



WEINLANDER FITZHUGH

CHARTER TOWNSHIP OF HAMPTON
BAY COUNTY, MICHIGAN

FINANCIAL STATEMENTS
DECEMBER 31, 2019

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WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

June 22, 2020

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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
June 22, 2020

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, 2019 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.

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
June 22, 2020

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2020, 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, 2019

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, 2019.

Financial Highlights

State shared revenues were \$895,387 or 22% of General Fund revenues, while tax collection revenue was \$2,071,698 or 51% of General Fund revenues. The General Fund reported an increase in fund balance of \$591,002.

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 fund – the General 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 (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, 2019

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, 2019

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 2019.

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, 2019

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, 2019 and 2018.

<u>Exhibit A</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Assets						
Current and other assets	\$ 5,291,766	\$ 4,893,019	\$ 8,626,360	\$ 8,033,256	\$ 13,918,126	\$ 12,926,275
Capital assets - net of accumulated depreciation	1,506,607	1,506,643	9,756,875	10,073,154	11,263,482	11,579,797
Total assets	<u>6,798,373</u>	<u>6,399,662</u>	<u>18,383,235</u>	<u>18,106,410</u>	<u>25,181,608</u>	<u>24,506,072</u>
Deferred outflows of resources	<u>446,599</u>	<u>536,148</u>	<u>0</u>	<u>0</u>	<u>446,599</u>	<u>536,148</u>
Liabilities						
Current liabilities	203,424	205,131	1,180,689	1,068,823	1,384,113	1,273,954
Long-term liabilities	<u>5,839,243</u>	<u>5,622,784</u>	<u>10,090,000</u>	<u>10,303,000</u>	<u>15,929,243</u>	<u>15,925,784</u>
Total liabilities	<u>6,042,667</u>	<u>5,827,915</u>	<u>11,270,689</u>	<u>11,371,823</u>	<u>17,313,356</u>	<u>17,199,738</u>
Deferred inflows of resources	<u>2,525,472</u>	<u>2,628,122</u>	<u>0</u>	<u>0</u>	<u>2,525,472</u>	<u>2,628,122</u>
Net position						
Net investment in capital assets	1,506,607	1,506,643	3,949,687	4,204,992	5,456,294	5,711,635
Restricted	515,147	586,476	508,938	444,916	1,024,085	1,031,392
Unrestricted	<u>(3,344,921)</u>	<u>(3,613,346)</u>	<u>2,653,921</u>	<u>2,084,679</u>	<u>(691,000)</u>	<u>(1,528,667)</u>
Total net position	<u>\$ (1,323,167)</u>	<u>\$ (1,520,227)</u>	<u>\$ 7,112,546</u>	<u>\$ 6,734,587</u>	<u>\$ 5,789,379</u>	<u>\$ 5,214,360</u>

Exhibit A focuses on net position. The Township's total net position was \$5,789,379 at December 31, 2019. Net investment in capital assets, totaling \$5,456,294 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 \$1,024,085 reported separately to show legal constraints that limit the Township's ability to use the net position for day-to-day operations.

The \$(691,000) 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, 2019

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, 2019. Exhibit B provides a summary of the Township's operations for the years ended December 31, 2019 and 2018.

	Governmental Activities		Business-Type Activities		Total	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Exhibit B						
Revenue						
Program revenue:						
Charges for services	\$ 281,962	\$ 292,264	\$ 4,133,332	\$ 4,026,664	\$ 4,415,294	\$ 4,318,928
Operating grants and contributions	152,988	152,949	0	0	152,988	152,949
General revenue:						
Taxes	2,295,554	2,345,936	0	0	2,295,554	2,345,936
Special assessments	214,425	235,371	0	0	214,425	235,371
State shared revenue	1,125,729	1,377,420	0	0	1,125,729	1,377,420
Interest and investment	38,118	12,453	26,305	7,806	64,423	20,259
Other	519,583	498,533	0	680	519,583	499,213
Total revenue	<u>4,628,359</u>	<u>4,914,926</u>	<u>4,159,637</u>	<u>4,035,150</u>	<u>8,787,996</u>	<u>8,950,076</u>
Function/Program Expenses						
Legislative	63,888	71,093	0	0	63,888	71,093
General government	958,720	1,282,101	0	0	958,720	1,282,101
Public safety	1,430,840	1,717,994	0	0	1,430,840	1,717,994
Public works	1,166,751	874,020	0	0	1,166,751	874,020
Inspection	87,932	146,906	0	0	87,932	146,906
Recreation activities	115,500	106,625	0	0	115,500	106,625
Capital outlay	209,294	322,485	0	0	209,294	322,485
Other	398,374	471,976	0	0	398,374	471,976
Water and sewer	0	0	3,631,678	3,803,906	3,631,678	3,803,906
Total expenses	<u>4,431,299</u>	<u>4,993,200</u>	<u>3,631,678</u>	<u>3,803,906</u>	<u>8,062,977</u>	<u>8,797,106</u>
Increase (decrease) in Net Position	<u>\$ 197,060</u>	<u>\$ (78,274)</u>	<u>\$ 527,959</u>	<u>\$ 231,244</u>	<u>\$ 725,019</u>	<u>\$ 152,970</u>

Charter Township of Hampton
Management's Discussion and Analysis
For the Year Ended December 31, 2019

As reported in the statement of activities, the cost of all of our governmental and business-type activities this year was \$8,062,977. Certain activities were partially funded by \$4,415,294 from those who benefited from the programs and \$152,988 of operating grants. We paid for the remaining “public benefit” portion of our governmental and business-type activities with \$2,295,554 in taxes, \$1,125,729 in state shared revenue, and with our other revenues, such as interest and miscellaneous revenues.

The governmental activities net position experienced an increase of \$197,060 as compared to a decrease of \$78,274 in 2018. The majority of the increase was due to the implementation of a Public Safety model resulting in firefighters finding other employment opportunities.

The water and sewer funds experienced an increase of \$527,959 resulting from excess customer revenues over expenses for 2019.

The Township's Funds

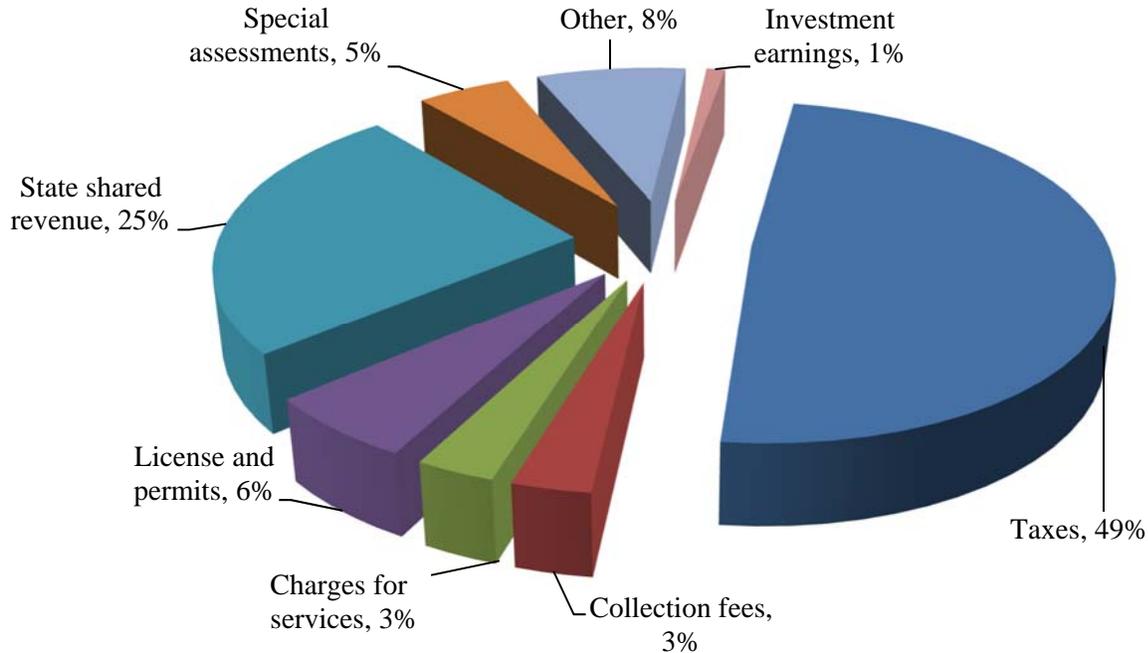
The Township uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Township is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Township's overall financial health.

The Township's governmental funds reported a combined fund balance of \$2,625,552, which is an increase from last year's total of \$2,105,879. The schedule below details the fund balance and the total change in fund balances as of December 31, 2019 and 2018.

	Fund Balance <u>December 31, 2019</u>	Fund Balance <u>December 31, 2018</u>	Increase <u>(Decrease)</u>
General fund	\$ 2,110,405	\$ 1,519,403	\$ 591,002
Special revenue funds	515,147	586,476	(71,329)
Total	<u>\$ 2,625,552</u>	<u>\$ 2,105,879</u>	<u>\$ 519,673</u>

**Charter Township of Hampton
Management's Discussion and Analysis
For the Year Ended December 31, 2019**

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



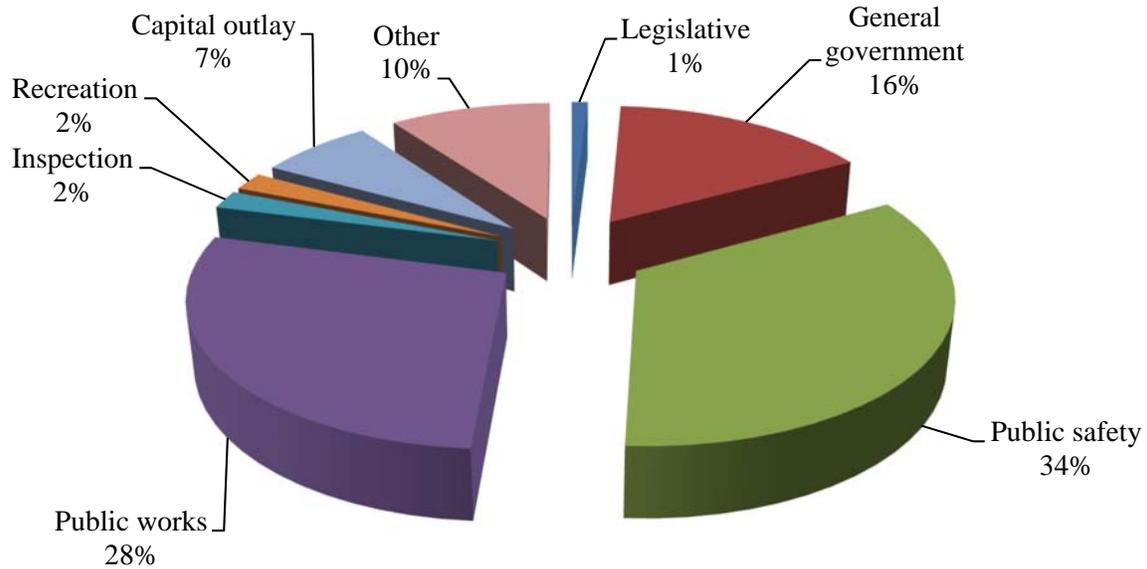
The chart below compares current year revenues with last year.

<i>Revenues by Function</i>	2019	2018
Taxes	\$ 2,295,000	\$ 2,346,000
Collection fees	146,000	154,000
State shared revenue	1,155,000	1,378,000
Special assessments levied	214,000	235,000
Licenses and permits	282,000	292,000
Charges for services	153,000	124,000
Investment earnings	38,000	13,000
Other	374,000	344,000
	<u>\$ 4,657,000</u>	<u>\$ 4,886,000</u>

Overall, 2019 revenues decreased \$229,000 or 5% 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, 2019

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>	2019	2018
Legislative	\$ 64,000	\$ 71,000
General government	658,000	575,000
Public safety:		
Police department	919,000	841,000
Fire department	464,000	829,000
Other	15,000	17,000
Public works	1,142,000	849,000
Inspection	88,000	147,000
Recreation activities	79,000	67,000
Capital outlay	311,000	388,000
Other	398,000	472,000
	<u>\$ 4,138,000</u>	<u>\$ 4,256,000</u>

Expenditures decreased by \$118,000 from the prior year due to the implementation of a Public Safety model resulting in firefighters finding other employment and leaving the Township's employment.

Water and Sewer System Funds - The Township's proprietary funds reported net position of \$7,112,546 which is an increase of \$527,959 from last year's net position of \$6,734,587. 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, 2019

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 increased by approximately \$269,000 during the fiscal year. This is mainly due to an increase in special assessments levied.
- Budgeted expenditures increased by approximately \$295,000 during the fiscal year. This is mainly due to an increase in public works and work on the drains.
- Actual revenues for the year were approximately \$63,000 more than anticipated during the fiscal year. This is mainly due to state shared revenue, other income, interest and charges for services being more than anticipated.
- Actual expenditures for the year were approximately \$637,000 less than anticipated. This is mainly due to firefighters leaving the Township's employment, hospitalization cost share and, capital outlay being less than anticipated.

**Charter Township of Hampton
Management's Discussion & Analysis
For the Year Ended December 31, 2019**

Capital Assets

At December 31, 2019, the Township had \$11.3 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 \$316,000 from last year.

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
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	2,562,041	2,518,831	0	0	2,562,041	2,518,831
Infrastructure	156,826	156,826	0	0	156,826	156,826
Construction in progress	131,004	72,914	0	0	131,004	72,914
Sewer system	0	0	12,569,790	12,569,790	12,569,790	12,569,790
Total capital assets	5,236,795	5,135,495	12,569,790	12,569,790	17,806,585	17,705,285
Less accumulated depreciation	3,730,188	3,628,852	2,812,915	2,496,636	6,543,103	6,125,488
Net capital assets	\$ 1,506,607	\$ 1,506,643	\$ 9,756,875	\$ 10,073,154	\$ 11,263,482	\$ 11,579,797

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 \$10,303,000 in long-term debt outstanding versus \$10,509,000 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:

	2019	2018
Proprietary	<u>\$ 10,303,000</u>	<u>\$ 10,509,000</u>

Charter Township of Hampton
Management's Discussion & Analysis
For the Year Ended December 31, 2019

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.

Anticipated decrease in State Shared Revenue due to the effects of COVID-19.

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, 2019

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<u>Assets</u>				
Cash and investments	\$ 3,780,734	\$ 2,587,672	\$ 6,368,406	\$ 182,563
Cash - USDA RRI reserve	0	508,938	508,938	0
Receivables:				
Accounts	63,795	1,014,006	1,077,801	26,798
Taxes	1,129,169	0	1,129,169	72,124
Internal balances	(19,932)	19,932	0	0
Advances to other funds	338,000	0	338,000	0
WWTP sewage system, net of accumulated amortization	0	4,495,812	4,495,812	0
Capital assets, net of accumulated depreciation	1,506,607	9,756,875	11,263,482	1,593,928
Total assets	<u>6,798,373</u>	<u>18,383,235</u>	<u>25,181,608</u>	<u>1,875,413</u>
<u>Deferred Outflows of Resources</u>				
Related to OPEB	446,599	0	446,599	0
<u>Current Liabilities</u>				
Accounts payable	102,064	660,497	762,561	4,845
Accrued payroll	80,863	7,192	88,055	0
Deposits payable	20,497	0	20,497	0
Bonds payable	0	213,000	213,000	40,000
Advances from other funds	0	300,000	300,000	38,000
Total current liabilities	<u>203,424</u>	<u>1,180,689</u>	<u>1,384,113</u>	<u>82,845</u>
<u>Long-term liabilities</u>				
Bonds payable	0	10,090,000	10,090,000	490,000
Net OPEB liability	5,822,371	0	5,822,371	0
Compensated absences	16,872	0	16,872	0
Total long-term liabilities	<u>5,839,243</u>	<u>10,090,000</u>	<u>15,929,243</u>	<u>490,000</u>
Total liabilities	<u>6,042,667</u>	<u>11,270,689</u>	<u>17,313,356</u>	<u>572,845</u>
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	2,274,538	0	2,274,538	86,214
Unavailable revenue - special assessments	188,252	0	188,252	0
Related to OPEB	62,682	0	62,682	0
Total deferred inflows of resources	<u>2,525,472</u>	<u>0</u>	<u>2,525,472</u>	<u>86,214</u>
<u>Net position</u>				
Net investment in capital assets	1,506,607	3,949,687	5,456,294	1,099,083
Restricted	515,147	508,938	1,024,085	117,271
Unrestricted	(3,344,921)	2,653,921	(691,000)	0
Total net position	<u>\$ (1,323,167)</u>	<u>\$ 7,112,546</u>	<u>\$ 5,789,379</u>	<u>\$ 1,216,354</u>

See accompanying notes to financial statements.

Charter Township of Hampton
Statement of Activities
For the Year Ended December 31, 2019

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	\$ 63,888	\$ 0	\$ 0	\$ (63,888)	\$ 0	\$ (63,888)	\$ 0
General government	958,720	159,835	152,988	(645,897)	0	(645,897)	0
Public safety	1,430,840	0	0	(1,430,840)	0	(1,430,840)	0
Public works	1,166,751	0	0	(1,166,751)	0	(1,166,751)	0
Inspection	87,932	122,127	0	34,195	0	34,195	0
Recreation activities	115,500	0	0	(115,500)	0	(115,500)	0
Capital outlay	209,294	0	0	(209,294)	0	(209,294)	0
Other	398,374	0	0	(398,374)	0	(398,374)	0
Total governmental activities	4,431,299	281,962	152,988	(3,996,349)	0	(3,996,349)	0
Business-type activities:							
Water	1,585,237	1,892,577	0	0	307,340	307,340	0
Sewer	2,046,441	2,240,755	0	0	194,314	194,314	0
Total business-type activities	3,631,678	4,133,332	0	0	501,654	501,654	0
Total primary government	\$ 8,062,977	\$ 4,415,294	\$ 152,988	(3,996,349)	501,654	(3,494,695)	0
Component Unit:							
Downtown Development Authority	119,741	0	0	0	0	0	(119,741)
Total component unit	\$ 119,741	\$ 0	\$ 0	0	0	0	(119,741)
General Revenues:							
Taxes				2,295,554	0	2,295,554	110,794
Special assessments levied				214,425	0	214,425	0
State shared revenue				1,125,729	0	1,125,729	0
Interest and investment earnings				38,118	26,305	64,423	1,967
Other				519,583	0	519,583	5,399
Total general revenues				4,193,409	26,305	4,219,714	118,160
Change in net position				197,060	527,959	725,019	(1,581)
Net position - beginning of year, as previously stated				(1,520,227)	6,734,587	5,214,360	1,217,935
Prior period adjustment				0	(150,000)	(150,000)	0
Net position - beginning of year, restated				(1,520,227)	6,584,587	5,064,360	1,217,935
Net position - end of year				\$ (1,323,167)	\$ 7,112,546	\$ 5,789,379	\$ 1,216,354

See accompanying notes to financial statements.

Charter Township of Hampton
Governmental Funds
Balance Sheet
December 31, 2019

	General	Other Nonmajor Governmental Funds	Total
<u>ASSETS</u>			
Cash and investments	\$ 3,121,115	\$ 659,619	\$ 3,780,734
Receivables:			
Accounts	10,522	53,273	63,795
Taxes	1,026,543	102,626	1,129,169
Due from other funds	77,089	0	77,089
Advances to other funds	338,000	0	338,000
Total assets	\$ 4,573,269	\$ 815,518	\$ 5,388,787
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</u>			
<u>Liabilities</u>			
Accounts payable	\$ 101,561	\$ 503	\$ 102,064
Accrued expenses	80,396	467	80,863
Due to other funds	19,932	77,089	97,021
Deposits payable	20,497	0	20,497
Total liabilities	222,386	78,059	300,445
<u>Deferred Inflows of Resources</u>			
Unavailable revenue - property taxes	2,052,226	222,312	2,274,538
Unavailable revenue - special assessments	188,252	0	188,252
Total deferred inflows of resources	2,240,478	222,312	2,462,790
<u>Fund Balance</u>			
Nonspendable - advances	338,000	0	338,000
Restricted	0	515,147	515,147
Unassigned	1,772,405	0	1,772,405
Total fund balance	2,110,405	515,147	2,625,552
Total liabilities, deferred inflows of resources and fund balance	\$ 4,573,269	\$ 815,518	\$ 5,388,787

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, 2019

Total fund balance - governmental funds		\$ 2,625,552
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	5,236,795	
Accumulated depreciation	<u>(3,730,188)</u>	1,506,607
Deferred outflows used in governmental activities are not financial resources and therefore are not reported in governmental funds:		
Related to OPEB		<u>446,599</u>
Long-term liabilities are not due and payable in current period and are not reported in the governmental funds:		
Net OPEB liability	(5,822,371)	
Compensated absences	<u>(16,872)</u>	(5,839,243)
Deferred inflows used in governmental activities are not recognized as current resources and therefore are not reported in governmental funds:		
Related to OPEB		<u>(62,682)</u>
Total net position - governmental activities		<u>\$ (1,323,167)</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, 2019

	General	Other Nonmajor Governmental Funds	Total
<u>Revenues</u>			
Taxes	\$ 2,071,698	\$ 223,856	\$ 2,295,554
Collection fees	145,609	0	145,609
State shared revenue	895,387	259,373	1,154,760
Special assessments levied	214,425	0	214,425
Charges for services	152,988	0	152,988
Interest	30,455	7,663	38,118
Licenses and permits	159,835	122,127	281,962
Other	371,847	2,127	373,974
Total revenues	<u>4,042,244</u>	<u>615,146</u>	<u>4,657,390</u>
<u>Expenditures</u>			
Legislative	63,888	0	63,888
General government	657,517	0	657,517
Public safety	1,398,274	0	1,398,274
Public works	771,563	370,818	1,142,381
Inspection	0	87,932	87,932
Recreation activities	78,756	0	78,756
Other	398,374	0	398,374
Capital outlay	82,870	227,725	310,595
Total expenditures	<u>3,451,242</u>	<u>686,475</u>	<u>4,137,717</u>
Excess (deficiency) of revenues over expenditures	591,002	(71,329)	519,673
Fund balance - beginning of year	<u>1,519,403</u>	<u>586,476</u>	<u>2,105,879</u>
Fund balance - end of year	<u>\$ 2,110,405</u>	<u>\$ 515,147</u>	<u>\$ 2,625,552</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, 2019

Net change in fund balance - total governmental funds	\$ 519,673
<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	101,301
Depreciation expense	(101,336)
<p>Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:</p>	
Compensated absences	2,590
<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>(296,137)</u>
Change in net position of governmental activities	<u><u>\$ 197,060</u></u>

See accompanying notes to financial statements.

Charter Township of Hampton
Proprietary Funds
Statement of Net Position
December 31, 2019

	Business-Type Activities		
	Enterprise Funds		
	Water Fund	Sewer Fund	Total
<u>Assets</u>			
Current Assets:			
Cash and investments	\$ 1,301,263	\$ 1,286,409	\$ 2,587,672
Accounts receivable	431,246	582,760	1,014,006
Due from other funds	163,769	6,163	169,932
Total current assets	<u>1,896,278</u>	<u>1,875,332</u>	<u>3,771,610</u>
Non-current assets:			
Cash - USDA RRI reserve	0	508,938	508,938
WWTP sewage system, net of amortization of \$1,305,236	0	4,495,812	4,495,812
Capital assets - at cost	0	12,569,790	12,569,790
Less allowance for depreciation	0	(2,812,915)	(2,812,915)
Net capital assets	<u>0</u>	<u>9,756,875</u>	<u>9,756,875</u>
Total assets	<u>1,896,278</u>	<u>16,636,957</u>	<u>18,533,235</u>
<u>Liabilities</u>			
Current Liabilities:			
Accounts payable	334,582	325,915	660,497
Accrued payroll	0	7,192	7,192
Advances from other funds	0	300,000	300,000
Due to other funds	0	150,000	150,000
Current portion of bonds payable	0	213,000	213,000
Total current liabilities	<u>334,582</u>	<u>996,107</u>	<u>1,330,689</u>
Long-term Liabilities:			
Bonds payable	0	10,090,000	10,090,000
Total liabilities	<u>334,582</u>	<u>11,086,107</u>	<u>11,420,689</u>
<u>Net position</u>			
Net investment in capital assets	0	3,949,687	3,949,687
Restricted	0	508,938	508,938
Unrestricted	1,561,696	1,092,225	2,653,921
Total net position	<u>\$ 1,561,696</u>	<u>\$ 5,550,850</u>	<u>\$ 7,112,546</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, 2019

	Business-Type Activities		
	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating revenues:			
Charges for services	\$ 1,892,577	\$ 2,240,755	\$ 4,133,332
Total operating revenues	<u>1,892,577</u>	<u>2,240,755</u>	<u>4,133,332</u>
Operating expenses:			
Water and sewer treatment	1,473,073	704,300	2,177,373
Depreciation and amortization	0	461,305	461,305
Salaries and wages	9,560	152,527	162,087
Payroll taxes and fringe benefits	1,064	77,217	78,281
Supplies	57,350	40,576	97,926
Utilities	672	76,126	76,798
Contracted services	33,077	147,378	180,455
Repairs and maintenance	2,325	27,751	30,076
Miscellaneous	8,116	13,066	21,182
Total operating expenses	<u>1,585,237</u>	<u>1,700,246</u>	<u>3,285,483</u>
Operating income (loss)	<u>307,340</u>	<u>540,509</u>	<u>847,849</u>
Nonoperating revenues (expenses):			
Interest income	10,571	15,734	26,305
Interest expense	0	(346,195)	(346,195)
Total nonoperating revenue (expense)	<u>10,571</u>	<u>(330,461)</u>	<u>(319,890)</u>
Change in net position	<u>317,911</u>	<u>210,048</u>	<u>527,959</u>
Net position - beginning of year, as previously stated	1,243,785	5,490,802	6,734,587
Prior period adjustment	<u>0</u>	<u>(150,000)</u>	<u>(150,000)</u>
Net position - beginning of year, restated	<u>1,243,785</u>	<u>5,340,802</u>	<u>6,584,587</u>
Net position - end of year	<u>\$ 1,561,696</u>	<u>\$ 5,550,850</u>	<u>\$ 7,112,546</u>

See accompanying notes to financial statements

Charter Township of Hampton
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2019

	Business-Type Activities		
	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash flows from operating activities:			
Cash received from customers	\$ 1,682,248	\$ 2,224,218	\$ 3,906,466
Cash payments to suppliers for goods and services	(1,513,370)	(863,644)	(2,377,014)
Cash payments to employees for services	(13,211)	(229,087)	(242,298)
Other operating income	515,239	(552,124)	(36,885)
Net cash flows from operating activities	<u>670,906</u>	<u>579,363</u>	<u>1,250,269</u>
Cash flows from capital and related financing activities:			
Principal paid on long-term debt	0	(306,000)	(306,000)
Interest paid on long-term debt	0	(346,195)	(346,195)
Net cash flows from financing activities	<u>0</u>	<u>(652,195)</u>	<u>(652,195)</u>
Cash flows from investing activities:			
Interest and investment earnings	<u>10,571</u>	<u>15,734</u>	<u>26,305</u>
Net increase (decrease) in cash and cash equivalents	681,477	(57,098)	624,379
Cash and cash equivalents - beginning of year	<u>619,786</u>	<u>1,852,445</u>	<u>2,472,231</u>
Cash and cash equivalents - end of year	<u><u>\$ 1,301,263</u></u>	<u><u>\$ 1,795,347</u></u>	<u><u>\$ 3,096,610</u></u>

See accompanying notes to financial statements

Charter Township of Hampton
Statement of Fiduciary Net Position
December 31, 2019

	Current Tax Fund	Trust & Agency Fund	Trust Fund	Total
<u>ASSETS</u>				
Cash and investments	\$ 1,120,919	\$ 1,113	\$ 148,388	\$ 1,270,420
Total assets	\$ 1,120,919	\$ 1,113	148,388	1,270,420
<u>LIABILITIES</u>				
Undistributed current and delinquent taxes	\$ 1,120,919	\$ 1,113	0	1,122,032
Total liabilities	\$ 1,120,919	\$ 1,113	0	1,122,032
<u>NET POSITION</u>				
Total net position			\$ 148,388	\$ 148,388

Charter Township of Hampton
Statement of Changes in Fiduciary Net Position
For the Year Ended December 31, 2019

	Trust Fund
<u>Additions</u>	
Investment gain (loss)	\$ 16,227
Employer OPEB contributions	204,616
Other	50,000
Total additions	270,843
<u>Deductions</u>	
Retiree OPEB benefit payments	204,616
Advisory fees	343
Total deductions	204,959
Change in net position	65,884
Net position - beginning of year	82,504
Net position - end of year	\$ 148,388

See accompanying notes to financial statements.

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2019

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 and 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, 2019

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, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Government reports the following major fund:

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.

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 – \$508,938 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, 2019

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 2019 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, 2019

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 2018 taxable valuation of the Township totaled 350 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 \$1,725,719 for operating, \$223,856 for road improvements, \$345,017 for public safety, and \$209,953 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, 2019

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, 2019, 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 is presented as Required Supplemental Information.

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2019

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:

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total	Component Units
Cash and investments	\$ 3,780,734	\$ 3,096,610	\$ 1,270,420	\$ 8,147,764	\$ 182,563

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

Deposits (checking and savings accounts, certificates of deposit)	\$ 7,998,661
Investments (money market mutual funds)	148,388
Petty cash and cash on hand	715
Total	\$ 8,147,764

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, 2019, \$6,581,605 of the Township's bank balance of \$6,979,993 was exposed to custodial credit risk because it was uninsured and uncollateralized. At December 31, 2019, none of the component unit's bank balance of \$182,563 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, 2019

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	72,914	58,090	0	131,004
Subtotal	<u>868,959</u>	<u>58,090</u>	<u>0</u>	<u>927,049</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	2,518,830	43,211	0	2,562,041
Infrastructure	156,826	0	0	156,826
Subtotal	<u>4,266,535</u>	<u>43,211</u>	<u>0</u>	<u>4,309,746</u>
Less accumulated depreciation for:				
Land improvements	465,083	9,777	0	474,860
Buildings and improvements	839,618	19,602	0	859,220
Vehicles and equipment	2,273,288	65,137	0	2,338,425
Infrastructure	50,863	6,820	0	57,683
Subtotal	<u>3,628,852</u>	<u>101,336</u>	<u>0</u>	<u>3,730,188</u>
Net capital assets being depreciated	<u>637,683</u>	<u>(58,125)</u>	<u>0</u>	<u>579,558</u>
Governmental activities, total capital assets - net of depreciation	<u>\$ 1,506,642</u>	<u>\$ (35)</u>	<u>\$ 0</u>	<u>\$ 1,506,607</u>

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2019

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
<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	12,552,290	0	0	12,552,290
Less accumulated depreciation for:				
Sewer system	2,496,636	316,279	0	2,812,915
Subtotal	2,496,636	316,279	0	2,812,915
Business-type activities, total capital assets - net of depreciation	\$ 10,073,154	\$ (316,279)	\$ 0	\$ 9,756,875
	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
<u>Component Unit:</u>				
Capital assets being depreciated:				
Infrastructure	\$ 2,490,514	\$ 0	\$ 0	\$ 2,490,514
Subtotal	2,490,514	0	0	2,490,514
Less accumulated depreciation for:				
Infrastructure	796,966	99,620	0	896,586
Subtotal	796,966	99,620	0	896,586
Component unit, total capital assets - net of depreciation	\$ 1,693,548	\$ (99,620)	\$ 0	\$ 1,593,928

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2019

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions as follows:

Governmental activities:		
General government	\$	7,656
Public safety		32,566
Public works		24,370
Recreation		<u>36,744</u>
Total governmental activities depreciation expense	\$	<u>101,336</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>99,620</u>
Total component unit depreciation expense	\$	<u>99,620</u>

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

A summary of inter-fund receivable and payable balances at December 31, 2019 is as follows:

		Payables			Total
		General	Building	Sewer	
Receivables	General	\$ 0	\$ 77,089	\$ 0	\$ 77,089
	Water Fund	13,769	0	150,000	163,769
	Sewer Fund	6,163	0	0	6,163
		<u>\$ 19,932</u>	<u>\$ 77,089</u>	<u>\$ 150,000</u>	<u>\$ 247,021</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.

There were no interfund transfers during the year.

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2019

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%	\$ 10,509,000	\$ (206,000)	\$ 10,303,000
	Beginning Balance	Increase (Decrease)	Ending Balance
<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%	\$ 570,000	\$ (40,000)	\$ 530,000

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2019

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, 2019	Additions	Retirements and Payments	Balance December 31, 2019	Amounts Due Within One Year
Bonds - Primary Government	\$ 10,509,000	\$ 0	\$ 206,000	\$ 10,303,000	\$ 213,000
Bonds - Component Unit	570,000	0	40,000	530,000	40,000
Compensated Absences	19,462	0	2,590	16,872	0
Net OPEB liability	5,603,322	489,892	270,843	5,822,371	0
	<u>\$ 16,701,784</u>	<u>\$ 489,892</u>	<u>\$ 519,433</u>	<u>\$ 16,672,243</u>	<u>\$ 253,000</u>

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

Year End December 31	Business-Type Activities		
	Principal	Interest	Total
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
2025-2029	1,358,000	1,381,253	2,739,253
2030-2034	1,612,000	1,140,429	2,752,429
2035-2039	1,916,000	854,491	2,770,491
2040-2044	2,274,000	514,867	2,788,867
2045-2049	1,656,000	187,462	1,843,462
2050	344,000	5,590	349,590
Total	<u>\$ 10,303,000</u>	<u>\$ 5,668,034</u>	<u>\$ 15,971,034</u>

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2019

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Year End December 31	Component Unit		
	Principal	Interest	Total
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
2025-2029	230,000	36,825	266,825
2030-2031	100,000	4,900	104,900
Total	<u>\$ 530,000</u>	<u>\$ 103,700</u>	<u>\$ 633,700</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, 2019 was \$300,000.

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, 2019 was \$38,000.

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 up to a total of thirty (30) sick days and sick days are not “paid out” in any circumstance. 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 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.

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2019

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, 2019

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 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, 2019

NOTE 9 - POST-EMPLOYMENT BENEFITS (CONTINUED)

As of December 31, 2018, Plan membership consisted of the following:

Active plan members	34
Inactive plan members receiving benefits	34
Total Plan Members	68

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, 2019.

Actuarial Assumptions – The total OPEB liability was determined by an actuarial valuation as of December 31, 2018 rolled forward to the measurement date. The following actuarial assumptions were used in the measurement, unless otherwise specified:

Inflation	Included in investment rate of return
Salary increases	3.50%
Investment rate of return	7.02%
20-year Aa Municipal bond rate	3.00%
Mortality	RP-2014 adjusted to 2006 total data set, headcount weighted with MP-2018

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2019

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, 2019

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, 2019 were as follows:

	Increase (Decrease)		
	Plan		
	Total OPEB Liability (a)	Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
	(a)	(b)	(a) - (b)
Balance at December 31, 2018	\$ 5,685,826	\$ 82,504	\$ 5,603,322
Changes for the year:			
Service cost	150,398	0	150,398
Interest	339,151	0	339,151
Differences between expected and actual experience	0	0	0
Change in plan terms	0	0	0
Change in actuarial assumptions	0	0	0
Contributions to OPEB trust	0	50,000	(50,000)
Contributions - employer	0	204,616	(204,616)
Net investment income	0	16,227	(16,227)
Benefit payments	(204,616)	(204,616)	0
Administrative expense	0	(343)	343
Net Changes	284,933	65,884	219,049
Balance at December 31, 2019	\$ 5,970,759	\$ 148,388	\$ 5,822,371

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%
\$ 6,653,485	\$ 5,822,371	\$ 5,154,171

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2019

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:

<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate Assumption</u>	<u>1% Increase</u>
\$ 5,225,456	\$ 5,822,371	\$ 6,560,466

OPEB expense, Deferred Outflows of Resources and Deferred Inflows of Resources – For the year ended December 31, 2019, the Township recognized OPEB expense of \$296,137. At December 31, 2019 the Township reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 0	\$ (62,682)
Changes in assumptions	440,932	0
Net difference between projected and actual investment earnings on OPEB investments	<u>5,667</u>	<u>0</u>
Total	<u>\$ 446,599</u>	<u>\$ (62,682)</u>

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:

2020	\$	77,088
2021		77,088
2022		77,088
2023		75,199
2024		77,454
	\$	<u>383,917</u>

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2019

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 \$1,093,878 and its total current year payroll for all employees was \$1,621,847. 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, 2019 was \$127,626, which was entirely paid during the year. Employee contributions for the year ended December 31, 2019, were \$61,703, 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, 2019

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% of the 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 \$508,938 for the Sewer Fund.

Net position includes restrictions for the governmental funds which includes \$77,042 for Building \$319,269 for Road Improvements and \$118,836 for the SAW Grant fund.

NOTE 15 - DEFICIT FUND BALANCE

For the year ended December 31, 2019, the Township had a deficit fund balance in the following funds:

<u>Fund</u>	<u>Amount</u>
DDA:	
Debt service	<u>\$ (27,704)</u>

NOTE 16 – PRIOR PERIOD ADJUSTMENT

The prior period adjustment has been recorded to reflect the overbilling for 4th quarter sewer charges that was recorded in the prior year, in the amount of \$150,000.

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2019

NOTE 17 - RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Water Fund	Sewer Fund	Total
Operating income (loss)	\$ 307,340	\$ 540,509	\$ 847,849
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	(60,329)	(16,537)	(76,866)
Due from other funds	365,239	70,000	435,239
Accounts payable	61,243	145,552	206,795
Due to other funds	0	(622,124)	(622,124)
Accrued payroll	(2,587)	658	(1,929)
Net cash flows from operating activities	\$ 670,906	\$ 579,363	\$ 1,250,269

NOTE 18 - 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 2019 operations	\$ 1,710,196
Public safety taxes levied for 2019	342,030
Road taxes levied for 2019	222,312
Special assessments levied for 2019	188,252
Total deferred inflows	\$ 2,462,790

NOTE 19 - 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, 2019, the Township abated property tax revenues totaling approximately \$63,000 under this program.

Charter Township of Hampton
Notes to Financial Statements
For the Year Ended December 31, 2019

NOTE 19 - 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, 2019, the Township abated property tax revenues totaling approximately \$13,000 under this program.

NOTE 20 - 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 2021 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 2022 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.

NOTE 21 – SUBSEQUENT EVENT

On March 11, 2020, the World Health Organization declared the coronavirus (COVID-19) a pandemic. As a result the spread of COVID-19, economic uncertainties have arisen which are likely to negatively impact the Township. While the disruption is currently expected to be temporary, there is considerable uncertainty regarding the duration. The overall financial impact of COVID-19 cannot be reasonably estimated at this time.

Charter Township of Hampton
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended December 31, 2019

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Taxes	\$ 2,098,670	\$ 2,098,600	\$ 2,071,698	\$ (26,902)
State shared revenue	841,310	841,310	895,387	54,077
Other	330,266	331,166	371,847	40,681
Licenses and permits	153,887	150,887	159,835	8,948
Collection fees	153,300	153,300	145,609	(7,691)
Charges for services	126,000	126,000	152,988	26,988
Interest	3,175	3,175	30,455	27,280
Special assessments levied	3,726	275,226	214,425	(60,801)
	<u>3,710,334</u>	<u>3,979,664</u>	<u>4,042,244</u>	<u>62,580</u>
<u>Expenditures:</u>				
Legislative:				
Township Board	65,763	65,763	63,888	1,875
General Government:				
Supervisor	82,680	82,680	86,143	(3,463)
Elections	7,710	7,710	0	7,710
Accounting department	193,710	193,699	214,744	(21,045)
Assessor	63,180	67,788	64,041	3,747
Attorney	45,000	45,000	38,318	6,682
Consultant	25,000	25,000	17,124	7,876
Clerk	80,025	80,025	82,903	(2,878)
Geographic information system	800	800	554	246
Board of Review	1,480	1,480	1,059	421
Treasurer	79,900	79,900	83,090	(3,190)
Township hall and grounds	55,243	55,243	45,151	10,092
Citizens community building	26,829	26,829	21,646	5,183
Public relations	3,500	3,500	2,746	754
Public safety:				
Police department	839,150	867,700	918,753	(51,053)
Fire department	744,880	743,697	464,087	279,610
Planning Commission	17,475	17,475	14,597	2,878
Board of Appeals	4,210	4,210	837	3,373
Public works:				
Department of Public Works	382,780	382,780	313,219	69,561
Weed control	8,640	8,640	8,640	0
Drains	500	272,000	221,835	50,165
Highways and streets	1,000	1,000	0	1,000
Engineering	3,000	3,000	0	3,000
Street lighting	120,000	127,215	117,574	9,641
Sanitation	151,500	151,500	110,295	41,205

Charter Township of Hampton
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended December 31, 2019

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
Expenditures: (continued)				
Recreation and culture:				
Recreation - parks	\$ 62,140	\$ 52,140	\$ 60,997	\$ (8,857)
Recreation - parks - other	20,000	20,025	15,248	4,777
Rail Trail	4,500	4,500	2,510	1,990
Other Functions:				
Insurance	150,000	150,000	143,757	6,243
Hospitalization	265,000	265,000	204,616	60,384
Other post-employment benefits	50,000	50,000	50,000	0
Capital outlay	237,750	232,334	82,870	149,464
Total expenditures	<u>3,793,345</u>	<u>4,088,633</u>	<u>3,451,242</u>	<u>637,391</u>
Excess (deficiency) of revenues over expenditures	(83,011)	(108,969)	591,002	699,971
Fund balance - beginning of year	<u>1,519,403</u>	<u>1,519,403</u>	<u>1,519,403</u>	<u>0</u>
Fund balance - end of year	<u><u>\$ 1,436,392</u></u>	<u><u>\$ 1,410,434</u></u>	<u><u>\$ 2,110,405</u></u>	<u><u>\$ 699,971</u></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)

	2019	2018
<u>Total OPEB Liability</u>		
Service Cost	\$ 150,398	\$ 150,398
Interest	339,151	339,151
Changes of benefit terms	0	(4,690,056)
Differences between expected and actual experience	0	(87,606)
Change of assumptions	0	616,252
Benefit payments	(204,616)	(308,673)
	284,933	(3,980,534)
Net change in total OPEB liability		
Total OPEB liability - beginning	5,685,826	9,666,360
Total OPEB liability - ending (a)	\$ 5,970,759	\$ 5,685,826
<u>Plan Fiduciary Net Position</u>		
Contributions to OPEB trust	\$ 50,000	\$ 10,000
Contributions/benefit payments made from general operating funds	204,616	308,673
Net investment income	16,227	(5,032)
Benefit payments	(204,616)	(308,673)
Administrative expenses	(343)	(379)
	65,884	4,589
Net change in plan fiduciary net position		
Plan fiduciary net position - beginning	82,504	77,915
Plan fiduciary net position - ending (b)	\$ 148,388	\$ 82,504
Net OPEB liability - ending (a) - (b)	\$ 5,822,371	\$ 5,603,322
Plan fiduciary net position as a percentage of the total OPEB liability	2.49%	1.50%
Covered employee payroll	\$1,093,878	\$ 1,670,226
Net OPEB liability as a percentage of covered-employee payroll	532%	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)

	2019	2018
Actuarial determined contributions	\$ 315,578	\$ 314,279
Contributions in relation to the actuarially determined contribution	254,616	318,673
Contribution deficiency (excess)	\$ 60,962	\$ (4,394)
 Covered employee payroll	 1,093,878	 1,670,226
 Contributions as a percentage of covered employee payroll	 23.28%	 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, 2019

	Special Revenue Funds			
	Building	Road Improvement	SAW Grant	Totals
	<u>ASSETS</u>			
Cash and investments	\$ 154,854	\$ 438,955	\$ 65,810	\$ 659,619
Accounts receivable	247	0	53,026	53,273
Taxes receivable	0	102,626	0	102,626
Total Assets	\$ 155,101	\$ 541,581	\$ 118,836	\$ 815,518

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE

<u>Liabilities</u>				
Accrued expenses	\$ 467	\$ 0	\$ 0	\$ 467
Accounts payable	503	0	0	503
Due to governmental funds	77,089	0	0	77,089
Total Liabilities	78,059	0	0	78,059
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	0	222,312	0	222,312
<u>Fund Balance</u>				
Restricted	77,042	319,269	118,836	515,147
Total liabilities, deferred inflows of resources, and fund balance	\$ 155,101	\$ 541,581	\$ 118,836	\$ 815,518

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, 2019

	<u>Special Revenue Funds</u>			<u>Totals</u>
	<u>Building</u>	<u>Road Improvement</u>	<u>SAW Grant</u>	
<u>Revenues</u>				
Taxes	\$ 0	\$ 223,856	\$ 0	\$ 223,856
Interest	1,525	4,963	1,175	7,663
License and permits	122,127	0	0	122,127
State sources	0	0	259,373	259,373
Other	0	2,127	0	2,127
Total revenues	<u>123,652</u>	<u>230,946</u>	<u>260,548</u>	<u>615,146</u>
<u>Expenditures</u>				
Inspection	87,932	0	0	87,932
Capital outlay	0	0	227,725	227,725
Public works	0	370,818	0	370,818
Total expenditures	<u>87,932</u>	<u>370,818</u>	<u>227,725</u>	<u>686,475</u>
Excess (deficiency) of revenues over expenditures	35,720	(139,872)	32,823	(71,329)
Fund balance - beginning of year	<u>41,322</u>	<u>459,141</u>	<u>86,013</u>	<u>586,476</u>
Fund balance - end of year	<u><u>\$ 77,042</u></u>	<u><u>\$ 319,269</u></u>	<u><u>\$ 118,836</u></u>	<u><u>\$ 515,147</u></u>

Charter Township of Hampton
Other Supplemental Information
Debt Schedule - 2010 Sewer Bonds
For the Year Ended December 31, 2019

PURPOSE Provide funds to pay for the cost of connecting to the West Bay County Regional Wastewater Treatment Sewage System.

DATE OF ISSUE March 10, 2010

AMOUNT OF ISSUE \$ 13,224,000

AMOUNT OF REDEEMED

During prior years	\$ 2,715,000	
During current year	206,000	2,921,000

BALANCE OUTSTANDING - DECEMBER 31, 2018 \$ 10,303,000

<u>Fiscal year</u>	Requirements		
	Principal	Interest	Total
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	\$ 10,303,000	\$ 5,668,034	\$ 15,971,034

Charter Township of Hampton
 Other Supplemental Information
 Debt Schedule - Downtown Development Authority
For the Year Ended December 31, 2019

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 \$ 645,000

AMOUNT OF REDEEMED

During prior years	\$ 75,000	
During current year	40,000	115,000

BALANCE OUTSTANDING - DECEMBER 31, 2019 \$ 530,000

<u>Fiscal year</u>	Requirements		
	Principal	Interest	Total
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	\$ 530,000	\$ 103,700	\$ 633,700



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

June 22, 2020

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, 2019 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 June 22, 2020.

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 as items 2019-001 and 2019-002 that we consider to be material weaknesses.



Township Board
Charter Township of Hampton
June 22, 2020

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, 2019

2019-001 (Repeat Finding 2018-001)

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, 2019

2019-002 (Repeat Finding 2018-002)

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
Summary Schedule of Prior Year Findings
For the Year Ended December 31, 2019

2018-001

See repeat finding 2019-001 for details.

2018-002

See repeat finding 2019-002 for details.

2018-003

Audit Finding

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

Corrective Action Taken

The Township was ready and prepared for the annual audit and provided us with the necessary audit documentation on a timely basis.