

Watertown Charter Township, Michigan

Year Ended
December 31,
2019

Financial
Statements

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

June 30, 2020

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, 2019, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2019, 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.

Rehmann Lobson LLC

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, 2019.

Financial Highlights

• Total net position	\$16,247,905
• Change in total net position	1,164,744
• Fund balances, governmental funds	5,906,261
• Change in fund balances, governmental funds	689,542
• Unassigned fund balance, general fund	1,485,075
• Change in fund balance, general fund	678,484
• Installment debt outstanding	375,000
• Change in installment debt	(190,000)

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 \$16,247,905 at the close of the most recent fiscal year.

Of the Township's net position, \$4,606,908 (28 percent) reflects its investment in capital assets (e.g. land, land improvements, buildings and improvements, equipment, vehicles, and sewage disposal system - net of applicable depreciation); 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 \$1,164,744 during the current fiscal year.

	Governmental Activities		Net Position Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 7,522,800	\$ 6,837,153	\$ 5,943,218	\$ 5,298,069	\$13,466,018	\$12,135,222
Capital assets, net	272,226	288,378	4,589,682	4,806,704	4,861,908	5,095,082
Total assets	7,795,026	7,125,531	10,532,900	10,104,773	18,327,926	17,230,304
Other liabilities	75,311	61,263	106,596	101,309	181,907	162,572
Long-term debt	115,379	151,472	305,000	460,000	420,379	611,472
Total liabilities	190,690	212,735	411,596	561,309	602,286	774,044
Total deferred inflows of resources	1,426,406	1,373,099	51,329	-	1,477,735	1,373,099
Net position:						
Net investment in capital assets	272,226	288,378	4,334,682	4,421,704	4,606,908	4,710,082
Restricted	261,124	252,999	511,271	930,962	772,395	1,183,961
Unrestricted	5,644,580	4,998,320	5,224,022	4,190,798	10,868,602	9,189,118
Total net position	\$ 6,177,930	\$ 5,539,697	\$10,069,975	\$ 9,543,464	\$16,247,905	\$15,083,161

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

	Governmental Activities		Change in Net Position Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Program revenues -						
Charges for services	\$ 499,327	\$ 386,579	\$ 1,114,464	\$ 732,171	\$ 1,613,791	\$ 1,118,750
General revenues:						
Property taxes	1,397,039	1,366,777	-	-	1,397,039	1,366,777
Other	766,617	667,443	117,057	61,941	883,674	729,384
Total revenues	2,662,983	2,420,799	1,231,521	794,112	3,894,504	3,214,911
Expenses:						
Legislative	35,868	37,283	-	-	35,868	37,283
General government	1,085,545	1,102,529	-	-	1,085,545	1,102,529
Public safety and health	627,975	553,357	-	-	627,975	553,357
Public works	121,620	181,764	-	-	121,620	181,764
Community and economic development	137,543	130,318	-	-	137,543	130,318
Recreation and culture	12,605	21,511	-	-	12,605	21,511
Interest on long-term debt	3,594	5,191	-	-	3,594	5,191
Sewage disposal	-	-	599,802	618,665	599,802	618,665
Water extension	-	-	105,208	104,020	105,208	104,020
Total expenses	2,024,750	2,031,953	705,010	722,685	2,729,760	2,754,638
Change in net position, before transfers	638,233	388,846	526,511	71,427	1,164,744	460,273
Transfers	-	(185,970)	-	185,970	-	-
Change in net position	638,233	202,876	526,511	257,397	1,164,744	460,273
Net position:						
Beginning of year	5,539,697	5,336,821	9,543,464	9,286,067	15,083,161	14,622,888
End of year	\$ 6,177,930	\$ 5,539,697	\$10,069,975	\$ 9,543,464	\$16,247,905	\$15,083,161

Governmental Activities. The net position of the governmental activities increased by \$638,233. This increase is primarily due to greater investment returns and an increase in the state revenue sharing in 2019.

Business-type Activities. The net position of the business-type activities increased by \$526,511. This is due to an increase in revenues received for sewer line and pump station scheduled maintenance during fiscal year 2019.

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 2019, the Township's governmental funds reported combined ending fund balances of \$5,906,261, an increase of \$689,542 in comparison with the prior year. Approximately 25 percent of this total amount, or \$1,485,075, 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, \$14,369, represents amounts prepaid for 2020 expenditures in 2019. The restricted portion of the governmental fund balance, \$256,422, is special assessments payments received for future bond payments. The assigned amount of \$1,155,598 is for Township Hall improvements. The remainder of the fund balance, \$2,994,797, 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 \$1,485,075 while total fund balance was \$5,601,786. The fund balance of the Township's general fund increased by a total \$678,484 during the current fiscal year. The increase in fund balance is directly related to the Township continuing to be conservative as revenue sources continue to be uncertain. The support of the Township Board and lack of high turnover by department heads has assisted in supporting a conservative approach and operating with fiscal restraint.

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 \$4,494,063 and \$729,959, respectively. The sewer fund had an increase for the year of \$452,581 and the water extension fund had an increase for the year of \$73,930, in total net position. The increase in the net position is related to an increase in hook-up fees and permits related to new construction in the Township.

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.

The difference between the budgeted and actual expenditures was approximately 20 percent (a \$510,250 variance) and was due primarily to cost savings from departments being budget conscious.

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, 2019, amounted to \$4,861,908 (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	
	2019	2018	2019	2018	2019	2018
Land	\$ 93,846	\$ 93,846	\$ 82,887	\$ 82,887	\$ 176,733	\$ 176,733
Land improvements	77,534	80,118	-	-	77,534	80,118
Buildings and improvements	92,050	109,758	-	-	92,050	109,758
Equipment	8,796	4,656	-	-	8,796	4,656
Sewage disposal system	-	-	4,506,795	4,723,817	4,506,795	4,723,817
Total capital assets, net	\$ 272,226	\$ 288,378	\$ 4,589,682	\$ 4,806,704	\$ 4,861,908	\$ 5,095,082

The decrease in the Township's investment in capital assets for the current fiscal year of \$233,174 resulted from depreciation expense. 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 \$375,000. 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	
	2019	2018	2019	2018	2019	2018
Special assessment bonds	\$ 70,000	\$ 105,000	\$ 305,000	\$ 460,000	\$ 375,000	\$ 565,000

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 2020 fiscal year:

- The uncertainty of State revenue sharing.
- The uncertainty of fire service funding.
- 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 2020.

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, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 5,618,353	\$ 1,825,650	\$ 7,444,003
Restricted cash and cash equivalents	132,090	155,990	288,080
Investments	565,236	2,251,835	2,817,071
Restricted investments	124,332	135,887	260,219
Receivables	1,026,100	345,748	1,371,848
Internal balances	2,200	(2,200)	-
Prepaid items	14,369	-	14,369
Assets held for resale	40,120	-	40,120
Investment in joint venture	-	1,230,308	1,230,308
Capital assets not being depreciated	93,846	82,887	176,733
Capital assets being depreciated, net	178,380	4,506,795	4,685,175
Total assets	7,795,026	10,532,900	18,327,926
Liabilities			
Accounts payable and accrued liabilities	75,311	106,596	181,907
Long-term debt:			
Due within one year	48,614	155,000	203,614
Due in more than one year	66,765	150,000	216,765
Total liabilities	190,690	411,596	602,286
Deferred inflows of resources			
Taxes levied but intended for subsequent periods	1,426,406	-	1,426,406
Assessment collections for subsequent periods	-	51,329	51,329
Total deferred inflows of resources	1,426,406	51,329	1,477,735
Net position			
Net investment in capital assets	272,226	4,334,682	4,606,908
Restricted for debt service	261,124	511,271	772,395
Unrestricted	5,644,580	5,224,022	10,868,602
Total net position	\$ 6,177,930	\$ 10,069,975	\$ 16,247,905

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

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2019

Functions / Programs	Expenses	Program Revenues	Net (Expense) Revenues
		Charges for Services	
Primary government			
Governmental activities:			
Legislative	\$ 35,868	\$ -	\$ (35,868)
General government	1,085,545	63,104	(1,022,441)
Public safety and health	627,975	19,500	(608,475)
Public works	121,620	-	(121,620)
Community and economic development	137,543	408,048	270,505
Recreation and culture	12,605	8,675	(3,930)
Interest on long-term debt	3,594	-	(3,594)
Total governmental activities	2,024,750	499,327	(1,525,423)
Business-type activities:			
Sewage disposal	599,802	956,855	357,053
Water extension	105,208	157,609	52,401
Total business-type activities	705,010	1,114,464	409,454
Total primary government	<u>\$ 2,729,760</u>	<u>\$ 1,613,791</u>	<u>\$ (1,115,969)</u>

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WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net position			
Net revenues (expenses)	\$ (1,525,423)	\$ 409,454	\$ (1,115,969)
General revenues:			
Property taxes	1,397,039	-	1,397,039
Grants and contributions not restricted to specific programs	482,928	-	482,928
Other unrestricted revenues	175,532	-	175,532
Unrestricted investment earnings	108,157	96,128	204,285
Gain on investment in joint venture	-	20,929	20,929
Total general revenues and transfers	2,163,656	117,057	2,280,713
Change in net position	638,233	526,511	1,164,744
Net position, beginning of year	5,539,697	9,543,464	15,083,161
Net position, end of year	\$ 6,177,930	\$ 10,069,975	\$ 16,247,905

concluded.

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

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Balance Sheet Governmental Funds December 31, 2019

	General	Nonmajor Funds	Totals
Assets			
Cash and cash equivalents	\$ 5,403,756	\$ 214,597	\$ 5,618,353
Restricted cash and cash equivalents	132,090	-	132,090
Investments	475,358	89,878	565,236
Restricted investments	124,332	-	124,332
Accounts receivable	78,676	-	78,676
Taxes receivable	693,466	-	693,466
Special assessments receivable	102,608	-	102,608
Due from other governments	151,350	-	151,350
Due from other funds	2,200	-	2,200
Assets held for resale	40,120	-	40,120
Prepaid items	14,369	-	14,369
Total assets	<u>\$ 7,218,325</u>	<u>\$ 304,475</u>	<u>\$ 7,522,800</u>
Liabilities			
Accounts payable	\$ 44,414	\$ -	\$ 44,414
Accrued wages	25,093	-	25,093
Other liabilities	4,673	-	4,673
Total liabilities	<u>74,180</u>	<u>-</u>	<u>74,180</u>
Deferred inflows of resources			
Taxes levied but intended for subsequent period	1,426,406	-	1,426,406
Unavailable assets held for resale	40,120	-	40,120
Unavailable special assessments receivable	75,833	-	75,833
Total deferred inflows of resources	<u>1,542,359</u>	<u>-</u>	<u>1,542,359</u>
Fund balances			
Nonspendable	14,369	-	14,369
Restricted	256,422	-	256,422
Committed	2,690,322	304,475	2,994,797
Assigned	1,155,598	-	1,155,598
Unassigned	1,485,075	-	1,485,075
Total fund balances	<u>5,601,786</u>	<u>304,475</u>	<u>5,906,261</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 7,218,325</u>	<u>\$ 304,475</u>	<u>\$ 7,522,800</u>

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, 2019

Fund balances - total governmental funds \$ 5,906,261

Amounts reported for *governmental activities* 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	178,380

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 assets held for resale	40,120
Unavailable long-term special assessments receivable	75,833

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	(70,000)
Accrued interest on long-term debt	(1,131)
Compensated absences	(45,379)

Net position of governmental activities	<u>\$ 6,177,930</u>
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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, 2019

	General	Nonmajor Funds	Totals
Revenues			
Taxes	\$ 1,397,039	\$ -	\$ 1,397,039
Special assessments	77,121	-	77,121
Licenses and permits	563,538	-	563,538
State revenue	480,902	-	480,902
Charges for services	64,345	6,600	70,945
Interest	108,157	4,458	112,615
Rentals	16,280	-	16,280
Contributions and donations	2,026	-	2,026
Other	14,332	-	14,332
Total revenues	2,723,740	11,058	2,734,798
Expenditures			
Current:			
Legislative	35,868	-	35,868
General government	1,070,643	-	1,070,643
Public safety and health	293,755	-	293,755
Public works	121,620	-	121,620
Community and economic development	471,763	-	471,763
Recreation and culture	8,224	-	8,224
Capital outlay	4,224	-	4,224
Debt service:			
Principal	35,000	-	35,000
Interest	4,159	-	4,159
Total expenditures	2,045,256	-	2,045,256
Net change in fund balances	678,484	11,058	689,542
Fund balances, beginning of year	4,923,302	293,417	5,216,719
Fund balances, end of year	\$ 5,601,786	\$ 304,475	\$ 5,906,261

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, 2019

Net change in fund balances - total governmental funds	\$ 689,542
--	------------

Amounts reported for *governmental activities* 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.

Depreciation expense	(16,152)
----------------------	----------

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	(49,915)
--	----------

Net change in unavailable revenue	(21,900)
-----------------------------------	----------

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	35,000
--------------------------------------	--------

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	565
--	-----

Change in the accrual for compensated absences	1,093
--	-------

Change in net position of governmental activities	<u>\$ 638,233</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, 2019

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenues				
Taxes	\$ 1,428,527	\$ 1,428,527	\$ 1,397,039	\$ (31,488)
Special assessments	70,783	70,783	77,121	6,338
Licenses and permits:				
Landfill	18,000	18,000	18,000	-
Planning, zoning and building	82,815	369,315	409,303	39,988
Franchise fees	113,000	113,000	136,235	23,235
State revenue	430,010	430,010	480,902	50,892
Charges for services:				
Fire runs	5,000	5,000	39,175	34,175
Cemetery	11,000	11,000	15,195	4,195
Parks and recreation	1,500	1,500	330	(1,170)
Other	6,000	6,000	9,645	3,645
Interest	33,425	33,425	108,157	74,732
Rentals:				
Parks	5,000	5,000	8,480	3,480
Other	7,800	7,800	7,800	-
Contributions and donations -				
G.L.I.T.	1,800	1,800	2,026	226
Other	9,716	9,716	14,332	4,616
Total revenues	<u>2,224,376</u>	<u>2,510,876</u>	<u>2,723,740</u>	<u>212,864</u>
Expenditures				
Legislative -				
Township board	<u>52,967</u>	<u>52,967</u>	<u>35,868</u>	<u>(17,099)</u>
General government:				
Supervisor	34,063	34,063	32,160	(1,903)
Elections	8,700	8,700	2,752	(5,948)
Assessor	74,625	74,625	72,572	(2,053)
Attorney	20,000	20,000	536	(19,464)
Clerk	82,509	82,509	79,817	(2,692)
Board of review	2,403	2,403	1,049	(1,354)
Treasurer	89,507	89,507	83,350	(6,157)
General services administration	585,667	585,667	506,966	(78,701)
Buildings and grounds	171,809	171,809	152,177	(19,632)
Other property	113,974	113,974	102,856	(11,118)
Cemetery	13,772	13,772	6,738	(7,034)
Insurance	34,000	34,000	29,536	(4,464)
Refunds and rebates	6,060	6,060	134	(5,926)
Total general government	<u>1,237,089</u>	<u>1,237,089</u>	<u>1,070,643</u>	<u>(166,446)</u>

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, 2019

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Expenditures (continued)				
Public safety and health:				
Public safety and health	\$ 354,450	\$ 354,450	\$ 293,755	\$ (60,695)
Building inspection	631	631	-	(631)
Total public safety and health	<u>355,081</u>	<u>355,081</u>	<u>293,755</u>	<u>(61,326)</u>
Public works:				
Drains at large	24,200	30,200	23,693	(6,507)
Highways, streets, and bridges	200,000	200,000	68,329	(131,671)
Street lighting	32,193	32,193	29,598	(2,595)
Total public works	<u>256,393</u>	<u>262,393</u>	<u>121,620</u>	<u>(140,773)</u>
Community and economic development -				
Planning and zoning	<u>206,129</u>	<u>495,629</u>	<u>471,763</u>	<u>(23,866)</u>
Recreation and culture -				
Parks and recreation	<u>7,025</u>	<u>8,025</u>	<u>8,224</u>	<u>199</u>
Capital outlay	<u>105,000</u>	<u>105,000</u>	<u>4,224</u>	<u>(100,776)</u>
Debt service:				
Principal	35,000	35,000	35,000	-
Interest	4,123	4,323	4,159	(164)
Total debt service	<u>39,123</u>	<u>39,323</u>	<u>39,159</u>	<u>(164)</u>
Total expenditures	<u>2,258,806</u>	<u>2,555,506</u>	<u>2,045,256</u>	<u>(510,250)</u>
Revenues over (under) expenditures	(34,430)	(44,630)	678,484	723,114
Other financing sources				
Transfers in	<u>-</u>	<u>3,000</u>	<u>-</u>	<u>(3,000)</u>
Net change in fund balance	(34,430)	(41,630)	678,484	720,114
Fund balance, beginning of year	<u>4,923,302</u>	<u>4,923,302</u>	<u>4,923,302</u>	<u>-</u>
Fund balance, end of year	<u>\$ 4,888,872</u>	<u>\$ 4,881,672</u>	<u>\$ 5,601,786</u>	<u>\$ 720,114</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, 2019

	Sewage Disposal	Water Extension	Totals
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,445,341	\$ 380,309	\$ 1,825,650
Restricted cash and cash equivalents	154,984	1,006	155,990
Investments	1,750,234	501,601	2,251,835
Restricted investments	125,351	10,536	135,887
Accounts receivable	46,460	-	46,460
Interest receivable	21,720	3,248	24,968
Current portion of special assessments receivable	119,398	22,527	141,925
Total current assets	<u>3,663,488</u>	<u>919,227</u>	<u>4,582,715</u>
Noncurrent assets:			
Special assessments receivable, net of current portion	106,677	25,718	132,395
Investment in joint venture	1,230,308	-	1,230,308
Capital assets not being depreciated	82,887	-	82,887
Capital assets being depreciated, net	4,506,795	-	4,506,795
Total noncurrent assets	<u>5,926,667</u>	<u>25,718</u>	<u>5,952,385</u>
Total assets	<u>9,590,155</u>	<u>944,945</u>	<u>10,535,100</u>
Liabilities			
Current liabilities:			
Accounts payable	-	101,670	101,670
Accrued interest payable	4,118	808	4,926
Due to other funds	-	2,200	2,200
Current portion of bonds payable	130,000	25,000	155,000
Total current liabilities	<u>134,118</u>	<u>129,678</u>	<u>263,796</u>
Long-term debt -			
Bonds payable, net of current portion	<u>125,000</u>	<u>25,000</u>	<u>150,000</u>
Total liabilities	<u>259,118</u>	<u>154,678</u>	<u>413,796</u>
Deferred inflows of resources			
Assessment collections for subsequent periods	<u>-</u>	<u>51,329</u>	<u>51,329</u>
Net position			
Net investment in capital assets	4,334,682	-	4,334,682
Restricted for debt service	502,292	8,979	511,271
Unrestricted	<u>4,494,063</u>	<u>729,959</u>	<u>5,224,022</u>
Total net position	<u>\$ 9,331,037</u>	<u>\$ 738,938</u>	<u>\$ 10,069,975</u>

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, 2019

	Sewage Disposal	Water Extension	Totals
Operating revenues			
User fee charges	\$ 502,546	\$ 102,609	\$ 605,155
Hook-up fees and permits	454,309	55,000	509,309
Total operating revenues	956,855	157,609	1,114,464
Operating expenses			
General administration	2,134	127	2,261
Sewage plant administration	367,826	-	367,826
Other operating costs	-	102,579	102,579
Depreciation	217,022	-	217,022
Total operating expenses	586,982	102,706	689,688
Operating income	369,873	54,903	424,776
Nonoperating revenues (expenses)			
Interest income	74,599	21,529	96,128
Interest expense	(12,820)	(2,502)	(15,322)
Gain on investment in joint venture	20,929	-	20,929
Total nonoperating revenues (expenses)	82,708	19,027	101,735
Change in net position	452,581	73,930	526,511
Net position, beginning of year	8,878,456	665,008	9,543,464
Net position, end of year	\$ 9,331,037	\$ 738,938	\$ 10,069,975

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, 2019

	Sewage Disposal	Water Extension	Totals
Cash flows from operating activities			
Cash received from customers	\$ 935,973	\$ 157,609	\$ 1,093,582
Cash payments to suppliers for goods and services	(369,960)	(92,716)	(462,676)
Net cash provided by operating activities	566,013	64,893	630,906
Cash flows from capital and related financing activities			
Payments received on special assessments	157,267	32,538	189,805
Principal payments	(130,000)	(25,000)	(155,000)
Interest payments	(14,919)	(2,906)	(17,825)
Net cash provided by capital and related financing activities	12,348	4,632	16,980
Cash flows from investing activities			
Proceeds from sale of investments	-	82,612	82,612
Purchase of investments	(770,004)	-	(770,004)
Interest received	77,416	22,642	100,058
Net cash provided by (used in) investing activities	(692,588)	105,254	(587,334)
Net change in cash and cash equivalents	(114,227)	174,779	60,552
Cash and cash equivalents, beginning of year	1,714,552	206,536	1,921,088
Cash and cash equivalents, end of year	\$ 1,600,325	\$ 381,315	\$ 1,981,640
Reconciliation to the Statement of Net Position			
Cash and cash equivalents	\$ 1,445,341	\$ 380,309	\$ 1,825,650
Restricted cash and cash equivalents	154,984	1,006	155,990
	\$ 1,600,325	\$ 381,315	\$ 1,981,640

continued...

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

■ Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2019

	Sewage Disposal	Water Extension	Totals
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 369,873	\$ 54,903	\$ 424,776
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	217,022	-	217,022
Change in operating assets and liabilities:			
Accounts receivable	(20,882)	-	(20,882)
Due to other funds	-	2,200	2,200
Accounts payable	-	7,790	7,790
Net cash provided by operating activities	<u>\$ 566,013</u>	<u>\$ 64,893</u>	<u>\$ 630,906</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, 2019

Assets

Cash and cash equivalents

\$ 374,914

Investments

2,005,916

Total assets

\$ 2,380,830

Liabilities

Accounts payable

\$ 75

Current tax distributions and deposits payable

2,380,755

Total liabilities

\$ 2,380,830

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.

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.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

Investments are reported at fair value.

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.

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.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

■ Notes To Financial Statements

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.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will 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 and assets held for resale. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. 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. In addition, deferred inflows of resources are reported in the government-wide and proprietary fund financial statements for special assessment collections on fire hydrant districts that were intended to cover the annual fire hydrant maintenance fees for the following year.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

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.

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, 2019, the Township incurred expenditures in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General fund			
Recreation and culture -			
Parks and recreation	\$ 8,025	\$ 8,224	\$ 199

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

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	\$ 7,444,003
Restricted cash and cash equivalents	288,080
Investments	2,817,071
Restricted investments	260,219

Statement of Fiduciary Assets and Liabilities

Cash and cash equivalents	374,914
Investments	<u>2,005,916</u>

Total \$ 13,190,203

Following is a reconciliation of deposit and investment balances as of December 31, 2019:

Deposits and investments

Bank deposits:	
Checking and savings accounts	\$ 3,080,657
Certificates of deposit	5,025,940
Investments	5,083,206
Cash on hand	<u>400</u>

Total \$ 13,190,203

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, \$3,131,063 of the Township's bank balance of \$7,980,696 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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
Michigan CLASS government investment pool	\$ 4,584,488	AAAm	N/A
U.S. agencies:			
Federal Home Loan Bank	124,371	AA+ S&P	1-5 years
Federal National Mortgage Association	<u>374,347</u>	AA+ S&P	1-5 years
Total	<u><u>\$ 5,083,206</u></u>		

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To 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. 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, 2019 were related to its investments in government agency funds. These investments are valued using significant other observable inputs of the underlying securities and bonds (Level 2 inputs).

Investments in Entities that Calculate Net Asset Value per Share. The Township holds shares in Michigan CLASS whereby the fair value of the investment is measured on a recurring basis using net asset value per share (or its equivalent) of the investment pool as a practical expedient.

At year end, the net asset value of the Township's investment in Michigan CLASS was \$4,584,488. The investment pool had no unfunded commitments, specific redemption frequency or redemption notice period required. The Michigan CLASS investment pool invests in U.S. treasury obligations, federal agency obligations of the U.S. government, high-grade commercial paper (rated 'A-1' or better) collateralized bank deposits, repurchase agreements (collateralized at 102% by Treasuries and agencies), and approved money market funds. The program seeks to provide safety, liquidity, convenience, and competitive rates of return, and is designed to meet the needs of Michigan public sector investors. It purchases securities that are legally permissible under state statutes and are available for investment by Michigan counties, cities, townships, school districts, authorities and other public agencies.

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 receivable	\$ 78,676	\$ -		
Taxes	693,466	-		
Special assessments	102,608	25,919		
Due from other governments	151,350	-		
	<u>\$ 1,026,100</u>	<u>\$ 25,919</u>		

	Sewage Disposal Enterprise Fund	Water Extension Enterprise Fund	Total Business-type Activities	Amounts Not Expected to be Collected Within One Year
Accounts receivable	\$ 46,460	\$ -	\$ 46,460	\$ -
Interest	21,720	3,248	24,968	-
Special assessments	226,075	48,245	274,320	132,395
	<u>\$ 294,255</u>	<u>\$ 51,493</u>	<u>\$ 345,748</u>	<u>\$ 132,395</u>

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Payables are comprised of the following at year-end:

	General Fund	Government- Wide Statements	Total Governmental Activities
Accounts payable	\$ 44,414	\$ -	\$ 44,414
Accrued wages	25,093	-	25,093
Other liabilities	4,673	-	4,673
Accrued interest	-	1,131	1,131
	<u>\$ 74,180</u>	<u>\$ 1,131</u>	<u>\$ 75,311</u>

	Sewage Disposal Enterprise Fund	Water Extension Enterprise Fund	Total Business-type Activities
Accounts payable	\$ -	\$ 101,670	\$ 101,670
Accrued interest	4,118	808	4,926
	<u>\$ 4,118</u>	<u>\$ 102,478</u>	<u>\$ 106,596</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

7. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of December 31, 2019, was as follows:

	Due from Other Funds	Due to Other Funds
General fund	\$ 2,200	\$ -
Water extension enterprise fund	-	2,200
Total	\$ 2,200	\$ 2,200

The above balances generally resulted from a 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.

8. CAPITAL ASSETS

Primary government

Capital asset activity for the primary government for the year ended December 31, 2019, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Capital assets not being depreciated -					
Land	\$ 93,846	\$ -	\$ -	\$ -	\$ 93,846
Capital assets being depreciated:					
Land improvements	103,375	-	-	-	103,375
Buildings and improvements	267,247	-	-	-	267,247
Equipment	90,649	-	-	-	90,649
Vehicles	29,763	-	-	-	29,763
	<u>491,034</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>491,034</u>
Less accumulated depreciation for:					
Land improvements	(23,257)	(2,584)	-	-	(25,841)
Buildings and improvements	(157,489)	(6,855)	-	(10,853)	(175,197)
Equipment	(85,993)	(6,713)	-	10,853	(81,853)
Vehicles	(29,763)	-	-	-	(29,763)
	<u>(296,502)</u>	<u>(16,152)</u>	<u>-</u>	<u>-</u>	<u>(312,654)</u>
Total capital assets being depreciated, net	<u>194,532</u>	<u>(16,152)</u>	<u>-</u>	<u>-</u>	<u>178,380</u>
Governmental activities capital assets, net	\$ 288,378	\$ (16,152)	\$ -	\$ -	\$ 272,226

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Business-type Activities					
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	(3,955,072)	(217,022)	-	-	(4,172,094)
Total capital assets being depreciated, net	4,723,817	(217,022)	-	-	4,506,795
Business-type activities capital assets, net	<u>\$ 4,806,704</u>	<u>\$ (217,022)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,589,682</u>

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

Depreciation of governmental activities by function

General government	\$ 11,921
Recreation and culture	4,231
	<u>\$ 16,152</u>

Depreciation of business-type activities by function

Sewage disposal	<u>\$ 217,022</u>
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9. LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2019, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
\$535,000 special assessment bonds due in annual installments of \$20,000 to \$40,000 through August 1, 2021, interest at 3.875%	\$ 105,000	\$ -	\$ (35,000)	\$ 70,000	\$ 35,000
Compensated absences	46,472	31,541	(32,634)	45,379	13,614
Total	<u>\$ 151,472</u>	<u>\$ 31,541</u>	<u>\$ (67,634)</u>	<u>\$ 115,379</u>	<u>\$ 48,614</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Business-type Activities					
\$2,010,000 special assessment bonds due in annual installments of \$85,000 to \$150,000 through August 1, 2021, interest at 3.875%	\$ 385,000	\$ -	\$ (130,000)	\$ 255,000	\$ 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%	75,000	-	(25,000)	50,000	25,000
Total	\$ 460,000	\$ -	\$ (155,000)	\$ 305,000	\$ 155,000

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
2020	\$ 35,000	\$ 2,713	\$ 155,000	\$ 11,819
2021	35,000	1,356	150,000	5,808
	<u>\$ 70,000</u>	<u>\$ 4,069</u>	<u>\$ 305,000</u>	<u>\$ 17,627</u>

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, 2018, the date of the most recent audit report of the Authority, the Township's share of the Authority's net position was \$1,230,308. 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.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

■ Notes To Financial Statements

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, 2019, the Township contributed \$290,115 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, 2019. 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 2018 levy were assessed and equalized at \$284,902,049 (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 2018 levy was 4.4823 mills.

13. TAX ABATEMENTS

The Township received reduced property tax revenues during 2019 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 \$2,182 in reduced Township tax revenues for 2019.

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.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

■ Notes To Financial Statements

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 11 participants in the plan.

For the year ended December 31, 2019, the Township's contribution to the Plan was \$66,643. Employee contributions were \$53,412.

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	\$ 397,999
Expenditures	<u>(401,262)</u>
Current year loss	<u><u>\$ (3,263)</u></u>
Loss absorbed in 2001-2019	<u><u>\$ (174,018)</u></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	\$ 14,369	\$ -	\$ 14,369
Restricted for - Debt service	256,422	-	256,422
Committed for:			
Parks	82,900	-	82,900
Other properties	51,300	-	51,300
Office building and grounds	452,338	-	452,338
Roads and bridges	845,886	-	845,886
Fire expenditures and capital improvements	932,397	-	932,397
Legal expenditures	265,500	-	265,500
Capital projects	60,000	-	60,000
Township improvement	-	238,605	238,605
Cemetery improvement	-	65,870	65,870
Total committed	2,690,322	304,475	2,994,797
Assigned for - Township hall	1,155,598	-	1,155,598
Unassigned	1,485,075	-	1,485,075
Total fund balances, governmental funds	\$ 5,601,786	\$ 304,475	\$ 5,906,261

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	\$ 272,226	\$ 4,589,682
Less related bonds outstanding	-	(255,000)
Net investment in capital assets	\$ 272,226	\$ 4,334,682

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

■ Notes To Financial Statements

19. SUBSEQUENT EVENT

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The extent of the ultimate impact of the pandemic on the government's operational and financial performance will depend on various developments, including the duration and spread of the outbreak and its impact on employees, vendors, and taxpayers, all of which cannot be reasonably predicted at this time. In addition, it may place additional demands on the government for providing emergency services to its citizens. While management reasonably expects the COVID-19 outbreak to negatively impact the government's financial position, changes in financial position, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.

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COMBINING FUND FINANCIAL STATEMENTS

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

■ Combining Balance Sheet Nonmajor Governmental Funds December 31, 2019

	Capital Projects Township Improvement Revolving	Capital Projects Cemetery Improvement	Totals
Assets			
Cash and cash equivalents	\$ 205,864	\$ 8,733	\$ 214,597
Investments	32,741	57,137	89,878
Total assets	<u>\$ 238,605</u>	<u>\$ 65,870</u>	<u>\$ 304,475</u>
Fund balances			
Committed	<u>\$ 238,605</u>	<u>\$ 65,870</u>	<u>\$ 304,475</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

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

Nonmajor Governmental Funds

For the Year Ended December 31, 2019

	Capital Projects Township Improvement Revolving	Capital Projects Cemetery Improvement	Totals
Revenues			
Charges for services - cemetery	\$ -	\$ 6,600	\$ 6,600
Interest	3,152	1,306	4,458
Total revenues	3,152	7,906	11,058
Fund balances, beginning of year	235,453	57,964	293,417
Fund balances, end of year	<u>\$ 238,605</u>	<u>\$ 65,870</u>	<u>\$ 304,475</u>

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