

**THE CHARTER
TOWNSHIP OF ALPENA**

Audited Financial Statements

Year Ended March 31, 2019

STRALEY LAMP & KRAENZLEIN P.C.

THE CHARTER TOWNSHIP OF ALPENA

BOARD OF TRUSTEES

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Nathan Skibbe

Clerk

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Laura Ellery-Somers

Trustee

Norman Poli

Trustee

Steven Lappan

Trustee

Cash Kroll

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Matthew Dunckel

INDEPENDENT AUDITORS

Straley Lamp & Kraenzlein P.C.

LEGAL COUNSEL

Gillard, Bauer, Mazrum, Florip, Smigelski & Gulden
Fahey, Schultz, Burzych, Rhodes

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INDEPENDENT AUDITOR'S REPORT

Members of the Township Board
The Charter Township of Alpena
Alpena Township, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Charter Township of Alpena, Michigan (the Township), as of and for the year ended March 31, 2019, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-Type Activities	Qualified
General Fund	Unmodified
Public Safety Fund	Unmodified
Business-Type Fund	Qualified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinion on Business-Type Activities and Business-Type Fund

Management has not been able to produce detailed records of the capital assets in the business-type fund. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated, which may change the assets, net position, and expenses of the business-type activities and business-type fund. The amount by which this departure would affect the assets, net position, and expenses of the business-type fund has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Business-Type Activities and Business-Type Fund” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and business-type fund of The Charter Township of Alpena, Michigan, as of March 31, 2019, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund other than the business-type fund, and the aggregate remaining fund information of The Charter Township of Alpena, Michigan, as of March 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis and budgetary comparison information 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 operation, economic, or historical contexts. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedure do not provide us with sufficient evidence to express an opinion or provide any assurance.

Straley Lamp & Kraenzlein P.C.

Alpena, Michigan
September 9, 2019

THE CHARTER TOWNSHIP OF ALPENA

Management's Discussion and Analysis

As management of The Charter Township of Alpena (the "Township") we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2019. Please read it in conjunction with the Township's financial statements.

FINANCIAL HIGHLIGHTS

- The Township's total net position increased \$255,919 as a result of this year's operations.
- The Township assets of \$17,910,280 exceeded its liabilities of \$6,782,476 by \$11,127,804.
- The General Fund's unassigned fund balance at the end of the fiscal year was \$907,431, which represents 55% of the actual total General Fund expenditures for the fiscal year.
- The Township's water fund net position decreased \$160,077. Revenues decreased \$115,498 primarily because of water and sewer rates decreasing. Expenses decreased from the prior year's expenses by \$270,433 primarily due to legal and expert fees involving the Township's ongoing litigation with the City of Alpena.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Township's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Township's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of Township's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference being reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Township of Alpena is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Township of Alpena that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Township of Alpena include general government, public safety, public works, social services, recreation and cultural, and interest on long-term debt.

The business-type activities of the Township of Alpena include the Water and Sewer Fund.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

THE CHARTER TOWNSHIP OF ALPENA

Management's Discussion and Analysis

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary funds. The Township maintains one proprietary fund, an enterprise fund, for the water and sewer activities. The Township utilizes an *Enterprise fund* to report the same functions presented as *business-type activities* in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information for the General Fund and major governmental fund budget comparisons.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Net position

Total net position at the end of the fiscal year was \$11,127,804. However, \$7,790,492 of this total is invested in capital assets, net, comprised of land, water and sewer infrastructure, buildings and improvements and equipment. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Consequently, unrestricted net position has a balance of \$3,337,312.

THE CHARTER TOWNSHIP OF ALPENA

Management's Discussion and Analysis

Summary of net position:

	Governmental activities		Business-type activities		Totals	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$1,550,478	\$1,042,494	\$ 6,997,014	\$ 6,496,001	\$ 8,547,492	\$ 7,538,495
Capital assets, net of depreciation	2,389,431	2,429,197	6,973,357	7,138,353	9,362,788	9,567,550
Total assets	3,939,909	3,471,691	13,970,371	13,634,354	17,910,280	17,106,045
Current and other liabilities	283,442	194,538	5,163,427	4,469,214	5,446,869	4,663,752
Long-term debt	148,776	185,458	1,186,831	1,384,950	1,335,607	1,570,408
Total liabilities	432,218	379,996	6,350,258	5,854,164	6,782,476	6,234,160
Net position:						
Net investment in capital assets	2,203,966	2,208,796	5,586,526	5,553,403	7,790,492	7,762,199
Unrestricted	1,303,725	882,899	2,033,587	2,226,787	3,337,312	3,109,686
	\$3,507,691	\$3,091,695	\$ 7,620,113	\$ 7,780,190	\$ 11,127,804	\$ 10,871,885

Changes in net position

The primary government's revenues as of March 31, 2019 were \$6,028,215. Approximately 63% of the revenues are derived from charges for services, 17% is received from property taxes and about 13% of total revenues comes from state revenue sharing.

The total cost of the primary government programs for 2019, covering a wide range of services, totaled \$5,772,296. About 62% of the Township's total costs relates to public works (primarily from business type activities), while public safety represents 22%.

THE CHARTER TOWNSHIP OF ALPENA

Management's Discussion and Analysis

Summary of Changes in Net Position:

	Governmental activities		Business-type activities		Totals	
	2019	2018	2019	2018	2019	2018
Program revenues:						
Charges for services	\$ 789,380	\$ 556,519	\$3,050,050	\$3,169,340	\$ 3,839,430	\$ 3,725,859
General revenues:						
Property taxes	1,059,428	671,205	-	-	1,059,428	671,205
State share revenue	832,688	793,709	-	-	832,688	793,709
Investment income	2,626	2,711	19,149	5,601	21,775	8,312
Other taxes	21,683	16,293	209,790	233,046	231,473	249,339
Proceeds from loss recoveries	-	12,419	-	-	-	12,419
Miscellaneous	29,921	35,334	-	-	29,921	35,334
Gain on sale of asset	-	-	13,500	-	13,500	-
Total revenues	2,735,726	2,088,190	3,292,489	3,407,987	6,028,215	5,496,177
Expenses:						
General government	828,368	662,308	-	-	828,368	662,308
Public safety	1,297,350	1,122,906	-	-	1,297,350	1,122,906
Public works	144,454	73,618	3,452,566	3,722,999	3,597,020	3,796,617
Social services	41,890	85,837	-	-	41,890	85,837
Recreation and culture	3,298	-	-	-	3,298	-
Interest on long-term debt	4,370	5,173	-	-	4,370	5,173
Total expenses	2,319,730	1,949,842	3,452,566	3,722,999	5,772,296	5,672,841
Changes in position	415,996	138,348	(160,077)	(315,012)	255,919	(176,664)
Net position - beginning of the	3,091,695	2,953,347	7,780,190	8,095,202	10,871,885	11,048,549
Net position - end of the year	<u>\$3,507,691</u>	<u>\$3,091,695</u>	<u>\$7,620,113</u>	<u>\$7,780,190</u>	<u>\$ 11,127,804</u>	<u>\$ 10,871,885</u>

Governmental activities

Governmental activities increased the Township's net position by \$415,996 in 2019 compared to a \$138,348 in 2018. In 2019 the Township received \$388,223 more in property tax revenue due to a mileage increase and an increase of \$232,861 for charges for services due to an increase in the number of nonemergency transports. Total governmental expenses were \$369,888 more in 2019 compared to 2018. The difference is primarily due to a \$174,444 increase in public safety and \$166,330 increase in general government expenses.

The total cost of governmental activities this year was \$2,319,730. After subtracting the direct charges to those who directly benefited from the programs of \$789,380, the "public benefit" portion covered by property taxes, state revenue sharing, and other general revenues was \$1,530,350 in 2019.

Business type activities

The net position of the Township's business-type activities decreased by \$160,077 in 2019 compared to a \$315,012 decrease in 2018. Both revenue and expenses decreased from the 2018 amounts.

THE CHARTER TOWNSHIP OF ALPENA

Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

At March 31, 2019, the Township's governmental funds reported a fund balance of \$1,335,766, an increase of \$422,980 over the prior year. The primary reason for the increase is due to the increase in property taxes, which was due to an increase in millage.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no significant differences between the original and final General Fund or Public Safety Fund budget adopted by the Township Board for 2019.

General Fund revenues were \$173,556 more than anticipated, as state revenue and charges for services exceeded the amounts budgeted by \$67,388 and \$85,644, respectively. Actual expenditures for the General Fund were \$39,975 less than budgeted. However, the other financing uses exceeded the amount budgeted by \$211,367 in the General Fund.

The Public Safety Fund actual expenditures exceeded the final budget for Public Safety by \$356,452. Over expenditures are budgeted by function and are displayed in Note 2 to the financial statements.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

At March 31, 2019, the Township had invested, net of depreciation, in various capital assets, including its land, buildings, equipment, and infrastructure.

More detailed information about the Township's capital assets is presented in Note 4 of the notes to the basic financial statements.

Debt administration

At the end of the fiscal year, the Township had total debt outstanding in the amount of \$1,658,134, a decrease of \$229,929.

Long-term debt obligations consisted of a liability for compensated absences of \$72,669, water project bond of \$1,400,000, installment loan of \$180,827 and a capital copier lease of \$4,638.

More detailed information about the Township's long-term debt is presented in Note 7 of the notes to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

As the Township moves into fiscal year 2019-2020 the Township will continue to monitor and improve the internal control structure. Now that the Township is on year three of utilizing the new BS&A accounting software, there have been tremendous improvements in utilizing the system which will continue into the new fiscal year.

THE CHARTER TOWNSHIP OF ALPENA

Management's Discussion and Analysis

The Township is expecting to see an increase of about \$1,000,000 in taxable values on which a millage is assessed, which will lead to an increase in property tax revenue. The Township has also purchased two new fire trucks during fiscal 2019-2020 for the Public Safety Fund. The Township's Board continues to improve the budget and work through budget amendments for the fiscal year. This will improve the budget and transparency for the citizens of the Township.

CONTACTING THE TOWNSHIP'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Township's finances to its citizens, customers, investors, and creditors and to demonstrate the Township's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

The Charter Township of Alpena

Township Clerk
4385 US 23 North
Alpena, MI 49707

BASIC FINANCIAL STATEMENTS

THE CHARTER TOWNSHIP OF ALPENA

Statement of Net Position

March 31, 2019

ASSETS	Primary Government		
	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	\$ 1,349,716	\$ 1,518,141	\$ 2,867,857
Restricted cash	-	3,931,412	3,931,412
Accounts receivable	77,163	205,934	283,097
Unbilled receivables	-	535,819	535,819
Due from other governments	129,834	-	129,834
Special assessments receivable	-	135,623	135,623
Internal balances	(6,235)	6,235	-
Noncurrent assets:			
Special assessments receivable	-	663,850	663,850
Capital assets	4,580,256	12,791,339	17,371,595
Less: Accumulated depreciation	(2,190,825)	(5,817,982)	(8,008,807)
Total assets	3,939,909	13,970,371	17,910,280
LIABILITIES			
Accounts payable	134,955	195,264	330,219
Accrued liabilities	45,018	30,559	75,577
Due to other governments	830	-	830
Unearned revenue	-	799,473	799,473
Other claims (Note 11)	-	3,931,412	3,931,412
Noncurrent liabilities:			
Due within one year			
Bonds and loans payable	36,689	200,000	236,689
Compensated absences	65,950	6,719	72,669
Due in more than one year			
Bonds and loans payable	148,776	1,186,831	1,335,607
Total liabilities	432,218	6,350,258	6,782,476
NET POSITION			
Net investment in capital assets	2,203,966	5,586,526	7,790,492
Unrestricted	1,303,725	2,033,587	3,337,312
Total net position	\$ 3,507,691	\$ 7,620,113	\$ 11,127,804

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THE CHARTER TOWNSHIP OF ALPENA

Statement of Activities

For the Year Ended March 31, 2019

	<u>Expenses</u>	<u>Program Revenues</u>
		<u>Charges for Services</u>
<u>Functions/Programs:</u>		
Primary Government:		
Governmental activities		
General government	\$ 828,368	\$ 142,175
Public safety	1,297,350	609,117
Public works	144,454	38,088
Social services	41,890	-
Recreation and culture	3,298	-
Interest on long-term debt	4,370	-
	<hr/>	<hr/>
Total governmental activities	2,319,730	789,380
	<hr/>	<hr/>
Business-type activities:		
Water and sewer	3,452,566	3,050,050
	<hr/>	<hr/>
Total business-type activities	3,452,566	3,050,050
	<hr/>	<hr/>
Total primary government	\$ 5,772,296	\$ 3,839,430
	<hr/> <hr/>	<hr/> <hr/>
General revenues:		
Property taxes		
State shared revenue		
Investment earnings		
Other taxes and assessments		
Other miscellaneous income		
Gain (loss) on sale of assets		
Total general revenues		
Change in net position		
Net position, beginning of the year		
Net position, end of the year		

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (686,193)	\$ -	\$ (686,193)
(688,233)	-	(688,233)
(106,366)	-	(106,366)
(41,890)	-	(41,890)
(3,298)	-	(3,298)
(4,370)	-	(4,370)
(1,530,350)	-	(1,530,350)
-	(402,516)	(402,516)
-	(402,516)	(402,516)
\$ (1,530,350)	\$ (402,516)	\$ (1,932,866)
\$ 1,059,428	\$ -	\$ 1,059,428
832,688	-	832,688
2,626	19,149	21,775
21,683	209,790	231,473
29,921	-	29,921
-	13,500	13,500
1,946,346	242,439	2,188,785
415,996	(160,077)	255,919
3,091,695	7,780,190	10,871,885
\$ 3,507,691	\$ 7,620,113	\$ 11,127,804

THE CHARTER TOWNSHIP OF ALPENA

Governmental Funds -
Balance Sheet

March 31, 2019

	<u>General Fund</u>	<u>Public Safety</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 816,924	\$ 532,792	\$ 1,349,716
Accounts receivable, net	1,300	75,863	77,163
Due from other governments	129,834	-	129,834
Due from other funds	32,292	313	32,605
Total assets	<u>\$ 980,350</u>	<u>\$ 608,968</u>	<u>\$ 1,589,318</u>
LIABILITIES			
Accounts payable	\$ 34,915	\$ 100,040	\$ 134,955
Accrued liabilities	28,991	16,027	45,018
Due to other funds	8,183	30,657	38,840
Due to other governments	830	-	830
Unavailable revenue	-	33,909	33,909
Total liabilities	<u>72,919</u>	<u>180,633</u>	<u>253,552</u>
FUND BALANCES			
Committed	-	280,232	280,232
Restricted	-	148,103	148,103
Unassigned	907,431	-	907,431
Total fund balances	<u>907,431</u>	<u>428,335</u>	<u>1,335,766</u>
Total liabilities and fund balances	<u>\$ 980,350</u>	<u>\$ 608,968</u>	<u>\$ 1,589,318</u>

THE CHARTER TOWNSHIP OF ALPENA

Governmental Funds - Reconciliation of Total
Governmental Fund Balances to Net Position of Governmental Activities

March 31, 2019

Fund balances - total governmental funds		\$	1,335,766
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and therefore not reported in the governmental funds.			
Governmental capital assets	\$	4,580,256	
Less accumulated depreciation		<u>(2,190,825)</u>	
			2,389,431
Unavailable revenue - the governmental funds are susceptible to full accrual on the Statement of Net Position			
Unavailable revenue - nonemergency transfers			33,909
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.			
Notes payable		(185,465)	
Compensated absences		<u>(65,950)</u>	
			<u>(251,415)</u>
Total net position - governmental activities		\$	<u>3,507,691</u>

THE CHARTER TOWNSHIP OF ALPENA

Governmental Funds -
Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Year Ended March 31, 2019

	<u>General Fund</u>	<u>Public Safety</u>	<u>Total Governmental Funds</u>
REVENUES			
Property taxes	\$ 341,495	\$ 717,933	\$ 1,059,428
Other taxes	16,684	4,999	21,683
Licenses and permits	142,175	-	142,175
State revenue	832,688	-	832,688
Charges for services	256,667	349,160	605,827
Investment income	2,626	-	2,626
Special assessment income	38,088	-	38,088
Other revenue	482	29,439	29,921
	<hr/>	<hr/>	<hr/>
Total revenues	1,630,905	1,101,531	2,732,436
EXPENDITURES			
Current			
General government	812,155	-	812,155
Public safety	185,971	1,083,605	1,269,576
Public works	144,454	-	144,454
Social services	41,890	-	41,890
Recreation and culture	3,298	-	3,298
Debt service			
Principal	-	33,713	33,713
Interest	-	4,370	4,370
	<hr/>	<hr/>	<hr/>
Total expenditures	1,187,768	1,121,688	2,309,456
OTHER FINANCING SOURCES (USES)			
Transfers in	-	447,973	447,973
Transfers out	(447,973)	-	(447,973)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(447,973)	447,973	-
NET CHANGE IN FUND BALANCES			
	(4,836)	427,816	422,980
FUND BALANCES, beginning of the year			
	<hr/>	<hr/>	<hr/>
	912,267	519	912,786
FUND BALANCES, end of the year			
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	\$ 907,431	\$ 428,335	\$ 1,335,766
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THE CHARTER TOWNSHIP OF ALPENA

Governmental Funds - Reconciliation of the Statement of
Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities

For the Year Ended March 31, 2019

Net change in fund balances - Total governmental funds \$ 422,980

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Depreciation Expense	\$ (78,838)	
Capital Outlay	69,072	
Loss on disposal of asset	<u>(30,000)</u>	
		(39,766)

Some revenues reported in the Statement of Activities do not provide the use of current financial resources and therefore are not reported as revenues in governmental funds. 3,290

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Principal payments on long-term debt	34,936	
Change in long-term compensated absences	<u>(5,444)</u>	
		<u>29,492</u>

Change in net position of governmental activities \$ 415,996

THE CHARTER TOWNSHIP OF ALPENA

Proprietary Fund
Statement of Net Position

March 31, 2019

	<u>Water and Sewer Fund</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,518,141
Restricted cash	3,931,412
Accounts receivable	205,934
Unbilled receivables	535,819
Special assessments receivable	135,623
Due from other funds	32,870
Total current assets	<u>6,359,799</u>
Noncurrent assets	
Capital assets not being depreciated	17,030
Capital assets being depreciated, net	6,956,327
Special assessments receivable	663,850
Total noncurrent assets	<u>7,637,207</u>
Total assets	<u>13,997,006</u>
LIABILITIES	
Current liabilities	
Accounts payable	195,264
Accrued payroll	3,315
Accrued interest payable	23,333
Other accrued liabilities	3,911
Unearned revenue	799,473
Due to other funds	26,635
Bonds payable, current portion	200,000
Other claims (Note 11)	3,931,412
Total current liabilities	<u>5,183,343</u>
Noncurrent liabilities	
Bonds payable, net of discount	1,186,831
Compensated absences	6,719
Total noncurrent liabilities	<u>1,193,550</u>
Total liabilities	<u>6,376,893</u>
NET POSITION	
Net investment in capital assets	5,586,526
Unrestricted	2,033,587
Total net position	<u>\$ 7,620,113</u>

The accompanying notes to financial statements are an integral part of this statement.

THE CHARTER TOWNSHIP OF ALPENA

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

For the Year Ended March 31, 2019

	<u>Water and Sewer Fund</u>
OPERATING REVENUES	
Charges for services	\$ 3,001,468
Miscellaneous	<u>48,582</u>
Total operating revenues	<u>3,050,050</u>
OPERATING EXPENSES	
Salaries and wages	161,384
Employee benefits	103,267
Cost of water and sewer	2,259,927
Repairs and maintenance	263,460
Utilities	37,985
Supplies and durable goods	28,980
Occupancy	28,272
Professional services	288,940
Miscellaneous	11,216
Depreciation	<u>208,696</u>
Total operating expenses	<u>3,392,127</u>
OPERATING INCOME (LOSS)	<u>(342,077)</u>
NONOPERATING REVENUES (EXPENSES)	
Special assessments	209,790
Interest income	19,149
Interest expense	(60,439)
Gain (loss) on sale of assets	<u>13,500</u>
Total nonoperating revenues (expenses)	<u>182,000</u>
CHANGE IN NET POSITION	(160,077)
NET POSITION , beginning of the year	<u>7,780,190</u>
NET POSITION , end of the year	<u><u>\$ 7,620,113</u></u>

THE CHARTER TOWNSHIP OF ALPENA

Proprietary Fund
Statement of Cash Flows

March 31, 2019

	<u>Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 2,955,105
Payments to suppliers	(2,154,839)
Payments to employees	(161,074)
Internal activity - payments to other funds	(18,799)
Net cash provided (used) by operating activities	<u>620,393</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from special assessments	209,790
Acquisition of capital assets	(43,700)
Proceeds from sale of capital assets	13,500
Principal paid on capital debt	(200,000)
Interest paid on capital debt	(61,892)
Net cash provided (used) by capital and related financing activities	<u>(82,302)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>19,149</u>
Net cash provided (used) by investing activities	<u>19,149</u>
Net increase (decrease) in cash and cash equivalents	557,240
CASH AND CASH EQUIVALENTS, beginning of the year	<u>4,892,313</u>
CASH AND CASH EQUIVALENTS, end of the year	<u><u>\$ 5,449,553</u></u>

THE CHARTER TOWNSHIP OF ALPENA

Proprietary Fund (continued)
Statement of Cash Flows

March 31, 2019

Reconciliation of operating income to net cash provided (used in) operating activities:	
Operating income (loss)	\$ (342,077)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	208,696
Net changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(7,044)
(Increase) decrease in unbilled receivables	(87,901)
(Increase) decrease in special assessments receivable	169,971
Increase (decrease) in accounts payable	125,125
Increase (decrease) in accrued payroll	489
Increase (decrease) in unearned revenue	(169,971)
Increase (decrease) in interfund activity	(18,799)
Increase (decrease) in other accrued liabilities	741,904
Net cash provided by (used in) operating activities	<u><u>\$ 620,393</u></u>

THE CHARTER TOWNSHIP OF ALPENA

Fiduciary Fund
Statement of Fiduciary Assets and Liabilities

March 31, 2019

	<u>Tax Collection Fund</u>
ASSETS	
Cash and cash equivalents	\$ 2,877
LIABILITIES	
Due to other governments	1,723
Accounts payable	<u>1,154</u>
	<u>\$ 2,877</u>

THE CHARTER TOWNSHIP OF ALPENA

Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT POLICIES

The accounting policies of The Charter Township of Alpena, Alpena Township, Michigan, conform to accounting principles generally accepted in the United States of America (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the more significant accounting policies.

A. Township Operations.

The Township is governed by an elected seven-member board. As required by generally accepted accounting principles, these financial statements present only the Township, as there are no other entities for which the Township is considered to be financially accountable.

B. Reporting Entity.

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the Township are not misleading. The primary government of the Township consists of all funds, departments, boards, and agencies that are not legally separate from the Township.

Component units are legally separate organizations for which the Township is financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

In addition, the primary government is also financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board. The Township does not have any component units.

C. Basis of Presentation.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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. When an expense is incurred for purposes for which both restricted and unrestricted net position is available, restricted resources are applied first.

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

THE CHARTER TOWNSHIP OF ALPENA

Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT POLICIES *(continued)*

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the Township.

Government-Wide Financial Statements. The government-wide financial statements, (the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the Township. For the most part the effect of interfund 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 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 with operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenue.

Fund Financial Statements. The Township reports the following governmental funds:

General Fund. The fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds. These funds are used to account for specific governmental revenues requiring separate accounting for legal, regulatory or administrative purposes.

The only special revenue fund the Township has is the public safety fund. The public safety fund accounts for the activities related to the fire department.

Proprietary Fund. Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of enterprise funds are charges to customers for services. The enterprise funds also recognize as operating revenues the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The only proprietary fund of the Township is the water and sewer fund. The water and sewer fund accounts for the activities related to water distribution, the collection of wastewater and the billings for these activities.

Fiduciary Fund. The current tax collection fund is used to account for assets held as an agent for individuals, private organizations, and other governments. Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

THE CHARTER TOWNSHIP OF ALPENA

Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT POLICIES *(continued)*

D. Basis of Accounting.

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual. Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Property taxes are reported in the period for which levied. Other nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual. The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Available” means collectible within the current period or within 60 days after year end. Property tax revenues are recognized in the period for which levied, provided they are also available. Intergovernmental revenues and grants are recognized when all eligibility requirements are met and the revenues are available. Expenditures are recognized when the related liability is incurred. Exceptions to this general rule include principal and interest on general obligation long-term debt and employee vacation and sick leave, which are recognized when due and payable.

E. Financial Statement Amounts.

Cash and Cash Equivalents. Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Receivables. Receivables have been recognized for all significant amounts due to the Township. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation and collectability.

The allowance for doubtful accounts at March 31, 2019 was \$65,937.

Interfund Receivables and Payables. On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as “due from/to other funds”. Interfund balances within governmental activities are eliminated on the government-wide statement of net position. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

Accrued Liabilities and Long-Term Obligations. All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgements, contractually required pension contributions and special termination benefits that are paid from the governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

THE CHARTER TOWNSHIP OF ALPENA

Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT POLICIES *(continued)*

Compensated Absences. After one year of employment, Township employees are granted vacation leave in varying amounts based on length of service and other contractual provisions. Vacation pay is fully vested when earned. Salaried employees, other than firefighters, must use all vacation time in the year earned. Sick leave accumulates at various rates stipulated under certain contractual provisions. Firefighters may accumulate 2,400 hours of sick leave and are paid for their full amount of sick leave upon termination of employment. Other employees may accumulate 800 hours of sick leave and upon retirement employees are paid for one-half of their unused sick leave.

Net Position. The net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed for a particular purpose. Restrictions are imposed are by external organizations, imposed by creditors, grantors or laws and regulations of other governments. Unrestricted net position consists of all other net position that does not meet the definition of the above components and is available for general use by the Township.

The Township policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Fund Balance. The Township has implemented GASB Statement 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” The statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balance more transparent. The following classifications describe fund balance categories and the relative strength of the spending constraints placed on the purposes for which resources can be used.

- *Nonspendable fund balance* – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- *Committed fund balance* – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint;
- *Assigned fund balance* – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- *Unassigned fund balance* – amounts that are available for any purpose; positive amounts are reported on in the general fund.

The Township has not established a policy for its use of unrestricted fund balance amounts. Therefore, in accordance with GASB Statement 54, committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

THE CHARTER TOWNSHIP OF ALPENA

Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT POLICIES *(continued)*

Property Tax Revenue. Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are due on February 28 of the following year and are considered delinquent on March 1, at which time penalties and interest are assessed.

The Township's 2018 tax is levied and collectible on December 1, 2018 and is recognized as revenue in the year ended March 31, 2019 when the proceeds of the levy are budgeted and available for the financing of operations.

The Township annually sells its delinquent real property taxes to the Township of Alpena (the "Township"), which then becomes responsible for collecting the taxes and taking any uncollected tax parcels through the tax reversion process. The Township purchases these taxes at 100 percent of face value, and in return, the Township is allowed to retain all interest and penalties it collects. The estimated present value of future delinquent collections to the Township is less than the face value that has been received because of the time value of money; however, the net present value to the Township is greater than this amount because of the statutory provision that allows the Township to retain all penalties and interest. During the current year, the Township received \$29,514 from this sale. At the end of the tax reversion process (approximately three years), the Township charges the Township back for any uncollected taxes. Historically, this amount has not been significant.

Use of Estimates. The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. 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.

Reclassifications. Certain items reported in the March 31, 2018, financial statements may have been reclassified to conform to the presentation for the current year.

THE CHARTER TOWNSHIP OF ALPENA

Notes to the Financial Statements

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information. Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual budgets are prepared and adopted for all required governmental fund types.

Budgets and Budgetary Accounting. The Charter Township of Alpena normally follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to December 1st, the Township Supervisor must submit a proposed budget to the Michigan Department of Treasury for the purpose of revenue sharing. The Township Supervisor submits a proposed operating budget for the fiscal year commencing April 1st, prior to March 31st. This operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted at the governmental center to obtain taxpayer comments.
- Prior to April 1, the budget is legally enacted through passage of an ordinance.
- All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, and as amended by the Township Board throughout the operating year.

Excess of Expenditures Over Appropriations in Budgeted Funds. The Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended, (MCL 141.421 et seq.), provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. During the year, the Township incurred expenditures in certain budgeted funds, which were in excess of the functional amounts appropriated. Budgetary comparison schedules and violations are noted in the relevant fund financial statements as follows:

Budget Item	Final Appropriation	Expended	Variance
General fund - other financing sources - transfers out	\$ 236,606	\$ 447,973	\$ (211,367)
Public safety fund - expenditures	\$ 727,153	\$ 1,083,605	\$ (356,452)

THE CHARTER TOWNSHIP OF ALPENA

Notes to the Financial Statements

NOTE 3 – DEPOSITS AND INVESTMENTS

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Activities</u>	<u>Total Primary Government</u>
Cash and cash equivalents	\$ 1,349,716	\$ 1,518,141	\$ 2,877	\$ 2,870,734
Restricted cash	-	3,931,412	-	3,931,412
Total	<u>\$ 1,349,716</u>	<u>\$ 5,449,553</u>	<u>\$ 2,877</u>	<u>\$ 6,802,146</u>

Restricted Cash. At March 31, 2019, a total of \$3,931,412 has been placed into an escrow savings account at a local financial institution by a court order. The account assures that the Township will have sufficient funds for the potential litigation liability pertaining to the water and sewer dispute with the City of Alpena. The Charter Township of Alpena and the City of Alpena both must approve any disbursements from the account. The Township has the sole responsibility for contributing funds into this account.

Fair Value Measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which required an entity to maximize the use of observable and minimize the use of unobservable inputs.

There are three (3) levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, and others.

Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect the organization's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

The Township maintains cash and cash equivalents which are stated at fair value. The Township does not have any investment balances.

Interest Rate Risk. In accordance with its investment policy, the Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Township's cash requirements.

THE CHARTER TOWNSHIP OF ALPENA

Notes to the Financial Statements

NOTE 3 – DEPOSITS AND INVESTMENTS *(continued)*

Credit Risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of March 31, 2019, the Township did not have any investments with ratings below prime.

Concentration of Credit Risk. The Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

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 March 31, 2019, \$5,605,274 of the Township's bank balance of \$6,868,095 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Foreign Currency Risk. The Township is not authorized to invest in investments which have this type of risk.

THE CHARTER TOWNSHIP OF ALPENA

Notes to the Financial Statements

NOTE 4 – CAPITAL ASSETS

Capital assets activity of the Township’s governmental activities for the current year are as follows:

	<u>Balance 04/01/2018</u>	<u>Additions</u>	<u>Adjustments & Retirements</u>	<u>Balance 03/31/2019</u>
Governmental activities:				
Capital assets, not depreciated				
Land	\$ 2,002,111	\$ -	\$ -	\$ 2,002,111
	<u>2,002,111</u>	<u>-</u>	<u>-</u>	<u>2,002,111</u>
Capital assets being depreciated				
Buildings and improvements	1,441,472	-	-	1,441,472
Equipment	1,097,601	69,072	(30,000)	1,136,673
	<u>2,539,073</u>	<u>69,072</u>	<u>(30,000)</u>	<u>2,578,145</u>
Less accumulated depreciation				
Buildings and improvements	(1,394,283)	(3,778)	-	(1,398,061)
Equipment	(717,704)	(75,060)	-	(792,764)
	<u>(2,111,987)</u>	<u>(78,838)</u>	<u>-</u>	<u>(2,190,825)</u>
Governmental activities capital assets, net	<u>\$ 2,429,197</u>	<u>\$ (9,766)</u>	<u>\$ (30,000)</u>	<u>\$ 2,389,431</u>

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

Governmental activities:	
General government	\$ 17,436
Public safety	<u>61,402</u>
	<u>\$ 78,838</u>

THE CHARTER TOWNSHIP OF ALPENA

Notes to the Financial Statements

NOTE 4 – CAPITAL ASSETS *(continued)*

	Balance 04/01/2018	Additions	Adjustments & Retirements	Balance 03/31/2019
Business-type activities:				
Capital assets, not depreciated				
Land	\$ 17,030	\$ -	\$ -	\$ 17,030
	<u>17,030</u>	<u>-</u>	<u>-</u>	<u>17,030</u>
Capital assets, being depreciated				
Plant, property, & equipment	12,730,609	43,700	-	12,774,309
	<u>12,730,609</u>	<u>43,700</u>	<u>-</u>	<u>12,774,309</u>
Less accumulated depreciation				
Plant, property, & equipment	(5,609,286)	(208,696)	-	(5,817,982)
	<u>(5,609,286)</u>	<u>(208,696)</u>	<u>-</u>	<u>(5,817,982)</u>
Business-type activities capital, net	<u>\$ 7,138,353</u>	<u>\$ (164,996)</u>	<u>\$ -</u>	<u>\$ 6,973,357</u>

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

Business-type activities:

Public works	<u>\$ 208,696</u>
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NOTE 5 – PROPERTY TAXES

Property taxes include amounts levied against all real property and tangible personal property located in the Township. Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the Township tax rolls. For the current year, the taxable value for properties located within the Township was \$334,154,362 on which ad valorem taxes levied for the Township general operating purposes was 1.0136 mills. The Township also has special purpose tax levies. The tax rates for these levies were 1.5000 mills for fire protection and .6500 mills for apparatus and equipment for fire protection.

THE CHARTER TOWNSHIP OF ALPENA

Notes to the Financial Statements

NOTE 6 – PENSION PLAN

The Township provides pension benefits to its elected officials and other qualified employees through the Township's Governmental Non-ERISA Retirement Plan administered by John Hancock and a Money Purchase Retirement Plan administered by Brighthouse Financial. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. All elected officials and full-time union employees are eligible to participate in the Governmental Non-ERISA Retirement Plan. Other employees are eligible to participate in the Money Purchase Retirement Plan after one year of service.

The Township's contributions for each employee are fully vested immediately for both plans. Employees enrolled in the Governmental Non-ERISA Retirement Plan have mandatory after-tax contributions of .5% of compensation and may make voluntary contributions up to 25% of compensation. As established by board resolution, the Township contributes 9.5% of employees' compensation to the Governmental Non-ERISA Retirement Plan and 6.5% (not to exceed 25%) of employee compensation to the Money Purchase Retirement Plan. In accordance with plan requirements, the Township contributed \$73,006 and \$5,685 to the Governmental Non-ERISA Retirement Plan and Money Purchase Retirement Plan during the current year, respectively.

THE CHARTER TOWNSHIP OF ALPENA

Notes to the Financial Statements

NOTE 7 – LONG-TERM DEBT

Long-term debt of the Township’s governmental and business-type activities for the current year were as follows:

	<u>Balances,</u> <u>04/01/2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances,</u> <u>03/31/2019</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
Installment purchase agreement Dated 08/30/2013 Amount of issue: \$342,000 Interest rate: 2.39% Principal maturity range \$30,681 - \$37,948	\$ 214,541	\$ -	\$ (33,714)	\$ 180,827	\$ 35,318
Capital lease - Konica-Minolta Bizhub Copier Dated 03/20/2017 Amount of issue: \$6,950 Interest rate: 11.587% Principal maturity range \$1,090 - \$1,727	<u>5,860</u>	<u>-</u>	<u>(1,222)</u>	<u>4,638</u>	<u>1,371</u>
	220,401	-	(34,936)	185,465	36,689
Compensated absences	<u>60,506</u>	<u>5,444</u>	<u>-</u>	<u>65,950</u>	<u>65,950</u>
Total governmental activities	<u>\$ 280,907</u>	<u>\$ 5,444</u>	<u>\$ (34,936)</u>	<u>\$ 251,415</u>	<u>\$102,639</u>

THE CHARTER TOWNSHIP OF ALPENA

Notes to the Financial Statements

NOTE 7 – LONG-TERM DEBT *(continued)*

	<u>Balances,</u> <u>04/01/2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances,</u> <u>03/31/2019</u>	<u>Due Within</u> <u>One Year</u>
Business-type activities:					
Alpena Township Water Project Special Assessment Bonds Amount of issue: \$3,915,000 Maturing through 2025 Interest rate ranges: 3.25%-4.25% Principal maturity range \$115,000 - \$200,000	\$ 1,600,000	\$ -	\$ (200,000)	\$ 1,400,000	\$ 200,000
Compensated absences	<u>7,156</u>	<u>-</u>	<u>(437)</u>	<u>6,719</u>	<u>6,719</u>
Total business-type activities	<u>\$ 1,607,156</u>	<u>\$ -</u>	<u>\$ (200,437)</u>	<u>\$ 1,406,719</u>	<u>\$ 206,719</u>

Bond discount. The bond has a discount outstanding of \$13,169 as of March 31, 2019. This discount will be amortized on a straight-line basis over the life of the bonds.

The annual principal and interest requirements are as follows:

<u>Year Ended March 31,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	36,690	4,003	200,000	48,667
2021	37,701	2,991	200,000	40,667
2022	38,753	1,939	200,000	33,000
2023	37,911	944	200,000	25,283
2024	34,410	869	200,000	17,250
2025 - thereafter	<u>-</u>	<u>-</u>	<u>400,000</u>	<u>9,800</u>
	<u>\$ 185,465</u>	<u>\$ 10,746</u>	<u>\$ 1,400,000</u>	<u>\$ 174,667</u>

THE CHARTER TOWNSHIP OF ALPENA

Notes to the Financial Statements

NOTE 8 – TAX ABATEMENT

The Township may enter into property tax abatement agreements with local businesses for the purpose of attracting or retaining businesses within the Township. Each agreement would be negotiated under a state law, which would allow local units to abate property taxes for a variety of economic development purposes. The abatements may be granted to local businesses located within the Township or promising to relocate within the Township. Depending on the statute referenced for a particular abatement, the Township may grant abatements of up to 50% of annual property taxes through a direct reduction of the entity's property tax bill or not tax the entity on improvements to a property for a period of time, not to exceed twelve years. Depending on the terms of the agreement and state law, abated taxes may be subject to recapture upon default of the entity. The Township has not entered into any tax abatement agreements as of March 31, 2019. The Township is not subject to any tax abatement agreements entered into by other governmental entities.

NOTE 9 – RISK MANAGEMENT

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

NOTE 10 – INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at March 31, 2019, is as follows:

Due to General Fund from	
Public Safety Fund	\$ 5,657
Water and Sewer Fund	26,635
	<u>\$ 32,292</u>
Due to Public Safety Fund from	
General Fund	\$ 313
	<u>313</u>
Due to Water and Sewer Fund from	
General Fund	\$ 7,870
Public Safety Fund	25,000
	<u>\$ 32,870</u>

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

THE CHARTER TOWNSHIP OF ALPENA

Notes to the Financial Statements

NOTE 11 – CONTINGENCIES AND CLAIMS

The Charter Township of Alpena has been involved in litigation with the City of Alpena regarding protested sewage and water rates charged by the City to the Township from June 2014 through the date of issuance of these financial statements. The City of Alpena was seeking delinquent sewer and water charges of approximately \$3,931,412 (through March 31, 2019), which has been recorded as a potential claim in the water and sewer fund. In addition, the City of Alpena has been seeking late charges of approximately \$2,623,721. The Township had not historically recognized these late charges as a liability. During the litigation, the Court ordered a joint escrow account be established and the disputed difference in rates be deposited into the account.

A bench trial commenced February 27, 2018. Settlement negotiations occurred, and the Township's position is that a settlement was reached. However, the City disagreed. The Circuit Court thereafter entered a judgment. Both the Township and the City disagreed with the details of the judgment, and both parties filed claims of appeal with the Michigan Court of Appeals. The parties are waiting for the Court of Appeals to schedule oral argument, and the Township is unable to predict when the appeals will be concluded, or whether subsequent attempts will be made by either or both parties to appeal the matter to the Michigan Supreme Court. The Township's potential exposure for past due rate billings, combined with both water and sewer services provided by the City to the Township, is approximately \$790,000, exclusive of judgment interest.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent event through September 9, 2019 the date on which the final statements were made available to be issued.

In June of 2019, the Township purchased two new ambulances out of the public safety fund for \$148,351 and \$149,351 through an installment purchase agreement.

REQUIRED SUPPLEMENTAL INFORMATION

THE CHARTER TOWNSHIP OF ALPENA

Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund - Budget and Actual

For the Year Ended March 31, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Property taxes	\$ 332,716	\$ 332,716	\$ 341,495	\$ 8,779
Other taxes	16,000	16,000	16,684	684
Licenses and permits	110,110	110,110	142,175	32,065
State revenue	765,300	765,300	832,688	67,388
Charges for services	171,023	171,023	256,667	85,644
Investment income	2,500	2,500	2,626	126
North Pointe Shores special assessment	38,000	38,000	38,088	88
Proceeds from loss recoveries	20,000	20,000	-	(20,000)
Other revenue	1,700	1,700	482	(1,218)
Total revenues	1,457,349	1,457,349	1,630,905	173,556
EXPENDITURES				
General government	781,158	812,360	812,155	205
Public safety	205,048	196,346	185,971	10,375
Public works	170,500	148,000	144,454	3,546
Social services	47,100	47,100	41,890	5,210
Recreation and culture	23,937	23,937	3,298	20,639
Total expenditures	1,227,743	1,227,743	1,187,768	39,975
OTHER FINANCING SOURCES (USES)				
Transfers out	(236,606)	(236,606)	(447,973)	(211,367)
NET CHANGE IN FUND BALANCE	(7,000)	(7,000)	(4,836)	2,164
FUND BALANCES, beginning of the year,	912,267	912,267	912,267	-
FUND BALANCE, end of year	\$ 905,267	\$ 905,267	\$ 907,431	\$ 2,164

THE CHARTER TOWNSHIP OF ALPENA

Statement of Revenues, Expenditures and Changes in Fund Balances
Public Safety Fund - Budget and Actual

For the Year Ended March 31, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Property taxes	\$ 331,153	\$ 331,153	\$ 717,933	\$ 386,780
Other taxes	2,000	2,000	4,999	2,999
Charges for services	192,500	192,500	349,160	156,660
Other revenue	40,500	40,500	29,439	(11,061)
Total revenues	<u>566,153</u>	<u>566,153</u>	<u>1,101,531</u>	<u>535,378</u>
EXPENDITURES				
Public safety	765,759	727,153	1,083,605	(356,452)
Debt service	39,000	39,000	38,083	917
	<u>804,759</u>	<u>766,153</u>	<u>1,121,688</u>	<u>(355,535)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>236,606</u>	<u>236,606</u>	<u>447,973</u>	<u>211,367</u>
NET CHANGE IN FUND BALANCE	(2,000)	36,606	427,816	391,210
FUND BALANCES, beginning of the year,	<u>519</u>	<u>519</u>	<u>519</u>	<u>-</u>
FUND BALANCE, end of year	<u><u>\$ (1,481)</u></u>	<u><u>\$ 37,125</u></u>	<u><u>\$ 428,335</u></u>	<u><u>\$ 391,210</u></u>