000
Township improvement	-	231,638	231,638
Cemetery improvement	-	58,572	58,572
Total committed	<u>1,979,821</u>	<u>290,210</u>	<u>2,270,031</u>
Assigned for - Township hall	885,598	-	885,598
Unassigned	<u>1,735,202</u>	<u>-</u>	<u>1,735,202</u>
Total fund balances, governmental funds	<u>\$ 4,832,536</u>	<u>\$ 290,210</u>	<u>\$ 5,122,746</u>

### 18. NET INVESTMENT IN CAPITAL ASSETS

The composition of the Township's net investment in capital assets as of year end was as follows:

	Governmental Activities	Business-type Activities
Capital assets, net	\$ 266,568	\$ 5,023,726
Less related bonds outstanding	-	(727,899)
Net investment in capital assets	<u>\$ 266,568</u>	<u>\$ 4,295,827</u>



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## COMBINING FUND FINANCIAL STATEMENTS

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Combining Balance Sheet

Nonmajor Governmental Funds

December 31, 2017

	Capital Projects Township Improvement Revolving	Capital Projects Cemetery Improvement	Totals
<b>Assets</b>			
Cash and cash equivalents	\$ 210,250	\$ 39,254	\$ 249,504
Investments	21,388	19,318	40,706
<b>Total assets</b>	<u>\$ 231,638</u>	<u>\$ 58,572</u>	<u>\$ 290,210</u>
<b>Fund balances</b>			
Committed	<u>\$ 231,638</u>	<u>\$ 58,572</u>	<u>\$ 290,210</u>

# WATERTOWN CHARTER TOWNSHIP, MICHIGAN

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended December 31, 2017

	Capital Projects Township Improvement Revolving	Capital Projects Cemetery Improvement	Totals
Revenues			
Charges for services - cemetery	\$ -	\$ 7,080	\$ 7,080
Interest	3,444	302	3,746
Total revenues	3,444	7,382	10,826
Expenditures			
Capital outlay	-	300	300
Revenues over expenditures	3,444	7,082	10,526
Other financing uses			
Transfers out	-	(5,000)	(5,000)
Net changes in fund balances	3,444	2,082	5,526
Fund balances, beginning of year	228,194	56,490	284,684
Fund balances, end of year	\$ 231,638	\$ 58,572	\$ 290,210

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