

Charter Township of Union

Financial Statements

December 31, 2017



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Charter Township of Union
List of Elected and Appointed Officials
December 31, 2017

Board of Trustees

Ben Gunning, Supervisor

Lisa Cody, Clerk

Kim Rice, Treasurer

Bill Hauck, Trustee

Tim Lannen, Trustee

Phil Mikus, Trustee

Norm Woerle, Trustee

Other Officers and Officials

Mark Stuhldreher, Township Manager

Sherrie Teall, Finance Director



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Independent Auditors' Report

Management and Board of Trustees
Charter Township of Union
Mt. Pleasant, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Charter Township of Union, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Other Matters:

Required Supplementary Information

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

Other Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2018 on our consideration of Charter Township of Union's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Charter Township of Union's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Charter Township of Union's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Alma, Michigan
May 7, 2018

**Charter Township of Union
Managements' Discussion and Analysis
Year Ended December 31, 2017**

This section of the Charter Township of Union's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended December 31, 2017.

FINANCIAL HIGHLIGHTS

- The Township's combined total net position is \$30.2 million for the fiscal year ended December 31, 2017, compared to \$29.0 million last fiscal year.
- Total net position increased by \$1.2 million.
- In the Township's governmental activities, revenues generated \$2.7 million, while expenses were \$2.3 million.
- In the Township's business-type activities, revenues generated \$4.2 million, while expenses were \$3.5 million.
- The total cost of all the Township's programs, including governmental and business-type activities was \$5.9 million, down \$0.7 million from last fiscal year.

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
- 3) notes to the financial statements

This report also contains required supplementary information and other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide statements are designed to provide readers with an overview of the Township's finances, as a whole, in a manner similar to a private sector business. The *statement of net position* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net position. The *statement of activities* presents all of the Township's revenues and expenses, and is reported based on when the event occurs that creates the revenue or expense, regardless of when cash is received or paid.

**Charter Township of Union
Managements' Discussion and Analysis
Year Ended December 31, 2017**

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

- 1) **Governmental Activities** – Most of the Township's basic services are included here, such as public safety, fire protection, public works, parks and recreation, community development, and general administration. Property taxes, state shared revenue, and charges for services finance most of these activities.
- 2) **Business-type Activities** – The Township's business-type activities include water and sewer. Fees are charged to customers to recover all or a significant portion of certain services each fund provides.

Fund Financial Statements

The fund financial statements provide more detailed information about the Township's most significant funds, not the Township as a whole. 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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Charter Township of Union has three types of funds:

Governmental Funds – Many of the Township's basic services are included in governmental funds which focus on how cash and other financial assets that can be readily converted into cash flow in and out. The funds also show the balances left at year-end that are available for spending.

The governmental funds focus on a short-term view, rather than the long-term focus of the government-wide statements, so additional information is provided after each of the governmental fund statements that explain the relationship or differences between the fund and government-wide statements.

The Township maintains 4 individual governmental funds. Separate information is provided for the General Fund and Fire Protection Fund, each of which are considered to be a "major" fund. Data from the 2 other governmental funds, the Public Improvement Fund and the Tribal Grants Fund, are combined into a single column labeled "non-major governmental funds".

The Township adopts an annual budget for each of its governmental funds. Budgetary comparison statements have been provided for the major funds to demonstrate compliance with those budgets.

Proprietary Funds – Proprietary funds are used to report services where the Township charges a fee to the customer to recover most or all of the cost of the service rendered. Proprietary funds provide both long and short-term financial information. The two types of proprietary funds are enterprise and internal service funds. The Township does not have any internal service funds.

The Township has 2 enterprise funds, the Water Fund and the Sewer Fund. The proprietary fund financial statements provide separate information for the Water Fund and Sewer Fund, which are considered to be major funds of the Township.

**Charter Township of Union
Managements' Discussion and Analysis
Year Ended December 31, 2017**

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are not reflected in the Government-wide financial statements because the resources of those funds are not available to support the Township's own programs.

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.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary information for the Township. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

TOWNSHIP'S SUMMARY OF NET POSITION

The following summarizes the Township's net position at December 31, 2017 and 2016:

The Township's total combined net position for the fiscal year ended December 31, 2017 is \$30.2 million, made up of \$24.2 million in business-type activities, and \$6.0 million in governmental activities.

Combined unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, is \$10.1 million. Business-type activities unrestricted total is \$6.6 million, while the unrestricted governmental activities net asset total is \$3.5 million.

A portion of the Township's net position (61%) reflects its investment in capital assets (e.g. land, buildings, equipment); less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to the community; 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.

**Charter Township of Union
Managements' Discussion and Analysis
Year Ended December 31, 2017**

Charter Township of Union Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Assets						
Current assets	\$ 6,121,899	\$ 5,727,594	\$ 6,970,150	\$ 6,718,907	\$ 13,092,049	\$ 12,446,501
Capital assets	1,014,472	1,088,611	25,803,018	26,317,550	26,817,490	27,406,161
Total assets	7,136,371	6,816,205	32,773,168	33,036,457	39,909,539	39,852,662
Deferred outflows of resources						
Deferred amount on refunding	-	-	154,986	193,732	154,986	193,732
Total assets and deferred outflows of resources	7,136,371	6,816,205	32,928,154	33,230,189	40,064,525	40,046,394
Liabilities						
Current liabilities	107,680	205,137	742,433	888,746	850,113	1,093,883
Long-term liabilities	27,094	37,664	7,978,781	8,843,872	8,005,875	8,881,536
Total liabilities	134,774	242,801	8,721,214	9,732,618	8,855,988	9,975,419
Deferred inflows of resources						
Property taxes	1,012,984	1,011,745	-	-	1,012,984	1,011,745
Total liabilities and deferred inflows of resources	1,147,758	1,254,546	8,721,214	9,732,618	9,868,972	10,987,164
Net position						
Net investment in capital assets	976,808	1,041,187	17,428,524	16,926,530	18,405,332	17,967,717
Restricted	1,455,937	1,416,894	200,463	337,622	1,656,400	1,754,516
Unrestricted	3,555,868	3,103,578	6,577,953	6,233,419	10,133,821	9,336,997
Total net position	\$ 5,988,613	\$ 5,561,659	\$ 24,206,940	\$ 23,497,571	\$ 30,195,553	\$ 29,059,230

**Charter Township of Union
Managements' Discussion and Analysis
Year Ended December 31, 2017**

TOWNSHIP'S SUMMARY OF CHANGES IN NET POSITION

The following summarizes the Township's changes in net position for the fiscal years ended December 31, 2017 and 2016:

Governmental Activities

Net position for governmental activities increased by \$0.4 million during the year ended December 31, 2017, compared to a \$0.3 million decrease last year.

The Township's total governmental revenue is \$2.7 million, an increase of \$0.1 million over the prior year. The increase is due to an increase in state shared revenue in 2017.

Expenses for governmental activities totaled \$2.3 million, a decrease of \$0.6 million from the prior year. The decrease was due to fewer street and road projects being completed in 2017.

Business-type Activities

Net position for business-type activities increased by \$0.7 million during the year ended December 31, 2017, compared to a \$0.6 million increase last year.

Total revenue from business-type activities was \$4.2 million, which was no increase over the prior year.

Expenses for business-type activities totaled \$3.5 million, a decrease of \$0.1 million from the prior year. The decrease was due to a decrease in debt service costs and water and sewer system repair costs in 2017.

**Charter Township of Union
Managements' Discussion and Analysis
Year Ended December 31, 2017**

Charter Township of Union Change in Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues						
Charges for services	\$ 278,338	\$ 386,719	\$ 4,147,019	\$ 4,102,540	\$ 4,425,357	\$ 4,489,259
Operating grants and contributions	59,743	3,186	4,553	-	64,296	3,186
General revenues						
Property taxes	1,056,263	1,095,790	-	-	1,056,263	1,095,790
State shared revenue	1,127,555	1,050,237	-	-	1,127,555	1,050,237
Unrestricted investment earnings	56,724	30,111	78,690	78,535	135,414	108,646
Cable franchise fees	132,360	79,671	-	-	132,360	79,671
Miscellaneous	29,923	14,242	16,705	18,730	46,628	32,972
Total revenues	<u>2,740,906</u>	<u>2,659,956</u>	<u>4,246,967</u>	<u>4,199,805</u>	<u>6,987,873</u>	<u>6,859,761</u>
Expenses						
General government	774,511	788,356	-	-	774,511	788,356
Public safety	951,161	972,369	-	-	951,161	972,369
Public works	339,543	1,015,379	-	-	339,543	1,015,379
Community and economic development	114,689	22,312	-	-	114,689	22,312
Recreation and culture	130,518	134,257	-	-	130,518	134,257
Interest on long-term debt	3,530	2,772	-	-	3,530	2,772
Sewer	-	-	2,188,197	2,199,626	2,188,197	2,199,626
Water	-	-	1,349,401	1,420,178	1,349,401	1,420,178
Total expenses	<u>2,313,952</u>	<u>2,935,445</u>	<u>3,537,598</u>	<u>3,619,804</u>	<u>5,851,550</u>	<u>6,555,249</u>
Change in net position	426,954	(275,489)	709,369	580,001	1,136,323	304,512
Net position - beginning of year	<u>5,561,659</u>	<u>5,837,148</u>	<u>23,497,571</u>	<u>22,917,570</u>	<u>29,059,230</u>	<u>28,754,718</u>
Net position - end of year	<u>\$ 5,988,613</u>	<u>\$ 5,561,659</u>	<u>\$ 24,206,940</u>	<u>\$ 23,497,571</u>	<u>\$ 30,195,553</u>	<u>\$ 29,059,230</u>

**Charter Township of Union
Managements' Discussion and Analysis
Year Ended December 31, 2017**

Charter Township of Union's Funds

Analysis of the Charter Township of Union's major funds begins on page 4-4, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant individual funds, not the Township as a whole. Funds are created to help manage money for specific purposes, as well as show accountability for certain activities, such as specific property tax millages and restricted receipts from federal and state sources.

The General Fund is the chief operating fund of the Township and one of two governmental funds that is considered a major fund. It pays for most of the Township's governmental services. Its major components of revenue are property taxes and state shared revenue. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$3.5 million. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents approximately 227% of total General Fund expenditures including transfers to other funds. The fund balance of the General Fund increased by about \$456,000 during the current fiscal year due to increased revenue sharing, increased interest earned, reduced benefits for elected officials, no elections expenditures, reduced capital outlay and fewer contributions to road projects.

The fund balance of the Fire Fund increased by about \$30,000 during the current fiscal year, this amount is being set aside for the future purchase of a new fire truck.

The Water and Sewer Funds are the Township's two major Proprietary Funds. The net position of the Sewer Fund increased by approximately \$316,000 during the year. The increase was partly due to an increase in user charges and interest earned on investments. The net position of the Water Fund increased by approximately \$165,000 during the year. The increase was partly due to an increase in connection fees and interest earned on investments.

General Fund Budgetary Highlights

Budgets reflect best estimates of the next year's financial events. Budget amendments are often required to adjust for unexpected events and timing differences between when events are anticipated to happen and when they actually occur. The statements, schedules and notes included in the financial statements present comparisons of original budget, amended budget and actual revenues and expenditures.

The Charter Township of Union had no issues balancing the budget in the past several years, and this year was no exception. The Township continues to grow and remains financially strong with General Fund revenues increasing each year, and overall General Fund expenditures being well under budget. The expenditures in the 2017 original budget were estimated \$327,281 higher than revenues. However, this estimated shortfall was amended to expected revenues in excess of expenditures of \$116,455.

One of the biggest challenges the Township faces in budgeting revenues is estimating building and zoning permit fees which fluctuate from year to year. As the Township grows, it is uncertain if new construction will increase or decrease when compared to past years. Another challenge is budgeting expenditures for Township contributions to the Isabella County Road Commission for several road construction projects. The road projects are a large part of the Township's general fund budget, and the projects can take more than one year to complete. The General Fund

**Charter Township of Union
Managements' Discussion and Analysis
Year Ended December 31, 2017**

budget is amended mid-year when the progress on the various projects is easier to estimate. In 2017, the Township reduced the budgeted amounts for public works by \$247,850, due to completed road projects that cost less than expected or road projects that were not expected to be complete at year-end. Overall, when the 2017 budget was amended, total estimated revenues increased \$154,313 and total estimated expenditures were reduced by \$289,423, changing the estimated surplus (deficit) for the year from (\$327,281) to \$116,455.

In the fiscal year 2017, the General Fund budget for revenues increased by approximately \$154,000 from the original budget to the final amended budget. This was partly due to the State grant that the Township received to help with costs related to the flood event in the area in June 2017. The amended budget for State grants was \$56,000 higher than the original budget of \$0 for State grants. In addition, State revenue sharing and interest income were higher than expected when the original budget was created. We amended the budget for state Revenue sharing mid-year by about \$42,000 when we were certain the revenues were coming in higher than originally expected. Interest rates have been increasing for the Certificates of Deposit that we purchase/renew and the Township has also increased the investments in CD's in 2017 which required a General Fund budget amendment for interest earned of \$31,000. We also increased our budget for Other Revenue by \$30,000 when we realized we would be reimbursed by our insurance company for certain legal expenditures that we incurred during the year.

General Fund appropriations decreased by \$289,000 from original budget to final amended budget in fiscal year 2017. Following are some of the notable details for these changes:

In the General Government area, the budget was increased \$54,000 for additional attorney fees expected for the year. Also, the Manager's department budget was increased \$54,000 for amounts contributed to the Cable Consortium. These expenditures had been budgeted/netted with cable franchise fee revenue in the original general fund budget.

The original budget for public works was reduced by \$247,850 based on better estimates received from the Road Commission for road project completion in 2017. With the information received mid-year, we reduced the budget for road projects by \$153,000. The original budget for sidewalks was reduced by \$95,000 due to no new sidewalk projects commencing or in process during the 2017 fiscal year as we had hoped when the original budget was created.

In the Community and Economic Development area, the original budget for the Planning Dept. was reduced by \$66,000 when it was determined that dev review implementation would not occur in 2017.

In the Capital Outlay area, the 2017 budget was reduced by \$42,000 for a recycling depot that was not expected to be built in 2017.

None of the departments in the General Fund were over budget for the year.

CAPITAL ASSETS

The Charter Township of Union's primary government has \$26,817,490 invested in capital assets net of depreciation. Capital assets include all tangible assets that exceed \$5,000 in value and have an expected useful life of greater than two years. Capital assets include land, land improvements, sidewalks, buildings, equipment, vehicles and sewer and water systems. The Township uses straight line depreciation ranging from

**Charter Township of Union
Managements' Discussion and Analysis
Year Ended December 31, 2017**

three to fifty years useful life. From fiscal year 2016 to 2017, net capital assets decreased \$74,139 for Governmental Activities and decreased \$514,532 for Business-type Activities. Additional details of capital assets can be found in the Notes to Financial Statements beginning on page 4-25. A summary of the capital assets for the Township's primary government follows:

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Capital assets not being depreciated						
Land	\$ 160,650	\$ 160,650	\$ 275,780	\$ 275,780	\$ 436,430	\$ 436,430
Capital assets being depreciated						
Land improvements	329,743	329,743	41,964	41,964	371,707	371,707
Building & improvements	1,089,260	1,089,260	202,927	202,927	1,292,187	1,292,187
Machinery and equipment	251,973	251,973	1,680,215	1,555,735	1,932,188	1,807,708
Vehicles	314,821	314,821	413,185	402,545	728,006	717,366
Water system	-	-	13,110,949	12,912,087	13,110,949	12,912,087
Sewer system	-	-	13,719,285	13,596,909	13,719,285	13,596,909
Wastewater treatment plant	-	-	12,567,029	12,567,029	12,567,029	12,567,029
Total capital assets	2,146,447	2,146,447	42,011,334	41,554,976	44,157,781	43,701,423
Less: accumulated depreciation	(1,131,975)	(1,057,836)	(16,208,316)	(15,237,426)	(17,340,291)	(16,295,262)
Capital assets, net	<u>\$ 1,014,472</u>	<u>\$ 1,088,611</u>	<u>\$ 25,803,018</u>	<u>\$ 26,317,550</u>	<u>\$ 26,817,490</u>	<u>\$ 27,406,161</u>

LONG-TERM DEBT

Bonded Debt

The Township's current debt outstanding has been issued to fund capital improvements for new water and sewer infrastructure. For the total primary government, \$1,004,000 of the debt was retired in 2017. In addition, bond discounts were amortized in the amount of \$6,539 for the year.

The Business-type Activities of the Township have \$8,516,301 in outstanding bonded debt as of December 31, 2017. Of the outstanding debt, \$3,081,650 is general obligation bonded debt, and \$5,434,651 is revenue bonds. The general obligation bonded debt is indirect debt issued by Isabella County on the Township's behalf. The revenue bonded debt is direct debt issued by the Township itself.

Currently, there is no bonded debt outstanding for the Governmental Activities of Charter Township of Union.

**Charter Township of Union
Managements' Discussion and Analysis
Year Ended December 31, 2017**

Capital Lease Debt

In 2016, the Charter Township of Union entered into a capital lease agreement with Xerox for the purchase of seven new copiers that are used in primary government operations. At December 31, 2017, the Governmental Activities had \$37,664 in long-term debt outstanding on the lease and Business-type Activities had \$13,179 in long-term debt outstanding on the lease.

Compensated Absences

In the Governmental Activities, the liability for compensated absences increased by \$3,448 for the year. In Business-type Activities, the accrual for compensated absences decreased by \$2,869. In 2017, a leave time payout occurred when a long-term employee of the waste water treatment plant unexpectedly died, which contributed to the reduction.

A summary of the long-term debt outstanding for the Township's primary government follows:

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ -	\$ -	\$ 8,516,301	\$ 9,513,762	\$ 8,516,301	\$ 9,513,762
Capital lease	37,664	47,424	13,179	16,594	50,843	64,018
Compensated absences	14,358	10,910	68,121	70,990	82,479	81,900
	<u>\$ 52,022</u>	<u>\$ 58,334</u>	<u>\$ 8,597,601</u>	<u>\$ 9,601,346</u>	<u>\$ 8,649,623</u>	<u>\$ 9,659,680</u>

CURRENT ECONOMIC EVENTS

The Township's budget for the next fiscal year is balanced with no property tax rate increase for general operations; the millage for fire protection services is 2.0 mills. Total expenditures in the General Fund for the next fiscal year are estimated to be \$1.8 million. Included in those expenditures are contributions to the Isabella County Road Commission for road maintenance in the amount of \$162,700 for repairs to the Meridian Road bridge, three brine applications to the gravel roads, to improve four miles of gravel roads, and to refresh two miles of limestone on Deerfield Road in the Township. In addition, the Township is contributing \$10,000 to the City of Mt. Pleasant for airport improvements. The Township is working on a project with the Isabella County Road Commission to improve the safety of certain intersections of Isabella Road. The total project is expected to cost \$1.3 million and will be shared by MDOT, Isabella County Road Commission, the Township and possibly the Saginaw Chippewa Indian Tribe.

In 2018, the Township expects to receive about the same amount of General Fund revenues compared to 2017. However, there is always uncertainty in state revenue sharing levels. State shared sales tax revenue is made up of two components. The constitutional component is 13% of the gross collections of the 6% state sales tax. This portion cannot be adjusted by the legislature. Beginning in fiscal year 2014, the Township became eligible for the statutory portion of the State's revenue sharing. The municipality must embrace accountability and transparency and publish a performance "dashboard" that is readily available to the public. This "dashboard" can be found on the Township's website. The Township has

**Charter Township of Union
Managements' Discussion and Analysis
Year Ended December 31, 2017**

consistently met the requirements. Charter Township of Union anticipates qualifying for next year's funding, but State funding for this portion is uncertain from year to year. The Township budgets for the last several fiscal years were prepared with recognition of stagnant revenue sharing proceeds. In the past year, however, the Township did experience an increase in revenue sharing, so management will be watching that closely to see if the increases continue into 2018 and budget appropriately.

In 2018, the Township is planning to update the zoning code. The Township has not updated the code for many years. \$50,000 is in the current budget for this project.

The Charter Township of Union completed the process of updating and adopting the community master plan in February 2018. The master plan considers the physical characteristics, population and housing, community services available, roadways and transportation available and existing land use to set goals and objectives for future land use and development. The plan addresses such items as zoning requirements, funding sources and capital improvements necessary to develop mutually beneficial and cohesive communities.

Township management is looking forward to using the master plan as well as the updated zoning code to help plan and guide future economic growth in the Township.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens and taxpayers with a general overview of the Township's finances. If you have questions about this report or would like additional information, contact the Township finance office at 989-772-4600. Additional information can also be obtained at the Township's website, www.uniontownshipmi.com.

Charter Township of Union
Statement of Net Position
December 31, 2017

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 4,695,151	\$ 5,661,209	\$ 10,356,360	\$ 1,853,000
Receivables				
Taxes	571,860	-	571,860	251,969
Customers	36,563	928,994	965,557	-
Special assessments	147,250	112,008	259,258	-
Accrued interest and other	1,315	1,932	3,247	246
Due from other units of government	427,792	4,553	432,345	747,234
Due from fiduciary funds	44,188	-	44,188	-
Prepaid items	197,780	60,991	258,771	1,207
Restricted assets				
Cash and cash equivalents	-	200,463	200,463	-
Capital assets not being depreciated	160,650	275,780	436,430	-
Capital assets, net of accumulated depreciation	853,822	25,527,238	26,381,060	125,150
Total assets	7,136,371	32,773,168	39,909,539	2,978,806
Deferred outflows of resources				
Deferred amount on refunding	-	154,986	154,986	-
Total assets and deferred outflows of resources	7,136,371	32,928,154	40,064,525	2,978,806

See Accompanying Notes to the Financial Statements

Charter Township of Union
Statement of Net Position
December 31, 2017

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Liabilities				
Accounts payable	\$ 52,160	\$ 71,098	\$ 123,258	\$ 4,437
Accrued and other liabilities	11,135	52,515	63,650	101,557
Due to other units of government	19,457	-	19,457	-
Noncurrent liabilities				
Due within one year	24,928	618,820	643,748	30,178
Due in more than one year	27,094	7,978,781	8,005,875	-
Total liabilities	134,774	8,721,214	8,855,988	136,172
Deferred inflows of resources				
Property taxes	1,012,984	-	1,012,984	999,203
Total liabilities and deferred inflows of resources	1,147,758	8,721,214	9,868,972	1,135,375
Net position				
Net investment in capital assets	976,808	17,428,524	18,405,332	125,150
Restricted				
Fire	1,125,583	-	1,125,583	-
Tribal grants	29,907	-	29,907	-
Capital projects	300,447	-	300,447	-
Bond required reserves	-	200,463	200,463	-
East DDA	-	-	-	1,102,518
West DDA	-	-	-	615,763
Unrestricted	3,555,868	6,577,953	10,133,821	-
Total net position	\$ 5,988,613	\$ 24,206,940	\$ 30,195,553	\$ 1,843,431

See Accompanying Notes to the Financial Statements

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

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-type Activities		
Primary government								
Governmental activities								
General government	\$ 774,511	\$ 151,391	\$ 54,302	\$ -	\$ (568,818)	\$ -	\$ (568,818)	\$ -
Public safety	951,161	101,296	5,441	-	(844,424)	-	(844,424)	-
Public works	339,543	25,651	-	-	(313,892)	-	(313,892)	-
Community and economic development	114,689	-	-	-	(114,689)	-	(114,689)	-
Recreation and culture	130,518	-	-	-	(130,518)	-	(130,518)	-
Interest on long-term debt	3,530	-	-	-	(3,530)	-	(3,530)	-
Total governmental activities	2,313,952	278,338	59,743	-	(1,975,871)	-	(1,975,871)	-
Business-type activities								
Sewer	2,188,197	2,533,400	2,436	-	-	347,639	347,639	-
Water	1,349,401	1,613,619	2,117	-	-	266,335	266,335	-
Total business-type activities	3,537,598	4,147,019	4,553	-	-	613,974	613,974	-
Total primary government	\$ 5,851,550	\$ 4,425,357	\$ 64,296	\$ -	(1,975,871)	613,974	(1,361,897)	-
Component units								
East Downtown Development Authority	\$ 178,163	\$ -	\$ 55,909	\$ -	-	-	-	(122,254)
West Downtown Development Authority	579,650	-	-	-	-	-	-	(579,650)
Total component units	\$ 757,813	\$ -	\$ 55,909	\$ -	-	-	-	(701,904)
General revenues								
Property taxes					1,056,263	-	1,056,263	939,981
State shared revenue					1,127,555	-	1,127,555	-
Unrestricted investment earnings					56,724	78,690	135,414	8,947
Cable franchise fees					132,360	-	132,360	-
Miscellaneous					29,923	16,705	46,628	68
Total general revenues					2,402,825	95,395	2,498,220	948,996
Change in net position								
Net position - beginning of year					426,954	709,369	1,136,323	247,092
Net position - end of year					\$ 5,561,659	\$ 23,497,571	\$ 29,059,230	\$ 1,596,339
					\$ 5,988,613	\$ 24,206,940	\$ 30,195,553	\$ 1,843,431

See Accompanying Notes to the Financial Statements

Charter Township of Union
Governmental Funds
Balance Sheet
December 31, 2017

	<u>Special Revenue Fund</u>		Nonmajor Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>Fire</u>		
Assets				
Cash and cash equivalents	\$ 3,303,995	\$ 1,208,052	\$ 183,104	\$ 4,695,151
Receivables				
Taxes	232,670	339,190	-	571,860
Customers	36,563	-	-	36,563
Special assessments	-	-	147,250	147,250
Accrued interest and other	1,055	260	-	1,315
Due from other units of government	427,792	-	-	427,792
Due from fiduciary funds	44,188	-	-	44,188
Prepaid items	23,030	174,750	-	197,780
	<u>\$ 4,069,293</u>	<u>\$ 1,722,252</u>	<u>\$ 330,354</u>	<u>\$ 6,121,899</u>
Total assets				
Liabilities				
Accounts payable	\$ 52,111	\$ 49	\$ -	\$ 52,160
Accrued and other liabilities	11,135	-	-	11,135
Due to other units of government	19,457	-	-	19,457
	<u>82,703</u>	<u>49</u>	<u>-</u>	<u>82,752</u>
Total liabilities				

See Accompanying Notes to the Financial Statements

Charter Township of Union
Governmental Funds
Balance Sheet
December 31, 2017

	<u>Special Revenue Fund</u>		Nonmajor Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>Fire</u>		
Deferred inflows of resources				
Property taxes	\$ 416,364	\$ 596,620	\$ -	\$ 1,012,984
Special assessments	-	-	147,250	147,250
Total deferred inflows of resources	<u>416,364</u>	<u>596,620</u>	<u>147,250</u>	<u>1,160,234</u>
Fund Balances				
Non-spendable				
Prepaid items	23,030	174,750	-	197,780
Restricted for				
Fire	-	950,833	-	950,833
Tribal grants	-	-	29,907	29,907
Capital projects	-	-	153,197	153,197
Unassigned	<u>3,547,196</u>	<u>-</u>	<u>-</u>	<u>3,547,196</u>
Total fund balances	<u>3,570,226</u>	<u>1,125,583</u>	<u>183,104</u>	<u>4,878,913</u>
Total liabilities, deferred inflows of resources, and fund balances	<u><u>\$ 4,069,293</u></u>	<u><u>\$ 1,722,252</u></u>	<u><u>\$ 330,354</u></u>	<u><u>\$ 6,121,899</u></u>

See Accompanying Notes to the Financial Statements

Charter Township of Union
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Position of Governmental Activities
December 31, 2017

Total fund balances for governmental funds	\$ 4,878,913
Total net position for governmental activities in the statement of net position is different because:	
Capital assets net of accumulated depreciation used in governmental activities are not financial resources and therefore are not reported in the funds.	853,822
Capital assets not being depreciated used in governmental activities are not financial resources and therefore are not reported in the funds.	160,650
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	147,250
Certain liabilities are not due and payable in the current period and are not reported in the funds. Compensated absences	(14,358)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	<u>(37,664)</u>
Net position of governmental activities	<u><u>\$ 5,988,613</u></u>

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

	General	Special Revenue Fund Fire	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 461,104	\$ 595,159	\$ -	\$ 1,056,263
Licenses and permits	58,116	-	-	58,116
State revenue sharing	1,127,555	-	-	1,127,555
Other state grants	54,302	5,441	-	59,743
Charges for services	81,504	101,171	-	182,675
Fines and forfeitures	617	-	-	617
Interest income	43,639	12,064	1,021	56,724
Rental income	10,630	-	-	10,630
Cable franchise fees	132,360	-	-	132,360
Other revenue	48,036	-	43,709	91,745
Total revenues	2,017,863	713,835	44,730	2,776,428
Expenditures				
Current				
General government	722,543	-	-	722,543
Public safety	250,827	684,000	-	934,827
Public works	339,017	-	-	339,017
Community and economic development	114,511	-	-	114,511
Recreation and culture	112,311	-	-	112,311
Capital outlay	9,626	-	-	9,626
Debt service				
Principal retirement	9,760	-	-	9,760
Interest and fiscal charges	3,530	-	-	3,530
Total expenditures	1,562,125	684,000	-	2,246,125
Net change in fund balance	455,738	29,835	44,730	530,303
Fund balance - beginning of year	3,114,488	1,095,748	138,374	4,348,610
Fund balance - end of year	<u>\$ 3,570,226</u>	<u>\$ 1,125,583</u>	<u>\$ 183,104</u>	<u>\$ 4,878,913</u>

See Accompanying Notes to the Financial Statements

Charter Township of Union
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2017

Net change in fund balances - Total governmental funds	\$ 530,303
Total change in net position reported for governmental activities in the statement of activities is 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	(74,139)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Special assessments	(35,522)
Expenses are recorded when incurred in the statement of activities.	
Compensated absences	(3,448)
Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	
Repayments of long-term debt	<u>9,760</u>
Change in net position of governmental activities	<u><u>\$ 426,954</u></u>

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

	Enterprise Funds		
	Sewer	Water	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 2,613,334	\$ 3,047,875	\$ 5,661,209
Receivables			
Customers	596,820	332,174	928,994
Special assessments, current	29,396	14,820	44,216
Accrued interest and other	1,000	932	1,932
Due from other units of government	2,436	2,117	4,553
Prepaid items	34,713	26,278	60,991
Total current assets	<u>3,277,699</u>	<u>3,424,196</u>	<u>6,701,895</u>
Noncurrent assets			
Restricted assets			
Cash and cash equivalents			
USDA RRI reserve	85,463	-	85,463
USDA bond reserve	115,000	-	115,000
Special assessments receivable, deferred	26,468	41,324	67,792
Capital assets not being depreciated	258,680	17,100	275,780
Capital assets, net of accumulated depreciation	<u>16,595,811</u>	<u>8,931,427</u>	<u>25,527,238</u>
Total noncurrent assets	<u>17,081,422</u>	<u>8,989,851</u>	<u>26,071,273</u>
Total assets	20,359,121	12,414,047	32,773,168
Deferred outflows of resources			
Deferred amount on refunding	<u>154,986</u>	<u>-</u>	<u>154,986</u>
Total assets and deferred outflows of resources	<u>20,514,107</u>	<u>12,414,047</u>	<u>32,928,154</u>

See Accompanying Notes to the Financial Statements

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

	Enterprise Funds		
	Sewer	Water	Total
Liabilities			
Current liabilities			
Accounts payable	\$ 43,814	\$ 27,284	\$ 71,098
Accrued and other liabilities	29,813	22,702	52,515
Current portion of noncurrent liabilities	496,667	122,153	618,820
Total current liabilities	570,294	172,139	742,433
Noncurrent liabilities			
Long-term debt net of current portion	6,512,545	1,466,236	7,978,781
Total liabilities	7,082,839	1,638,375	8,721,214
Net position			
Net investment in capital assets	10,038,255	7,390,269	17,428,524
Restricted for			
Bond required reserves	200,463	-	200,463
Unrestricted	3,192,550	3,385,403	6,577,953
Total net position	<u>\$ 13,431,268</u>	<u>\$ 10,775,672</u>	<u>\$ 24,206,940</u>

See Accompanying Notes to the Financial Statements

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

	Enterprise Funds		
	Sewer	Water	Total
Operating revenue			
Customer fees	\$ 2,378,952	\$ 1,446,750	\$ 3,825,702
Connection fees	154,448	123,753	278,201
Rental income	-	43,116	43,116
Other revenue	6,782	9,923	16,705
Total operating revenue	<u>2,540,182</u>	<u>1,623,542</u>	<u>4,163,724</u>
Operating expenses			
Personnel services	665,375	543,638	1,209,013
Supplies	116,496	59,733	176,229
Contractual services	106,686	68,900	175,586
Utilities	229,781	122,544	352,325
Repairs and maintenance	119,414	133,307	252,721
Other expenses	26,488	19,015	45,503
Depreciation	649,329	342,011	991,340
Total operating expenses	<u>1,913,569</u>	<u>1,289,148</u>	<u>3,202,717</u>
Operating income	<u>626,613</u>	<u>334,394</u>	<u>961,007</u>

See Accompanying Notes to the Financial Statements

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

	Enterprise Funds		
	Sewer	Water	Total
Nonoperating revenue (expenses)			
State grant	\$ 2,436	\$ 2,117	\$ 4,553
Interest income	38,650	40,040	78,690
Gain on disposal of assets	-	5,000	5,000
Interest expense	(274,628)	(65,253)	(339,881)
 Total nonoperating revenues (expenses)	 (233,542)	 (18,096)	 (251,638)
 Change in net position	 393,071	 316,298	 709,369
 Net position - beginning of year	 13,038,197	 10,459,374	 23,497,571
 Net position - end of year	 <u>\$ 13,431,268</u>	 <u>\$ 10,775,672</u>	 <u>\$ 24,206,940</u>

See Accompanying Notes to the Financial Statements

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

	Enterprise Funds		
	Sewer	Water	Total
Cash flows from operating activities			
Receipts from customers	\$ 2,528,693	\$ 1,607,708	\$ 4,136,401
Payments to suppliers	(554,736)	(407,833)	(962,569)
Payments to employees	(668,015)	(544,150)	(1,212,165)
Net cash provided by operating activities	<u>1,305,942</u>	<u>655,725</u>	<u>1,961,667</u>
Cash flows from noncapital financing activities			
State grant	<u>2,436</u>	<u>2,117</u>	<u>4,553</u>
Cash flows from capital and related financing activities			
Proceeds from special assessments	22,418	13,815	36,233
Purchases/construction of capital assets	(226,332)	(250,476)	(476,808)
Principal and interest paid on long-term debt	(1,201,551)	(152,701)	(1,354,252)
Proceeds from sale of capital assets	<u>-</u>	<u>5,000</u>	<u>5,000</u>
Net cash used by capital and related financing activities	<u>(1,405,465)</u>	<u>(384,362)</u>	<u>(1,789,827)</u>
Cash flows from investing activities			
Interest received	<u>37,650</u>	<u>39,108</u>	<u>76,758</u>
Net change in cash and cash equivalents	(59,437)	312,588	253,151
Cash and cash equivalents - beginning of year	<u>2,873,234</u>	<u>2,735,287</u>	<u>5,608,521</u>
Cash and cash equivalents - end of year	<u><u>\$ 2,813,797</u></u>	<u><u>\$ 3,047,875</u></u>	<u><u>\$ 5,861,672</u></u>

See Accompanying Notes to the Financial Statements

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

	Enterprise Funds		
	Sewer	Water	Total
Statement of Net Position classification			
Cash and cash equivalents	\$ 2,613,334	\$ 3,047,875	\$ 5,661,209
Restricted assets			
Cash and cash equivalents			
USDA RRI reserve	85,463	-	85,463
USDA bond reserve	115,000	-	115,000
	<u>\$ 2,813,797</u>	<u>\$ 3,047,875</u>	<u>\$ 5,861,672</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 626,613	\$ 334,394	\$ 961,007
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation and amortization expense	693,035	343,590	1,036,625
Changes in assets and liabilities			
Receivables (net)	(9,053)	(13,717)	(22,770)
Due from other units of government	(2,436)	(2,117)	(4,553)
Prepaid items	(3,359)	(1,711)	(5,070)
Accounts payable	3,782	(4,202)	(420)
Accrued and other liabilities	326	(609)	(283)
Compensated absences	(2,966)	97	(2,869)
	<u>\$ 1,305,942</u>	<u>\$ 655,725</u>	<u>\$ 1,961,667</u>

See Accompanying Notes to the Financial Statements

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

	Current Tax Collection Fund	Imprest Payroll Fund	Total Agency Funds
Assets			
Cash and cash equivalents	\$ 3,155,933	\$ 5,890	\$ 3,161,823
Prepaid items	-	38,940	38,940
Total assets	<u>\$ 3,155,933</u>	<u>\$ 44,830</u>	<u>\$ 3,200,763</u>
Liabilities			
Accrued and other liabilities	\$ -	\$ 642	\$ 642
Due to other funds	-	44,188	44,188
Due to other units of government	3,155,933	-	3,155,933
Total liabilities	<u>\$ 3,155,933</u>	<u>\$ 44,830</u>	<u>\$ 3,200,763</u>

See Accompanying Notes to the Financial Statements

Charter Township of Union
Combining Statement of Component Units
Statement of Net Position
December 31, 2017

	East Downtown Development Authority	West Downtown Development Authority	Total
Assets			
Cash and cash equivalents	\$ 1,105,502	\$ 747,498	\$ 1,853,000
Receivables			
Taxes	16,914	235,055	251,969
Accrued interest and other	246	-	246
Due from other units of government	380,532	366,702	747,234
Prepaid items	1,207	-	1,207
Capital assets, net of accumulated depreciation	116,640	8,510	125,150
Total assets	<u>1,621,041</u>	<u>1,357,765</u>	<u>2,978,806</u>
Liabilities			
Accounts payable	4,437	-	4,437
Accrued interest payable	-	101,557	101,557
Noncurrent liabilities			
Due within one year	-	30,178	30,178
Total liabilities	<u>4,437</u>	<u>131,735</u>	<u>136,172</u>
Deferred inflows of resources			
Property taxes	397,446	601,757	999,203
Total liabilities and deferred inflows of resources	<u>401,883</u>	<u>733,492</u>	<u>1,135,375</u>
Net position			
Net investment in capital assets	116,640	8,510	125,150
Restricted			
East DDA	1,102,518	-	1,102,518
West DDA	-	615,763	615,763
Total net position	<u>\$ 1,219,158</u>	<u>\$ 624,273</u>	<u>\$ 1,843,431</u>

See Accompanying Notes to the Financial Statements

Charter Township of Union
Combining Statement of Component Units
Statement of Activities
For the Year Ended December 31, 2017

	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
	Expenses	Operating Grants and Contributions	East	West	Total
			Downtown Development Authority	Downtown Development Authority	
Component units					
East Downtown Development Authority	\$ 178,163	\$ 55,909	\$ (122,254)	\$ -	\$ (122,254)
West Downtown Development Authority	579,650	-	-	(579,650)	(579,650)
 Total component units	 \$ 757,813	 \$ 55,909	 (122,254)	 (579,650)	 (701,904)
 General revenues					
Property taxes			444,883	495,098	939,981
Interest income			7,333	1,614	8,947
Miscellaneous			68	-	68
 Total general revenues			 452,284	 496,712	 948,996
 Change in net position			 330,030	 (82,938)	 247,092
Net position - beginning of year			889,128	707,211	1,596,339
Net position - end of year			<u>\$ 1,219,158</u>	<u>\$ 624,273</u>	<u>\$ 1,843,431</u>

See Accompanying Notes to the Financial Statements

Charter Township of Union
Notes to the Financial Statements
December 31, 2017

Note 1 - Summary of Significant Accounting Policies

Reporting entity

The Charter Township of Union, Michigan was organized as a Township under provisions of the constitution and general law of the State of Michigan. The Township is one of sixteen townships in Isabella County. The Township is governed by an elected Township Board which consists of a Supervisor, Clerk, Treasurer, and four Trustees and provides services to its residents in many areas including water and sewer, general government, fire protection and prevention, maintenance of highway, streets and bridges, and community enrichment.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Discretely Presented Component Units – The component unit column in the entity wide financial statements includes the financial data of the Township's East Downtown Development Authority and West Downtown Development Authority. These units are reported in a separate column to emphasize that they are legally separate from the Township. The members of the Governing Board of the Downtown Development Authorities are appointed by the Board of Trustees. The budgets and expenditures of the Downtown Development Authorities must be approved by the Board of Trustees. The Township also has the ability to significantly influence operations of the Downtown Development Authorities. The Downtown Development Authorities do not issue any other form of financial statements except as contained in the Charter Township of Union annual financial statements.

In 2014, the Township created a Brownfield Redevelopment Authority ("Authority") to promote the redevelopment of environmentally distressed, functionally obsolete and/or blighted areas of the Township. The Authority has not yet had any financial activity.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

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

Charter Township of Union
Notes to the Financial Statements
December 31, 2017

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Township's property taxes are recognized as revenues in the fiscal year following 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.

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

The government reports the following major governmental funds:

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

The Fire Fund accounts for resources used to provide fire services to residents of the Township and the surrounding area.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the sewage collection system.

The Water Fund accounts for the activities of the water distribution system.

Additionally, the government reports the following:

The Nonmajor Special Revenue Fund accounts for the proceeds of a specific revenue source requiring separate accounting because of administrative requirements.

The Capital Projects Fund accounts for the proceeds of special assessments, and the improvements made with those funds.

The Agency Fund accounts for assets held by the Township acting as an agent for individuals and/or other funds. The Township's agency funds include the Current Tax Collection Fund and an Imprest Payroll Fund.

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

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

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 sewer and water funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer and water 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.

Assets, liabilities, and net position or equity

Deposits – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Certificate of deposits are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. The Township considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Although the Township's 2017 tax is levied and collectible on December 1, 2017, it is the Township's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of the levy are budgeted and made available for the financing of Township operations. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The 2016 taxable valuation of the government totaled \$355,935,227, on which ad valorem taxes consisted of 1.000 mills for operating purposes and 2.000 mills for fire services. This resulted in \$355,935 for operating expenses and \$711,870 for fire services, exclusive of East Downtown Development and West Downtown Development tax captures, as well as any Michigan Tax Tribunal or Board of Review adjustments.

Prepaid items – Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the Township follows the consumption method, and they therefore are capitalized as prepaid items in both entity-wide and fund financial statements.

Charter Township of Union
Notes to the Financial Statements
December 31, 2017

Restricted assets – Certain bonds of the Enterprise Funds require amounts to be set aside for a bond reserve and future operations and maintenance. These amounts have been classified as restricted cash.

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

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

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

Land improvements	10 - 20 years
Buildings and improvements	7 - 50 years
Machinery and equipment	5 - 25 years
Vehicles	5 - 20 years
Water and sewer systems	10 - 50 years

Deferred outflows of resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. Deferred amounts on bond refundings are included in the government-wide financial statements. The amounts represent the difference between the reacquisition price and the net carrying amount of the prior debt.

Compensated absences – It is the Township’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Policies are as follows:

Employees hired on or before December 31, 2014 who give proper resignation after 20 years of service will be paid for 50% of their accumulated but unused sick leave days.

Employees whose employment relationship with the Township ends receive pay for earned and credited, but unused vacation leave if the employee retires in accordance with the retirement plan in effect or if the employee resigns from employment and a minimum of 2 weeks advance written notice is given to the Township.

Vacation and sick pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term obligations – In the government-wide financial statements, 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 effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

Deferred inflows of resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. Property taxes billed during the month of December will be used to finance the following year's operations. As such, these taxes are recorded as deferred inflows in each respective fund as of December 31.

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

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

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

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

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Trustees. The Board

of Trustees has not approved a policy indicating who is to assign amounts to a specific purpose. As a result, this authority is retained by the Board of Trustees. Residual amounts in governmental funds other than the general fund are automatically assigned by their nature.

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

The Township has not adopted a policy that defines the order of usage for fund balance amounts classified as restricted, committed, assigned, or unassigned. In the absence of such a policy, resources with the highest level of restriction will be used first.

Upcoming Accounting and Reporting Changes

The Governmental Accounting Standards Board has released the following Statements.

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending December 31, 2019.

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

Charter Township of Union
Notes to the Financial Statements
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specific criteria. The requirements of this Statement are effective for the fiscal year ending December 31, 2019.

Statement No. 85, *Omnibus 2017* addresses practice issues that were identified during implementation and application of certain GASB Statements. This statement covers issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits), which is effective for the fiscal year ending December 31, 2018.

Statement No. 86, *Certain Debt Extinguishment Issues* is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The statement provides uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irremovable trust for the purpose of extinguishing that debt were acquired. The effective date is for the fiscal year ending December 31, 2018.

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

Note 2 - Stewardship, Compliance and Accountability

Budgetary information

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

Prior to December 31, the Township Manager submits to the Board of Trustees a proposed operating budget for the fiscal year commencing the following January 1. Public hearings are held to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to December 31.

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

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

Note 3 - Deposits and Investments

At year end the government's deposits were reported in the financial statements as follows:

	Cash and Cash Equivalents	Restricted Cash and Cash Equivalents	Total
Governmental activities	\$ 4,695,151	\$ -	\$ 4,695,151
Business-type activities	5,661,209	200,463	5,861,672
Total primary government	10,356,360	200,463	10,556,823
Fiduciary funds	3,161,823	-	3,161,823
Component unit	1,853,000	-	1,853,000
Total	<u>\$ 15,371,183</u>	<u>\$ 200,463</u>	<u>\$ 15,571,646</u>

Charter Township of Union
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The breakdown between deposits and investments is as follows:

	Primary Government	Fiduciary Funds	Component Units	Total
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 10,556,423	\$ 3,161,823	\$ 1,853,000	\$ 15,571,246
Petty cash and cash on hand	400	-	-	400
	<u>\$ 10,556,823</u>	<u>\$ 3,161,823</u>	<u>\$ 1,853,000</u>	<u>\$ 15,571,646</u>

Interest rate risk – The Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market rate interest rates, by structuring the investment portfolio to attain a market average rate of return while taking into account investment risk constraints and liquidity needs.

Credit risk – State statutes authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the government authorizes investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory authority as listed above.

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

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of bank failure, the government’s deposits may not be returned to it. The government does not have a policy for custodial credit risk. As of year end, \$16,219,791 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4 - Receivables

The only receivables not expected to be collected within one year are as follows:

	Due After One Year	Fund
Primary government		
Special assessments	\$ 67,951	Public Improvement Fund
Special assessments	26,468	Sewer Fund
Special assessments	41,324	Water Fund
	<u>\$ 135,743</u>	

Charter Township of Union
Notes to the Financial Statements
December 31, 2017

Note 5 - Capital Assets

At year end capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 160,650	\$ -	\$ -	\$ 160,650
Capital assets being depreciated				
Land improvements	329,743	-	-	329,743
Buildings, additions and improvements	1,089,260	-	-	1,089,260
Machinery and equipment	251,973	-	-	251,973
Vehicles	314,821	-	-	314,821
Total capital assets being depreciated	1,985,797	-	-	1,985,797
Less accumulated depreciation for				
Land improvements	258,157	13,490	-	271,647
Buildings, additions and improvements	387,441	21,896	-	409,337
Machinery and equipment	164,118	19,265	-	183,383
Vehicles	248,120	19,488	-	267,608
Total accumulated depreciation	1,057,836	74,139	-	1,131,975
Net capital assets being depreciated	927,961	(74,139)	-	853,822
Governmental activities capital assets, net	<u>\$ 1,088,611</u>	<u>\$ (74,139)</u>	<u>\$ -</u>	<u>\$ 1,014,472</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 275,780	\$ -	\$ -	\$ 275,780
Capital assets being depreciated				
Land improvements	41,964	-	-	41,964
Buildings, additions and improvements	202,927	-	-	202,927
Machinery and equipment	1,555,735	124,480	-	1,680,215
Vehicles	402,545	31,090	20,450	413,185
Water system	12,912,087	198,862	-	13,110,949
Sewer system	13,596,909	122,376	-	13,719,285
Wastewater treatment plant	12,567,029	-	-	12,567,029
Total capital assets being depreciated	41,279,196	476,808	20,450	41,735,554
Less accumulated depreciation for				
Land improvements	28,434	1,323	-	29,757
Buildings, additions and improvements	103,820	8,556	-	112,376
Machinery and equipment	784,591	107,367	-	891,958
Vehicles	207,616	24,183	20,450	211,349
Water system	4,381,226	280,981	-	4,662,207
Sewer system	6,884,227	296,515	-	7,180,742
Wastewater treatment plant	2,847,512	272,415	-	3,119,927
Total accumulated depreciation	15,237,426	991,340	20,450	16,208,316
Net capital assets being depreciated	26,041,770	(514,532)	-	25,527,238
Business-type capital assets, net	<u>\$ 26,317,550</u>	<u>\$ (514,532)</u>	<u>\$ -</u>	<u>\$ 25,803,018</u>

Charter Township of Union
Notes to the Financial Statements
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Capital assets activity of the component units for the current year was as follows:

Component Units	Beginning Balance	Increases	Decreases	Ending Balance
East Downtown Development Authority				
Capital assets being depreciated				
Land improvements	\$ 233,279	\$ -	\$ -	\$ 233,279
Less accumulated depreciation for				
Land improvements	104,976	11,663	-	116,639
East Downtown Development Authority capital assets, net	<u>\$ 128,303</u>	<u>\$ (11,663)</u>	<u>\$ -</u>	<u>\$ 116,640</u>
West Downtown Development Authority				
Capital assets being depreciated				
Land improvements	\$ 15,473	\$ -	\$ -	\$ 15,473
Less accumulated depreciation for				
Land improvements	6,190	773	-	6,963
West Downtown Development Authority capital assets, net	<u>\$ 9,283</u>	<u>\$ (773)</u>	<u>\$ -</u>	<u>\$ 8,510</u>
Total component units	<u>\$ 137,586</u>	<u>\$ (12,436)</u>	<u>\$ -</u>	<u>\$ 125,150</u>

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

Governmental activities

General government	\$ 47,303
Public safety	13,156
Recreation and culture	13,680
Total governmental activities	<u>74,139</u>

Business-type activities

Sewer	649,329
Water	342,011
Total business-type activities	<u>991,340</u>
Total primary government	<u>\$ 1,065,479</u>

Depreciation expense was charged to the following programs for component units:

East Downtown Development Authority	\$ 11,663
West Downtown Development Authority	773
Total component units	<u>\$ 12,436</u>

Note 6 - Interfund Receivables and Payables

The imprest payroll fund, a fiduciary fund, owes the general fund \$44,188 at December 31, 2017. The imprest payroll fund pays health insurance during the month prior to the coverage month. Funds of the Township which record benefits expense for employees record the expense in the month of coverage and transfer amounts to the imprest payroll fund during that month.

Charter Township of Union
Notes to the Financial Statements
December 31, 2017

Note 7 - Capital Lease

The Township has a lease for copy machines. The future minimum lease payments are as follows:

Year ending December 31,		
2018	\$	17,940
2019		17,940
2020		17,940
2021		4,485
Total minimum lease payments		58,305
Less amount representing interest		(7,462)
Present value of minimum lease payments	\$	50,843
Asset		
Machinery and equipment	\$	73,731
Less accumulated depreciation		(25,806)
Total	\$	47,925

Note 8 - Long-Term Debt

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Other long-term obligations include a capital lease and compensated absences. Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Capital leases	\$ 47,424	\$ -	\$ 9,760	\$ 37,664	\$ 10,570
Compensated absences	10,910	25,781	22,333	14,358	14,358
Total governmental activities	\$ 58,334	\$ 25,781	\$ 32,093	\$ 52,022	\$ 24,928
Business-type activities					
Bonds and notes payable					
General obligation bonds					
2004 Sewer Revenue Refunding Bonds	\$ 475,000	\$ -	\$ 475,000	\$ -	\$ -
2009 Wastewater Refunding Bonds	1,890,000	-	355,000	1,535,000	365,000
2010 Water Revenue Bonds	1,655,000	-	85,000	1,570,000	90,000
2011 Sanitary Sewer System (Phase I)	1,026,000	-	16,000	1,010,000	17,000
2011 Sanitary Sewer System (Phase II)	4,497,651	-	73,000	4,424,651	75,000
	9,543,651	-	1,004,000	8,539,651	547,000
Less deferred amounts for issuance discounts	(29,889)	-	(6,539)	(23,350)	-
Total bonds payable	9,513,762	-	997,461	8,516,301	547,000
Capital leases	16,594	-	3,415	13,179	3,699
Compensated absences	70,990	70,080	72,949	68,121	68,121
Total business-type activities	\$ 9,601,346	\$ 70,080	\$ 1,073,825	\$ 8,597,601	\$ 618,820
Component units					
General obligation bonds					
1991 WDDA Series II	\$ 63,654	\$ -	\$ 32,526	\$ 31,128	\$ 31,128
Less deferred amounts for issuance discounts	(1,900)	-	(950)	(950)	(950)
Total component units	\$ 61,754	\$ -	\$ 31,576	\$ 30,178	\$ 30,178

Charter Township of Union
Notes to the Financial Statements
December 31, 2017

Significant details regarding outstanding long-term debt are presented below:

Primary Government

\$4,130,000 Wastewater Refunding Bonds Series 2009 dated August 27, 2009, due in annual installments ranging from \$365,000 to \$405,000 through April 1, 2021, with an interest rate ranging from 3.75 to 4.00 percent, payable semi-annually.	\$ 1,535,000
\$2,105,000 General Obligation Water Revenue Bonds Series 2010 dated July 21, 2010, due in annual installments ranging from \$90,000 to \$155,000 through October 1, 2030, with an interest rate ranging from 3.00 to 4.40 percent, payable semi-annually.	1,570,000
\$1,100,000 Sewer System Revenue Bonds dated November 1, 2011, due in annual installments ranging from \$17,000 to \$47,000 through May 1, 2051, with an interest rate of 3.25 percent, payable semi-annually.	1,010,000
\$1,424,5110 Sewer System Revenue Bonds dated July 17, 2013, due in annual installments ranging from \$75,000 to \$189,000 through May 1, 2051, with an interest rate of 2.75 percent, payable semi-annually.	4,424,651
	<u>\$ 8,539,651</u>

Component Units

\$949,982 West Downtown Development Authority Bonds Series II dated August 20, 1991, due in one installment of \$31,128 due on August 1, 2018, with an interest rate of 8.25 percent.	<u>\$ 31,128</u>
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Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending December 31,	Business-type Activities		Component Unit	
	Principal	Interest	Principal	Interest
2018	\$ 547,000	\$ 273,245	\$ 31,128	\$ 243,870
2019	564,000	255,153	-	-
2020	587,000	235,381	-	-
2021	609,000	206,015	-	-
2022	213,000	191,426	-	-
2023 - 2027	1,184,000	845,466	-	-
2028 - 2032	1,088,000	627,816	-	-
2033 - 2037	741,000	491,632	-	-
2038 - 2042	852,000	379,894	-	-
2043 - 2047	979,000	251,470	-	-
2048 - 2052	1,075,000	103,714	-	-
2053	100,651	2,768	-	-
	<u>\$ 8,539,651</u>	<u>\$ 3,863,980</u>	<u>\$ 31,128</u>	<u>\$ 243,870</u>

During 2017, the Township paid the remaining \$475,000 balance of the Sewer Revenue Refunding Bond Series 2004 early. The bond was previously set to mature during 2019.

Compensated Absences

Individual employees have vested rights upon termination of employment to receive payment for unused sick and vacation time. The dollar amount of these vested rights including related payroll taxes, which have been accrued on the financial statements in the government-wide financial statements, amounted to \$14,358 for governmental activities. Resources from the general fund will be used to liquidate this liability. The business-type activities reported a liability of \$68,121. Resources from the sewer and water funds will be used to liquidate this liability.

Charter Township of Union
Notes to the Financial Statements
December 31, 2017

Deferred Amount on Refunding

The Township issued bonds in 2009 to advance refund and retire previously issued bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$464,957. This amount, less accumulated amortization, is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through fiscal year 2021. The balance at December 31, 2017 is \$154,986.

Note 9 - Risk Management

The Township participates in a pool, the Michigan Municipal League Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Township has not been informed of any special assessments being required.

The Township also participates in a pool, the Michigan Township Participating Plan with other municipalities for various risks of loss including general, employee benefits, public officials, law enforcement, inland marine, crime, auto, boiler and machinery, and EDP liability, errors and omissions, and property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Township has not been informed of any special assessments being required.

Note 10 - Employee Retirement and Benefit Systems

Defined contribution plan

The Township participates in a defined contribution plan administered by Municipal Employees' Retirement System. The plan is available for all full-time employees, excluding elected officials. The Township is required to contribute 7.5 percent of each participant's annual compensation. Employees are required to contribute 2.5 percent of their annual compensation. Contributions can be made by employees on a pre-tax basis. Upon early retirement or termination of service, other than because of death, disability, or normal retirement, benefits in the plan vest at 100% after twenty months of service.

For the year ended December 31, 2017, the Township's total payroll was \$1,287,742. The current year employer contribution was \$84,268. Employee contributions for the year ended December 31, 2017, totaled \$28,072.

Note 11 - Contingent Liabilities

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

Charter Township of Union
Notes to the Financial Statements
December 31, 2017

Note 12 - Contractual Commitments

The Township has contracted with the City of Mount Pleasant for fire protection. The contract currently runs through 2018. The Township's future anticipated operating revenues are expected to be sufficient to cover this commitment.

The remaining contractual commitment is as follows:

Year Ending December 31,	
<u>2018</u>	<u>\$ 699,000</u>

Charter Township of Union
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Taxes				
Property taxes	\$ 302,000	\$ 294,591	\$ 295,430	\$ 839
Other taxes	5,500	5,500	4,481	(1,019)
Penalties and interest	4,000	5,600	5,919	319
Administration fee	152,465	153,965	155,274	1,309
Licenses and permits	115,000	61,000	58,116	(2,884)
State revenue sharing	1,036,248	1,078,500	1,127,555	49,055
State grants	-	56,000	54,302	(1,698)
Charges for services	80,000	81,200	81,504	304
Fines and forfeitures	1,500	800	617	(183)
Interest income	10,000	41,000	43,639	2,639
Rental income	8,150	10,900	10,630	(270)
Cable franchise fees	79,900	130,000	132,360	2,360
Other revenue	16,000	46,020	48,036	2,016
Sale of fixed assets	500	500	-	(500)
	<u>1,811,263</u>	<u>1,965,576</u>	<u>2,017,863</u>	<u>52,287</u>
Total revenues				

Charter Township of Union
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Expenditures				
General government				
Township board	\$ 67,981	\$ 54,098	\$ 46,212	\$ (7,886)
Supervisor	20,418	20,418	16,516	(3,902)
Manager	78,579	132,356	96,003	(36,353)
Accounting	154,945	151,634	133,002	(18,632)
Clerk	35,506	30,306	28,039	(2,267)
Data processing	55,000	55,000	20,218	(34,782)
Treasurer	38,606	31,466	28,603	(2,863)
Assessor	208,070	214,475	202,794	(11,681)
Elections	9,100	3,100	-	(3,100)
Buildings and grounds	67,200	68,200	62,704	(5,496)
Attorney	41,000	95,000	88,452	(6,548)
Total general government	776,405	856,053	722,543	(133,510)
Public safety				
Building inspection department	253,440	258,124	250,827	(7,297)

Charter Township of Union
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Public works				
Department of public works	\$ 681,950	\$ 434,100	\$ 339,017	\$ (95,083)
Community and economic development				
Planning	196,843	130,157	114,511	(15,646)
Recreation and culture				
Parks and recreation	177,906	142,487	112,311	(30,176)
Capital outlay	52,000	14,900	9,626	(5,274)
Debt service				
Principal retirement	-	9,600	9,760	160
Interest and fiscal charges	-	3,700	3,530	(170)
Total debt service	-	13,300	13,290	(10)
Total expenditures	2,138,544	1,849,121	1,562,125	(286,996)
Excess (deficiency) of revenues over expenditures	(327,281)	116,455	455,738	339,283
Fund balance - beginning of year	3,114,488	3,114,488	3,114,488	-
Fund balance - end of year	\$ 2,787,207	\$ 3,230,943	\$ 3,570,226	\$ 339,283

Charter Township of Union
Required Supplementary Information
Budgetary Comparison Schedule
Fire Fund
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 605,000	\$ 595,240	\$ 595,159	\$ (81)
Other state grants	-	6,500	5,441	(1,059)
Charges for services	98,075	101,100	101,171	71
Interest income	4,500	11,500	12,064	564
Total revenues	707,575	714,340	713,835	(505)
Expenditures				
Current				
Public safety	684,000	684,000	684,000	-
Excess of revenues over expenditures	23,575	30,340	29,835	(505)
Fund balance - beginning of year	1,095,748	1,095,748	1,095,748	-
Fund balance - end of year	<u>\$ 1,119,323</u>	<u>\$ 1,126,088</u>	<u>\$ 1,125,583</u>	<u>\$ (505)</u>

Charter Township of Union
Other Supplementary Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2017

	Special Revenue Fund	Capital Projects Fund	Total Nonmajor Governmental Funds
	Tribal 2%	Public Improvement	
Assets			
Cash and cash equivalents	\$ 29,907	\$ 153,197	\$ 183,104
Special assessments	-	147,250	147,250
 Total assets	 \$ 29,907	 \$ 300,447	 \$ 330,354
Deferred inflows of resources			
Special assessments	\$ -	\$ 147,250	\$ 147,250
Fund Balances			
Restricted			
Tribal grants	29,907	-	29,907
Capital projects	-	153,197	153,197
 Total fund balances	 29,907	 153,197	 183,104
 Total deferred inflows of resources and fund balances	 \$ 29,907	 \$ 300,447	 \$ 330,354

Charter Township of Union
Other Supplementary Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended December 31, 2017

	Special Revenue Fund	Capital Projects Fund	Total Nonmajor Governmental Funds
	Tribal 2%	Public Improvement	
Revenues			
Interest income	\$ 203	\$ 818	\$ 1,021
Other revenue	-	43,709	43,709
 Total revenues	 203	 44,527	 44,730
 Fund balance - beginning of year	 29,704	 108,670	 138,374
 Fund balance - end of year	 \$ 29,907	 \$ 153,197	 \$ 183,104

Charter Township of Union
Component Unit - East Downtown Development Authority
Balance Sheet
December 31, 2017

Assets

Cash and cash equivalents	\$ 1,105,502
Receivables	
Taxes	16,914
Accrued interest and other	246
Due from other units of government	380,532
Prepaid items	<u>1,207</u>
 Total assets	 <u><u>\$ 1,504,401</u></u>

Liabilities

Accounts payable	<u>\$ 4,437</u>
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Deferred inflows of resources

Property taxes	<u>397,446</u>
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Fund Balances

Non-spendable	
Prepaid items	1,207
Restricted	
East DDA	<u>1,101,311</u>
 Total fund balances	 <u>1,102,518</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u><u>\$ 1,504,401</u></u>

**Charter Township of Union
East Downtown Development Authority
Reconciliation of Fund Balances of Component Unit
to Net Position of Component Unit
December 31, 2017**

Total fund balance for component unit fund \$ 1,102,518

Total net position for component unit activities in the statement of net position is different because:

Capital assets net of accumulated depreciation used in the government wide statements are not financial resources and therefore are not reported in the funds.

116,640

Net position of component unit

\$ 1,219,158

Charter Township of Union
Component Unit - East Downtown Development Authority
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2017

Revenues

Taxes	\$	444,883
Other state grants		55,909
Interest income		7,333
Other revenue		68
		68
Total revenues		508,193

Expenditures

Current		
Public safety		61,665
Community and economic development		104,835
		104,835
Total expenditures		166,500
Net change in fund balance		341,693
Fund balance - beginning of year		760,825
Fund balance - end of year	\$	1,102,518

Charter Township of Union
East Downtown Development Authority
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Component Units to the Statement of Activities
For the Year Ended December 31, 2017

Net change in fund balances - total component unit fund	\$ 341,693
Total change in net position reported for component unit activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the government wide statements the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	<u>(11,663)</u>
Change in net position of component unit	<u><u>\$ 330,030</u></u>

Charter Township of Union
Component Unit - West Downtown Development Authority
Balance Sheet
December 31, 2017

	<u>Operating</u>	<u>Debt Service</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 744,368	\$ 3,130	\$ 747,498
Receivables			
Taxes	235,055	-	235,055
Due from other units of government	<u>366,702</u>	<u>-</u>	<u>366,702</u>
Total assets	<u>\$ 1,346,125</u>	<u>\$ 3,130</u>	<u>\$ 1,349,255</u>
Deferred inflows of resources			
Property taxes	<u>\$ 601,757</u>	<u>\$ -</u>	<u>\$ 601,757</u>
Fund Balances			
Restricted			
West DDA	744,368	-	744,368
Debt service	<u>-</u>	<u>3,130</u>	<u>3,130</u>
Total fund balances	<u>744,368</u>	<u>3,130</u>	<u>747,498</u>
Total deferred inflows of resources and fund balances	<u>\$ 1,346,125</u>	<u>\$ 3,130</u>	<u>\$ 1,349,255</u>

**Charter Township of Union
West Downtown Development Authority
Reconciliation of Fund Balances of Component Unit
to Net Position of Component Unit
December 31, 2017**

Total fund balance for component unit fund	\$ 747,498
Total net position for component unit activities in the statement of net position is different because:	
Capital assets net of accumulated depreciation used in the government wide statements are not financial resources and therefore are not reported in the funds.	8,510
Certain liabilities are not due and payable in the current period and are not reported in the funds. Accrued interest	(101,557)
Long-term liabilities applicable to component unit activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Bonds payable Discount on bonds	(31,128) 950
Net position of component unit	<u>\$ 624,273</u>

Charter Township of Union
Component Unit - West Downtown Development Authority
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2017

	<u>Operating</u>	<u>Debt Service</u>	<u>Total</u>
Revenues			
Taxes	\$ 495,098	\$ -	\$ 495,098
Interest income	1,582	32	1,614
Total revenues	<u>496,680</u>	<u>32</u>	<u>496,712</u>
Expenditures			
Current			
Public safety	39,507	-	39,507
Community and economic development	300,400	-	300,400
Debt service			
Principal retirement	-	32,526	32,526
Interest and fiscal charges	-	233,274	233,274
Total expenditures	<u>339,907</u>	<u>265,800</u>	<u>605,707</u>
Excess (deficiency) of revenues over expenditures	<u>156,773</u>	<u>(265,768)</u>	<u>(108,995)</u>
Other financing sources (uses)			
Transfers in	-	260,000	260,000
Transfers out	(260,000)	-	(260,000)
Total other financing sources and uses	<u>(260,000)</u>	<u>260,000</u>	<u>-</u>
Net change in fund balance	(103,227)	(5,768)	(108,995)
Fund balance - beginning of year	<u>847,595</u>	<u>8,898</u>	<u>856,493</u>
Fund balance - end of year	<u>\$ 744,368</u>	<u>\$ 3,130</u>	<u>\$ 747,498</u>

**Charter Township of Union
West Downtown Development Authority
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Component Units to the Statement of Activities
For the Year Ended December 31, 2017**

Net change in fund balances - total component unit fund \$ (108,995)

Total change in net position reported for component unit activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the government wide statements the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense (773)

Expenses are recorded when incurred in the statement of activities.

Accrued interest (4,746)

Bond proceeds are reported as financing sources in the component unit funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the component unit funds but reduces the liability in the statement of net position.

Repayments of long-term debt 32,526
Amortization of discount (950)

Change in net position of component unit \$ (82,938)



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

Independent Auditors' Report

Management and the Board of Trustees
Charter Township of Union
Mt. Pleasant, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Charter Township of Union as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Charter Township of Union's basic financial statements, and have issued our report thereon dated May 7, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Charter Township of Union's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Yeo & Yeo, P.C.

Alma, Michigan
May 7, 2018