



**TOWNSHIP OF SALEM, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED MARCH 31, 2021**

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Township Board of Trustees
Township of Salem, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Salem, Michigan (the "Township"), as of and for the year ended March 31, 2021, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent 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 audit opinions.

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township, as of March 31, 2021, 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.

Change in Accounting Principle

As stated in Note 13 to the basic financial statements, the Township adopted GASB Statement No. 84 *Fiduciary Activities* in 2021, which represents a change in its policy for reporting fiduciary activities. Accordingly, beginning net position of the fiduciary funds were restated. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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



Gabridge & Company, PLC
Grand Rapids, Michigan
September 24, 2021

Management's Discussion and Analysis

Township of Salem
Management's Discussion and Analysis
March 31, 2021

As management of the Township of Salem, Michigan (The "Township" or "government") 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, 2021. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$25,152,525 (net position). Of this amount, \$12,959,219 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- During the year, the Township received \$8,215,424 in revenues and incurred \$3,233,919 in expenses, resulting in an increase in net position of \$4,981,505.
- At the close of the current fiscal year, the Township's governmental funds reported a total fund balance of \$9,646,128, an increase of \$345,403 in comparison with the prior year. Approximately 99.4%, or \$9,585,879, of this amount is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$9,585,879, or approximately 265.3% of total general fund expenditures and transfers out.

Overview of the Financial Statements

The discussion and analysis provided here is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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

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

The *statement of activities* presents information showing how the Township'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 for some items that will only result in cash flows in future fiscal periods (e.g., depreciation of capital assets or earned but unused vacation leave). Both of the government-wide financial statements distinguish functions of the Township that are principally supported by intergovernmental revenues (governmental activities) and from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include general government, police and fire protection, roads, community and economic development, and culture and recreation. The business-type activities of the Township include sewage and water services.

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

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

The Township maintains three governmental funds, the general fund and two capital improvement funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all three funds.

The Township adopts an annual appropriated budget for the general fund. A budgetary comparison schedule for the general fund has been provided to demonstrate compliance with this budget.

Proprietary Funds. The Township maintains two proprietary funds, enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Township uses two enterprise funds to account for its sewer and water operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide information for the sewer and water operations, which are considered to be major funds of the Township.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The township reports one type of fiduciary fund, a *custodial fund*.

The *custodial fund* reports resources held by the Township in a custodial capacity for individuals, private organizations, and other governments.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire 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 *required supplementary information* concerning the Township's budgetary comparison schedules.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the Township, assets exceeded liabilities by \$25,152,525 at the close of the most recent fiscal year.

A large portion of the Township's net position, \$12,193,306, or 48.5%, reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The Township uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the Township's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of \$12,959,219, or 51.5%, is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the Township is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Township of Salem's Net Position

	Governmental Activities		Business-type Activities		Total	
ASSETS	2021	2020	2021	2020	2021	2020
<i>Current Assets</i>						
Cash and Investments	\$ 9,179,806	\$ 8,512,293	\$ 4,534,448	\$ 4,072,109	\$ 13,714,254	\$ 12,584,402
Accounts Receivable	68,554	50,800	11,094	13,096	79,648	63,896
Landfill Receivable	546,686	450,760	-	-	546,686	450,760
Due from Other Governments	84,661	81,248	-	-	84,661	81,248
Prepaid Items	60,032	50,869	-	-	60,032	50,869
Deposit for New Equipment	-	519,386	-	-	-	519,386
Special Assessments Receivable, Current	218,866	218,040	39,536	1,478	258,402	219,518
Total Current Assets	10,158,605	9,883,396	4,585,078	4,086,683	14,743,683	13,970,079
<i>Noncurrent Assets</i>						
Special Assessments Receivable Noncurrent	2,845,256	3,052,558	-	79,072	2,845,256	3,131,630
Capital Assets, Net	4,513,317	3,966,278	7,679,989	3,136,246	12,193,306	7,102,524
Total Assets	17,517,178	16,902,232	12,265,067	7,302,001	29,782,245	24,204,233
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	43,658	257,393	507,091	205,744	550,749	463,137
Accrued Liabilities	25,341	17,608	-	-	25,341	17,608
Deposits in Escrow	224,612	-	-	-	224,612	-
Accrued Interest	-	-	-	2,292	-	2,292
Current Portion of Long-term Debt	-	-	-	55,000	-	55,000
Unearned Revenue	-	-	3,819,911	3,432,222	3,819,911	3,432,222
Internal Balances	-	89,630	-	(89,630)	-	-
Total Current Liabilities	293,611	364,631	4,327,002	3,605,628	4,620,613	3,970,259
<i>Noncurrent Liabilities</i>						
Compensated Absences	9,107	7,954	-	-	9,107	7,954
Long-term Debt	-	-	-	55,000	-	55,000
Total Liabilities	302,718	372,585	4,327,002	3,660,628	4,629,720	4,033,213
NET POSITION						
Net Investment in Capital Assets	4,513,317	3,966,278	7,679,989	3,026,246	12,193,306	6,992,524
Unrestricted	12,701,143	12,563,369	258,076	615,127	12,959,219	13,178,496
Total Net Position	\$ 17,214,460	\$ 16,529,647	\$ 7,938,065	\$ 3,641,373	\$ 25,152,525	\$ 20,171,020

Governmental Activities. Cash and investments increased by \$667,513 primarily due to the increase in governmental funds' fund balance of \$345,403 and an increase in deposits in escrow of \$224,612. The sudden increase in deposits in escrow is a result of the ***GASB Statement No. 84*** implementation as stated in note 13 of the notes to the financial statements. Decreased landfill fees contributed to the decrease in landfill receivable of \$95,926. Capital assets increased significantly by a net \$339,737 as a result of the delivery of the fire truck that was planned in the prior year offset by current year depreciation. In the prior year, the Township had year-end vendor invoices for the paving projects. In the current year, there were less year-end vendor invoices resulting in a decrease in accounts payable by \$213,735.

Business-type Activities. Cash and investments increased by 462,339 because the Township received an additional draw from the MEDC grant. Capital assets increased significantly by a net \$4,464,671 as a result from the continued MEDC grant project work offset by current year depreciation. Along with the MEDC grant, unavailable revenue increased by \$387,689 as the Township has yet spent the full monies received. The Township also paid off its long-term debt in full during the fiscal year.

The Township's overall net position increased \$4,981,505 from the prior fiscal year for an ending net position of \$25,152,525. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

Township of Salem's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues						
Program Revenues						
Charges for Services	\$ 228,040	\$ 191,631	\$ 116,189	\$ 138,576	\$ 344,229	\$ 330,207
Operating Grants and Contributions	97,143	3,280,605	-	-	97,143	3,280,605
Capital Grants and Contributions	-	-	4,612,311	658,647	4,612,311	658,647
Total Program Revenues	<u>325,183</u>	<u>3,472,236</u>	<u>4,728,500</u>	<u>797,223</u>	<u>5,053,683</u>	<u>4,269,459</u>
General Revenues						
Property Tax	20,726	21,439	-	-	20,726	21,439
Unrestricted State Revenue Sharing	501,507	504,234	-	-	501,507	504,234
Landfill Fees						
Host Fees	621,415	807,829	-	-	621,415	807,829
Gas Royalties	1,808,208	1,782,921	-	-	1,808,208	1,782,921
Compost Host Fees	14,133	18,405	-	-	14,133	18,405
Franchise Fees	99,201	100,527	-	-	99,201	100,527
Investment Earnings	82,660	269,889	13,891	94,689	96,551	364,578
Total General Revenues	<u>3,147,850</u>	<u>3,505,244</u>	<u>13,891</u>	<u>94,689</u>	<u>3,161,741</u>	<u>3,599,933</u>
Total Revenues	<u>3,473,033</u>	<u>6,977,480</u>	<u>4,742,391</u>	<u>891,912</u>	<u>8,215,424</u>	<u>7,869,392</u>
Expenses						
General Government	615,835	577,289	-	-	615,835	577,289
Public Safety	799,690	778,200	-	-	799,690	778,200
Public Works	1,382,778	3,893,142	-	-	1,382,778	3,893,142
Community and Economic Development	181,648	187,354	-	-	181,648	187,354
Other Functions	88,015	126,715	-	-	88,015	126,715
Water and Sewer	-	-	165,953	303,327	165,953	303,327
Total Expenses	<u>3,067,966</u>	<u>5,562,700</u>	<u>165,953</u>	<u>303,327</u>	<u>3,233,919</u>	<u>5,866,027</u>
Transfers	<u>279,746</u>	<u>(89,630)</u>	<u>(279,746)</u>	<u>89,630</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>684,813</u>	<u>1,325,150</u>	<u>4,296,692</u>	<u>678,215</u>	<u>4,981,505</u>	<u>2,003,365</u>
<i>Net Position at the Beginning of Period</i>	<i>16,529,647</i>	<i>15,204,497</i>	<i>3,641,373</i>	<i>2,963,158</i>	<i>20,171,020</i>	<i>18,167,655</i>
Net Position at the End of Period	<u>\$ 17,214,460</u>	<u>\$ 16,529,647</u>	<u>\$ 7,938,065</u>	<u>\$ 3,641,373</u>	<u>\$ 25,152,525</u>	<u>\$ 20,171,020</u>

Governmental Activities. During the current fiscal year, net position for governmental activities increased \$684,813 from the prior fiscal year for an ending balance of \$17,214,460. Operating grants and contributions were not as great in the prior year and resulted in a decrease of \$3,183,462 largely in part because the Township had two new special assessment districts that began in the prior fiscal year. The Township experienced less host fees with the landfill operator resulting in a decrease of \$186,414. A worse than expected market for investments has resulted in a decrease in overall investment earnings by \$187,229. Public works expenses were \$2,510,364 less than in the prior year as a result of the Township not having the two significant road projects (Chubb Road and Five Mile Road paving projects) that were had in the prior year.

Business-type Activities. For the Township's business-type activities, the results for the current fiscal year resulted in an ending net position balance of \$7,938,065. The total increase in net position for business-type activities was \$4,296,692. The increase was in large part due to the additional monies received from the MEDC grant causing capital grants and contributions to rise by \$3,953,664. This was partially offset by a decrease in investment earnings by \$80,798. All other changes were consistent with the prior year.

Financial Analysis of Governmental Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Township's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Township itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Township's Board.

The general fund is the chief operating fund of the Township. At the end of the current fiscal year, unassigned fund balance of the general fund was \$9,585,879 while total fund balance increased to \$9,645,911. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund expenditures and transfers out. Unassigned fund balance represents approximately 265.3% of total general fund expenditures and transfers out.

The fund balance of the Township's general fund increased by \$346,015 during the current fiscal year. The increase is largely related to a significant less number of transfers out to other funds. The most other significant change was an increase in public safety expenditures related to the new fire truck purchased by the Township.

The Chubb Road Pavement fund, a major fund, ended with a fund balance of \$217. The fund had \$1,011,353 in public works expenditures and the same amount transferred in from the general fund.

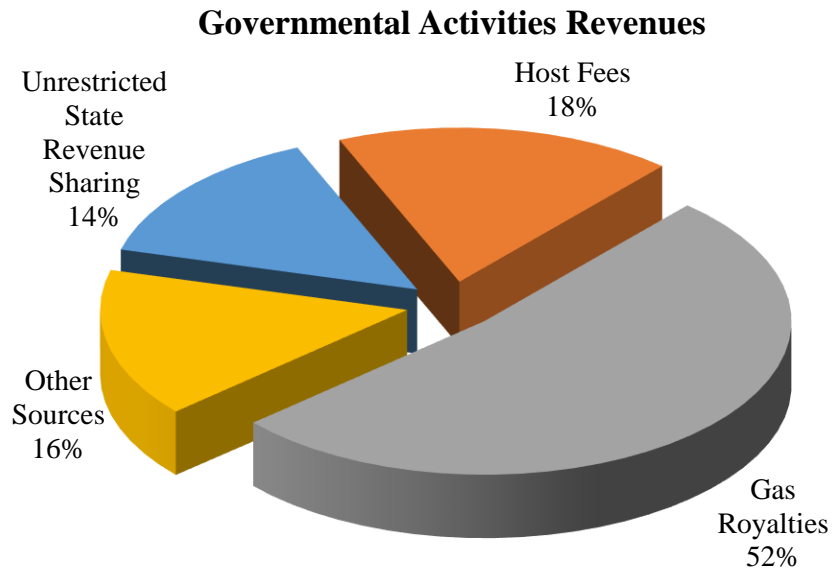
The Five Mile Road Pavement fund, a major fund, ended with a committed fund balance of \$0. The fund had \$787 in public works expenditures and \$42 transferred out to the general fund.

Proprietary Funds. The Township's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

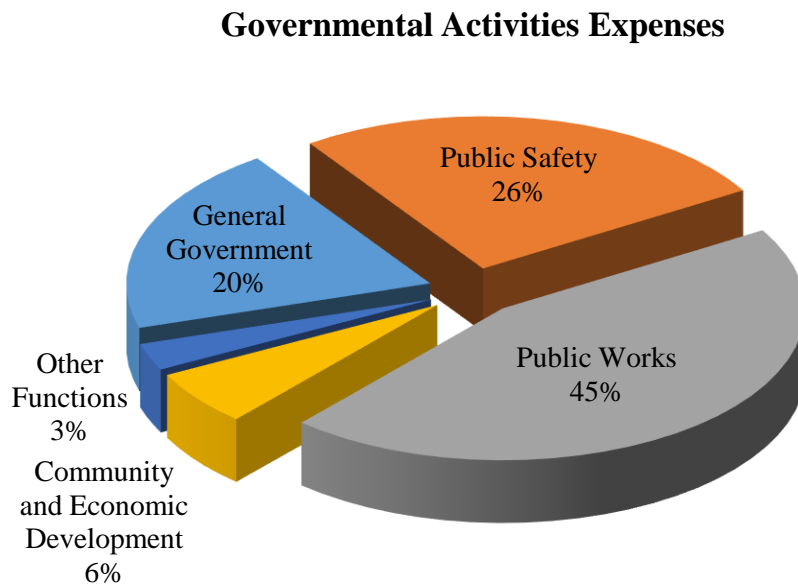
Unrestricted net position of the sewer fund at the end of the year was \$258,076. The decrease in net position for the sewer fund was \$81,201 while the increase in net position for the water fund was \$4,377,893. This was largely a result of a significant transfer from the sewer fund to the water fund to account for the water's portion of the MEDC grant project.

Governmental Activities

The following chart summarizes the revenue sources for the governmental activities of the Township for the most recent fiscal year-end.



The following chart summarizes the expenses for the governmental activities of the Township for the most recent fiscal year-end.



General Fund Budgetary Highlights

Original budget compared to final budget. The Township made one significant amendment to decrease original budgeted appropriations for highways, streets, and drains as a result of less expected expenditures within the general fund.

Final budget compared to actual results. The Township had one expenditure in excess of the amount appropriated during the year ended March 31, 2021: transfers out had an amended budget of \$0 and an actual amount of \$1,011,570; resulting in a negative budget variance of \$(1,011,570).

Capital Assets and Debt Administration

Capital Assets

The Township's investment in capital assets for its governmental and business-type activities as of March 31, 2021, amounts to \$12,193,306 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, and sewer and water infrastructure. The total increase in capital assets for the current fiscal year was approximately 71.7%.

Additional capital asset information, such as activity during the year, can be found in Note 4 of the notes to the financial statements.

Long-term Obligations

As described in note 7 to the financial statements, the Township had \$0 in sewer fund leases payable at the end of 2021. Other long-term obligations consisted of a \$9,107 liability for compensated absences.

Economic Condition and Outlook

Roughly \$3.5 million of revenues are expected to be available for appropriation in the general fund in the upcoming budget. Expenditures are expected to change by small amounts compared to 2021. The Township continues to review all budget line items for opportunities to reduce expenditures when possible. The budget will be monitored during the year to identify any necessary amendments. In 2022, the Township plans again to use current revenues to provide essential services and to maintain the Township's financial reserves at similar levels. The ongoing costs of providing essential services for the citizens of the Township will again need to be monitored in order to maintain the financial condition of the Township. Additionally, management and the Township Board are currently working to determine the significance that the COVID-19 Pandemic will have on the Township's upcoming revenues and expenditures.

Contacting the Township

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:

Township of Salem
9600 Six Mile Road
Salem, MI 48175

Basic Financial Statements

Township of Salem
Statement of Net Position
March 31, 2021

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
<i>Current Assets</i>			
Cash and Investments	\$ 9,179,806	\$ 4,534,448	\$ 13,714,254
Accounts Receivable	68,554	11,094	79,648
Landfill Receivable	546,686	--	546,686
Due from Other Governmental Units	84,661	--	84,661
Prepaid Items	60,032	--	60,032
Special Assessments Receivable, Current	218,866	39,536	258,402
Total Current Assets	<u>10,158,605</u>	<u>4,585,078</u>	<u>14,743,683</u>
<i>Noncurrent Assets</i>			
Special Assessment Receivable	2,845,256	--	2,845,256
Capital Assets not being Depreciated	3,387,785	6,439,821	9,827,606
Capital Assets being Depreciated, Net	1,125,532	1,240,168	2,365,700
Total Assets	<u>17,517,178</u>	<u>12,265,067</u>	<u>29,782,245</u>
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable	43,658	507,091	550,749
Accrued Liabilities	25,341	--	25,341
Deposits in Escrow	224,612	--	224,612
Unearned Revenues	--	3,819,911	3,819,911
Total Current Liabilities	<u>293,611</u>	<u>4,327,002</u>	<u>4,620,613</u>
<i>Noncurrent Liabilities</i>			
Compensated Absences	9,107	--	9,107
Total Liabilities	<u>302,718</u>	<u>4,327,002</u>	<u>4,629,720</u>
NET POSITION			
Investment in Capital Assets	4,513,317	7,679,989	12,193,306
<i>Unrestricted</i>	12,701,143	258,076	12,959,219
Total Net Position	<u>\$ 17,214,460</u>	<u>\$ 7,938,065</u>	<u>\$ 25,152,525</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Salem
Statement of Activities
For the Year Ended March 31, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General Government	\$ 615,835	\$ 65,080	\$ --	\$ --	\$ (550,755)	\$ --	\$ (550,755)
Public Safety	799,690	--	--	--	(799,690)	--	(799,690)
Public Works	1,382,778	--	97,143	--	(1,285,635)	--	(1,285,635)
Community and Economic Development	181,648	162,960	--	--	(18,688)	--	(18,688)
Other Functions	88,015	--	--	--	(88,015)	--	(88,015)
<i>Total Governmental Activities</i>	3,067,966	228,040	97,143	--	(2,742,783)	--	(2,742,783)
Business-type Activities:							
Sewer Fund	165,953	116,189	--	4,612,311	--	4,562,547	4,562,547
Water Fund	--	--	--	--	--	--	--
<i>Total Business-type Activities</i>	165,953	116,189	--	4,612,311	--	4,562,547	4,562,547
<i>Total Government</i>	\$ 3,233,919	\$ 344,229	\$ 97,143	\$ 4,612,311	(2,742,783)	4,562,547	1,819,764

General Purpose Revenues and Transfers:

Revenues

Property Tax	20,726	--	20,726
Intergovernmental	501,507	--	501,507
Landfill Fees			
Host Fees	621,415	--	621,415
Gas Royalties	1,808,208	--	1,808,208
Compost Host Fees	14,133	--	14,133
Franchise Fees	99,201	--	99,201
Investment Earnings	82,660	13,891	96,551

Transfers

	279,746	(279,746)	--
Total General Revenues and Transfers	3,427,596	(265,855)	3,161,741
Change in Net Position	684,813	4,296,692	4,981,505
<i>Net Position at Beginning of Period</i>	<i>16,529,647</i>	<i>3,641,373</i>	<i>20,171,020</i>
Net Position at End of Period	\$ 17,214,460	\$ 7,938,065	\$ 25,152,525

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Salem
Balance Sheet
Governmental Funds
March 31, 2021

	General	Capital Projects		Total Governmental Funds
		Chubb Road Pavement	Five Mile Road Pavement	
ASSETS				
Cash and Investments	\$ 9,179,589	\$ 217	\$ --	\$ 9,179,806
Accounts Receivable	68,554	--	--	68,554
Landfill Receivable	546,686	--	--	546,686
Due from Other Governmental Units	84,661	--	--	84,661
Prepaid Items	60,032	--	--	60,032
Special Assessments Receivable	3,064,122	--	--	3,064,122
<i>Total Assets</i>	\$ 13,003,644	\$ 217	\$ --	\$ 13,003,861
LIABILITIES				
Accounts Payable	\$ 43,658	\$ --	\$ --	\$ 43,658
Accrued Liabilities	25,341	--	--	25,341
Deposits in Escrow	224,612	--	--	224,612
<i>Total Liabilities</i>	293,611	--	--	293,611
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Special Assessments	3,064,122	--	--	3,064,122
<i>Total Liabilities and Deferred Inflows of Resources</i>	3,357,733	--	--	3,357,733
FUND BALANCE				
Nonspendable	60,032	--	--	60,032
Committed	--	217	--	217
Unassigned	9,585,879	--	--	9,585,879
<i>Total Fund Balance</i>	9,645,911	217	--	9,646,128
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</i>	\$ 13,003,644	\$ 217	\$ --	\$ 13,003,861

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Salem
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
March 31, 2021

Total Fund Balance - Governmental Funds	\$ 9,646,128
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund. This represents capital assets of \$5,898,581, net of accumulated depreciation of \$1,385,264.	4,513,317
Compensated absences are not due in and payable in the current period and, therefore, are not reported in the funds.	(9,107)
Unavailable revenues are not available to pay current expenditures and, therefore, are deferred inflows of resources in the funds.	3,064,122
Total Net Position - Governmental Activities	\$ <u>17,214,460</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Salem
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended March 31, 2021

		Capital Projects		
	General	Chubb Road Pavement	Five Mile Road Pavement	Total Governmental Funds
Revenues				
Property Tax	\$ 20,726	\$ --	\$ --	\$ 20,726
Special Assessments and Interest	292,620	--	--	292,620
Licenses and Permits	153,815	--	--	153,815
Intergovernmental	512,506	--	--	512,506
Charges for Services	18,019	--	--	18,019
Landfill Fees				
Host Fees	621,415	--	--	621,415
Gas Royalties	1,808,208	--	--	1,808,208
Compost Host Fees	14,133	--	--	14,133
Franchise Fees	99,201	--	--	99,201
Miscellaneous Revenue	56,206	--	--	56,206
Investment Earnings	82,660	--	--	82,660
Total Revenues	3,679,509	--	--	3,679,509
Expenditures				
General Government	649,058	--	--	649,058
Public Safety	1,312,353	--	--	1,312,353
Public Works	370,638	1,011,353	787	1,382,778
Community and Economic Development	181,648	--	--	181,648
Other Functions	88,015	--	--	88,015
Total Expenditures	2,601,712	1,011,353	787	3,613,852
Excess of Revenues Over (Under) Expenditures	1,077,797	(1,011,353)	(787)	65,657
Other Financing Sources (Uses)				
Transfers In	279,788	1,011,570	--	1,291,358
Transfers Out	(1,011,570)	--	(42)	(1,011,612)
Net Other Financing Sources (Uses)	(731,782)	1,011,570	(42)	279,746
Net Change in Fund Balance	346,015	217	(829)	345,403
<i>Fund Balance at Beginning of Period</i>	<i>9,299,896</i>	<i>--</i>	<i>829</i>	<i>9,300,725</i>
Fund Balance at End of Period	\$ 9,645,911	\$ 217	\$ --	\$ 9,646,128

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Salem
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended March 31, 2021

Total Net Change in Fund Balances - Governmental Funds	\$ 345,403
Some expense reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the fund. This represents the change in the accrual for compensated absences.	(1,153)
Receivables are recorded in the statement of activities as revenues when executed; they are not reported in the funds until collected or collectible within 60 days after year-end.	(206,476)
The general fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount is represented by capital outlay of \$628,301 less depreciation expense of \$81,262.	547,039
Changes in Net Position - Governmental Activities	\$ <u>684,813</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Salem
Statement of Net Position
Proprietary Funds
March 31, 2021

	Business-type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total Enterprise Funds
ASSETS			
<i>Current Assets</i>			
Cash and Investments	\$ 4,534,448	\$ --	\$ 4,534,448
Accounts Receivable	11,094	--	11,094
Special Assessments Receivable	39,536	--	39,536
Due from Other Funds	--	485,767	485,767
Total Current Assets	4,585,078	485,767	5,070,845
<i>Noncurrent Assets</i>			
Capital Assets not being Depreciated	1,369,321	5,070,500	6,439,821
Capital Assets being Depreciated, Net	1,240,168	--	1,240,168
Total Assets	7,194,567	5,556,267	12,750,834
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable	21,324	485,767	507,091
Unearned Revenues	3,819,911	--	3,819,911
Due to Other Funds	485,767	--	485,767
Total Liabilities	4,327,002	485,767	4,812,769
NET POSITION			
Investment in Capital Assets	2,609,489	5,070,500	7,679,989
<i>Unrestricted</i>	258,076	--	258,076
Total Net Position	\$ 2,867,565	\$ 5,070,500	\$ 7,938,065

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Salem
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended March 31, 2021

	Business-type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total Enterprise Funds
Operating Revenues			
Charges for Services	\$ 116,189	\$ --	\$ 116,189
<i>Total Operating Revenues</i>	116,189	--	116,189
Operating Expenses			
Contractual	93,771	--	93,771
Other Expense	68	--	68
Depreciation	68,568	--	68,568
<i>Total Operating Expenses</i>	162,407	--	162,407
<i>Operating Income (Loss)</i>	(46,218)	--	(46,218)
Non-Operating Revenues (Expenses)			
State Capital Grant	4,612,311	--	4,612,311
Investment Earnings	13,891	--	13,891
Interest Expense	(3,546)	--	(3,546)
<i>Net Non-Operating Revenues (Expenses)</i>	4,622,656	--	4,622,656
<i>Income Before Transfers</i>	4,576,438	--	4,576,438
Transfers In	--	4,467,523	4,467,523
Transfers Out	(4,657,639)	(89,630)	(4,747,269)
<i>Change In Net Position</i>	(81,201)	4,377,893	4,296,692
<i>Net Position at Beginning of Period</i>	2,948,766	692,607	3,641,373
<i>Net Position at End of Period</i>	\$ 2,867,565	\$ 5,070,500	\$ 7,938,065

The Notes to the Financial Statements are an integral part of these Financial Statements

**Township of Salem
Statement of Cash Flows
Proprietary Funds
For the Year Ended March 31, 2021**

	Business-type Activities - Enterprise Funds		
	Sewer	Water	Total Enterprise Funds
Cash Flows from Operating Activities			
Receipts from Customers and Users	\$ 118,191	\$ -	\$ 118,191
Payments to Suppliers	(188,629)	396,137	207,508
Net Cash Provided by (Used in) Operating Activities	(70,438)	396,137	325,699
Cash Flows from Capital and Related Financing Activities			
Principal Paid on Long-term Debt	(110,000)	-	(110,000)
Interest Paid on Long-term Debt	(5,838)	-	(5,838)
Special Assessment Collections	41,014	-	41,014
State Grant (Advance) Received	5,000,000	-	5,000,000
Purchase of Capital Assets	(234,418)	(4,377,893)	(4,612,311)
Change in Interfund Balances	485,767	(396,137)	89,630
Transfers, Net	(4,657,639)	4,377,893	(279,746)
Net Cash Provided by (Used in) Capital and Related Financing Activities	518,886	(396,137)	122,749
Cash Flows from Investing Activities			
Investment Earnings	13,891	-	13,891
Net Cash Provided by Investing Activities	13,891	-	13,891
Net Increase in Cash and Investments	462,339	-	462,339
<i>Cash and Investments - Beginning of Year</i>	<i>4,072,109</i>	<i>-</i>	<i>4,072,109</i>
Cash and Investments - End of Year	\$ 4,534,448	\$ -	\$ 4,534,448
Reconciliation of Operating Loss to			
Net Cash Provided by (Used in) Operating Activities			
Operating Loss	\$ (46,218)	\$ -	\$ (46,218)
Adjustments to Reconcile Operating Loss to			
Net Cash Provided by (Used in) Operating Activities			
Depreciation Expense	68,568	-	68,568
Changes in Assets and Liabilities			
Accounts Receivable	2,002	-	2,002
Accounts Payable	(94,790)	396,137	301,347
Net Cash Provided by (Used in) Operating Activities	\$ (70,438)	\$ 396,137	\$ 325,699

The Notes to the Financial Statements are an integral part of these Financial Statements

Statement of Fiduciary Net Position
Fiduciary Fund
March 31, 2021

	<u>Custodial</u>
ASSETS	
<i>Total Assets</i>	--
LIABILITIES	
<i>Total Liabilities</i>	--
NET POSITION	
Restricted for Individuals, Organizations, and Other Governments	\$ --

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Salem
Statement of Change in Fiduciary Net Position
Fiduciary Fund
For the Year Ended March 31, 2021

	<u>Custodial</u>
Additions	
Taxes Collected for Other Governments	\$ 12,962,388
<i>Total Additions</i>	<u>12,962,388</u>
Deductions	
Payments of Property Taxes to Other Governments	<u>12,962,388</u>
<i>Total Deductions</i>	<u>12,962,388</u>
<i>Change in Net Position</i>	--
<i>Net Position at Beginning of Period</i>	--
<i>Net Position at End of Period</i>	<u>\$ --</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Notes to the Financial Statements

Township of Salem

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The financial statements of the Township of Salem (the “Township” or “government”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township’s accounting policies are described below.

Reporting Entity

These financial statements only present the Township. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, there are no other entities for which the Township exercises oversight responsibility.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the

Township of Salem

Notes to the Financial Statements

year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and compensated absences expenditures are recorded only when payment is due.

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

The government reports the following major governmental funds:

The ***general fund*** is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

The ***Chubb Road pavement fund*** accounts for the expenditures related to road improvements within the Township for Chubb Road. Revenues are primarily from special assessments.

The ***Five Mile Road pavement fund*** accounts for the expenditures related to road improvements within the Township for Five Mile Road. Revenues are primarily from special assessments.

The government reports the following major proprietary fund:

The ***sewer enterprise fund*** accounts for the activities of the Township's sewage disposal fund.

The ***water enterprise fund*** accounts for the activities of the Township's upcoming water system operations.

Additionally, the government reports the following fund type:

The ***custodial fund*** accounts for the collection and disbursements of taxes and other monies due to other units of government and individuals.

Township of Salem

Notes to the Financial Statements

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Township's sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Budgetary Basis of Accounting

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The general fund is subject to legal budgetary accounting controls, and all are budgeted annually. Annual budgets are adopted on basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal yearend.

The budget for the general fund is adopted at the department level.

Assets, Liabilities, Deferred Inflows of Resources, and Equity

Cash and Cash Equivalents

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes and Township policy authorize the Township to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

Township of Salem

Notes to the Financial Statements

- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through March 1997.

Investments

Investments are stated at fair market value. Investments are exposed to various risks, such as significant external events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of net position.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade receivables are shown net of an allowance for uncollectibles, as applicable. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. No amounts have been deemed uncollectable.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated

Township of Salem

Notes to the Financial Statements

useful life in excess of two years. Donated capital assets are valued at their acquisition value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	Years
Sewer and Water System	40
Buildings and Improvements	20
Machinery and Equipment	8 - 20
Other Furnishings and Equipment	5 - 10

Compensated Absences (Vacation and Sick Leave)

It is the Township's policy to permit employees to accumulate earned but unused personal and vacation pay benefits. Vacation days may be accumulated up to a maximum of twenty days. Employees will be compensated for unused vacation days upon termination of their employment. Personal days may be accumulated up to a maximum of twenty days. Unused personal days, over the twenty accumulated days, will be paid to the employee on their anniversary date. Employees will be compensated for unused personal leave upon termination of their employment.

Unearned Revenue

Unearned revenue is reported in the business-type fund and government-wide financial statements for reimbursement grant funds received in advance of the grant-related expenses being incurred.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. For new bond issuances of governmental funds after the implementation of GASB Statement No. 34 and all proprietary fund bond issues, bond premiums and discounts, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported

Township of Salem

Notes to the Financial Statements

as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position and/or the fund level balance sheet 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/fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The Township has one deferred inflow, which arises only under the modified accrual basis of accounting. This item, unavailable revenues for special assessments, is reported in the governmental funds balance sheet and is reflected as a reconciling item to governmental activities. Unavailable revenues from special assessments are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available (collected) in the governmental fund statements.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either: a) not in spendable form or b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The *committed fund balance* classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Township Board of Trustees is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit

Township of Salem

Notes to the Financial Statements

fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the *assigned fund balance* classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Township Board of Trustees can assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Unassigned fund balance is the residual classification for the Township's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the Board of Trustees.

Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Property Tax Revenue Recognition

The Township property tax is levied on December 1 on the taxable valuation of property located in the Township as of the preceding December 31. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Township. It is the Township's policy to recognize revenues in the current year when they are levied and made available for the financing of Township operations. The Township considers property taxes levied on December 1 to be revenues of the current period.

Interfund Transactions

During the course of normal operations, the Township has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the Township.

Township of Salem

Notes to the Financial Statements

Use of Estimates

The process of preparing financial statements in conformity with 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.

Note 2 - Excess of Expenditures Over Budget

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

The Township had one expenditure in excess of the amount appropriated during the year ended March 31, 2021: transfers out had an amended budget of \$0 and an actual amount of \$1,011,570; resulting in a negative budget variance of \$(1,011,570).

Note 3 - Cash and Investments

The Township maintains pooled and individual fund demand deposits, certificates of deposit, and short-term investment accounts for the Township.

Following is a reconciliation of deposit and investment balances as of March 31, 2021:

Statement of Net Position

Cash and Investments	\$ 13,714,254
----------------------	---------------

Statement of Fiduciary Net Position

Cash and Investments	-
----------------------	---

Total Cash and Investments	<u>\$ 13,714,254</u>
-----------------------------------	----------------------

Deposits and Investments

Cash on Hand	\$ 100
--------------	--------

Checking and Savings Accounts	472,283
-------------------------------	---------

Pooled Investment Accounts (MI Class)	6,430,130
---------------------------------------	-----------

Brokerage Accounts	6,811,741
--------------------	-----------

Total Deposits and Investments	<u>\$ 13,714,254</u>
---------------------------------------	----------------------

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the Township's deposits might not be returned. State law does not require, and the Township does not have a policy for deposit custodial credit risk. As of year-end, \$234,333 of the Township's bank balance of \$484,333 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the

Township of Salem

Notes to the Financial Statements

Township believes it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In order to minimize this risk, Township policy limits the types of investments and pre-qualifies financial institutions. As of March 31, 2021, none of the Township's investments were exposed to risk since the securities are held in the Township's name by the counterparty.

Following is a summary of the Township's investments (excluding pooled investment accounts) as of March 31, 2021:

Asset Backed Securities	\$ 56,334
Money Market	62,238
U.S. Government Bonds	952,386
Municipal Bonds	4,990,875
Certificates of Deposit	749,908
<i>Total Brokerage Accounts</i>	<u>\$ 6,811,741</u>

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The Township's investment policy does not have specific limits in excess of state law on investment credit risk.

Credit risk ratings, where applicable, are summarized as follows:

Rating	Fair Market Value
S&P AAA	\$ 6,631,626
S&P AA+	2,080,898
S&P AA	3,082,048
S&P AA-	497,737
S&P A+	81,083
Not Rated	868,479
<i>Total Investments</i>	<u>\$ 13,241,871</u>

Township of Salem

Notes to the Financial Statements

Interest Rate Risk. Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Township's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Maturity dates for investments and certificates of deposit held at year-end are summarized as follows:

	Brokerage Accounts		Pooled
	Certificates of		Investment
	Deposit	Investments	Accounts
No Maturity	\$ -	\$ 62,238	\$ 6,430,130
Due Within One Year	502,288	202,398	-
Due in 1-5 Years	247,620	4,467,242	-
Due in 6+ Years	-	1,329,955	-
Total Investments	\$ 749,908	\$ 6,061,833	\$ 6,430,130

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the Township's investment in a single issuer. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The Township's investment policy does not limit investments in a single financial institution of a single security type (with the exception of U.S. treasuries and agencies and authorized pools) to a % of the total investment portfolio. All investments held at year end are reported above.

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 requires an entity to maximize the use of observable and minimize the use of unobservable inputs.

There are three 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.

Township of Salem

Notes to the Financial Statements

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.

As of March 31, 2021, the fair value measurements of investments and cash equivalents were as follows:

	Level 1	Level 2	Level 3	Total
Asset Backed Securities	\$ 56,334	\$ -	\$ -	\$ 56,334
Money Market	62,238	-	-	62,238
U.S. Government Bonds	952,386	-	-	952,386
Municipal Bonds	4,990,875	-	-	4,990,875
Certificates of Deposit	749,908	-	-	749,908
Pooled Investment Accounts	-	6,430,130	-	6,430,130
Total Investments	\$ 6,811,741	\$ 6,430,130	\$ -	\$ 13,241,871

Note 4 - Capital Assets

Governmental activities' capital asset activity for the year ended March 31, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets not Being Depreciated:				
Land	\$ 3,387,785	\$ -	\$ -	\$ 3,387,785
Capital Assets Being Depreciated:				
Buildings and Improvements	297,876	54,496	-	352,372
Machinery and Equipment	1,519,109	573,805	-	2,092,914
Other Furnishings and Equipment	65,510	-	-	65,510
<i>Subtotal</i>	<u>1,882,495</u>	<u>628,301</u>	<u>-</u>	<u>2,510,796</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(157,685)	(9,871)	-	(167,556)
Machinery and Equipment	(1,090,704)	(68,295)	-	(1,158,999)
Other Furnishings and Equipment	(55,613)	(3,096)	-	(58,709)
<i>Subtotal</i>	<u>(1,304,002)</u>	<u>(81,262)</u>	<u>-</u>	<u>(1,385,264)</u>
Capital Assets Being Depreciated, Net	<u>578,493</u>	<u>547,039</u>	<u>-</u>	<u>1,125,532</u>
Capital Assets, Net	<u>\$ 3,966,278</u>	<u>\$ 547,039</u>	<u>\$ -</u>	<u>\$ 4,513,317</u>

Township of Salem

Notes to the Financial Statements

Depreciation expense was charged to the functions of governmental activities as follows:

General Government	\$ 20,120
Public Safety	61,142
	<u>\$ 81,262</u>

Capital asset activity of business-type activities for the year ended March 31, 2021, was as follows:

Business-type Activities	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets not Being Depreciated:				
Land	\$ 259,732	\$ -	\$ -	\$ 259,732
Construction in Progress	1,567,778	4,612,311	-	6,180,089
<i>Subtotal</i>	<u>1,827,510</u>	<u>4,612,311</u>	<u>-</u>	<u>6,439,821</u>
Capital Assets Being Depreciated:				
Infrastructure	2,742,722	-	-	2,742,722
<i>Subtotal</i>	<u>2,742,722</u>	<u>-</u>	<u>-</u>	<u>2,742,722</u>
Less Accumulated Depreciation for:				
Infrastructure	(1,433,986)	(68,568)	-	(1,502,554)
<i>Subtotal</i>	<u>(1,433,986)</u>	<u>(68,568)</u>	<u>-</u>	<u>(1,502,554)</u>
Capital Assets Being Depreciated, Net	1,308,736	(68,568)	-	1,240,168
Capital Assets, Net	<u>\$ 3,136,246</u>	<u>\$ 4,543,743</u>	<u>\$ -</u>	<u>\$ 7,679,989</u>

Depreciation expense of \$68,568 for business-type activities was charged to the sewer fund.

Township of Salem

Notes to the Financial Statements

Note 5 - Construction Code

The Township oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction costs, including an allocation of estimated overhead costs. A summary of current year activity and the cumulative shortfall generated since January 1, 2000, is as follows:

Current Year Building Permit Revenue	\$ 153,815
Less Related Expenditures:	
Direct Cost	112,135
Estimated Indirect Costs	<u>13,067</u>
Current Year Surplus/(Shortfall)	28,613
Cumulative Shortfall, Beginning of Year	<u>(343,259)</u>
Cumulative Shortfall, End of Year	<u>\$ (314,646)</u>

Note 6 - Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended March 31, 2021, the government carried commercial insurance to cover all risks of losses. The Township has had no settled claims from these risks that exceeded its commercial coverage in any of the past three fiscal years.

Note 7 - Long-term Obligations

2002/2003 Expansion - In May 2002, the Township entered into an agreement with the County to expand the Township's existing sewer system. Under this agreement, the County is responsible for construction and financing of the project through a bond program with the Michigan Municipal Bond Authority. The bond was issued in May 2002 for \$1,090,000. The Township has entered into a lease agreement equal to the total proceeds that will be drawn down by the County. The Township will pay the County semiannual amounts sufficient to pay the debt service requirements and other related costs. Payments were due in annual installments of \$55,000 to \$60,000 through 2022 with interest at 3.00% to 5.00%. The Township paid off the bond in full during the fiscal year ended March 31, 2021.

Township of Salem

Notes to the Financial Statements

Changes in long-term obligations during the current year were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Compensated Absences	\$ 7,954	\$ 2,933	\$ (1,780)	\$ 9,107	\$ -
Business-type Activities					
2002/2003 Expansion Bonds	110,000	-	(110,000)	-	-
Total Primary Government	\$ 117,954	\$ 2,933	\$ (111,780)	\$ 9,107	\$ -

Note 8 - Interfund Activity

The Township had one interfund balance as of March 31, 2021, between the water fund (receivable) and sewer fund (payable) in the amount of \$485,767 to account for monies provided by the Sewer fund to cover costs for the water portion of the MEDC grant project.

There composition of interfund transfers for the year ended March 31, 2021, was as follows:

Transfer In	Transfer Out	Amount
Chubb Road Pavement Fund	General Fund	\$ 1,011,570
General Fund	File Mile Road Pavement Fund	42
General Fund	Water Fund	89,630
General Fund	Sewer Fund	190,116
Water Fund	Sewer Fund	4,467,523

Transfers are used to: 1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, 2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and 3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 9 - Landfill Agreement

In 1991, the Township entered into a host community agreement and lease with Veolia Environmental Services (Veolia), formerly Onyx North America - Arbor Hills Landfill, covering a Township-owned landfill site. The Township receives quarterly lease renewal payments in return for leasing the site to Veolia for landfill operations. In addition, the Township receives monthly payments from Gas Recovery Systems equal to 50 percent of the revenue generated from the sale of landfill gases. For the year ended March 31, 2021, host fees revenue and gas royalties were \$621,415 and \$1,808,208, respectively.

In June 1996, the Township also entered into a host community agreement with Veolia covering a composting site. Total revenue for the year ended March 31, 2021, relating to this agreement was \$14,133.

Township of Salem

Notes to the Financial Statements

State and federal laws and regulations require that a final cover be placed on the landfill site when it stops accepting waste and that certain maintenance and monitoring functions be performed at the site for 30 years after closure. Any costs associated with closure or post closure care are the responsibility of Veolia. The Township has considered the guidance in GASB 18 in determining that no liability is necessary.

Note 10 - Contingent Liabilities

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government and component unit's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

Note 11 - Commitments

On February 13, 2018, the Township of Salem accepted a Michigan Economic Development Corporation ("MEDC") Enhancement Grant for the sum of \$10 Million for public infrastructure in the Township's Urban Service District ("USD"), including water and sanitary sewer services. The completion of construction and use of the funds under this first grant must be completed by September 30, 2022. The first advance of \$5 Million was provided to the Township during the March 31, 2018 fiscal year. The second advance of the \$5 Million was provided to the Township during the March 31, 2021 fiscal year. \$6 Million of the grant has been paid for design engineering of the water and sewer systems. Construction of the water utility and a portion of the sewer utility is currently underway.

In March 2019, the MEDC notified the Township that it had been awarded a second \$10 Million Enhancement Grant for the continued construction of the water and sewer utilities in Salem's USD. The completion of construction and use of the funds under this second grant will also be September 30, 2022. Funds from the second \$10 Million grant will not be advanced to the Township until the first \$10 Million grant has been exhausted.

Note 12 - Subsequent Events

The Township may be affected by the recent and ongoing outbreak of the Coronavirus (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. COVID-19 has caused significant government and business disruptions through mandated and voluntary closings and stay at home orders. The Board is currently working to determine the significance that the COVID-19 Pandemic will have on the Township's upcoming revenues and expenditures. Management is not aware of any other subsequent events that would have a significant impact on the financial condition of the Township.

Note 13 - Change in Accounting Principle

The Township adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, in the current year. There was no change in the beginning net position of the fiduciary funds.

Required Supplementary Information

Township of Salem
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended March 31, 2021

	Budgeted Amounts			Variance Positive (Negative) Final to Actual
	Original	Final	Actual	
Revenues				
Property Tax	\$ 20,000	\$ 20,000	\$ 20,726	\$ 726
Special Assessments and Interest	--	--	292,620	292,620
Licenses and Permits	143,000	143,000	153,815	10,815
Intergovernmental	485,000	485,000	512,506	27,506
Charges for Services	11,950	11,950	18,019	6,069
Landfill Fees				
Host Fees	800,000	800,000	621,415	(178,585)
Gas Royalties	1,800,000	1,800,000	1,808,208	8,208
Compost Host Fees	15,000	15,000	14,133	(867)
Franchise Fees	100,000	100,000	99,201	(799)
Miscellaneous Revenue	46,830	46,830	56,206	9,376
Investment Earnings	180,000	180,000	82,660	(97,340)
Total Revenues	3,601,780	3,601,780	3,679,509	77,729
Other Financing Sources				
Transfers In	--	--	279,788	279,788
Total Revenues and Other Financing Sources	3,601,780	3,601,780	3,959,297	357,517
Expenditures				
General Government				
Township Board	34,582	34,582	32,667	1,915
Supervisor	78,630	88,630	85,758	2,872
Elections	30,500	30,500	25,185	5,315
Accounting and Audit	12,155	12,455	12,400	55
Assessor	70,305	70,305	67,859	2,446
Clerk	80,600	80,600	74,951	5,649
Board of Review	3,900	3,900	2,846	1,054
Treasurer	86,600	88,600	82,842	5,758
Attorney	100,000	100,000	82,102	17,898
Building and Grounds	243,000	241,000	180,262	60,738
Technology	148,000	--	--	--
Land Preservation and Conservation	25,000	25,000	2,186	22,814
Total General Government	913,272	775,572	649,058	126,514
Public Safety				
Police	350,000	350,000	306,788	43,212
Fire	528,200	1,078,200	1,005,565	72,635
Total Public Safety	878,200	1,428,200	1,312,353	115,847
Public Works				
Highways, Streets & Drains	756,000	446,000	370,638	75,362
Community and Economic Development				
Planning and Zoning	60,375	65,375	56,446	8,929
Other Community and Economic Development	171,200	137,200	125,202	11,998
Total Community and Economic Development	231,575	202,575	181,648	20,927
Other Functions	822,733	749,433	88,015	661,418
Total Expenditures	3,601,780	3,601,780	2,601,712	1,000,068
Other Financing Uses				
Transfers Out	--	--	1,011,570	(1,011,570)
Total Expenditures and Other Financing Uses	3,601,780	3,601,780	3,613,282	(11,502)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	--	--	346,015	346,015
Net Change in Fund Balance	--	--	346,015	346,015
Fund Balance at Beginning of Period	9,299,896	9,299,896	9,299,896	--
Fund Balance at End of Period	\$ 9,299,896	\$ 9,299,896	\$ 9,645,911	\$ 346,015

September 13, 2021

To the Members of the Township Board of Trustees
Township of Salem, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Salem, Michigan (the "Township") for the year ended March 31, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 30, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Township are described in Note 1 to the financial statements. No new accounting policies were adopted, and, except as stated in Note 13 to the financial statements, the application of existing policies was not changed during 2021. We noted no transactions entered into by the Township during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Township's financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 13, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis and budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of the Township Board of Trustees and management of the Township and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in dark ink that reads "Gabridge & Company". The script is cursive and fluid, with the ampersand being particularly stylized.

Gabridge & Company, PLC
Grand Rapids, MI