



WEINLANDER FITZHUGH

CHARTER TOWNSHIP OF HAMPTON
BAY COUNTY, MICHIGAN

FINANCIAL STATEMENTS
DECEMBER 31, 2018

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4a-4k
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS:	
STATEMENT OF NET POSITION	5
STATEMENT OF ACTIVITIES	6
FUND FINANCIAL STATEMENTS:	
GOVERNMENTAL FUNDS	
BALANCE SHEET	7
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION	8
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE	9
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	10
PROPRIETARY FUNDS	
STATEMENT OF NET POSITION	11
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION	12
STATEMENT OF CASH FLOWS	13
FIDUCIARY FUNDS	
STATEMENT OF FIDUCIARY NET POSITION	14
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	14
NOTES TO FINANCIAL STATEMENTS	15-37

TABLE OF CONTENTS

	<u>PAGE</u>
REQUIRED SUPPLEMENTAL INFORMATION	
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND	38-39
BUDGETARY COMPARISON SCHEDULE – PUBLIC SAFETY FUND	40
SCHEDULE OF CHANGES IN THE EMPLOYER’S NET OPEB LIABILITY AND RELATED RATIOS	41
SCHEDULE OF EMPLOYER’S OPEB CONTRIBUTIONS	42
OTHER SUPPLEMENTAL INFORMATION	
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS	43
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – NONMAJOR GOVERNMENTAL FUNDS	44
DEBT SCHEDULES	45-46
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	47-48
SCHEDULE OF FINDINGS AND RESPONSES	49-51
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS	52



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

May 8, 2019

Township Board
Charter Township of Hampton
Bay County, 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 Charter Township of Hampton (Township), as of and for the year ended December 31, 2018 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 U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Township's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Township Board
Charter Township of Hampton
May 8, 2019

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 Charter Township of Hampton as of December 31, 2018 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 9 to the financial statements, in 2018, the Township adopted new Accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles requires that management's discussion and analysis, budgetary comparison information, and the schedule of changes in the employer's net OPEB liability and related ratios, schedule of employer's OPEB contributions, as noted 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 U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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



WEINLANDER FITZHUGH

Township Board
Charter Township of Hampton
May 8, 2019

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2019, on our consideration of the Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Township's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.

Weinlander Fitzhugh

Charter Township of Hampton
Management's Discussion and Analysis
For the Year Ended December 31, 2018

Our discussion and analysis of the Charter Township of Hampton's (Township) financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2018.

Financial Highlights

State shared revenues were \$932,518 or 25% of General Fund revenues, while tax collection revenue was \$1,763,878 or 48% of General Fund revenues. The General Fund reported an increase in fund balance of \$400,701.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Township financially as a whole. The Government-wide Financial Statements provide information about the activities of the whole Township, presenting both an aggregate view of the Township's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For Governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending.

The fund financial statements look at the Township's operations in more detail than the Government-wide financial statements by providing information about the Township's most significant funds – the General Fund and Public Safety Fund with all other funds presented in one column as non-major funds. Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the Government-wide financial statements for the Township's water and sewer operations. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the Township acts solely as an agent or trustee.

The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund and Public Safety Fund (Required Supplemental Information).

OPEB Schedules (Required Supplemental Information)

Other Supplemental Information

Charter Township of Hampton
Management's Discussion and Analysis
For the Year Ended December 31, 2018

Reporting the Township as a Whole

The Statement of Net Position and Statement of Activities

One of the most important questions asked about the Township's finances is, "Is the Township better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Township as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the Township's net position as a way to measure the Township's financial position. The change in net position provides the reader a tool to assist in determining whether the Township's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base, and facility conditions in arriving at their conclusion regarding the overall health of the Township.

In the Statement of Net Position and the Statement of Activities, the Township is divided into three kinds of activities:

- Governmental Activities – Most of the Township's basic services are reported here, including the fire, trash, inspection, drains and general administration. Sales taxes (state shared revenues), property taxes and franchise fees finance most of these activities.
- Business Type Activities – The Township charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Township's water and sewer systems are reported here.
- Component Unit – The Township includes the Downtown Development Authority in their report. Although legally separate, this component unit is important because the Township is financially accountable for them.

Reporting the Township's Most Significant Funds

Fund Financial Statements

The Township's fund financial statements provide detailed information about the most significant funds – not the Township as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue. The Township's three types of funds, governmental, proprietary and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

Charter Township of Hampton
Management's Discussion and Analysis
For the Year Ended December 31, 2018

Governmental Funds

Most of the Township's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances remaining at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Township's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the Township's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

Proprietary Funds

These funds are reported in fund financial statements and generally report services for which the Township charges a fee. Enterprise funds essentially encompass the same functions reported as business-type activities in the Government-wide statements.

These funds present the Township's water and sewer operations that are managed by the Township. The Township has sole authority to set rates and is financially responsible for the integrity of the system. The financial statements reflect the financial position and results of operations for the system for the calendar year 2018.

Fiduciary Funds

The Township is the trustee, or fiduciary, for tax collections and other funds. All of the Township's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. We exclude these activities from the Township's other financial statements because the assets cannot be utilized by the Township to finance its operations.

Charter Township of Hampton
Management's Discussion and Analysis
For the Year Ended December 31, 2018

Township-wide Financial Analysis

Financial position - The statement of net position provides the perspective of the Township as a whole. Exhibit A provides a summary of the Township's net position as of December 31, 2018 and 2017.

<u>Exhibit A</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Assets						
Current and other assets	\$ 4,893,019	\$ 4,234,837	\$ 8,033,256	\$ 7,706,155	\$ 12,926,275	\$ 11,940,992
Capital assets - net of accumulated depreciation	1,506,643	1,545,895	10,073,154	10,389,433	11,579,797	11,935,328
Total assets	6,399,662	5,780,732	18,106,410	18,095,588	24,506,072	23,876,320
Deferred outflows of resources	536,148	0	0	0	536,148	0
Liabilities						
Current liabilities	205,131	133,667	1,068,823	1,083,245	1,273,954	1,216,912
Long-term liabilities	5,622,784	4,463,876	10,303,000	10,509,000	15,925,784	14,972,876
Total liabilities	5,827,915	4,597,543	11,371,823	11,592,245	17,199,738	16,189,788
Deferred inflows of resources	2,628,122	2,625,142	0	0	2,628,122	2,625,142
Net position						
Net investment in capital assets	1,506,643	1,545,895	4,204,992	4,467,297	5,711,635	6,013,192
Restricted	586,476	357,326	444,916	304,006	1,031,392	661,332
Unrestricted	(3,613,346)	(3,345,174)	2,084,679	1,732,040	(1,528,667)	(1,613,134)
Total net position	<u>\$ (1,520,227)</u>	<u>\$ (1,441,953)</u>	<u>\$ 6,734,587</u>	<u>\$ 6,503,343</u>	<u>\$ 5,214,360</u>	<u>\$ 5,061,390</u>

Exhibit A focuses on net position. The Township's total net position was \$5,214,360 at December 31, 2018. Net investment in capital assets, totaling \$5,711,635 compares the original cost, less depreciation of the Township's capital assets and bond proceeds available to long-term debt used to finance the acquisition of those assets. Restricted net position of \$1,031,392 reported separately to show legal constraints that limit the Township's ability to use the net position for day-to-day operations.

The \$(1,528,667) of unrestricted net position of governmental and business-type activities represents the *accumulated* results of all past years' operations. The operating results of the general, special revenue and enterprise funds will have a significant impact on the change in unrestricted assets from year to year.

Charter Township of Hampton
Management's Discussion and Analysis
For the Year Ended December 31, 2018

Results of operations - The results of this year's operations for the Township as a whole are reported in the statement of activities, which shows the changes in net position for the year ended December 31, 2018. Exhibit B provides a summary of the Township's operations for the years ended December 31, 2018 and 2017.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Exhibit B						
Revenue						
Program revenue:						
Charges for services	\$ 292,264	\$ 309,674	\$ 4,026,664	\$ 3,548,715	\$ 4,318,928	\$ 3,858,389
Operating grants and contributions	152,949	68,161	0	0	152,949	68,161
General revenue:						
Taxes	2,345,936	2,448,276	0	0	2,345,936	2,448,276
Special assessments	235,371	6,421	0	0	235,371	6,421
State shared revenue	1,377,420	833,000	0	0	1,377,420	833,000
Interest and investment	12,453	7,344	7,806	4,587	20,259	11,931
Other	498,533	527,857	680	0	499,213	527,857
Total revenue	<u>4,914,926</u>	<u>4,200,733</u>	<u>4,035,150</u>	<u>3,553,302</u>	<u>8,950,076</u>	<u>7,754,035</u>
Function/Program Expenses						
Legislative	71,093	80,382	0	0	71,093	80,382
General government	1,282,101	1,016,611	0	0	1,282,101	1,016,611
Public safety	1,717,994	1,813,217	0	0	1,717,994	1,813,217
Public works	874,020	850,009	0	0	874,020	850,009
Inspection	146,906	148,019	0	0	146,906	148,019
Recreation activities	106,625	122,592	0	0	106,625	122,592
Capital outlay	322,485	41,851	0	0	322,485	41,851
Other	471,976	504,403	0	0	471,976	504,403
Water and sewer	0	0	3,803,906	3,294,990	3,803,906	3,294,990
Total expenses	<u>4,993,200</u>	<u>4,577,084</u>	<u>3,803,906</u>	<u>3,294,990</u>	<u>8,797,106</u>	<u>7,872,074</u>
Increase (decrease) in Net Position	<u>\$ (78,274)</u>	<u>\$ (376,351)</u>	<u>\$ 231,244</u>	<u>\$ 258,312</u>	<u>\$ 152,970</u>	<u>\$ (118,039)</u>

Charter Township of Hampton
Management's Discussion and Analysis
For the Year Ended December 31, 2018

As reported in the statement of activities, the cost of all of our governmental and business-type activities this year was \$8,797,106. Certain activities were partially funded by \$4,318,928 from those who benefited from the programs and \$152,949 of operating grants. We paid for the remaining "public benefit" portion of our governmental and business-type activities with \$2,345,936 in taxes, \$1,377,420 in state shared revenue, and with our other revenues, such as interest and miscellaneous revenues.

The governmental activities net position experienced a decrease of \$78,274 as compared to a decrease of \$376,351 in 2017. The majority of the decrease was due to state shared revenue for the SAW grant increasing and public safety expenditures decreasing.

The water and sewer funds experienced an increase of \$231,244 resulting from excess customer revenues over expenses for 2018.

The Township's Funds

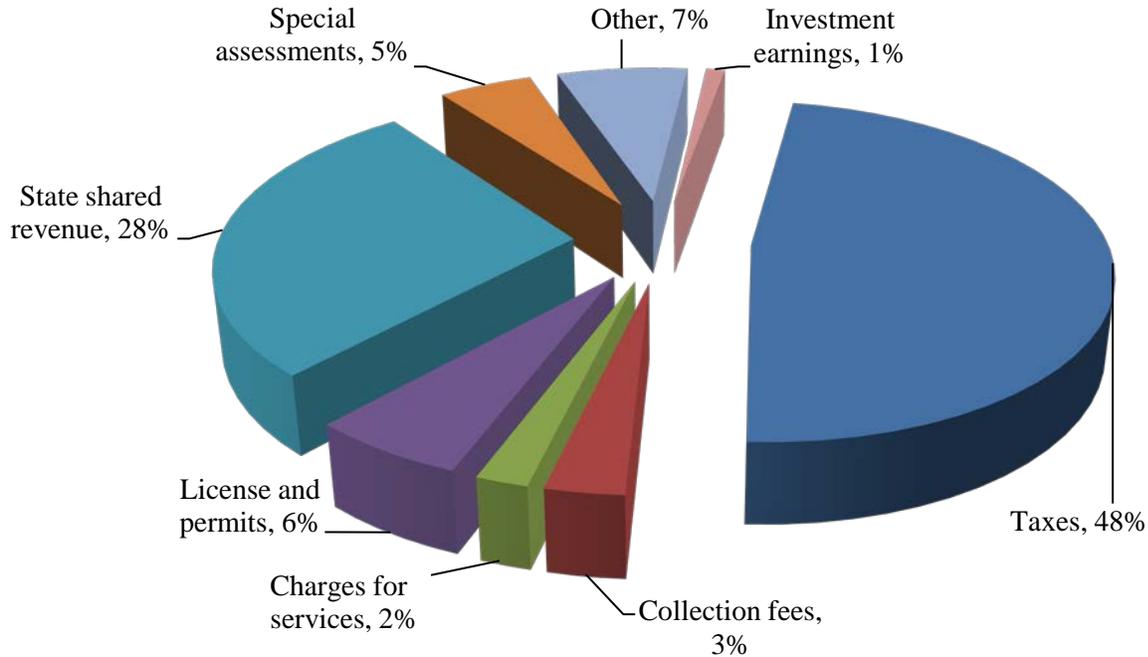
The Township uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Township is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Township's overall financial health.

The Township's governmental funds reported a combined fund balance of \$2,105,879, which is an increase from last year's total of \$1,476,028. The schedule below details the fund balance and the total change in fund balances as of December 31, 2018 and 2017.

	<u>Fund Balance</u> <u>December 31, 2018</u>	<u>Fund Balance</u> <u>December 31, 2017</u>	<u>Increase</u> <u>(Decrease)</u>
General fund	\$ 1,519,403	\$ 1,118,702	\$ 400,701
Special revenue funds	586,476	357,326	229,150
Total	<u>\$ 2,105,879</u>	<u>\$ 1,476,028</u>	<u>\$ 629,851</u>

Charter Township of Hampton
 Management's Discussion and Analysis
 For the Year Ended December 31, 2018

The graph below details the major sources of the Township's total governmental revenues.



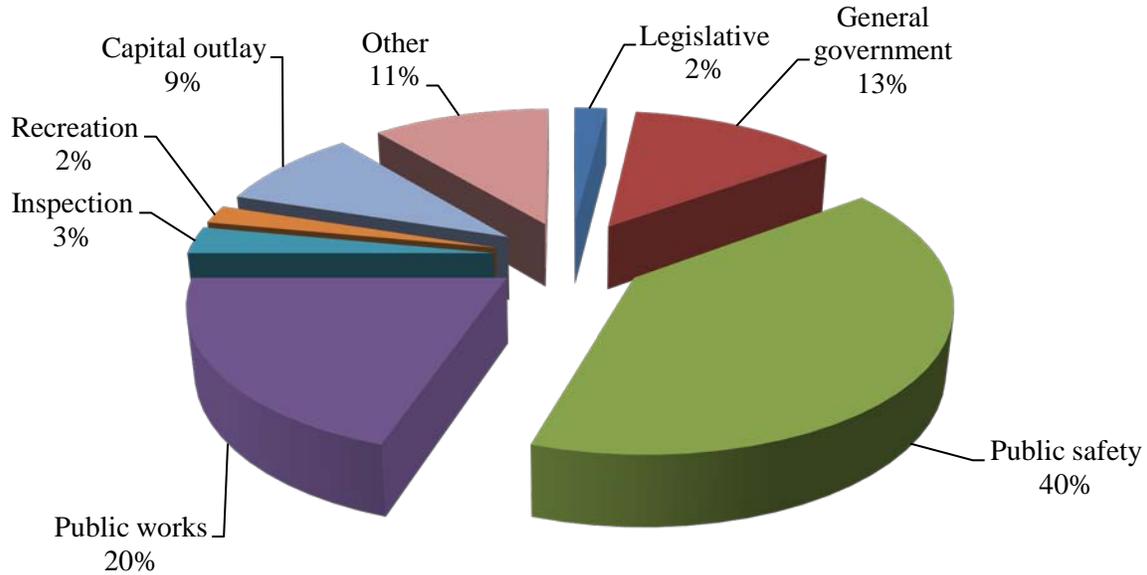
The chart below compares current year revenues with last year.

<i>Revenues by Function</i>	2018	2017
Taxes	\$ 2,346,000	\$ 2,448,000
Collection fees	154,000	161,000
State shared revenue	1,378,000	833,000
Special assessments levied	235,000	6,000
Licenses and permits	292,000	310,000
Charges for services	124,000	68,000
Investment earnings	13,000	7,000
Other	344,000	368,000
	<u>\$ 4,886,000</u>	<u>\$ 4,201,000</u>

Overall, 2018 revenues increased \$685,000 or 14% mainly due to an increase in state shared revenue, a drain special assessment levied, charges for services and investment earnings.

**Charter Township of Hampton
Management's Discussion and Analysis
For the Year Ended December 31, 2018**

The graph below details the total governmental expenditure categories of the Township.



The chart below compares current year expenditures with last year.

<i>Expenditures by Function</i>	<u>2018</u>	<u>2017</u>
Legislative	\$ 71,000	\$ 80,000
General government	575,000	612,000
Public safety:		
Police department	841,000	949,000
Fire department	829,000	842,000
Other	17,000	16,000
Public works	849,000	818,000
Inspection	147,000	148,000
Recreation activities	67,000	72,000
Capital outlay	388,000	75,000
Other	472,000	466,000
	<u>\$ 4,256,000</u>	<u>\$ 4,078,000</u>

Expenditures increased by \$178,000 from the prior year due to an increase in Public works and capital outlay, which is related to the SAW grant expenditures.

Water and Sewer System Funds - The Township's proprietary funds reported net position of \$6,734,587 which is an increase of \$231,244 from last year's net position of \$6,503,343. The increase was due to excess customer revenues over expenses, which was due to the increased sewer and water rates during the year.

Charter Township of Hampton
Management's Discussion and Analysis
For the Year Ended December 31, 2018

General Fund Budgetary Highlights

Over the course of the year, the Township revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Township's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

Changes to the general fund original budget were as follows:

- Budgeted revenues remained the same during the fiscal year.
- Budgeted expenditures increased by approximately \$11,000 during the fiscal year. This is mainly due to an increase of general government, and capital outlay.
- Actual revenues for the year were approximately \$357,000 more than anticipated during the fiscal year. This is mainly due to state shared revenue, other income, and charges for services being more than anticipated.
- Actual expenditures for the year were approximately \$545,000 less than anticipated. This is mainly due to public works, general government, capital outlay, and legislative expenditures being less than anticipated. Also, retirement of full time employees replaced with part time, no benefit employees.

**Charter Township of Hampton
Management's Discussion & Analysis
For the Year Ended December 31, 2017**

Capital Assets

At December 31, 2018, the Township had \$11.6 million invested in a broad range of capital assets, including land, buildings, equipment, transportation equipment, water and sewer systems. This amount represents a net decrease (including additions and disposals) of approximately \$355,000 from last year.

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Land	\$ 796,045	\$ 796,045	\$ 0	\$ 0	\$ 796,045	\$ 796,045
Land improvements	593,257	593,257	0	0	593,257	593,257
Buildings and improvements	997,622	997,622	0	0	997,622	997,622
Vehicles and equipment	2,518,831	2,518,831	0	0	2,518,831	2,518,831
Infrastructure	156,826	156,826	0	0	156,826	156,826
Construction in progress	72,914	7,629	0	0	72,914	7,629
Sewer system	0	0	12,569,790	12,569,790	12,569,790	12,569,790
Total capital assets	5,135,495	5,070,210	12,569,790	12,569,790	17,705,285	17,640,000
Less accumulated depreciation	3,628,852	3,524,315	2,496,636	2,180,357	6,125,488	5,704,672
Net capital assets	\$ 1,506,643	\$ 1,545,895	\$ 10,073,154	\$ 10,389,433	\$ 11,579,797	\$ 11,935,328

We present more detailed information about our governmental activities capital assets in the notes to the financial statements.

Debt

At the end of this year, the Township had \$10,509,000 in long-term debt outstanding versus \$10,708,000 in the previous year. The Township's debt is related to sewer fund bonds, reported in the proprietary funds. This debt is summarized as follows:

	2018	2017
Proprietary	\$ 10,509,000	\$ 10,708,000

Charter Township of Hampton
Management's Discussion & Analysis
For the Year Ended December 31, 2017

Factors Expected to Have an Effect on Future Operations

Loss in property tax revenues due to the Consumers Energy Karn Weadock Plant closing down.

There are Sewer improvements that are going to be needed in the future.

In 2018, the Township plans on having the Sewer Fund continue repaying back the General Fund for the money the General Fund advanced to the Sewer Fund by setting up a payment plan based on the sewer rate increase. The DDA already has a payment plan set up to pay the General Fund back the money they advanced to the DDA.

Contacting The Township's Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, contact the Township Clerk's Office at 801 W. Center Road, Essexville, MI 48732.

Charter Township of Hampton
Statement of Net Position
December 31, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<u>Assets</u>				
Cash and investments	\$ 2,287,462	\$ 2,027,315	\$ 4,314,777	\$ 159,057
Cash - USDA RRI reserve	0	444,916	444,916	0
Receivables:				
Accounts	37,195	937,140	974,335	35,603
Taxes	2,075,409	0	2,075,409	38,433
Internal balances	16,953	(16,953)	0	0
Advances to other funds	476,000	0	476,000	0
WWTP sewage system, net of amortization of \$1,160,210	0	4,640,838	4,640,838	0
Capital assets, net of accumulated depreciation	1,506,643	10,073,154	11,579,797	1,693,548
Total assets	<u>6,399,662</u>	<u>18,106,410</u>	<u>24,506,072</u>	<u>1,926,641</u>
<u>Deferred Outflows of Resources</u>				
Related to OPEB	536,148	0	536,148	0
<u>Current Liabilities</u>				
Accounts payable	79,269	453,702	532,971	0
Accrued payroll	70,211	9,121	79,332	0
Internal balances	35,603	0	35,603	0
Deposits payable	20,048	0	20,048	0
Bonds payable	0	206,000	206,000	40,000
Advances from other funds	0	400,000	400,000	76,000
Total current liabilities	<u>205,131</u>	<u>1,068,823</u>	<u>1,273,954</u>	<u>116,000</u>
<u>Long-term liabilities</u>				
Bonds payable	0	10,303,000	10,303,000	530,000
Net OPEB liability	5,603,322	0	5,603,322	0
Compensated absences	19,462	0	19,462	0
Total long-term liabilities	<u>5,622,784</u>	<u>10,303,000</u>	<u>15,925,784</u>	<u>530,000</u>
Total liabilities	<u>5,827,915</u>	<u>11,371,823</u>	<u>17,199,738</u>	<u>646,000</u>
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	2,294,395	0	2,294,395	57,681
Unavailable revenue - special assessments	258,583	0	258,583	0
Related to OPEB	75,144	0	75,144	0
Total deferred inflows of resources	<u>2,628,122</u>	<u>0</u>	<u>2,628,122</u>	<u>57,681</u>
<u>Net position</u>				
Net investment in capital assets	1,506,643	4,204,992	5,711,635	1,123,548
Restricted	586,476	444,916	1,031,392	0
Unrestricted	<u>(3,613,346)</u>	<u>2,084,679</u>	<u>(1,528,667)</u>	<u>99,412</u>
Total net position	<u>\$ (1,520,227)</u>	<u>\$ 6,734,587</u>	<u>\$ 5,214,360</u>	<u>\$ 1,222,960</u>

See accompanying notes to financial statements.

Charter Township of Hampton
Statement of Activities
For the Year Ended December 31, 2018

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Unit
Primary government:							
Legislative	\$ 71,093	\$ 0	\$ 0	\$ (71,093)	\$ 0	\$ (71,093)	\$ 0
General government	1,282,101	171,235	152,949	(957,917)	0	(957,917)	0
Public safety	1,717,994	0	0	(1,717,994)	0	(1,717,994)	0
Public works	874,020	0	0	(874,020)	0	(874,020)	0
Inspection	146,906	121,029	0	(25,877)	0	(25,877)	0
Recreation activities	106,625	0	0	(106,625)	0	(106,625)	0
Capital outlay	322,485	0	0	(322,485)	0	(322,485)	0
Other	471,976	0	0	(471,976)	0	(471,976)	0
Total governmental activities	4,993,200	292,264	152,949	(4,547,987)	0	(4,547,987)	0
Business-type activities:							
Water	1,800,328	1,800,473	0	0	145	145	0
Sewer	2,003,578	2,226,191	0	0	222,613	222,613	0
Total business-type activities	3,803,906	4,026,664	0	0	222,758	222,758	0
Total primary government	\$ 8,797,106	\$ 4,318,928	\$ 152,949	(4,547,987)	222,758	(4,325,229)	0
Component Unit:							
Downtown Development Authority	120,970	0	0	0	0	0	(120,970)
Total component unit	\$ 120,970	\$ 0	\$ 0	0	0	0	(120,970)
General Revenues:							
Taxes				2,345,936	0	2,345,936	102,367
Special assessments levied				235,371	0	235,371	0
State shared revenue				1,377,420	0	1,377,420	0
Interest and investment earnings				12,453	7,806	20,259	113
Other				498,533	680	499,213	41,957
Total general revenues				4,469,713	8,486	4,478,199	144,437
Change in net position				(78,274)	231,244	152,970	23,467
Net position - beginning of year				(1,441,953)	6,503,343	5,061,390	1,199,493
Net position - end of year				\$ (1,520,227)	\$ 6,734,587	\$ 5,214,360	\$ 1,222,960

See accompanying notes to financial statements.

Charter Township of Hampton
Governmental Funds
Balance Sheet
December 31, 2018

	General	Public Safety	Other Nonmajor Governmental Funds	Total
<u>ASSETS</u>				
Cash and investments	\$ 1,476,594	\$ 52,580	\$ 758,288	\$ 2,287,462
Receivables:				
Accounts	8,055	5	29,135	37,195
Taxes	1,892,721	0	182,688	2,075,409
Due from other funds	241,191	33,989	0	275,180
Advances to other funds	476,000	0	0	476,000
 Total assets	 \$ 4,094,561	 \$ 86,574	 \$ 970,111	 \$ 5,151,246
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</u>				
<u>Liabilities</u>				
Accounts payable	\$ 6,818	\$ 40,495	\$ 31,956	\$ 79,269
Accrued expenses	22,827	46,079	1,305	70,211
Due to other funds	196,741	0	97,089	293,830
Deposits payable	20,048	0	0	20,048
Total liabilities	246,434	86,574	130,350	463,358
 <u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	2,070,141	0	224,254	2,294,395
Unavailable revenue - special assessments	258,583	0	0	258,583
Unavailable revenue - SAW grant	0	0	29,031	29,031
Total deferred inflows of resources	2,328,724	0	253,285	2,582,009
 <u>Fund Balance</u>				
Nonspendable - advances	476,000	0	0	476,000
Restricted	0	0	586,476	586,476
Unassigned	1,043,403	0	0	1,043,403
Total fund balance	1,519,403	0	586,476	2,105,879
 Total liabilities, deferred inflows of resources and fund balance	 \$ 4,094,561	 \$ 86,574	 \$ 970,111	 \$ 5,151,246

See accompanying notes to financial statements.

Charter Township of Hampton
 Reconciliation of Balance Sheet of Governmental Funds
 to the Statement of Net Position
December 31, 2018

Total fund balance - governmental funds		\$ 2,105,879
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
Cost of the capital assets	5,135,495	
Accumulated depreciation	<u>(3,628,852)</u>	1,506,643
Deferred outflows used in governmental activities are not financial resources and therefore are not reported in governmental funds:		
Related to OPEB		536,148
Long-term liabilities are not due and payable in current period and are not reported in the governmental funds:		
Net OPEB liability	(5,603,322)	
Compensated absences	<u>(19,462)</u>	(5,622,784)
Unavailable revenue from other governmental units at December 31, 2018 and collected after March 1, 2019		29,031
Deferred inflows used in governmental activities are not recognized as current resources and therefore are not reported in governmental funds:		
Related to OPEB		<u>(75,144)</u>
Total net position - governmental activities		<u><u>\$ (1,520,227)</u></u>

See accompanying notes to financial statements.

Charter Township of Hampton
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2018

	General	Public Safety	Other Nonmajor Governmental Funds	Total
<u>Revenues</u>				
Taxes	\$ 1,763,878	\$ 352,767	\$ 229,291	\$ 2,345,936
Collection fees	154,345	0	0	154,345
State shared revenue	932,518	1,586	443,316	1,377,420
Special assessments levied	235,371	0	0	235,371
Charges for services	123,918	0	0	123,918
Interest	8,500	293	3,660	12,453
Licenses and permits	171,235	0	121,029	292,264
Other	338,111	3,987	2,090	344,188
	<u>3,727,876</u>	<u>358,633</u>	<u>799,386</u>	<u>4,885,895</u>
<u>Expenditures</u>				
Legislative	71,093	0	0	71,093
General government	575,394	0	0	575,394
Public safety	16,879	1,670,084	0	1,686,963
Public works	787,066	0	61,596	848,662
Inspection	0	0	146,906	146,906
Recreation activities	67,280	0	0	67,280
Other	471,976	0	0	471,976
Capital outlay	30,084	0	357,686	387,770
	<u>2,019,772</u>	<u>1,670,084</u>	<u>566,188</u>	<u>4,256,044</u>
Excess (deficiency) of revenues over expenditures	<u>1,708,104</u>	<u>(1,311,451)</u>	<u>233,198</u>	<u>629,851</u>
Other financing sources (uses):				
Transfers in	0	1,307,403	0	1,307,403
Transfers out	<u>(1,307,403)</u>	<u>0</u>	<u>0</u>	<u>(1,307,403)</u>
	<u>(1,307,403)</u>	<u>1,307,403</u>	<u>0</u>	<u>0</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	400,701	(4,048)	233,198	629,851
Fund balance - beginning of year	<u>1,118,702</u>	<u>4,048</u>	<u>353,278</u>	<u>1,476,028</u>
Fund balance - end of year	<u>\$ 1,519,403</u>	<u>\$ 0</u>	<u>\$ 586,476</u>	<u>\$ 2,105,879</u>

See accompanying notes to financial statements.

Charter Township of Hampton
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2018

Net change in fund balance - total governmental funds	\$ 629,851
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:</p>	
Capital outlay	65,285
Depreciation expense	(104,537)
<p>Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:</p>	
Compensated absences	167,221
<p>Unavailable revenue from other governmental units at December 31, 2018 and collected after March 1, 2019</p>	
	29,031
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:</p>	
Net OPEB liability	<u>(865,125)</u>
Change in net position of governmental activities	<u><u>\$ (78,274)</u></u>

See accompanying notes to financial statements.

Charter Township of Hampton
Proprietary Funds
Statement of Net Position
December 31, 2018

	Business-Type Activities		
	Enterprise Funds		
	Water Fund	Sewer Fund	Total
<u>Assets</u>			
Current Assets:			
Cash and investments	\$ 619,786	\$ 1,407,529	\$ 2,027,315
Accounts receivable	370,917	566,223	937,140
Due from other funds	529,008	70,000	599,008
Total current assets	<u>1,519,711</u>	<u>2,043,752</u>	<u>3,563,463</u>
Non-current assets:			
Cash - USDA RRI reserve	0	444,916	444,916
WWTP sewage system, net of amortization of \$1,160,210	0	4,640,838	4,640,838
Capital assets - at cost	0	12,569,790	12,569,790
Less allowance for depreciation	0	(2,496,636)	(2,496,636)
Net capital assets	<u>0</u>	<u>10,073,154</u>	<u>10,073,154</u>
Total assets	<u>1,519,711</u>	<u>17,202,660</u>	<u>18,722,371</u>
<u>Liabilities</u>			
Current Liabilities:			
Accounts payable	273,339	180,363	453,702
Accrued payroll	2,587	6,534	9,121
Advances from other funds	0	400,000	400,000
Due to other funds	0	615,961	615,961
Current portion of bonds payable	0	206,000	206,000
Total current liabilities	<u>275,926</u>	<u>1,408,858</u>	<u>1,684,784</u>
Long-term Liabilities:			
Bonds payable	0	10,303,000	10,303,000
Total liabilities	<u>275,926</u>	<u>11,711,858</u>	<u>11,987,784</u>
<u>Net position</u>			
Net investment in capital assets	0	4,204,992	4,204,992
Restricted	0	444,916	444,916
Unrestricted	<u>1,243,785</u>	<u>840,894</u>	<u>2,084,679</u>
Total net position	<u>\$ 1,243,785</u>	<u>\$ 5,490,802</u>	<u>\$ 6,734,587</u>

See accompanying notes to financial statements

Charter Township of Hampton
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended December 31, 2018

	Business-Type Activities		
	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating revenues:			
Charges for services	\$ 1,800,473	\$ 2,226,191	\$ 4,026,664
Other revenue	680	0	680
Total operating revenues	<u>1,801,153</u>	<u>2,226,191</u>	<u>4,027,344</u>
Operating expenses:			
Water and sewer treatment	1,676,167	710,146	2,386,313
Depreciation and amortization	0	461,305	461,305
Salaries and wages	58,415	193,206	251,621
Payroll taxes and fringe benefits	30,896	107,333	138,229
Supplies	13,903	46,665	60,568
Utilities	993	60,495	61,488
Contracted services	9,041	24,910	33,951
Repairs and maintenance	6,894	9,811	16,705
Miscellaneous	4,019	35,931	39,950
Total operating expenses	<u>1,800,328</u>	<u>1,649,802</u>	<u>3,450,130</u>
Operating income (loss)	<u>825</u>	<u>576,389</u>	<u>577,214</u>
Nonoperating revenues (expenses):			
Interest income	5,236	2,570	7,806
Interest expense	0	(353,776)	(353,776)
Total nonoperating revenue (expense)	<u>5,236</u>	<u>(351,206)</u>	<u>(345,970)</u>
Change in net position	6,061	225,183	231,244
Net position - beginning of year	<u>1,237,724</u>	<u>5,265,619</u>	<u>6,503,343</u>
Net position - end of year	<u>\$ 1,243,785</u>	<u>\$ 5,490,802</u>	<u>\$ 6,734,587</u>

See accompanying notes to financial statements

Charter Township of Hampton
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2018

	Business-Type Activities		
	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash flows from operating activities:			
Cash received from customers	\$ 1,775,920	\$ 2,169,142	\$ 3,945,062
Cash payments to suppliers for goods and services	(1,694,912)	(879,554)	(2,574,466)
Cash payments to employees for services	(87,893)	(297,888)	(385,781)
Other operating income	(537,337)	416,450	(120,887)
Net cash flows from operating activities	(544,222)	1,408,150	863,928
Cash flows from capital and related financing activities:			
Principal paid on long-term debt	0	(249,000)	(249,000)
Interest paid on long-term debt	0	(353,776)	(353,776)
Acquisition of capital assets	0	0	0
Net cash flows from financing activities	0	(602,776)	(602,776)
Cash flows from investing activities:			
Interest and investment earnings	5,236	2,570	7,806
Net increase (decrease) in cash and cash equivalents	(538,986)	807,944	268,958
Cash and cash equivalents - beginning of year	1,158,772	1,044,501	2,203,273
Cash and cash equivalents - end of year	\$ 619,786	\$ 1,852,445	\$ 2,472,231

See accompanying notes to financial statements

Charter Township of Hampton
Statement of Fiduciary Net Position
December 31, 2018

	<u>Current Tax Fund</u>	<u>Trust & Agency Fund</u>	<u>Trust Fund</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and investments	\$ 465,062	\$ 1,187	\$ 82,504	\$ 548,753
Total assets	<u>\$ 465,062</u>	<u>\$ 1,187</u>	<u>\$ 82,504</u>	<u>\$ 548,753</u>
<u>LIABILITIES</u>				
Undistributed current and delinquent taxes	465,062	1,187	0	466,249
Total liabilities	<u>\$ 465,062</u>	<u>\$ 1,187</u>	<u>0</u>	<u>466,249</u>
<u>NET POSITION</u>				
Total net position			<u>\$ 82,504</u>	<u>\$ 82,504</u>

Charter Township of Hampton
Statement of Changes in Fiduciary Net Position
For the Year Ended December 31, 2018

	<u>Trust Fund</u>
<u>Additions</u>	
Investment gain (loss)	\$ (5,032)
Employer OPEB contributions	308,673
Other	10,000
Total additions	<u>313,641</u>
<u>Deductions</u>	
Retiree OPEB benefit payments	308,673
Advisory fees	379
Total deductions	<u>309,052</u>
Change in net position	4,589
Net position - beginning of year	<u>77,915</u>
Net position - end of year	<u>\$ 82,504</u>

See accompanying notes to financial statements.

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Charter Township of Hampton (Township) conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

Reporting Entity

The Township was organized in 1843 and covers an area of approximately 28.1 square miles in Bay County, Michigan. The Township operates under an elected board (seven members) and provides services to its more than 6,500 residents in many areas including fire protection, highways and streets. The reporting entity for the Township is based on criteria set forth by statements issued by the Governmental Accounting Standards Board. All activities over which the Township exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters of the entity.

Discretely Presented Component Unit - The component unit column in the basic financial statements, which represents the financial data of the Charter Township of Hampton Downtown Development Authority (Authority) is reported in a separate column to emphasize that it is legally separate from the Township. The Authority operates under the directorship of a Board consisting of nine members appointed by the Charter Township of Hampton Board (Township Board). The Authority was established to halt property value deterioration and increase property tax valuation where possible eliminate the causes of that deterioration and to promote economic growth within the development district.

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 non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, state shared revenues and other items not properly included among program revenues are reported instead as general revenue.

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township 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, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Government reports the following major funds:

General Fund – The General Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

Public Safety Fund – The Public Safety Fund is used to record transactions for the support of the fire department and police department.

The Government reports the following major proprietary funds:

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

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

Assets, Liabilities, and Net position or Equity

Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with a maturity of three months or less when acquired. Investments are stated at 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 arrangements 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 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. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Restricted Cash – \$444,916 of the Enterprise Fund’s cash and investments is restricted for required bond reserves (Note 14).

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets – Capital assets, which include land, buildings, equipment and infrastructure assets are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$6,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add value or materially extend asset lives are not capitalized.

Land, building, equipment and infrastructure are depreciated using the straight-line method over the following useful lives:

Building and improvements	15-50 Years
Vehicles and equipment	3-25 Years
Infrastructure	20 Years

Amortization – The West Bay County Regional Wastewater Treatment Plant is being amortized over 40 years, which is the life of the bond. Amortization expense for 2018 was \$145,026.

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, statement of net position. Bond premiums and discounts, as well as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. 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 are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity/Net position – The fund balance classifications are reported primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. The fund balances are classified as nonspendable, restricted, committed, assigned and unassigned.

Nonspendable fund balance represents amounts that are not in a spendable form. The Township's nonspendable fund balance represents prepaid expenditures. In the fund financial statements, governmental funds report restrictions on fund balances for amounts that are legally restricted by outside parties for a specific purpose. Committed fund balance represents funds formally set aside by the Township Board for a particular purpose. The use of committed funds would be approved by Township Board through the budget process or official board action.

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assigned fund balance would represent tentative management plans that are subject to change. The Township's intent would be to spend uncommitted/unassigned funds prior to the use of committed funds. When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

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

Property Taxes - For Township taxpayers, properties are assessed as of December 31 and related property taxes are levied and become a lien on December 1 of the following year. The final collection date is February 28, after which uncollected taxes are added to the County delinquent tax rolls.

The 2017 taxable valuation of the Township totaled 355 million, on which ad valorem taxes levied consisted of 5.000 mills for Township operating purposes, .6500 mills for road maintenance, 1.0000 mills for public safety (fire and police), and .6392 mills for drains, raising \$1,764,294 for operating, \$229,345 for road improvements, \$352,850 for public safety, and \$228,804 for drains. These amounts are recognized in the respective General Fund and Special Revenue Funds financial statements as tax revenue.

Deferred Outflows – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Township has two items that qualify for reporting in this category. Both relate to the OPEB contributions reported in the statement of net position. The first is a deferred outflow recognized for the changes in assumptions. The second is a deferred outflow recognized for the net difference between projected and actual investment earnings on OPEB investments.

Deferred Inflows – In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Township has two items that qualify for reporting in this category. The first deferred inflow recognized relates to property taxes and special assessments that are assessed for the current year but not recognized as revenue until the following year. The second deferred inflow recognized relates to OPEB and the difference between expected and actual experience.

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events Occurring After Reporting Date – Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying Independent Auditor’s Report, which is the date the financial statements were available to be issued.

NOTE 2 - BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of governments prior to the expenditure of monies in a fiscal year.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Township’s Clerk submits to the Township Board a proposed budget prior to the beginning of each fiscal year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Township Board throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted at the activity level by a majority vote of the Township Board and they can only be amended by a majority vote of the Township Board.
4. The budgets are adopted on the modified accrual basis of accounting.
5. Appropriations lapse at year-end. These appropriations are re-established at the beginning of the following year.

During the year ended December 31, 2018, the Township did not incur expenditures in certain budgetary funds which were in excess of the amounts appropriated.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Township Board) for the General Fund and Public Safety Fund are presented as Required Supplemental Information.

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 3 - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Township 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 Township is allowed to invest in bonds, securities and other direct 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 rates within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Township's deposits are in accordance with statutory authority.

At year-end, the Government's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>	<u>Component Units</u>
Cash and investments	<u>\$ 2,287,462</u>	<u>\$ 2,472,231</u>	<u>\$ 548,753</u>	<u>\$5,308,446</u>	<u>\$ 159,057</u>

The breakdown between deposits and investments for the Primary Government is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 5,225,227
Investments (money market mutual funds)	82,504
Petty cash and cash on hand	<u>715</u>
Total	<u>\$ 5,308,446</u>

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of December 31, 2018, \$4,981,976 of the Township's bank balance of \$5,314,479 was exposed to custodial credit risk because it was uninsured and uncollateralized. At December 31, 2018, none of the component unit's bank balance of \$139,809 was exposed to custodial credit risk. The composition of deposits and investments and the amount of deposits covered by federal depository insurance cannot be determined.

The Township's investment policy does not identify interest rate risk, foreign currency risk or concentration of credit risk.

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the Township for the current year was as follows:

	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 796,045	\$ 0	\$ 0	\$ 796,045
Constuction in progress	7,629	65,285	0	72,914
Subtotal	<u>803,674</u>	<u>65,285</u>	<u>0</u>	<u>868,959</u>
Capital assets being depreciated:				
Land improvements	593,257	0	0	593,257
Buildings and improvements	997,622	0	0	997,622
Vehicles and equipment	2,518,831	0	0	2,518,831
Infrastructure	156,826	0	0	156,826
Subtotal	<u>4,266,536</u>	<u>0</u>	<u>0</u>	<u>4,266,536</u>
Less accumulated depreciation for:				
Land improvements	454,053	11,030	0	465,083
Buildings and improvements	818,866	20,752	0	839,618
Vehicles and equipment	2,207,353	65,935	0	2,273,288
Infrastructure	44,043	6,820	0	50,863
Subtotal	<u>3,524,315</u>	<u>104,537</u>	<u>0</u>	<u>3,628,852</u>
Net capital assets being depreciated	<u>742,221</u>	<u>(104,537)</u>	<u>0</u>	<u>637,684</u>
Governmental activities, total capital assets - net of depreciation	<u>\$ 1,545,895</u>	<u>\$ (39,252)</u>	<u>\$ 0</u>	<u>\$ 1,506,643</u>

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Ending Balance</u>
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	\$ 17,500	\$ 0	\$ 0	\$ 17,500
Capital assets being depreciated:				
Sewer system	\$ 12,552,290	0	0	\$ 12,552,290
Subtotal	<u>12,552,290</u>	<u>0</u>	<u>0</u>	<u>12,552,290</u>
Less accumulated depreciation for:				
Sewer system	2,180,357	316,279	0	2,496,636
Subtotal	<u>2,180,357</u>	<u>316,279</u>	<u>0</u>	<u>2,496,636</u>
Business-type activities, total capital assets - net of depreciation	<u>\$ 10,389,433</u>	<u>\$ (316,279)</u>	<u>\$ 0</u>	<u>\$ 10,073,154</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Ending Balance</u>
<u>Component Unit:</u>				
Capital assets being depreciated:				
Infrastructure	\$ 2,490,514	\$ 0	\$ 0	\$ 2,490,514
Subtotal	<u>2,490,514</u>	<u>0</u>	<u>0</u>	<u>2,490,514</u>
Less accumulated depreciation for:				
Infrastructure	697,345	99,621	0	796,966
Subtotal	<u>697,345</u>	<u>99,621</u>	<u>0</u>	<u>796,966</u>
Component unit, total capital assets - net of depreciation	<u>\$ 1,793,169</u>	<u>\$ (99,621)</u>	<u>\$ 0</u>	<u>\$ 1,693,548</u>

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions as follows:

Governmental activities:		
General government	\$	8,803
Public safety		31,031
Public works		25,358
Recreation		<u>39,345</u>
Total governmental activities depreciation expense	\$	<u>104,537</u>
Business-type activities:		
Sewer	\$	<u>316,279</u>
Total business-type activities depreciation expense	\$	<u>316,279</u>
Component Unit:		
Downtown development authority	\$	<u>99,621</u>
Total component unit depreciation expense	\$	<u>99,621</u>

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A summary of inter-fund receivable and payable balances at December 31, 2018 is as follows: These inter-fund receivable and payable balances resulted from the time lag between the dates that; (1) inter-fund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made.

A summary of inter-fund receivable and payable balances at December 31, 2018 is as follows:

		Payables			Total
		General	Building	Sewer Fund	
Receivables	General	\$ 0	\$ 97,089	\$ 144,102	\$ 241,191
	Public Safety	33,989	0	0	33,989
	Water Fund	57,149	0	471,859	529,008
	Sewer Fund	70,000	0	0	70,000
	DDA	<u>35,603</u>	<u>0</u>	<u>0</u>	<u>35,603</u>
		<u>\$ 196,741</u>	<u>\$ 97,089</u>	<u>\$ 615,961</u>	<u>\$ 909,791</u>

These inter-fund receivable and payable balances resulted from the time lag between the dates that; (1) inter-fund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made.

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

		<u>Transfer Out</u>
		<u>General</u>
Transfer In	Public Safety	\$ 1,307,403
		\$ 1,307,403

The interfund transfers resulted from the General Fund's contribution to help current year operations for the fire and police departments.

NOTE 6 - LONG-TERM DEBT

The following details the Township's long-term debt:

	Beginning Balance	Increase (Decrease)	Ending Balance
<u>Business-type Activities</u>			
West Bay County Regional Wastewater Treatment Plant Sewage System, dated March 16, 2010, due in annual installments through 2050 with an interest rate of 3.25%	\$ 10,708,000	\$ (199,000)	\$ 10,509,000
 <u>Component Unit</u>			
General Obligation Limited Tax Refunding Bond, Series 2016, dated December 7, 2016, due in annual installments through 2031 with an interest rate varying between 1.1% to 3.3%	\$ 610,000	\$ (40,000)	\$ 570,000

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 6 - LONG-TERM DEBT (CONTINUED)

The Township defeased the outstanding debt listed above by placing the proceeds of new debt in an irrevocable trust to provide for the future debt service payments on callable portions of the old debt. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Township's financial statements.

Long-term debt obligation activity is summarized as follows:

	Balance January 1, 2018	Additions	Retirements and Payments	Balance December 31, 2018	Amounts Due Within One Year
Bonds - Primary Government	\$ 10,708,000	\$ 0	\$ 199,000	\$ 10,509,000	\$ 206,000
Bonds - Component Unit	610,000	0	40,000	570,000	40,000
Compensated Absences	186,683	0	167,221	19,462	0
Net OPEB liability	9,588,445	1,111,212	5,096,335	5,603,322	0
	<u>\$ 21,093,128</u>	<u>\$ 1,111,212</u>	<u>\$ 5,502,556</u>	<u>\$ 16,701,784</u>	<u>\$ 246,000</u>

Annual debt service requirements to maturity for the above obligations are as follows:

Year End December 31	Business-Type Activities		
	Principal	Interest	Total
2019	\$ 206,000	\$ 338,195	\$ 544,195
2020	213,000	331,387	544,387
2021	221,000	324,335	545,335
2022	228,000	317,039	545,039
2023	236,000	309,499	545,499
2024-2028	1,312,000	1,424,640	2,736,640
2029-2033	1,558,000	1,191,942	2,749,942
2034-2038	1,851,000	915,705	2,766,705
2039-2043	2,197,000	587,521	2,784,521
2044-2048	1,810,000	243,785	2,053,785
2049-2050	677,000	22,181	699,181
Total	<u>\$ 10,509,000</u>	<u>\$ 6,006,229</u>	<u>\$ 16,515,229</u>

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Year End December 31	Component Unit		
	Principal	Interest	Total
2019	\$ 40,000	\$ 14,535	\$ 54,535
2020	40,000	13,915	53,915
2021	40,000	13,215	53,215
2022	40,000	12,455	52,455
2023	40,000	11,635	51,635
2024-2028	220,000	42,780	262,780
2029-2031	150,000	9,700	159,700
Total	<u>\$ 570,000</u>	<u>\$ 118,235</u>	<u>\$ 688,235</u>

NOTE 7 - ADVANCES TO OTHER FUNDS

Business-Type Activities – The General Fund advanced the Sewer Fund \$500,000 on August 27, 2013 at 2% interest. The interest is due annually on August 27th, until the balance of the advancement is paid back. The outstanding balance on the advancement as of December 31, 2018 was \$400,000.

Component Unit – The General Fund advanced the Downtown Development Authority (DDA) \$190,000 on May 1, 2016 at 2% interest payable in 5 years. The outstanding balance of the advancement as of December 31, 2018 was \$76,000.

NOTE 8 - COMPENSATED ABSENCES PAYABLE

Under various negotiated union contracts and Department Head Policies, it states the following for each different union contract. For the DPW and GSA it states that employees have twelve (12) sick days per year and after an accumulation of thirty (30) days, which are banked, an employee is paid for any unused sick days at the end of their respective contract year. For the Department Heads it states sick leave is provided at the rate of one (1) eight (8) hour day per month (12 per year) up to a total of thirty (30) sick days and sick days are not “paid out” in any circumstance. For the Police it states that that no sick days will be paid out to bargaining unit members during the life of the contract or upon the contract’s expiration. The Township does not have an obligation to “compensate” any such payments which, absent this agreement, would have otherwise been made. For FireFighters it states that a firefighter shall be entitled to one (1) twenty-four (24) hour work day per month, but not to exceed twelve (12) twenty-four (24) hour work days in any one (1) year until thirty (30) twenty-four (24) hour work days are accumulated. When sick days are used, the firefighter shall build the cumulative days back to thirty (30) twenty-four (24) hour work days.

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 9 - POST-EMPLOYMENT BENEFITS

Plan Description – The Township provides another post-employment benefit (OPEB), in accordance with contractual language, to all employees and their current spouse when they retire. The Townships Retiree Medical Plan is a single-employer Plan administered by the Township and can be amended at its discretion. Effective December 31, 2018, the Township adopted the provisions of GASB statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.”

Benefits – The purpose of the plan is to provide medical and health care benefits for the welfare of certain retirees of the Township. The levels of benefits are determined by the retirees’ date of employment, position within the Township and years of service with the Township.

The tables below summarizes the post-employment benefits provided:

Position	Eligibility	Benefit Eligibility
Elected Officers and Trustees (Supervisor, Trustees, Treasurer, Clerk)	Elected prior to 4/1/04	At least 10, but not more than 20 years of service
	Elected after 4/1/04	25 years of service
Administrative and Department of Public Works		Age 60; 25 years of service
Department Heads (Assessor, Police Chief, Fire Chief, DPW Superintendent)	Hired prior to 4/1/04	10 years of service
	Hired after 4/1/04	25 years of service
Police	Hired prior to 6/1/15	Age 50; 25 years of service
	Hired after 6/1/15	Age 55; 25 years of service
Fire		Age 55; 25 years of service

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 9 - POST-EMPLOYMENT BENEFITS (CONTINUED)

Position	Eligibility	Benefits
Elected Officers and Trustees (Supervisor, Trustees, Treasurer, Clerk)		Up to \$500/month total for retiree only towards medical, dental and vision premium until Medicare eligibility age
Administrative and Department of Public Works	Retire prior to 3/1/18	Up to \$500/month total for retiree and spouse towards medical, dental and vision premium
	Retiring after 3/1/18	Up to \$500/month total for retiree only towards medical, dental and vision premium until Medicare eligibility age
Department Heads (Assessor, Police Chief, Fire Chief, DPW Superintendent)		Up to \$500/month for retiree only towards medical, dental and vision premium until Medicare eligibility age
Police	Retired prior to 3/1/18 and hired prior to 6/1/15	100% of premium for retiree and spouse for medical, dental, vision; at medicare eligibility, the medical plan switches to a Medicare supplement
	Retired prior to 3/1/18 and hired after 6/1/15	Up to \$350/month for the retiree and up to \$350/month for the spouse towards medical, dental, vision premium
	Retired after 3/1/18 and hired prior to 6/1/15	Up to \$1000/month for the retiree only towards coverage medical, dental and vision premium until Medicare eligibility age
	Retiring after 3/1/18 and hired after 6/1/15	Up to \$500/month for the retiree only towards medical, dental and vision premium until Medicare eligibility age
Fire	Retired prior to 3/1/18 and hired prior to 1/1/94	For retiree and spouse, 100% of medical, dental, vision premium; at Medicare eligibility, the medical plan switches to a Medicare supplement
	Retired prior to 3/1/18 and hired after 1/1/94	For retirement before Medicare eligibility: Up to \$350/per month for the retiree and \$350/month for the spouse towards medical, dental, vision premiums
		For retirement after Medicare eligibility: Up to \$350/per month for retiree and spouse coverage and \$165/month toward single Medicare supplemental coverage
	Retiring after 3/1/18	Up to \$500/month for the retiree only towards medical, dental and vision premium until Medicare eligibility age

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 9 - POST-EMPLOYMENT BENEFITS (CONTINUED)

As of December 31, 2017, Plan membership consisted of the following:

Active plan members	34
Inactive plan members receiving benefits	<u>34</u>
Total Plan Members	<u><u>68</u></u>

The Township has the authority to establish the funding policy for the Plan, and to amend the obligations of both the Township and members.

Contributions – The Township OPEB Plan was established and is being funded under the authority of the Township. The plan's funding policy is that the employer will contribute any required amounts as determined by an annual actuarial valuation as a reference but not as a definitive requirement. Currently, benefit payments are made from general operating funds. Active participants do not make contributions to the plan. There are no long term contracts for contributions to the plan. The plan has no legally required reserves.

Net OPEB Liability – The Township's net OPEB liability was measured as of December 31, 2018.

Actuarial Assumptions – The total OPEB liability was determined by an actuarial valuation as of December 31, 2017 rolled forward to the measurement date. The following actuarial assumptions were used in the measurement, unless otherwise specified:

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 9 - POST-EMPLOYMENT BENEFITS (CONTINUED)

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan’s target asset allocation as of December 31, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	63.30%	8.00%
Global fixed income	32.20	5.50
Real Assets	2.20	6.20
Diversifying strategies	1.20	2.75
Cash	1.10	1.00

The sum of each target allocation times its long-term expected real rate is 7.02%

Discount Rate – The discount rate used to measure the total OPEB liability was 3.02%. The projection of cash flows used to determine the discount rate assumed that Township contributions will be up to \$10,000 annually. Based on those assumptions, the retirement plan’s fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the “depletion date”), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the Total OPEB Liability. The discount rate used for December 31, 2017 was 3.51%.

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 9 - POST-EMPLOYMENT BENEFITS (CONTINUED)

Changes in the Net OPEB Liability – Changes in the Plan’s net OPEB liability for the year ended December 31, 2018 were as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at December 31, 2017	\$ 9,666,360	\$ 77,915	\$ 9,588,445
Changes for the year:			
Service cost	150,398	0	150,398
Interest	339,151	0	339,151
Differences between expected and actual experience	(87,606)	0	(87,606)
Change in plan terms	(4,690,056)	0	(4,690,056)
Change in actuarial assumptions	616,252	0	616,252
Contributions to OPEB trust	0	10,000	(10,000)
Contributions - employer	0	308,673	(308,673)
Net investment income	0	(5,032)	5,032
Benefit payments	(308,673)	(308,673)	0
Administrative expense	0	(379)	379
Net Changes	<u>(3,980,534)</u>	<u>4,589</u>	<u>(3,985,123)</u>
Balance at December 31, 2018	<u>\$ 5,685,826</u>	<u>\$ 82,504</u>	<u>\$ 5,603,322</u>

Sensitivity of Net OPEB liability to the Single Discount Rate Assumption – The following represents the Township’s net OPEB liability, calculated using a Single Discount Rate of 3.02%, as well as what the Township’s net OPEB liability would be if it were calculated using a Single Discount rate that is one percent lower or one percent higher:

1% Decrease 2.02%	Current Rate 3.02%	1% Increase 4.02%
\$ 6,403,168	\$ 5,603,322	\$ 4,960,261

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 9 - POST-EMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of Net OPEB liability to the Healthcare Cost Trend Assumption – The following represents the Township’s net OPEB liability, calculated using the assumed trend rates, as well as what the Township’s net OPEB liability would be if it were calculated using a Healthcare Cost Trend rate that is one percent lower or one percent higher:

1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
\$ 5,028,864	\$ 5,603,322	\$ 6,313,648

OPEB expense, Deferred Outflows of Resources and Deferred Inflows of Resources – For the year ended December 31, 2018, the Township recognized OPEB expense of \$4,127,454. At December 31, 2018 the Township reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 0	\$ (75,144)
Changes in assumptions	528,592	0
Net difference between projected and actual investment earnings on OPEB investments	7,556	0
Total	\$ 536,148	\$ (75,144)

The amount reported as a deferred outflow of resources and deferred inflows of resources relating to OPEB will be recognized in OPEB expense as follows:

2019	\$ 77,088
2020	77,088
2021	77,088
2022	77,088
2023	75,199
Thereafter	77,453
	\$ 461,004

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 10 - RETIREMENT PLAN

The Township has a John Hancock defined contribution pension plan that covers all Township Board members and full-time employees of the Township. The Township's current year covered payroll was \$1,670,226 and its total current year payroll for all employees was \$1,921,569. The plan was established under Act 27, P.A. 1960 and Township ordinances 24 and 24.1. All full-time employees who work over 30 hours per week plus Township Board members are covered under the plan. The Township contributes 10 to 15% of each employee's compensation and the employees can contribute additional amounts. All participants covered are immediately vested. The Township's contribution requirements for year ended December 31, 2018 was \$188,992, which was entirely paid during the year. Employee contributions for the year ended December 31, 2018, were \$114,103, which was entirely paid during the year.

NOTE 11 - DEFERRED COMPENSATION PLAN

The Township offers its employees a deferred compensation plan created in accordance to Internal Revenue Code Section 457. The plan, is available to all Township employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

As of January 1, 1999, the plan's assets are required to be held in a trust for the exclusive benefit of the participants and their beneficiaries in order to remain an eligible plan. Under these new requirements, the Township would no longer own the amounts deferred by employees. Consequently, the Township no longer reports these assets and liabilities in their financial statements.

NOTE 12 - RISK MANAGEMENT

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

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 13 - CONNECTION TO WEST BAY COUNTY REGIONAL WASTEWATER TREATMENT PLANT SEWAGE SYSTEM

During 2010, the Charter Township of Hampton entered into an agreement with the Bay County Department of Water and Sewer for sewer treatment services. The agreement requires the Charter Township of Hampton to pay a one-time fee for connection to the West Bay County Regional Wastewater Treatment Plant. The agreement also requires the Charter Township of Hampton to run a joint force main pipe with the City of Essexville to the West Bay County Regional Wastewater Treatment Plant. This process also required the Charter Township of Hampton to pay a percentage of the cost of upgrading the sewage storage system at the West Bay County Regional Wastewater Treatment Plant. These facilities will be owned by the Bay County Department of Water and Sewer. These costs were recorded in the financial statements as an intangible asset called connection to West Bay County Regional Wastewater Treatment Plant Sewage System in the amount of \$5,801,048, which will be amortized over the outstanding life of the bonds. The agreement also requires the Charter Township of Hampton to pay 100% force main pipe. This cost was recorded in the financial statements as capital assets in the amount of \$12,403,249. The connection cost and the construction in progress costs were financed by Federal USDA bonds in the amount of \$13,224,000 and by a Federal USDA grant in the amount of \$4,776,000. This construction was completed as of December 31, 2013.

NOTE 14 - RESTRICTED EQUITY

As required by various bond ordinances, the Township has established and funded reserves for bond retirement of \$444,916 for the Sewer Fund.

Net position includes restrictions for the governmental funds which includes \$41,322 for Building \$459,141 for Road Improvements and \$86,013 for the SAW Grant fund.

NOTE 15 - DEFICIT FUND BALANCE

For the year ended December 31, 2018, the Township had a deficit fund balance in the following funds:

<u>Fund</u>	<u>Amount</u>
DDA:	
Debt service	<u>\$ (73,779)</u>

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 16 - RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Water Fund	Sewer Fund	Total
Operating income (loss)	\$ 825	\$ 576,389	\$ 577,214
Adjustment to reconcile operating income (loss) to net cash flows from operating activities:			
Depreciation and amortization	0	461,305	461,305
Changes in assets and liabilities:			
Accounts receivable	(25,233)	(57,049)	(82,282)
Due from other funds	(518,170)	(50,833)	(569,003)
Accounts payable	16,105	8,404	24,509
Due to other funds	(19,167)	467,283	448,116
Accrued payroll	1,418	2,651	4,069
Net cash flows from operating activities	\$ (544,222)	\$ 1,408,150	\$ 863,928

NOTE 17 - DEFERRED INFLOWS OF RESOURCES

At the end of the current fiscal year, the various components of deferred inflows of resources at the governmental fund level are as follows:

Property taxes levied for 2018 operations	\$ 1,725,124
Public safety taxes levied for 2018	345,017
Road taxes levied for 2018	224,254
Special assessments levied for 2018	258,583
Saw Grant	29,031
Total deferred inflows	\$ 2,582,009

NOTE 18 - TAX ABATEMENTS

The Township entered into property tax abatement agreements with local businesses under the Plant Rehabilitation and Industrial Development Districts Act (known as the Industrial Facilities Exception) PA 198 of 1974, as amended. The Act provides a tax incentive to manufacturers to enable renovations and expansion of aging facilities, assist in the building of new facilities and to promote the establishment of high tech facilities. An Industrial Facilities Exemption (IFE) certificate entitles the facility to exemption from ad valorem real and/or personal property taxes for a term of 1-12 years as determined by the local unit of government. The IFT on a new plan facility or non-industrial personal property is computed at half the local property tax millage rate. This amounts to a reduction in property taxes of approximately 50%.

For the year ended December 31, 2018, the Township abated property tax revenues totaling approximately \$66,000 under this program.

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 18 - TAX ABATEMENTS (CONTINUED)

The Township entered into property tax abatement agreement with local businesses under the Commercial Rehabilitation Act PA 210 of 2005. The Act provides a tax incentive to businesses to enable renovation and expansion of qualified facilities and qualified retail food establishments. A Commercial Rehabilitation Exemption (CRE) certificate entitles the facility to exemption from certain ad valorem real and personal property taxes for a term of 1-10 years as determined by the local unit of government. The CRT is computed on the frozen taxable value the year before the certificate becomes effective at the ad valorem tax rates.

For the year ended December 31, 2018, the Township abated property tax revenues totaling approximately \$26,000 under this program.

NOTE 19 - UPCOMING ACCOUNTING PRONOUNCEMENT

Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities, was issued by GASB in January 2017 and will be effective for the Township's 2019 year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Local governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

Governmental Accounting Standards Board (GASB) Statement No. 87, Leases, was issued by the GASB in June 2017 and will be effective for the Township's 2020 year end. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lease is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Charter Township of Hampton
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended December 31, 2018

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Taxes	\$ 1,761,318	\$ 1,761,318	\$ 1,763,878	\$ 2,560
State shared revenue	752,500	752,500	932,518	180,018
Other	229,824	229,824	338,111	108,287
Licenses and permits	156,200	156,200	171,235	15,035
Collection fees	158,102	158,102	154,345	(3,757)
Charges for services	51,000	51,000	123,918	72,918
Interest	3,000	3,000	8,500	5,500
Special assessments levied	259,394	259,394	235,371	(24,023)
Total revenues	<u>3,371,338</u>	<u>3,371,338</u>	<u>3,727,876</u>	<u>356,538</u>
<u>Expenditures:</u>				
Legislative:				
Township Board	90,640	90,640	71,093	19,547
General Government:				
Supervisor	92,585	92,585	89,252	3,333
Elections	15,420	15,420	13,840	1,580
Accounting department	85,570	85,570	76,750	8,820
Assessor	105,025	105,025	97,330	7,695
Attorney	27,000	33,000	48,620	(15,620)
Consultant	25,000	25,000	18,946	6,054
Clerk	87,830	87,830	81,902	5,928
Geographic information system	800	800	146	654
Board of Review	1,500	1,500	843	657
Treasurer	100,740	100,740	79,106	21,634
Township hall and grounds	61,427	61,427	41,544	19,883
Citizens community building	25,640	25,640	22,094	3,546
Public relations	3,500	3,500	5,025	(1,525)
Public safety:				
Planning Commission	13,623	13,623	15,067	(1,444)
Board of Appeals	4,560	4,560	1,810	2,750
Public works:				
Department of Public Works	549,215	549,215	431,216	117,999
Weed control	8,640	8,640	8,640	0
Drains	272,000	272,000	100,445	171,555
Highways and streets	15,000	15,000	0	15,000
Engineering	3,000	3,000	9,587	(6,587)
Street lighting	120,000	120,000	118,733	1,267
Sanitation	167,860	167,860	118,445	49,415

Charter Township of Hampton
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended December 31, 2018

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
Expenditures: (continued)				
Recreation and culture:				
Recreation - parks	\$ 62,140	\$ 62,140	\$ 58,478	\$ 3,662
Recreation - parks - other	12,000	12,000	6,265	5,735
Rail Trail	4,500	2,640	2,536	104
Other Functions:				
Insurance	140,000	140,000	153,302	(13,302)
Hospitalization	331,185	331,185	308,673	22,512
Other post-employment benefits	10,000	10,000	10,000	0
Capital outlay	117,150	124,210	30,084	94,126
Total expenditures	<u>2,553,550</u>	<u>2,564,750</u>	<u>2,019,772</u>	<u>544,978</u>
Excess (deficiency) of revenues over expenditures	<u>817,788</u>	<u>806,588</u>	<u>1,708,104</u>	<u>901,516</u>
<u>Other financing uses</u>				
Transfers out	<u>(1,533,137)</u>	<u>(1,533,137)</u>	<u>(1,307,403)</u>	<u>225,734</u>
Total other financing uses	<u>(1,533,137)</u>	<u>(1,533,137)</u>	<u>(1,307,403)</u>	<u>225,734</u>
Excess (deficiency) of revenues over expenditures and other financing uses	(715,349)	(726,549)	400,701	1,127,250
Fund balance - beginning of year	<u>1,118,702</u>	<u>1,118,702</u>	<u>1,118,702</u>	<u>0</u>
Fund balance - end of year	<u>\$ 403,353</u>	<u>\$ 392,153</u>	<u>\$ 1,519,403</u>	<u>\$ 1,127,250</u>

Charter Township of Hampton
 Required Supplemental Information
 Budgetary Comparison Schedule - Public Safety Fund
For the Year Ended December 31, 2018

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Taxes	\$ 352,223	\$ 352,223	\$ 352,767	\$ 544
Other	5,000	5,000	3,987	(1,013)
State shared revenue	1,000	1,000	1,586	586
Interest	15	75	293	218
Total revenues	<u>358,238</u>	<u>358,298</u>	<u>358,633</u>	<u>335</u>
<u>Expenditures</u>				
Public Safety	<u>1,885,360</u>	<u>1,885,360</u>	<u>1,670,084</u>	<u>215,276</u>
Total expenditures	<u>1,885,360</u>	<u>1,885,360</u>	<u>1,670,084</u>	<u>215,276</u>
Excess (deficiency) of revenues over expenditures	<u>(1,527,122)</u>	<u>(1,527,062)</u>	<u>(1,311,451)</u>	<u>215,611</u>
<u>Other financing sources</u>				
Transfers in	<u>1,533,137</u>	<u>1,533,137</u>	<u>1,307,403</u>	<u>(225,734)</u>
Excess (deficiency) of revenues and other financing sources over expenditures	6,015	6,075	(4,048)	(10,123)
Fund balance - beginning of year	<u>4,048</u>	<u>4,048</u>	<u>4,048</u>	<u>0</u>
Fund balance - end of year	<u>\$ 10,063</u>	<u>\$ 10,123</u>	<u>\$ 0</u>	<u>\$ (10,123)</u>

Charter Township of Hampton
Required Supplemental Information
Schedule of Changes in the Employer's Net OPEB Liability and Related Ratios
Last 10 Reporting Unit Fiscal Years (Amounts were determined as of the measurement date 12/31)

	2018
<u>Total OPEB Liability</u>	
Service Cost	\$ 150,398
Interest	339,151
Changes of benefit terms	(4,690,056)
Differences between expected and actual experience	(87,606)
Change of assumptions	616,252
Benefit payments	(308,673)
Net change in total OPEB liability	(3,980,534)
Total OPEB liability - beginning	9,666,360
Total OPEB liability - ending (a)	\$ 5,685,826
<u>Plan Fiduciary Net Position</u>	
Contributions to OPEB trust	\$ 10,000
Contributions/benefit payments made from general operating funds	308,673
Net investment income	(5,032)
Benefit payments	(308,673)
Administrative expenses	(379)
Other	0
Net change in plan fiduciary net position	4,589
Plan fiduciary net position - beginning	77,915
Plan fiduciary net position - ending (b)	\$ 82,504
Net OPEB liability - ending (a) - (b)	\$ 5,603,322
Plan fiduciary net position as a percentage of the total OPEB liability	1.50%
Covered employee payroll	\$ 1,670,226
Net OPEB liability as a percentage of covered-employee payroll	335%

With the implementation of GASB Statement No. 75 in 2018, the 10 year history will be provided prospectively until a full 10 year history is shown

Charter Township of Hampton
 Required Supplemental Information
 Schedule of Employer's OPEB Contributions
Last 10 Reporting Unit Fiscal Years (Amounts were determined as of the measurement date 12/31)

	2018
Actuarial determined contributions	\$ 314,279
Contributions in relation to the actuarially determined contribution	318,673
Contribution deficiency (excess)	\$ (4,394)
 Covered employee payroll	 1,670,226
 Contributions as a percentage of covered employee payroll	 19.08%

Notes to Schedule

Actuarial cost method	Entry-age Normal
Amortization method	Level percentage of payroll
Remaining amortization period	30 years open to new employees
Asset valuation method	Market Value of Assets
Wage inflation	None
Inflation	Pre-65 - 8.5% in 2019, graded to 4.5% over 16 years; Post-65 - 7.0%, graded to 4.5% over 10 years; Dental & Vision - 3.0% consistent with national trends and Uniform Assumptions under Public Act 202
Salary increases	3.5%
Investment rate of return	7.02%
Retirement age	Employees are assumed to retire at benefit eligibility
Mortality	RP-2014 adjusted to 2006 total data set, headcount weighted with MP-2018 improvement
Health Care Trend Rates	Monthly per capital claim costs
Excise Tax	40% excise tax on "high cost" group health coverage, when aggregated, premiums are not projected to exceed the 2022 thresholds; The thresholds were indexed by CPI plus 1% in 2023 and CPI only beginning in 2024; The CPI is assumed to be 3% in 2023 and following
Marital assumption	60% of active employees will have a covered spouse at retirement with females two years younger than males; actual spouse data used for retirees
Pre-65 HRA cost	\$750 annually per person

Charter Township of Hampton
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2018

	Special Revenue Funds			
	Building	Road Improvement	SAW Grant	Totals
	<u>ASSETS</u>			
Cash and investments	\$ 139,612	\$ 500,707	\$ 117,969	\$ 758,288
Accounts receivable	104	0	29,031	29,135
Taxes receivable	0	182,688	0	182,688
	<u>0</u>	<u>182,688</u>	<u>0</u>	<u>182,688</u>
Total Assets	<u>\$ 139,716</u>	<u>\$ 683,395</u>	<u>\$ 147,000</u>	<u>\$ 970,111</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE

<u>Liabilities</u>				
Accrued expenses	\$ 1,305	\$ 0	\$ 0	\$ 1,305
Accounts payable	0	0	31,956	31,956
Due to governmental funds	97,089	0	0	97,089
Total Liabilities	<u>98,394</u>	<u>0</u>	<u>31,956</u>	<u>130,350</u>
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	0	224,254	0	224,254
Unavailable revenue - SAW grant	0	0	29,031	29,031
	<u>0</u>	<u>224,254</u>	<u>29,031</u>	<u>253,285</u>
<u>Fund Balance</u>				
Restricted	<u>41,322</u>	<u>459,141</u>	<u>86,013</u>	<u>586,476</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 139,716</u>	<u>\$ 683,395</u>	<u>\$ 147,000</u>	<u>\$ 970,111</u>

Charter Township of Hampton
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes
in Fund Balance - Nonmajor Governmental Funds
For the Year Ended December 31, 2018

	Special Revenue Funds			Totals
	Building	Road Improvement	SAW Grant	
<u>Revenues</u>				
Taxes	\$ 0	\$ 229,291	\$ 0	\$ 229,291
Interest	426	2,851	383	3,660
License and permits	121,029	0	0	121,029
State sources	0	0	443,316	443,316
Other	0	2,090	0	2,090
	121,455	234,232	443,699	799,386
<u>Expenditures</u>				
Inspection	146,906	0	0	146,906
Capital outlay	0	0	357,686	357,686
Public works	0	61,596	0	61,596
	146,906	61,596	357,686	566,188
Excess (deficiency) of revenues over expenditures	(25,451)	172,636	86,013	233,198
Fund balance - beginning of year	66,773	286,505	0	353,278
Fund balance - end of year	\$ 41,322	\$ 459,141	\$ 86,013	\$ 586,476

Charter Township of Hampton
 Other Supplemental Information
 Debt Schedule - 2010 Sewer Bonds
For the Year Ended December 31, 2018

<u>PURPOSE</u>	Provide funds to pay for the cost of connecting to the West Bay County Regional Wastewater Treatment Sewage System.	
<u>DATE OF ISSUE</u>	March 10, 2010	
<u>AMOUNT OF ISSUE</u>		\$ 13,224,000
<u>AMOUNT OF REDEEMED</u>		
	During prior years	\$ 2,516,000
	During current year	199,000
		2,715,000
<u>BALANCE OUTSTANDING - DECEMBER 31, 2018</u>		\$ 10,509,000

<u>Fiscal year</u>	Requirements		
	Principal	Interest	Total
2019	\$ 206,000	\$ 338,195	\$ 544,195
2020	213,000	331,387	544,387
2021	221,000	324,335	545,335
2022	228,000	317,039	545,039
2023	236,000	309,499	545,499
2024	245,000	301,682	546,682
2025	253,000	293,589	546,589
2026	262,000	285,220	547,220
2027	271,000	276,559	547,559
2028	281,000	267,590	548,590
2029	291,000	258,295	549,295
2030	301,000	248,674	549,674
2031	311,000	238,729	549,729
2032	322,000	228,444	550,444
2033	333,000	217,800	550,800
2034	345,000	206,782	551,782
2035	357,000	195,374	552,374
2036	370,000	183,560	553,560
2037	383,000	171,324	554,324
2038	396,000	158,665	554,665
2039	410,000	145,568	555,568
2040	424,000	132,016	556,016
2041	439,000	117,992	556,992
2042	454,000	103,480	557,480
2043	470,000	88,465	558,465
2044	487,000	72,914	559,914
2045	390,000	58,663	448,663
2046	300,000	47,451	347,451
2047	311,000	37,522	348,522
2048	322,000	27,235	349,235
2049	333,000	16,591	349,591
2050	344,000	5,590	349,590
Total	\$ 10,509,000	\$ 6,006,229	\$ 16,515,229

Charter Township of Hampton
 Other Supplemental Information
 Debt Schedule - Downtown Development Authority
For the Year Ended December 31, 2018

PURPOSE Provide funds to pay for a portion of the cost of certain capital improvements within the downtown area of the Township.

DATE OF ISSUE December 7, 2016

AMOUNT OF ISSUE \$ 610,000

AMOUNT OF REDEEMED

During prior years	\$ 0	
During current year	40,000	40,000

BALANCE OUTSTANDING - DECEMBER 31, 2018 \$ 570,000

<u>Fiscal year</u>	Requirements		
	Principal	Interest	Total
2019	\$ 40,000	\$ 14,535	\$ 54,535
2020	40,000	13,915	53,915
2021	40,000	13,215	53,215
2022	40,000	12,455	52,455
2023	40,000	11,635	51,635
2024	40,000	10,755	50,755
2025	45,000	9,795	54,795
2026	45,000	8,648	53,648
2027	45,000	7,432	52,432
2028	45,000	6,150	51,150
2029	50,000	4,800	54,800
2030	50,000	3,250	53,250
2031	50,000	1,650	51,650
Total	\$ 570,000	\$ 118,235	\$ 688,235



INDEPENDENT AUDITOR'S 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

May 8, 2019

Township Board
Charter Township of Hampton
Bay County, Michigan

We have audited, in accordance with U.S. generally accepted auditing standards 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 unit, each major fund and the aggregate remaining fund information of Charter Township of Hampton (Township), as of and for the year ended December 31, 2018 and the related notes to the financial statements, which collectively comprise Charter Township of Hampton's basic financial statements and have issued our report thereon dated May 8, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Charter Township of Hampton'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 Hampton's internal control. Accordingly, we do not express an opinion on the effectiveness of Charter Township of Hampton'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 Township's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses: 2018-001, 2018-002, 2018-003.



Township Board
Charter Township of Hampton
May 8, 2019

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Charter Township of Hampton'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*.

Response to Findings

Charter Township of Hampton's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Charter Township of Hampton's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Township'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 Township's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Weinlander Fitzhugh

CHARTER TOWNSHIP OF HAMPTON
Schedule of Findings and Responses
For the Year Ended December 31, 2018

2018-001 (Repeat Finding 2017-001)

Criteria

Establishment and maintenance of internal controls over financial reporting process.

Condition

During the course of the audit, we identified several material misstatements, some of which were material to the Township's financial statements, and provided audit entries to correct these misstatements. Material audit adjustments were required to reflect the appropriate year-end balances for the following: property tax receivables, deferred inflows and amounts due from the tax fund; the recording of the Water and Sewer fund receivables and payables and proper recording of the revenue; and the adjusting of various interfund loan accounts.

Context

Internal controls should be in place to allow the staff to detect and correct material misstatements in the general ledger accounts in the normal course of daily, monthly and annual reporting functions in accordance with GAAP without auditor involvement.

Effect

Material adjustments were required to be performed by the auditors to correct the General Fund, Water and Sewer Funds and Current Tax Fund. The material adjustments could lead to budget variances and violations due to inaccurate records and material misstatements of the Township's financial statements could go undetected.

Recommendation

The Township should review the audit entries, understand why they were necessary, and implement the necessary controls to ensure that the accounts and transactions affected are reviewed closely during the year and especially at year-end close.

Views of the responsible officials and planned corrective action

Will go through audit entries, discuss what was done and understand how to do the entries correctly in the future.

CHARTER TOWNSHIP OF HAMPTON
Schedule of Findings and Responses
For the Year Ended December 31, 2018

2018-002 (Repeat Finding 2017-002)

Criteria

Establishment and maintenance of internal controls over financial reporting process.

Condition

The Township did not complete accurate and timely bank reconciliations during the year. Bank reconciliations and monthly journal entries were not reviewed.

Context

The finding is a result of observation and inquiry with the Township administration.

Effect

The effect of this condition is that there is a reasonable possibility that a material misstatement of the Township's financial statements could occur without being prevented or detected and corrected on a timely basis.

Recommendation

The Township should review internal controls and implement the necessary procedures to ensure that bank reconciliations are prepared and reviewed on a timely basis. In addition, after each month-end, journal entries should be reviewed for overall completeness and accuracy. These procedures should be implemented in conjunction with the monitoring of financial activities throughout the year.

Views of the responsible officials and planned corrective action

Reconciliations to be completed in a timely manner. General activity report will be reviewed for completeness and accuracy. Financial reports will be provided to board members monthly and for year end.

CHARTER TOWNSHIP OF HAMPTON
Schedule of Findings and Responses
For the Year Ended December 31, 2018

2018-003 (Repeat Finding 2017-003)

Criteria

During the start of the engagement, we identified several accounts that needed material adjustments, reconciliations were not prepared and audit documentation was not readily available.

Condition

The Township did not ensure that all balances were reconciled and supporting audit documentation was ready and available for the beginning of audit fieldwork.

Context

The finding is a result of observation during the first day of fieldwork.

Effect

The effect of this condition was to extend fieldwork time, require additional auditor reconciliations and perform material adjustments.

Recommendation

The Township should follow the auditor provided, prepared by client, listing to ensure that all significant audit items are readily available, completed and reconciled at the commencement of fieldwork.

Views of the responsible officials and planned corrective action

All materials requested by auditor will be readily available and complete at the commencement of the scheduled audit.

CHARTER TOWNSHIP OF HAMPTON
Summary Schedule of Prior Year Findings
For the Year Ended December 31, 2018

2017-001

See repeat finding 2018-001 for details.

2017-002

See repeat finding 2018-002 for details.

2017-003

See repeat finding 2018-003 for details.