



**TOWNSHIP OF SALEM, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED MARCH 31, 2018**

GABRIDGE & CO

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INDEPENDENT AUDITOR'S REPORT

Honorable Members of the Board of Trustees
Township of Salem
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, as of and for the year ended March 31, 2018, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Salem, Michigan, as of March 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed 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, MI
September 14, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

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, 2018. 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 \$16,148,077 (net position). Of this amount, \$10,704,395 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- At the close of the current fiscal year, the Township's general fund reported fund balance of \$10,294,277, an increase of \$674,447 in comparison with the prior year. Approximately 99.9% of this amount (\$10,285,992) 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 \$10,285,992, or approximately 447.2% of total general fund expenditures.

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 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 include general government, police and fire protection, roads, community and economic development, and culture and recreation. The business-type activities of the Township includes sewage 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 one governmental fund, the general fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund.

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 one proprietary fund, an enterprise fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Township uses an enterprise fund to account for its sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the sewer operations, which is considered to be a major fund 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, an *agency fund*.

The *agency 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 \$16,148,077 at the close of the most recent fiscal year.

A large portion of the Township's net position, \$5,443,682, (33.7%) 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 \$10,704,395, or 66.3%, 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	
	2018	2017	2018	2017	2018	2017
ASSETS						
<i>Current Assets</i>						
Cash and Equivalents	\$ 1,541,367	\$ 571,302	\$ 5,247,037	\$ 228,296	\$ 6,788,404	\$ 799,598
Investments	8,470,463	8,651,861	-	-	8,470,463	8,651,861
Accounts Receivable	53,984	58,153	18,002	22,971	71,986	81,124
Landfill Receivable	232,176	385,282	-	-	232,176	385,282
Due from Other Governments	72,691	78,192	-	-	72,691	78,192
Prepaid Items	8,285	7,478	-	-	8,285	7,478
Due from Agency	-	8,324	-	-	-	8,324
Special Assessments, Current	-	-	1,621	2,468	1,621	2,468
Total Current Assets	10,378,966	9,760,592	5,266,660	253,735	15,645,626	10,014,327
<i>Noncurrent Assets</i>						
Special Assessments, Long-term	-	-	166,720	238,671	166,720	238,671
Capital Assets (Net)	3,958,078	4,006,142	1,705,604	1,775,422	5,663,682	5,781,564
Total Assets	14,337,044	13,766,734	7,138,984	2,267,828	21,476,028	16,034,562
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	61,598	109,927	14,384	22,402	75,982	132,329
Accrued Liabilities	23,091	30,835	-	-	23,091	30,835
Accrued Interest	-	-	4,561	5,672	4,561	5,672
Current Portion of Long-term Debt	-	-	55,000	55,000	55,000	55,000
Unearned Revenue	-	-	5,000,000	-	5,000,000	-
Total Current Liabilities	84,689	140,762	5,073,945	83,074	5,158,634	223,836
<i>Noncurrent Liabilities</i>						
Compensated Absences	4,317	9,555	-	-	4,317	9,555
Long-term Debt	-	-	165,000	220,000	165,000	220,000
Total Liabilities	89,006	150,317	5,238,945	303,074	5,327,951	453,391
NET POSITION						
Net Investment in Capital Assets	3,958,078	4,006,142	1,485,604	1,500,422	5,443,682	5,506,564
Unrestricted	10,289,960	9,610,275	414,435	464,332	10,704,395	10,074,607
Total Net Position	\$ 14,248,038	\$ 13,616,417	\$ 1,900,039	\$ 1,964,754	\$ 16,148,077	\$ 15,581,171

Unearned revenue increased by \$5,000,000 during 2018 resulting from the advance collection of a Michigan Economic Development Corporation grant with Salem Township for sanitary sewer services infrastructure upgrades. Revenue will be recognized on the grant as the underlying expenses are incurred. This advance collection of grant proceeds is also the primary reason that cash and investments increased by \$5,807,408 during the year.

The Township's overall net position increased \$566,906 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

Governmental Activities. During the current fiscal year, net position for governmental activities increased \$631,621 from the prior fiscal year for an ending balance of \$14,248,038. The increase in the overall net position of governmental activities in comparison with the previous year is the result of a decrease in overall expenses of \$149,060 (largely related to decreased expenses associated with fewer road projects) and an increase in total revenues of \$38,979.

Township of Salem's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenue						
Program Revenues						
Charges for Services	\$ 285,885	\$ 179,565	\$ 125,382	\$ 102,861	\$ 411,267	\$ 282,426
Capital Grants and Contributions	-	-	57,610	-	57,610	-
Total Program Revenues	285,885	179,565	182,992	102,861	468,877	282,426
General Revenues						
State Revenue Sharing	469,837	456,935	-	-	469,837	456,935
Landfill Fees						
Host Fees	762,277	762,857	-	-	762,277	762,857
Gas Royalties	1,333,490	1,280,224	-	-	1,333,490	1,280,224
Compost Host Fees	14,312	19,447	-	-	14,312	19,447
Franchise Fees	100,261	123,454	-	-	100,261	123,454
Investment Earnings (Loss)	8,678	113,279	12,743	15,758	21,421	129,037
Total General Revenues	2,688,855	2,756,196	12,743	15,758	2,701,598	2,771,954
Total Revenues	2,974,740	2,935,761	195,735	118,619	3,170,475	3,054,380
Expenses						
General Government	735,564	718,103	-	-	735,564	718,103
Public Safety	787,895	847,735	-	-	787,895	847,735
Public Works	616,507	719,352	-	-	616,507	719,352
Community and Economic Development	203,153	199,621	-	-	203,153	199,621
Recreation and Culture	-	7,368	-	-	-	7,368
Water and Sewer	-	-	260,450	266,080	260,450	266,080
Total Expenses	2,343,119	2,492,179	260,450	266,080	2,603,569	2,758,259
Transfers	-	(144,830)	-	144,830	-	-
Change in Net Position	631,621	298,752	(64,715)	(2,631)	566,906	296,121
<i>Net Position at the Beginning of Period</i>	13,616,417	13,317,665	1,964,754	1,967,385	15,581,171	15,285,050
Net Position at the End of Period	\$ 14,248,038	\$ 13,616,417	\$ 1,900,039	\$ 1,964,754	\$ 16,148,077	\$ 15,581,171

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 \$1,900,039. The total decrease in net position for business-type activities was \$64,715. The decrease primarily relates to the sewer fund not receiving a transfer in from the general fund as in 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 \$10,285,992, while total fund balance increased to \$10,294,277. As a measure of the general fund's liquidity, it may be useful to compare both

unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 447.2% of total general fund expenditures, while total fund balance represents approximately 447.5% of that same amount.

The fund balance of the Township's general fund increased by \$674,447 during the current fiscal year. The increase is consistent with the prior year.

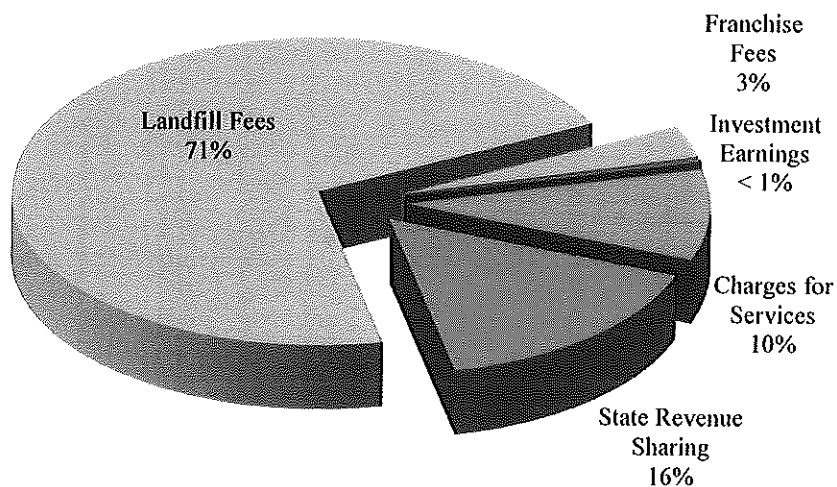
Proprietary Funds. The Township's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the sewer fund at the end of the year was \$414,435. The decrease in net position for the sewer fund was \$64,715 due to the explanation indicated above.

Governmental Activities

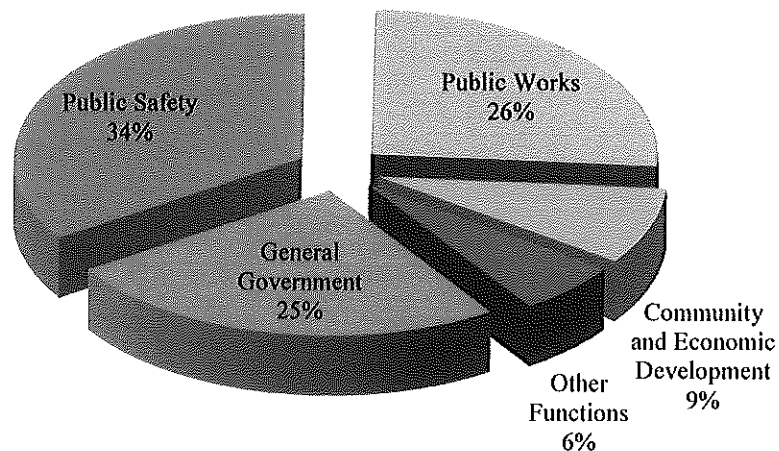
The following chart summarizes the revenue sources for the governmental activities of the Township for the most recent fiscal year end.

Governmental Activities Revenues



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

Governmental Activities Expenses



General Fund Budgetary Highlights

Original budget compared to final budget. The Township did not make significant amendments to increase either the original estimated revenues or original budgeted appropriations as it was originally deemed unnecessary.

Final budget compared to actual results. During the current fiscal year the Township had the following budget variances between the final budget compared to actual results:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Government			
Building and Grounds	\$ 145,800	\$ 148,763	\$ (2,963)
Community and Economic Development			
Planning and Zoning	68,117	77,010	(8,893)

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, 2018 amounts to \$5,663,682 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, and sewer infrastructure. The total decrease in capital assets for the current fiscal year was approximately 2.0%.

The following schedule shows the changes in the Township's capital assets during each of the past two fiscal years:

	2018	2017
Land	\$ 3,647,517	\$ 3,387,785
Building and Improvements	107,851	115,569
Machinery and Equipment	447,141	484,268
Office Furnishings and Equipment	15,301	18,520
Sewer Infrastructure	1,445,872	1,775,422
Totals	\$ 5,663,682	\$ 5,781,564

Long-term Debt

As described in Note 7 to the financial statements, the Township had \$220,000 in sewer fund leases payable at the end of 2018. Other long-term obligations consisted of a \$4,317 liability for compensated absences.

Economic Condition and Outlook

Roughly \$2.9 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 2018. 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 2019, 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.

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, 2018

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
<i>Current Assets</i>			
Cash and Equivalents	\$ 1,541,367	\$ 5,247,037	\$ 6,788,404
Investments	8,470,463	--	8,470,463
Accounts Receivable	53,984	18,002	71,986
Landfill Receivable	232,176	--	232,176
Due from Other Governments	72,691	--	72,691
Prepaid Items	8,285	--	8,285
Special Assessments Receivable, Current	--	1,621	1,621
Total Current Assets	<u>10,378,966</u>	<u>5,266,660</u>	<u>15,645,626</u>
<i>Noncurrent Assets</i>			
Special Assessment Receivable	--	166,720	166,720
Capital Assets not being Depreciated	3,387,785	259,732	3,647,517
Capital Assets being Depreciated	570,293	1,445,872	2,016,165
Total Assets	<u>14,337,044</u>	<u>7,138,984</u>	<u>21,476,028</u>
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable	61,598	14,384	75,982
Accrued Liabilities	23,091	--	23,091
Accrued Interest	--	4,561	4,561
Current Portion of Long-term Liabilities	--	55,000	55,000
Unearned Revenues	--	5,000,000	5,000,000
Total Current Liabilities	<u>84,689</u>	<u>5,073,945</u>	<u>5,158,634</u>
<i>Noncurrent Liabilities</i>			
Long-term Debt	--	165,000	165,000
Compensated Absences	4,317	--	4,317
Total Liabilities	<u>89,006</u>	<u>5,238,945</u>	<u>5,327,951</u>
NET POSITION			
Net Investment in Capital Assets	3,958,078	1,485,604	5,443,682
<i>Unrestricted</i>	10,289,960	414,435	10,704,395
Total Net Position	<u>\$ 14,248,038</u>	<u>\$ 1,900,039</u>	<u>\$ 16,148,077</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, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Governmental Activities:						
General Government	\$ 597,930	\$ 110,027	\$ --	\$ --	\$ (487,903)	\$ --
Public Safety	787,895	--	--	--	(787,895)	--
Public Works	616,507	--	--	--	(616,507)	--
Community and Economic Development	203,153	175,858	--	--	(27,295)	--
Other Functions	137,634	--	--	--	(137,634)	--
Total Governmental Activities	2,343,119	285,885	--	--	(2,057,234)	--
Business-type Activities:						
Sewer Fund	260,450	125,382	--	57,610	--	(77,458)
Total Business-type Activities	260,450	125,382	--	57,610	--	(77,458)
Total	\$ 2,603,569	\$ 411,267	\$ --	\$ 57,610	\$ (2,057,234)	\$ (77,458)
						\$ (2,134,692)
General Purpose Revenues:						
Revenues						
State Revenue Sharing		469,837				469,837
Host Fees		762,277				762,277
Gas Royalties		1,333,490				1,333,490
Compost Host Fees		14,312				14,312
Franchise Fees		100,261				100,261
Investment Earnings		8,678			12,743	21,421
Total General Revenues		2,688,855			12,743	2,701,598
Change in Net Position		631,621			(64,715)	566,906
<i>Net Position at Beginning of Period</i>		<i>13,616,417</i>			<i>1,964,754</i>	<i>15,581,171</i>
Net Position at End of Period		\$ 14,248,038			\$ 1,900,039	\$ 16,148,077

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

**Township of Salem
Balance Sheet
Governmental Fund
March 31, 2018**

	<u>General</u>
ASSETS	
Cash and Equivalents	\$ 1,541,367
Investments	8,470,463
Accounts Receivable	53,984
Landfill Receivable	232,176
Due from Other Governments	72,691
Prepaid Items	8,285
<i>Total Assets</i>	<u><u>\$ 10,378,966</u></u>
LIABILITIES	
Accounts Payable	\$ 61,598
Accrued Liabilities	23,091
<i>Total Liabilities</i>	<u><u>84,689</u></u>
FUND BALANCE	
Nonspendable	8,285
Unassigned	10,285,992
<i>Total Fund Balance</i>	<u><u>10,294,277</u></u>
<i>Total Liabilities and Fund Balance</i>	<u><u>\$ 10,378,966</u></u>

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

Township of Salem
Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Position
March 31, 2018

Total Fund Balance - Governmental Fund	\$ 10,294,277
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the fund. This represents capital assets of \$5,253,447 net of accumulated depreciation of \$1,295,369.	3,958,078
Compensated absences are not due in and payable in the current period, and therefore, are not reported in the funds.	(4,317)
Total Net Position - Governmental Fund	<u>\$ 14,248,038</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 Fund
For the Year Ended March 31, 2018

	<u>General</u>
Revenues	
Licenses and Permits	\$ 170,508
State Revenue Sharing	469,837
Charges for Services	12,617
Host Fees	762,277
Gas Royalties	1,333,490
Compost Host Fees	14,312
Franchise Fees	122,447
Miscellaneous Revenue	80,574
Investment Earnings	8,678
<i>Total Revenues</i>	<u>2,974,740</u>
Expenditures	
General Government	582,235
Public Safety	760,764
Public Works	616,507
Community and Economic Development	203,153
Other Functions	137,634
<i>Total Expenditures</i>	<u>2,300,293</u>
<i>Excess of Revenues Over</i>	
<i>(Under) Expenditures</i>	<u>674,447</u>
<i>Net Change in Fund Balance</i>	<u>674,447</u>
<i>Fund Balance at Beginning of Period</i>	<u>9,619,830</u>
<i>Fund Balance at End of Period</i>	<u><u>\$ 10,294,277</u></u>

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

Township of Salem
Reconciliation of Governmental Fund Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended March 31, 2018

Total Net Change in Fund Balances - Governmental Fund	\$ 674,447
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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 is depreciation expense of \$48,064.

	(48,064)
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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.

	5,238
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Changes in Net Position - Governmental Fund	<u>\$ 631,621</u>
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The Notes to the Financial Statements are an integral part of these Financial Statements

**Township of Salem
Statement of Net Position
Proprietary Fund
March 31, 2018**

	<u>Business-type Activities - Enterprise Fund</u>
	<u>Sewer Fund</u>
ASSETS	
<i>Current Assets</i>	
Cash and Equivalents	\$ 5,247,037
Accounts Receivable	18,002
Special Assessments Receivable, Current	1,621
<i>Total Current Assets</i>	<u>5,266,660</u>
<i>Noncurrent Assets</i>	
Special Assessment Receivable	166,720
Capital Assets not being Depreciated	259,732
Capital Assets being Depreciated	1,445,872
<i>Total Assets</i>	<u>7,138,984</u>
LIABILITIES	
<i>Current Liabilities</i>	
Accounts Payable	14,384
Accrued Interest	4,561
Current Portion of Long-term Liabilities	55,000
Unearned Revenues	5,000,000
<i>Total Current Liabilities</i>	<u>5,073,945</u>
<i>Noncurrent Liabilities</i>	
Long-term Debt	165,000
<i>Total Liabilities</i>	<u>5,238,945</u>
NET POSITION	
Net Investment in Capital Assets	1,485,604
<i>Unrestricted</i>	414,435
<i>Total Net Position</i>	<u>\$ 1,900,039</u>

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 Fund
For the Year Ended March 31, 2018

	<u>Business-type Activities - Enterprise Fund</u>
	<u>Sewer Fund</u>
Operating Revenues	
Charges for Services	\$ 125,382
<i>Total Operating Revenues</i>	<u>125,382</u>
Operating Expenses	
Contractual	102,478
Maintenance	75,946
Other Expense	77
Depreciation	69,818
<i>Total Operating Expenses</i>	<u>248,319</u>
<i>Operating Income (Loss)</i>	<u>(122,937)</u>
Non-Operating Revenues (Expenses)	
State Grant	57,610
Investment Earnings	12,743
Interest Expense	(12,131)
<i>Net Non-Operating Revenues (Expenses)</i>	<u>58,222</u>
<i>Change In Net Position</i>	<u>(64,715)</u>
<i>Net Position at Beginning of Period</i>	1,964,754
<i>Net Position at End of Period</i>	<u><u>\$ 1,900,039</u></u>

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

**Township of Salem
Statement of Cash Flows
Proprietary Fund
For the Year Ended March 31, 2018**

	<u>Business-type Activities - Enterprise Fund</u>
	<u>Sewer Fund</u>
Cash Flows from Operating Activities	
Receipts from customers and users	128,730
Payments to suppliers	(186,519)
<i>Net Cash Used by Operating Activities</i>	<u>(57,789)</u>
Cash Flows from Capital and Related Financing Activities	
Principal paid on debt	(55,000)
Interest paid on debt	(13,242)
Special assessment collections	74,419
State grant (advance) received	5,057,610
<i>Net Cash Used by Capital and Related Financing Activities</i>	<u>5,063,787</u>
Cash Flows from Investing Activities	
Interest on investments	12,743
<i>Net Cash Provided by Investing Activities</i>	<u>12,743</u>
Net Increase in Cash and Equivalents	5,018,741
<i>Cash and Equivalents - Beginning of Year</i>	<u>228,296</u>
Cash and Equivalents - End of Year	<u><u>5,247,037</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	(122,937)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities	
Depreciation Expense	69,818
Changes in Assets and Liabilities	
Accounts Receivable	3,348
Accounts Payable	(8,018)
Net Cash Used by Operating Activities	<u>(57,789)</u>

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

Township of Salem
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
March 31, 2018

	<u>Agency</u>
ASSETS	
Cash & Equivalents	\$ 16,202
<i>Total Assets</i>	<u>16,202</u>
LIABILITIES	
Accounts Payable	1,238
Undistributed Receipts	14,964
<i>Total Liabilities</i>	<u>\$ 16,202</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 fund:

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 government reports the following major proprietary fund:

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

Additionally, the government reports the following fund type:

The *agency funds* account for the collection and disbursements of taxes and other monies due to other units of government and individuals.

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

Township of Salem

Notes to the Financial Statements

services. All revenues and expenses are 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.
- 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.

Township of Salem

Notes to the Financial Statements

- 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 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.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, there was no interest expense capitalized as part of the cost of assets under construction.

Township of Salem

Notes to the Financial Statements

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:

	<u>Years</u>
Sewer System	40
Building and Improvements	20
Machinery and Equipment	8 - 20
Office Furnishings	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 (20) 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 (20) days. Unused personal days, over the twenty (20) 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 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.

Township of Salem

Notes to the Financial 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 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.

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 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.

Township of Salem

Notes to the Financial Statements

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.

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.

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.

Subsequent Events

Subsequent events have been evaluated through September 14, 2018, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would have a significant impact on the financial condition of the Township.

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 incurred the following expenditures in excess of the amount appropriated during the year ended March 31, 2018:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Government			
Building and Grounds	\$ 145,800	\$ 148,763	\$ (2,963)
Community and Economic Development			
Planning and Zoning	68,117	77,010	(8,893)

Township of Salem

Notes to the Financial Statements

Note 3 - Cash and Investments

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

Following is a reconciliation of deposit and investment balances as of March 31, 2018:

Statement of Net Position	
Cash and Cash Equivalents	\$ 6,788,404
Investments	8,470,463
Statement of Fiduciary Assets and Liabilities	
Cash and Cash Equivalents	<u>16,202</u>
Total Deposits and Investments	<u>\$ 15,275,069</u>
Deposits and Investments	
Checking and Savings Accounts	\$ 5,377,660
Pooled Accounts	1,426,121
Investments	8,470,463
Cash on Hand	<u>825</u>
Total	<u>\$ 15,275,069</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, \$4,990,087 of the Township's bank balance of \$5,431,388 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 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, 2018, none of the Township's investments were exposed to risk since the securities are held in the Township's name by the counterparty.

Township of Salem

Notes to the Financial Statements

Following is a summary of the Township's investments as of March 31, 2018:

U.S. Agencies	\$ 3,285,302
Municipal Bonds	2,459,649
Certificates of Deposit	2,459,585
Asset Backed Securities	265,927
	<u>\$ 8,470,463</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 Agency	Rating	FMV
Not Rated	N/A	\$ 2,948,926
Moody	AAA	2,669,280
Standard and Poor's	AA-	1,462,911
Moody	AA1	996,738
Standard and Poor's	AA+	392,608
		<u>\$ 8,470,463</u>

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:

	Certificates of Deposit	Investments
Due Within One Year	\$ 488,481	\$ 872,736
Due in 1-5 Years	1,971,104	4,872,215
Due in 6+ Years	-	265,927
	<u>\$ 2,459,585</u>	<u>\$ 6,010,878</u>

Township of Salem

Notes to the Financial Statements

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.
- 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, 2018, the fair value measurements of investments and cash equivalents were as follows:

	Level 1	Level 2	Level 3	Fair Value
Investment Type				
Certificates of Deposit	\$ 488,481	\$ 1,971,104	\$ -	\$ 2,459,585
Municipal Bonds	2,459,649	-	-	2,459,649
U.S. Agencies	-	3,551,229	-	3,551,229
Total Investments	<u>\$ 2,948,130</u>	<u>\$ 5,522,333</u>	<u>\$ -</u>	<u>\$ 8,470,463</u>

Township of Salem

Notes to the Financial Statements

Note 4 - Capital Assets

Capital asset activity for the year ended March 31, 2018 was as follows:

Governmental Activities	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	246,274	-	-	246,274
Machinery and Equipment	1,491,454	-	-	1,491,454
Office Furnishings and Equipment	127,934	-	-	127,934
Total capital assets being depreciated	1,865,662	-	-	1,865,662
Less accumulated depreciation				
Buildings and Improvements	130,705	7,718	-	138,423
Machinery and Equipment	1,007,186	37,127	-	1,044,313
Office Furnishings and Equipment	109,414	3,219	-	112,633
Total accumulated depreciation	1,247,305	48,064	-	1,295,369
Capital assets being depreciated, net	618,357	(48,064)	-	570,293
Governmental activities capital assets, net	\$ 4,006,142	\$ (48,064)	\$ -	\$ 3,958,078
Business-type Activities	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated				
Land	\$ 259,732	\$ -	\$ -	\$ 259,732
Capital assets being depreciated				
Infrastructure	2,742,722	-	-	2,742,722
Less accumulated depreciation				
Infrastructure	1,227,032	69,818	-	1,296,850
Capital assets being depreciated, net	1,515,690	(69,818)	-	1,445,872
Business-type activities capital assets, net	\$ 1,775,422	\$ (69,818)	\$ -	\$ 1,705,604

Depreciation expense was charged to programs of the Township as follows:

Governmental Activities

General Government	\$ 15,695
Public Safety	32,369
<i>Total Governmental Activities</i>	<u>\$ 48,064</u>

Business-type Activities

Sewer	<u>\$ 69,818</u>
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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	\$ 170,508
Less related expenditures:	
Direct Cost	125,112
Estimated indirect costs	<u>531</u>
Current year excess (shortfall)	44,865
Cumulative shortfall, beginning of year	<u>(340,211)</u>
Cumulative shortfall, end of year	<u>\$ (295,346)</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, 2018, 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 Debt

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 are due in annual installments of \$55,000 to \$60,000 through 2022 with interest at 3.00% to 5.00%.

Township of Salem

Notes to the Financial Statements

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

	March 31, 2017	Additions	Reductions	March 31, 2018	Due Within One Year
Governmental activities					
Compensated Absences	\$ 9,555	\$ -	\$ 5,238	\$ 4,317	\$ -
Business-type activities					
2002/2003 Expansion	275,000	-	55,000	220,000	55,000
Total Primary Government	<u>\$ 294,110</u>	<u>\$ -</u>	<u>\$ 60,238</u>	<u>\$ 224,317</u>	<u>\$ 55,000</u>

Future debt requirements at March 31, 2018 were as follows:

For the year ended March 31,	Business-type Activities		
	Principal	Interest	Total
2019	\$ 55,000	\$ 9,598	\$ 64,598
2020	55,000	6,875	61,875
2021	55,000	4,125	59,125
2022	55,000	1,375	56,375
Totals	<u>\$ 220,000</u>	<u>\$ 21,973</u>	<u>\$ 241,973</u>

Note 8 - 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, 2018, host revenue and gas royalties were \$762,277 and \$1,333,490, 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, 2018 relating to this agreement was \$14,312.

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 9 - 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

Township of Salem

Notes to the Financial Statements

resolution of these matters will not have a material adverse effect on the financial condition of the government.

Note 10 - Commitments

On February 13, 2018, the Michigan Economic Development Corporation (the "MEDC") signed a grant with the Township for a sum not to exceed \$10,000,000 for public infrastructure, including water and sanitary sewer services. The start date for this grant was January 1, 2018, and the end date is August 31, 2018. The developers will add a maximum of \$13,525,000 to the budget of the Township's projects. The first advance of \$5,000,000 was provided to the Township during the March 31, 2018 fiscal year. The Township had not expended any of the grant monies as of March 31, 2018.

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, 2018

	Budgeted Amounts			Variance Positive (Negative) Final to Actual
	Original	Final	Actual	
Revenues				
Licenses and Permits	\$ 140,000	\$ 140,000	\$ 170,508	\$ 30,508
State Revenue Sharing	434,000	434,000	469,837	35,837
Charges for Services	8,200	8,200	12,617	4,417
Host Fees	700,000	700,000	762,277	62,277
Gas Royalties	1,000,000	1,000,000	1,333,490	333,490
Compost Host Fees	20,000	20,000	14,312	(5,688)
Franchise Fees	107,000	107,000	122,447	15,447
Miscellaneous Revenue	287,530	287,530	80,574	(206,956)
Investment Earnings	100,000	100,000	8,678	(91,322)
Total Revenues	2,796,730	2,796,730	2,974,740	178,010
Expenditures				
General Government				
Township Board	34,582	34,582	32,970	1,612
Supervisor	68,835	71,835	71,131	704
Elections	24,300	20,390	20,012	378
Accounting and Audit	12,155	12,155	12,180	(25)
Assessor	69,050	69,050	69,764	(714)
Clerk	77,022	83,932	69,859	14,073
Board of Review	4,142	4,142	2,032	2,110
Treasurer	83,962	83,962	80,041	3,921
Attorney	100,000	100,000	75,483	24,517
Building and Grounds	145,800	145,800	148,763	(2,963)
Total General Government	619,848	625,848	582,235	43,613
Public Safety				
Police	325,000	325,000	319,711	5,289
Fire	503,200	503,200	441,053	62,147
Total Public Safety	828,200	828,200	760,764	67,436
Public Works				
Highways, Streets and Drains	590,000	710,000	616,507	93,493
Community and Economic Development				
Land Preservation and Conservation	190,800	182,800	126,143	56,657
Planning and Zoning	53,117	68,117	77,010	(8,893)
Total Community and Economic Development	243,917	250,917	203,153	47,764
Other Functions	514,765	882,765	137,634	745,131
Total Expenditures	2,796,730	3,297,730	2,300,293	997,437
Excess (Deficiency) of Revenues				
Over Expenditures	--	(501,000)	674,447	1,175,447
Net Change in Fund Balance	--	(501,000)	674,447	1,175,447
Fund Balance at Beginning of Period	9,619,830	9,619,830	9,619,830	--
Fund Balance at End of Period	\$ 9,619,830	\$ 9,118,830	\$ 10,294,277	\$ 1,175,447



GABRIDGE & CO

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September 14, 2018

Board of Trustees of
Salem Township

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 for the year ended March 31, 2018. 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 April 17, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

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 of Salem are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended March 31, 2018. We noted no transactions entered into by the governmental unit 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 estimate affecting the Township of Salem's financial statements was:

- 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 in determining that it is reasonable in relation to the financial statements taken as a whole.

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 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, professional standards define a disagreement with management as 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 14, 2018.

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 the governmental unit'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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

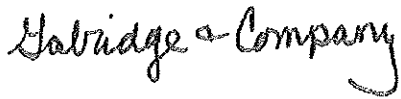
Other Matters

We applied certain limited procedures to management's discussion and analysis and the 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 response 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 of Use

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

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in dark ink and is positioned above the printed name of the company.

Gabridge & Company, PLC
Grand Rapids, MI