

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Charter Township of Fenton	County Genesee
Fiscal Year End 12/31/06	Opinion Date 04/23/07	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

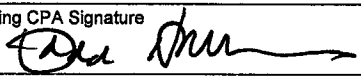
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Plante & Moran, PLLC		Telephone Number 810-767-5350	
Street Address 111 East Court Street, Suite 1A		City Flint	State MI
			Zip 48502
Authorizing CPA Signature 	Printed Name Tadd Harburn	License Number 1101014134	

Financial Statements

**Charter Township of Fenton
Genesee County, Michigan**

December 31, 2006

**Charter Township of Fenton
Financial Statements
For the Year Ended December 31,2006**

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**Charter Township of Fenton
 Financial Statements
 For the Year Ended December 31, 2006**

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**Charter Township of Fenton
Genesee County, Michigan
List of Elected Officials
December 31, 2006**

Bonnie K. Mathis, Supervisor

Robert E. Krug, Clerk

Patrick J. Carmody, Treasurer

Tony L. Brown, Trustee

Mark A. Goupil, Trustee

John R. Tucker, Trustee

Lorraine M. Zimmer, Trustee



Plante & Moran, PLLC

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Independent Auditors' Report

Board of Trustees
Charter Township of Fenton
Fenton, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Fenton (Township) as of and for the year then ended December 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Fenton at December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township's basic financial statements. The introductory section and the other supplemental information, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

As discussed in Note V, the Township changed its method of accounting for infrastructure funded through special assessments, as well as the resources to repay the special assessment debt.

Plante & Moran, PLLC

April 23, 2007

Management's Discussion and Analysis

Charter Township of Fenton Management's Discussion and Analysis

This section of the Fenton Township annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year that ended on December 31, 2006. Please read it in conjunction with the Township's financial statements, which follow this section.

Financial Highlights

- The Township's Total Net Assets were \$11.8 million at December 31, 2006. Unrestricted net assets were \$858,670.
- During the year, the Township's expenditures were \$119,963 less than the \$3,590,425 generated in taxes and other revenues for all governmental funds combined.
- General Fund revenue exceeded expenditures by \$60,201. The year-end fund balance of \$502,157 represents approximately 4 months of expenditures, which is within the target range of 2½ to 4 months.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township government, reporting the Township's operations in more detail than the government-wide statements.
- The governmental fund statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the sewer system that the government operates like a business.
- Fiduciary fund statements provide information about the financial relationships where the Township acts as an agent, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Table 1 summarizes the major features of the Township's financial statements, including the portion of the Township government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Table 1 Major Features of Fenton Township's
Government-wide and Fund Financial Statements
Fund Statements**

Type of Statements	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Township government (except fiduciary funds)	The activities of the Township that are not proprietary or fiduciary, such as police, fire, and parks	Activities the Township operates similar to private businesses: the sewer system	Instances in which the Township is the trustee or agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Agency funds statement of assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term, the Township's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	Increases and decreases to assets and liabilities

Government-wide Statements

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets – the difference between the Township's assets and liabilities – is one way to measure the Township's financial health or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township you need to consider additional non-financial factors such as changes in the Township's property tax base and the condition of the Township's roads.

The government-wide financial statements of the Township are divided into two categories:

- Governmental activities – Most of the Township's basic services are included here, such as the police, fire, public works, parks, and general administration. Property taxes and state and federal grants finance most of these activities.
- Business-type activities – The Township charges fees to customers to help it cover the costs of certain services it provides. The Township's sewer system is the only business-type activity.

Fund Financial Statements

The fund financial statements provide more detailed information about the Township's most significant funds – not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law.
- The Township Board establishes other funds to control and manage money for particular purposes.

The Township has three kinds of funds:

- Governmental funds – Most of the Township's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between the two sets of statements. The Township has four governmental funds: the General Fund, the Fire Fund, the Waste Collection Fund and the Mosquito Control Fund.
- Proprietary funds – Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. The Township has only one proprietary fund, the Sewer Fund.

- Fiduciary funds – The Township is the fiduciary, for assets held on the behalf of others. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Township’s fiduciary activities are reported in a separate agency fund balance sheet. We exclude these activities from the Township’s government-wide financial statements because the Township cannot use these assets to finance its operations.

Financial Analysis of the Township as a Whole

Net assets

The Township’s governmental activities net assets are \$2.5 million. The unrestricted governmental activities net assets are \$374,555. Business-type activities net assets are \$9.3 million with \$8.8 million being invested in capital assets net of related debt.

Business-Type Activities

Operating revenues of the Township’s business-type activities increased \$1.4 million from the prior year of \$2,363,541 to the current year total of \$3,799,654 as a result of an increase in user fees. Operating expenses increased by \$210,373. Net changes from non-operating activities decreased from expense of \$297,321 to an expense of \$362,866, due primarily to a decrease in connection fee revenue and a decrease in interest income.

Charter Township of Fenton's Net Assets (Thousands)

	Government Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 3,418	\$ 3,418	\$ 3,621	\$ 2,739	\$ 7,039	\$ 6,157
Capital assets	2,756	2,910	35,186	32,759	37,942	35,669
Total assets	6,174	6,328	38,807	35,498	44,981	41,826
Other liabilities	2,523	2,588	6,694	2,143	9,217	4,731
Long-term liabilities outstanding	1,162	1,417	22,851	24,365	24,013	25,782
Total liabilities	3,685	4,005	29,545	26,508	33,230	30,513
Net assets:						
Invested in capital assets, net of related debt	1,615	1,191	8,787	8,659	10,402	9,850
Restricted	500	422	-	-	500	422
Unrestricted	374	710	475	331	849	1,041
Total net assets	\$ 2,489	\$ 2,323	\$ 9,262	\$ 8,990	\$ 11,751	\$ 11,313

Charter Township of Fenton's Changes in Net Assets (Thousands)

	Government Activities		Business-type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,148	\$ 1,119	\$ 3,800	\$ 2,364	\$ 4,948	\$ 3,483
Operating grants and contributions	35	21	-	-	35	21
Capital grants and contributions	-	95	406	653	406	748
General revenues:						
Property taxes	1,222	1,169	92	92	1,314	1,261
State shared revenue	899	895	-	-	899	895
Other	241	236	27	93	268	329
Total revenues	3,545	3,535	4,325	3,202	7,870	6,737
Expenses:						
Legislative	65	69	-	-	65	69
General government	1,142	1,142	-	-	1,142	1,142
Public safety	1,163	1,065	-	-	1,163	1,065
Public works	896	982	-	-	896	982
Recreation and cultural	19	19	-	-	19	19
Interest on long-term debt	94	91	-	-	94	91
Water and sewer	-	-	4,053	3,842	4,053	3,842
Total expenses	3,379	3,368	4,053	3,842	7,432	7,210
Increase (decrease) in net assets	166	167	272	(640)	438	(473)
Net assets – 1/1/2006	2,323	2,156	8,990	9,630	11,313	11,786
Net assets – 12/31/2006	\$ 2,489	\$ 2,323	\$ 9,262	\$ 8,990	\$ 11,751	\$ 11,313

Financial Analysis of the Township's Funds

As the Township completed the year, its General Fund reported a fund balance of \$502,157. This was an increase of \$60,201 from the prior year. The Township's General Fund revenues excluding other financing sources were \$2.18 million this year. Property taxes were \$731,464 or 34% of the total revenues. Federal grants and State revenue sharing made up \$938,795 or 43% of the total revenue. The remaining 23% of General Fund revenues are comprised mostly of Charges for Services, Fines & Forfeits and Interest Revenue.

Capital Assets

At the end of 2006, the Township had invested \$10.402 million in capital assets, net of related debt. This amount complies with methods established by the Governmental Accounting Standards Board (GASB).

Charter Township of Fenton's Capital Assets
(Thousands - net of depreciation)

	Government Activities		Business-type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 60	\$ 60	\$ -	\$ -	\$ 60	\$ 60
Land improvements	138	150	-	-	138	150
Construction in progress	-	-	4,227	904	4,227	904
Buildings	1,620	1,630	37	38	1,657	1,668
Machinery and equipment	580	688	-	-	580	688
Furniture and fixtures	2	4	-	-	2	4
Road improvements	356	378	-	-	356	378
Sewer infrastructure	-	-	30,923	31,817	30,923	31,817
Total	\$ 2,756	\$ 2,910	\$ 35,187	\$ 32,759	\$ 37,943	\$ 35,669

Long-term Debt

At year-end the Township had \$1,468 million in governmental long-term debt, including \$255,000 in special assessment debt. In the Sewer Enterprise Fund the Township had \$28.365 million in bonds outstanding.

Limitations on Debt

The State limits the amount of general obligation debt the Township can issue to 10% of the assessed value of all taxable property within the Township's corporate limits. Our legal debt limit is \$86.967 million. Debt issued for sewer activities and special assessments are exempt from the 10% limitation.

Contacting the Township's Financial Administration

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Fenton Township Office.

Basic Financial Statements

Government-wide Financial Statements

Charter Township of Fentor
Statement of Net Assets
December 31, 2006

Primary Government

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,541,860	\$ 552,847	\$ 2,094,707
Receivables (net of allowances for uncollectibles)	1,879,391	1,070,760	2,950,151
Internal balances	(2,950)	2,950	-
Deferred charges	-	29,250	29,250
Restricted assets:			
Cash with agent	-	-	-
Capital assets, not being depreciated	60,690	4,227,421	4,288,111
Capital assets (net of accumulated depreciation)	2,695,538	30,959,743	33,655,281
Total assets	<u>6,174,529</u>	<u>36,842,971</u>	<u>43,017,500</u>
Liabilities			
Accounts payable	251,793	371,907	623,700
Accrued interest payable	-	213,997	213,997
Deposits	33,500	-	33,500
Due to other governmental unit:	154,981	-	154,981
Unearned revenue	1,775,692	594,583	2,370,275
Noncurrent liabilities			
Current portion of debt	307,015	5,513,665	5,820,680
Long term portion of debt	1,161,724	22,850,913	24,012,637
Total liabilities	<u>3,684,705</u>	<u>29,545,065</u>	<u>33,229,770</u>
Net Assets			
Invested in capital assets, net of related debt	1,615,287	8,786,851	10,402,138
Restricted for:			
Fire operations	343,865	-	343,865
Waste collection	83,105	-	83,105
Mosquito	73,012	-	73,012
Unrestricted	374,555	475,320	849,875
Total net assets	<u><u>\$ 2,489,824</u></u>	<u><u>\$ 9,262,171</u></u>	<u><u>\$ 11,751,995</u></u>

The Notes to Financial Statements are an Integral Part of this Statement.

**Charter Township of Fenton
Statement of Activities
For the Year Ended December 31, 2006**

Functions/Program:	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
Legislative	\$ 65,080	\$ -	\$ -	\$ -
General government	1,141,545	180,605	-	-
Public safety	1,162,746	228,156	-	-
Public works	895,618	739,537	6,436	-
Recreation and cultural	19,579	-	28,127	-
Interest on long term debt	93,651	-	-	-
Total governmental activities	3,378,219	1,148,298	34,563	-
Business-type activities				
Sewer	4,052,834	3,799,654	-	406,053
Total business-type activities	4,052,834	3,799,654	-	406,053
Total primary government	\$ 7,431,053	\$ 4,947,952	\$ 34,563	\$ 406,053

General revenues
Property taxes
State shared revenues
Unrestricted investment earnings
Franchise fees

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

The Notes to Financial Statements are an Integral Part of this Statement.

Net (Expense) Revenue and Changes in Net Asset
Primary Government

Governmental Activities	Business-type Activities	Total
\$ (65,080)	\$ -	\$ (65,080)
(960,940)	-	(960,940)
(934,590)	-	(934,590)
(149,645)	-	(149,645)
8,548	-	8,548
(93,651)	-	(93,651)
(2,195,358)	-	(2,195,358)
-	152,873	152,873
-	152,873	152,873
(2,195,358)	152,873	(2,042,485)
1,222,864	91,824	1,314,688
899,188	-	899,188
73,038	27,060	100,098
167,511	-	167,511
2,362,601	118,884	2,481,485
167,243	271,757	439,000
2,322,581	8,990,414	11,312,995
\$ 2,489,824	\$ 9,262,171	\$ 11,751,995

Fund Financial Statements

**Charter Township of Fentor
Governmental Fund
Balance Sheet
December 31, 2006**

	General Fund	Waste Collection Fund	Fire Fund
Assets			
Cash and equivalents	\$ 797,828	\$ 197,097	\$ 378,992
Receivables:			
Accounts	44,598	219	-
Taxes	250,716	-	-
Special assessments	13,463	532,333	449,930
Due from other government:	308,698	-	24,200
	\$ 1,415,303	\$ 729,649	\$ 853,122
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 190,097	\$ 51,614	\$ 10,082
Deposits payable	33,500	-	-
Due to other government:	154,981	-	-
Due to other funds	2,950	-	-
Unearned revenue	531,618	594,930	500,500
	913,146	646,544	510,582
Fund Balances			
Unreserved and undesignated, reported in			
General fund	502,157	-	-
Special revenue funds	-	83,105	342,540
Debt service fund	-	-	-
	502,157	83,105	342,540
Total liabilities and fund balances	\$ 1,415,303	\$ 729,649	\$ 853,122

The Notes to Financial Statements are an Integral Part of this Statement.

Non-Major Funds	Total Governmental Funds
\$ 167,943	\$ 1,541,860
50	44,867
-	250,716
255,184	1,250,910
-	332,898
\$ 423,177	\$ 3,421,251

\$ -	\$ 251,793
-	33,500
-	154,981
-	2,950
271,668	1,898,716
271,668	2,341,940

-	502,157
73,012	498,657
78,497	78,497
151,509	1,079,311
\$ 423,177	\$ 3,421,251

**Charter Township of Fentor
Governmental Fund
Reconciliation of the Balance Sheet
to the Statement of Net Assets
Year Ended December 31, 2006**

Fund balances reported in governmental fund	\$ 1,079,311
Amounts reported for governmental activities in the statement of net assets are different because	
Capital assets used in governmental activities are not financial resources and are not reported in the fund:	2,756,228
Long-term liabilities, including bond and contract payables, are not due and payable in the current period and therefore are not reported in the funds	(1,468,739)
Special assessment receivables are expected to be collected over several years, and are not available to pay for current year expenditure:	<u>123,024</u>
Net assets of governmental activities:	<u><u>\$ 2,489,824</u></u>

The Notes to Financial Statements are an Integral Part of this Statement.

**Charter Township of Fenton
Governmental Funds
Statement of Revenue, Expenditures, and Changes in Fund Balances
Year Ended December 31, 2006**

	General Fund	Waste Collection Fund	Fire Fund
Revenue			
Taxes and collection fees	\$ 731,464	\$ -	\$ -
Special assessments	-	591,511	491,400
Licenses and permits	302,729	-	-
Federal revenue	28,127	-	-
State revenue	910,667	-	-
Charges for services	152,480	-	87,895
Fines and forfeits	15,915	-	-
Interest	14,252	16,096	11,133
Other revenue	24,650	-	-
Total revenue	<u>2,180,284</u>	<u>607,607</u>	<u>590,428</u>
Expenditures			
Current:			
Legislative	79,307	-	-
General government	1,015,502	-	-
Public safety	589,054	-	514,421
Public works	214,730	617,444	-
Recreation and cultural	5,352	-	-
Other	216,138	-	-
Debt Service:			
Prinicpal	-	-	-
Interest	-	-	-
Total expenditures	<u>2,120,083</u>	<u>617,444</u>	<u>514,421</u>
Excess of Revenue Over (Under) Expenditure	<u>60,201</u>	<u>(9,837)</u>	<u>76,007</u>
Fund Balances - Beginning of year	<u>441,956</u>	<u>92,942</u>	<u>266,533</u>
Fund Balances -End of year	<u><u>\$ 502,157</u></u>	<u><u>\$ 83,105</u></u>	<u><u>\$ 342,540</u></u>

The Notes to Financial Statements are an Integral Part of this Statement.

Non-Major Funds	Total Governmental Funds
\$ -	\$ 731,464
192,989	1,275,900
-	302,729
-	28,127
-	910,667
-	240,375
-	15,915
19,117	60,598
-	24,650
<hr/> 212,106	<hr/> 3,590,425
-	79,307
151,906	1,167,408
-	1,103,475
-	832,174
-	5,352
-	216,138
50,000	50,000
16,608	16,608
<hr/> 218,514	<hr/> 3,470,462
<hr/> (6,408)	<hr/> 119,963
<hr/> 157,917	<hr/> 959,348
<hr/> \$ 151,509	<hr/> \$ 1,079,311

**Charter Township of Fentor
Governmental Fund:
Reconciliation of the Statement of Revenue
Expenditures, and Changes in Fund Balances of Governmental Fund
to the Statement of Activities:
Year Ended December 31, 2006**

Net Change in Fund Balances - Total Governmental Fund	\$	119,963
<p>Amounts reported for governmental activities in the statement of activities are different because</p>		
<p>Governmental funds report capital outlays as expenditures; however in the statement of activities these costs are allocated over their estimated useful lives as depreciation</p>		
- Capital Outlay		63,566
- Depreciation expense		(217,696)
<p>The payment of principal on long-term debt (e.g., bonds) consume current financial resources of governmental funds. However, on the statement of net assets, repayments of principal are recorded as a reduction to long term debt payable and do not affect net assets</p>		
		249,579
<p>Increase in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statement until they come due for payment</p>		
		(3,206)
<p>Revenues are recorded in the statement of activities when earned: they are not reported in the funds until collected or collectible within 60 days of year end</p>		
		(44,963)
Change in Net Assets of Governmental Activities	\$	167,243

The Notes to Financial Statements are an Integral Part of this Statement.

**Charter Township of Fentor
Proprietary Fund
Statement of Net Assets
December 31, 2006**

	Sewer Enterprise Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 552,847
Receivables:	
Accounts	20,898
Taxes	455,017
Special assessments	4,931
User fees	518,894
Connection fees	48,955
Accrued interest	22,065
Due from other funds	2,950
Prepaid items	-
Total current assets	1,626,557
Noncurrent assets:	
Restricted assets - cash	1,964,265
Capital assets:	
Sewer utility system	42,895,821
Construction in progress	4,227,421
Less accumulated depreciation	11,936,078
Net capital assets	35,187,164
Deferred loss on bond refunding	29,250
Total noncurrent assets	37,180,679
Total assets	38,807,236
Liabilities	
Current liabilities:	
Accounts payable	371,907
Accrued interest	213,997
Unearned revenue	594,583
General obligation contracts payable-current	5,513,665
Total current liabilities	6,694,152
Noncurrent liabilities	
General obligation contracts payable - long term	22,850,913
Total liabilities	29,545,065
Net assets	
Invested in capital assets, net of related debt	8,786,851
Unrestricted	475,320
Total net assets	\$ 9,262,171

The Notes to Financial Statements are an Integral Part of this Statement.

Charter Township of Fenton
Proprietary Fund
Statement of Revenue, Expenses, and Changes in Net Assets
Year Ended December 31, 2006

	<u>Sewer Enterprise Fund</u>
Operating revenue	
Charges for services	\$ 3,799,654
Operating expenses	
Contractual services:	
Sewer treatment fees	1,262,360
Other	612,720
Administrative expense	135,000
Depreciation	923,053
Utilities	78,041
Billing fees and postage	6,976
Equipment repairs and maintenance	96,906
Insurance	16,832
Miscellaneous	33,143
Total operating expenses	<u>3,165,031</u>
Operating Income	634,623
Nonoperating Revenue (Expenses)	
Property taxes	91,824
Interest income:	
Connection fees	4,965
Savings account and certificates of deposit	20,384
Special assessments	1,711
Bond interest expense	(884,278)
Bond agent fees	(3,525)
Income (Loss)- before capital contributions	<u>(134,296)</u>
Capital contributions - tap in fees	406,053
Change in Net Assets	271,757
Net Assets - Beginning of year	<u>8,990,414</u>
Net Assets - End of year	<u><u>\$ 9,262,171</u></u>

The Notes to Financial Statements are an Integral Part of this Statement.

**Charter Township of Fenton
Proprietary Fund
Statement of Cash Flows
Year Ended December 31, 2006**

	Sewer Enterprise Fund
Cash Flows from Operating Activities:	
Cash received from customers	\$ 3,905,399
Cash payments to suppliers for goods and services	(2,118,942)
Net cash provided by operating activities	1,786,457
Cash Flows from Capital and Related Financing Activities:	
Principal payments on bonds	(1,468,980)
Bond proceeds	4,000,000
Interest and paying agent fees paid on bonds	(863,314)
Property taxes received	(92,515)
Connection fees - customers	433,479
Purchase of capital assets	(3,351,372)
Interest received on special assessments and connection fee	6,676
Net cash used in capital and related financing activities	(1,336,026)
Cash Flows from Investing Activities:	
Interest received on investment	20,384
Net Increase in Cash and Cash Equivalents	470,815
Cash and Cash Equivalent: - Beginning of year	2,046,297
Cash and Cash Equivalents -End of year	\$ 2,517,112
 Balance Sheet Classification of Cash and Cash Equivalents:	
Cash and cash equivalents	\$ 552,847
Restricted assets - cash	1,964,265
Total cash and cash equivalents	\$ 2,517,112
 Reconciliation of Operating Income to Net Cash from operating activities:	
Operating income	\$ 634,623
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation expense	923,053
Changes in assets and liabilities:	
Receivables	(290,374)
Due from other funds	1,428
Prepays	11,830
Accounts payable	111,206
Unearned revenue	394,691
Total adjustments	1,151,834
Net cash provided by operating activities	\$ 1,786,457

Noncash Operating and Financing Activities:

Interest expense of \$19,500 was recognized in 2006 as the deferred loss on refunding was amortized.

The Notes to Financial Statements are an Integral Part of this Statement.

**Charter Township of Fenton
Fiduciary Funds
Statement of Fiduciary Net Assets
December 31, 2006**

	<u>Agency Funds</u>
Assets	
Cash and equivalents	\$ 2,794,363
Total assets	<u>\$ 2,794,363</u>
 Liabilities	
Accounts payable	\$ 6,477
Deposits payable	203,730
Due to other governments	10,820
Undistributed taxes	2,573,336
Total liabilities	<u>\$ 2,794,363</u>

The Notes to Financial Statements are an Integral Part of this Statement.

Notes to Basic Financial Statements

Charter Township of Fenton
Notes to Financial Statements
December 31, 2006

I. Summary of significant accounting policies

A. Reporting entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Charter Township of Fenton and any component units. Accounting principles require that a component unit be included in the Township's reporting entity when there exists a significant operational or financial relationship with the Township. The Township had no component units at December 31, 2006.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Government 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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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.

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

Charter Township of Fenton
Notes to Financial Statements
December 31, 2006

I. Summary of significant accounting policies – (continued)

C. Measurement focus, basis of accounting, and financial statement presentation – (continued)

Property taxes, state revenue sharing, franchise taxes, licenses, 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 Township 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 required to be accounting for in another fund.

The *waste collection fund* is used to account for the customer charges which are to be used to pay contracted services for rubbish collection.

The *fire fund* is used to account for the revenues and expenditures related to fire protection.

The Township reports the following major proprietary fund:

The Sewer Disposal System is a separate fund maintained for the operations of the sewage pumping system that transmit the sewage to Genesee County's treatment plant.

Additionally, the government reports the following fund types:

The Township reports a Special Assessment Debt Service Fund which shows the principal and interest payments of special assessment debt.

Agency Funds account for assets held by the Township as an agent for individuals, private organization and other governments. Agency funds are reported as fiduciary funds and are not included in the government-wide Statement of Net Assets and Statement of Activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *options* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector guidance.

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 government's water and 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.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Charter Township of Fenton
Notes to Financial Statements
December 31, 2006

I. Summary of significant accounting policies – (continued)

C. Measurement focus, basis of accounting, and financial statement presentation – (continued)

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

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The Township's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-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 and property tax receivables are shown net of an allowance for uncollectibles.

The Township levies property taxes on December 1 each year, and the taxes are payable without penalty through February 28. These taxes become liens on the property at the levy date. However, the revenues generated by the tax levy cannot be appropriated until the budget year following the levy date. The asset created by the levy on December 1 is recorded in the appropriate fund as current taxes receivable. In addition, a deferred revenue offset account is recorded on the fund financial statement recognizing the asset as unavailable for current appropriation.

The 2005 taxable valuation of the Township totaled \$685 million, on which taxes levied consisted of 0.7242 mills for operating purposes, and 0.1332 mills for debt service. This resulted in \$494,552 for operating, and \$91,338 for debt service. These amounts are recognized in the respective General and Sewer Fund financial statements as tax revenue.

Charter Township of Fenton
Notes to Financial Statements
December 31, 2006

I. Summary of significant accounting policies – (continued)

D. Assets, liabilities, and net assets or equity – (continued)

3. 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 columns 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 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	15
Building and improvements	40
Sewer system infrastructure	50
Machinery and equipment	3-15
Furniture and fixtures	5

4. Compensated absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and the portion of sick that is determined to be payable are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they are due and payable, for example, as a result of employee resignations and retirements.

5. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, 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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Charter Township of Fenton
Notes to Financial Statements
December 31, 2006

I. Summary of significant accounting policies – (continued)

D. Assets, liabilities, and net assets or equity – (continued)

5. Long-term obligations – (continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

II. Stewardship, compliance, and accountability

A. Budgets

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

1. The Township Board prepares a preliminary operating budget covering the General Fund and the Special Revenue Funds in accordance with accounting principles generally accepted in the United States of America for presentation at a public hearing.
2. A public hearing is held in conjunction with a regular board meeting.
3. The Township Board adopts the budget on the departmental level at a regular board meeting.
4. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances at December 31, 2006, has not been calculated.
5. Presented budgeted amounts are as originally adopted and as amended by the Township Board.

**Charter Township of Fenton
Notes to Financial Statements
December 31, 2006**

II. Stewardship, compliance, and accountability – (continued)

B. Construction code fees

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. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall at January 1, 2006		\$330,912
Current year building permit revenue	\$131,557	
Related expenses:		
Direct costs	\$98,034	
Estimated indirect costs	158,742	
Total construction code expenses	256,776	
Current year shortfall		125,219
Shortfall at December 31, 2006		\$456,131

III. Detailed notes on all funds

A. Deposits and investments

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers’ acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated three banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Township’s deposits and investment policies are in accordance with statutory authority.

The Township’s cash and investments are subject to several types of risk, which are examined in more detail below:

**Charter Township of Fenton
Notes to Financial Statements
December 31, 2006**

III. Detailed notes on all funds – (continued)

A. Deposits and investments – (continued)

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Township had \$5,009,478 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial credit risk of investments:

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. The Township does not have a policy for custodial credit risk. At year end, \$3,053,156 of investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name.

Interest rate risk of investments:

Interest rate risk is the risk that the value of the investments will decrease as a result of a rise in interest rates. The Township's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Mutual fund	\$3,053,156	Not available

B. Receivables

Receivables as of year end for the Township's individual major funds and nonmajor in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Waste Collection Fund</u>	<u>Fire Fund</u>	<u>Sewer Disposal Fund</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables:						
Taxes	\$250,716	\$ -	\$ -	\$ 455,017	\$ -	\$ 705,733
Accounts	44,598	219	-	588,747	50	633,614
Special assessment	13,463	532,333	449,930	4,931	255,184	1,255,841
Intergovernmental	308,698	-	24,200	-	-	332,898
Accrued interest	-	-	-	22,065	-	22,065
Gross receivables	617,475	532,552	474,130	1,070,760	255,234	2,950,151
Less: allowance for uncollectibles	-	-	-	-	-	-
Net total receivables	<u>\$617,475</u>	<u>\$532,552</u>	<u>\$474,130</u>	<u>\$1,070,760</u>	<u>\$255,234</u>	<u>\$2,950,151</u>

Charter Township of Fenton
Notes to Financial Statements
December 31, 2006

III. Detailed notes on all funds – (continued)

B. Receivables – (continued)

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes and special assessments	\$ 123,024	\$1,775,692

C. Capital assets

Capital asset activity for the year ended December 31, 2006 was as follows:

	<u>Balance</u> <u>1-1-06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12-31-06</u>
Governmental activities:				
Land	\$ 60,690	\$ -	\$ -	\$ 60,690
Capital assets, being depreciated:				
Land improvements	225,291	3,943	-	229,234
Buildings and improvements	1,948,547	40,422	-	1,988,969
Road improvements	451,827	-	-	451,827
Machinery and equipment	1,862,802	19,201	-	1,882,003
Furniture and fixtures	16,172	-	-	16,172
Total capital assets being depreciated	4,504,639	63,566	-	4,568,205
Less accumulated depreciation for:				
Land improvements	(75,714)	(15,022)	-	(90,736)
Buildings and improvements	(317,998)	(51,081)	-	(369,079)
Road improvements	(73,422)	(22,591)	-	(96,013)
Machinery and equipment	(1,175,241)	(127,213)	-	(1,302,454)
Furniture and fixtures	(12,596)	(1,789)	-	(14,385)
Total accumulated depreciation	(1,654,971)	(217,696)	-	(1,872,667)
Total capital assets being depreciated, net	2,849,668	(154,130)	-	2,695,538
Governmental activities capital assets, net	\$ 2,910,358	\$ (154,130)	\$ -0-	\$ 2,756,228
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 903,705	\$3,323,716	\$ -	\$ 4,227,421
Total capital assets, not being depreciated	903,705	3,323,716	-	4,227,421
Capital assets, being depreciated:				
Buildings	47,990	-	-	47,990
Improvements other than buildings	42,820,175	27,656	-	42,847,831
Total capital assets being depreciated	42,868,165	27,656	-	42,895,821

**Charter Township of Fenton
Notes to Financial Statements
December 31, 2006**

III. Detailed notes on all funds – (continued)

C. Capital assets – (continued)

	<u>Balance</u> <u>1-1-06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12-31-06</u>
Business-type activities: - (continued)				
Less accumulated depreciation for:				
Buildings	(9,598)	(1,600)	-	(11,198)
Improvements other than buildings	(11,003,427)	(921,453)	-	(11,924,880)
Total accumulated depreciation	(11,013,025)	(923,053)	-	(11,936,078)
Total capital assets being depreciated, net	31,855,140	(895,397)	-	30,959,743
Business-type activities capital assets, net	\$32,758,845	\$2,428,319	\$ -0-	\$35,187,164

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

Governmental activities:	
General government	\$ 70,768
Public service	22,591
Public safety	124,337
Total depreciation expense – government activities	\$217,696
Business-type activities:	
Sewer	\$923,053

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of December 31, 2006 is as follows:

Due to/from other funds:

<u>Receivable</u> <u>Fund</u>	<u>Payable</u> <u>Fund</u>	<u>Amount</u>
Sewer	General	\$ 2,950

E. Leases

Operating leases:

The Township has entered into two long-term noncancelable operating leases for copier/fax equipment. The following is a schedule, by year, of future minimum rental payments required under noncancelable operating lease as of December 31, 2006:

2007	\$ 8,717
2008	3,946
2009	589
Total minimum payments required	\$ 13,252

Rental expense for the operating lease for the year ended December 31, 2006 amounted to \$8,761.

**Charter Township of Fenton
Notes to Financial Statements
December 31, 2006**

III. Detailed notes on all funds – (continued)

F. Long-term debt

The Township was a participant in the county-wide sanitary sewer construction program. This program was financed by general obligation bonds issued by Genesee County. The Township was obligated to assume the portion of the total debt for the construction of the sewer system within its boundaries. The sewer contracts are supported by the full faith and credit of the Township. Significant details regarding the Township's obligations under this program, and details regarding other long-term liabilities, are as follows:

General obligation contracts payable at December 31, 2006, in the Sewer Enterprise Fund are comprised of the following individual issues:

	<u>Principal Outstanding December 31, 2006</u>
\$3,370,000 Southwest Extensions Refunding Bonds, Series 1998 contract due in annual installments of \$330,000 to \$395,000 through May 1, 2008, interest at 4.25 to 4.55 percent	\$ 720,000
\$2,531,321 Sewage Disposal System No. 3 Bonds, Series 1998 contract due in annual installments of \$67,355 to \$324,368 through April 1, 2019, interest at 4.5 to 5 percent	2,141,181
\$1,240,000 Ripley Rolston contract due in annual installments of \$75,000 to \$100,000 through October 1, 2017, interest at 5.0 to 5.5 percent	950,000
\$5,957,468 Sewer Disposal System No. 3 - Series 1996A contract due in annual installments of \$324,425 through May 1, 2006, interest at 5.2 percent	
\$4,000,000 Sewage Disposal System No. 3 Bonds Series 2003A contract due in annual installments of \$125,000 to \$250,000 through December 1, 2024, interest at 4.05 percent	3,750,000
\$1,925,000 Torrey and Ponemah Road Arms contract due in annual installments of \$80,000 through May 1, 2008, interest at 5.89 percent	160,000
\$4,600,000 Sewage Disposal System No. 3 Bonds Series 2004B contract due in annual installments of \$100,000 to \$400,000 through April 2024, interest at 5 percent	4,500,000
\$8,000,000 Improvement Projects Series 2004A contract due in annual installments of \$250,000 to \$700,000 through April 2024, interest at 5 percent	7,750,000
\$4,419,010 Refinancing of Sewer Disposal System No. 3 Series 1996A contract due in annual installments of \$25,613 to \$462,733 through May 1, 2016, interest at 2.5 to 5 percent	4,393,397
\$4,000,000 Bond Anticipation Note contract due on August 1, 2007 with interest at 3.79 percent	<u>4,000,000</u>
	<u><u>\$28,364,578</u></u>

**Charter Township of Fenton
Notes to Financial Statements
December 31, 2006**

III. Detailed notes on all funds – (continued)

F. Long-term debt – (continued)

Governmental long-term debt payable at December 31, 2006 consists of the following liabilities:

	<u>Principal Outstanding December 31, 2006</u>
Installment obligation to Genesee County Road Commission payable in annual installments ranging from \$45,183 to \$89,646, through September 1, 2010, plus interest ranging from 5.083 to 6.96 percent, secured by the Township's limited tax full faith and credit	\$ 273,641
Installment purchase obligation to Citizens Bank, payable in annual installments of \$36,000 through November 1, 2007, plus interest at 5.75%, secured by the Township's limited tax full faith and credit	36,000
Installment purchase obligation to the State Bank, payable in annual installments of \$11,750 through July 1, 2010, plus interest at 4.0%, secured by the Township's limited tax full faith and credit	47,000
Installment purchase obligation to The State Bank, payable in annual installments of \$71,300 through April 1, 2017, plus interest at 4.5%, secured by the Township's limited tax full faith and credit	<u>784,300</u>
Total notes payable	<u>1,140,941</u>
Compensated absences	<u>72,798</u>
Special Assessment Debt with Governmental Commitment Bonds payable to Michigan National Bank, payable in annual installments of \$25,000 through March 1, 2009, plus interest ranging from 5.35 to 5.40 percent, secured by the revenues of the Wenwood/Wendell Special Assessment Road Improvement Project and the Township's limited tax full faith and credit	70,000
Special Assessment Debt with Governmental Commitment Bonds payable to Citizens Banking Corporation, payable in annual installments of \$25,000 to \$35,000 through May 1, 2012, plus interest at 5.675 percent, secured by the revenues of the Curtwood Drive/Silver Ridge Road Special Assessment Road Improvement Project and the Township's limited tax full faith and credit	<u>185,000</u>
Total special assessment debt with governmental commitment	<u>255,000</u>
Total general long-term debt	<u>\$1,468,739</u>

Charter Township of Fenton
Notes to Financial Statements
December 31, 2006

III. Detailed notes on all funds – (continued)

F. Long-term debt – (continued)

A summary of changes in general long-term debt during 2006 is as follows:

	<u>Balance</u> <u>1-1-06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12-31-06</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Governmental activities:					
Notes payable:					
Genesee County Road Commission	\$ 354,170	\$ -	\$ 80,529	\$273,641	\$ 77,965
Citizens Bank	72,000	-	36,000	36,000	36,000
The State Bank	58,750	-	11,750	47,000	11,750
The State Bank	855,600	-	71,300	784,300	71,300
Special assessment debt with governmental commitment:					
Standard Federal	95,000	-	25,000	70,000	20,000
Citizens Banking Corporation	210,000	-	25,000	185,000	25,000
Accumulated sick and vacation time	69,592	67,888	64,682	72,798	65,000
	<u>\$1,715,112</u>	<u>\$ 67,888</u>	<u>\$314,261</u>	<u>\$1,468,739</u>	<u>\$307,015</u>
Business activities:					
General obligation contracts:					
Southwest extensions					
Refunding bonds 1998	\$1,115,000	\$ -	\$ 395,000	\$720,000	\$390,000
Sewage Disposal System No. 3					
Bonds 1998	2,235,123	-	93,942	2,141,181	115,212
Ripley Rolston Contract	1,025,000	-	75,000	950,000	75,000
Sewer Disposal System No. 3					
1996A	324,425	-	324,425	-	-
Sewer Disposal System No. 3					
2003A	3,875,000	-	125,000	3,750,000	150,000
Torrey and Ponemah Road Arm					
Contract	240,000	-	80,000	160,000	80,000
Sewage Disposal System No. 3					
2004B	4,600,000	-	100,000	4,500,000	100,000
Improvements Projects Series					
2004A	8,000,000	-	250,000	7,750,000	250,000
Sewer Disposal system No. 3					
1996A – Refunding	4,419,010	-	25,613	4,393,397	353,453
Bond Anticipation Note	-	4,000,000	-	4,000,000	4,000,000
	<u>\$25,833,558</u>	<u>\$4,000,000</u>	<u>\$1,468,980</u>	<u>\$28,364,578</u>	<u>\$5,513,665</u>

**Charter Township of Fenton
Notes to Financial Statements
December 31, 2006**

III. Detailed notes on all funds – (continued)

F. Long-term debt – (continued)

The annual requirements to amortize all debt outstanding as of December 31, 2006, including interest payments, are as follows:

<u>Period Ending December 31</u>	<u>Governmental Activities</u>			<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 242,015	\$ 65,823	\$ 307,838	\$ 5,513,665	\$ 1,121,080	\$ 6,634,745
2008	198,177	53,397	251,574	1,515,570	956,131	2,471,701
2009	183,233	43,817	227,050	1,147,645	898,272	2,045,917
2010	158,233	35,063	193,296	1,191,427	854,453	2,045,880
2011	151,483	27,429	178,912	1,260,600	806,193	2,066,793
2012-2016	391,500	65,164	456,664	7,417,885	3,114,547	10,532,432
2017-2021	71,300	3,209	74,509	6,417,786	1,535,237	7,953,023
2022-2024	-	-	-	3,900,000	283,750	4,183,750
	<u>\$1,395,941</u>	<u>\$293,902</u>	<u>\$1,689,843</u>	<u>\$28,364,578</u>	<u>\$9,569,663</u>	<u>\$37,934,241</u>

Act 359, Public Acts of State 1947, as amended, provides that net indebtedness of municipalities cannot exceed 10% of the assessed real and personal property in the Township. As of December 31, 2006, the Charter Township of Fenton incurred \$867,300 applicable to limitation (the sewer utility contracts and special assessment debt are excluded from the limitation). The Township's debt limit was \$86,966,506.

The outstanding balance on the Southwest Extension Sewer Bonds was \$1,150,000 at December 31, 2005. A deferred loss on refunding was recognized during 1998 for \$195,000 and is being amortized over the life of the new bonds. The unamortized portion of the loss is \$29,250 at December 31, 2006.

G. Restricted Assets

The balance of the restricted asset account is as follows:

	<u>Business-Type Activities</u>
Unspent bond proceeds and related interest	<u>\$1,964,265</u>

IV. Other information

A. Pension plan

The Township has a defined contribution pension plan covering all eligible employees who wish to participate. The plan is administered by Manufacturer's Life Insurance Company. By Township ordinance, the Township contributes 10 percent and employees contribute 5 percent of wages to the plan. The employee may voluntarily contribute in excess of that amount. Benefits are fully vested after 20 months of service with the benefit payable at age 55, or retirement, if later. Employees between the ages of 18 and 65 with at least 90 days of service who wish to participate may elect coverage on January 1, of the plan year. Total payroll and covered payroll for the year was \$941,197 and \$622,010 respectively. The Township's 2006 contributions were \$64,608. Employees contributed \$40,679 during 2006.

Charter Township of Fenton
Notes to Financial Statements
December 31, 2006

IV. Other information (continued)

B. Post employment benefits other than pension

The Township passed an ordinance to continue to provide single coverage health benefits to certain active employees after they retire or leave office. The ordinance provides that health and medical benefits will be provided to eligible retirees. All employees age 55 or older with 20 years of full-time service are eligible.

The cost of the benefits is paid entirely by the Township as the costs are incurred. At year end, one retiree was eligible to receive these benefits. Benefits of \$8,678 were provided during 2006.

Upcoming reporting change:

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2009. Management is currently assessing the impact of this new accounting standard on the Township's financial statement for future reporting periods.

C. Contingent liabilities

Federal grants:

The Township participates in the federally assisted Community Development Block Grant and C.O.P.S. programs. These programs were not subject to compliance audits during the year because of the level of federal expenditures. The amount, if any, of expenditures which may be disallowed by the granting agency at a future date cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

D. Risk management

The Township is exposed to various risks of loss related to property loss, torts, errors and omission, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for property loss, torts, errors and omissions, employee injuries and medical benefit claims and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to property loss, torts, errors and omissions, employee injuries and medical benefit; the Township is uninsured for unemployment and sewer discharge claims on a reimbursement basis claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

The Township estimates the liability for unemployment and sewer discharge claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. The Township has not incurred or paid claims over the past two years and there is no unpaid claim balance at the beginning or ending of the year.

Charter Township of Fenton
Notes to Financial Statements
December 31, 2006

V. Restatements

The Township restated the following items for correction of errors in reporting certain activities at December 31, 2005. Net assets of governmental activities at the government-wide level were restated from \$1,689,641 to \$2,322,581 to essentially capitalize certain infrastructure that should have been capitalized in prior years. Additionally, the total governmental funds fund balance was restated from \$872,800 to \$959,348 to establish a debt service fund for special assessment debt service activity that was previously reported in an Agency Fund.

This change decreased the governmental activities' change in net assets by approximately \$75,000 and decreased the nonmajor funds' excess of revenue over expenditures by approximately \$8,000.

Required Supplementary Information

**Charter Township of Fenton
Required Supplemental Information
Budgetary Comparison Schedule-General Fund
Year Ended December 31, 2006**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Taxes and collection fees	\$ 730,500	\$ 726,200	\$ 731,464	\$ 5,264
Licenses and permits	378,500	303,500	302,729	(771)
Federal revenue	14,000	28,300	28,127	(173)
State revenue	929,300	928,700	910,667	(18,033)
Charges for services	166,500	163,500	152,480	(11,020)
Fines and forfeits	40,000	28,000	15,915	(12,085)
Interest	10,000	15,000	14,252	(748)
Other revenue	26,500	27,500	24,650	(2,850)
Total revenue	<u>2,295,300</u>	<u>2,220,700</u>	<u>2,180,284</u>	<u>(40,416)</u>
Expenditures				
Legislative:				
Township board	106,000	92,600	79,307	13,293
General government	1,095,400	1,081,100	1,015,502	65,598
Public safety	600,200	594,300	589,054	5,246
Public works	244,700	216,000	214,730	1,270
Recreational and cultural	12,200	9,200	5,352	3,848
Other	218,500	234,700	216,138	18,562
Total expenditures	<u>2,277,000</u>	<u>2,227,900</u>	<u>2,120,083</u>	<u>107,817</u>
Excess of Revenue Over (Under) Expenditure	18,300	(7,200)	60,201	67,401
Fund Balances - Beginning of year	441,956	441,956	441,956	-
Fund Balances -End of year	<u>\$ 460,256</u>	<u>\$ 434,756</u>	<u>\$ 502,157</u>	<u>\$ 67,401</u>

Charter Township of Fenton
Required Supplemental Information
Budgetary Comparison Schedule-Waste Collection Special Revenue Fund
Year Ended December 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Special assessments	\$ 580,000	\$ 591,500	\$ 591,511	\$ 11
Interest	6,500	16,000	16,096	96
Total revenue	586,500	607,500	607,607	107
Expenditures				
Public works	611,500	617,500	617,444	56
Excess of Expenditures Over Revenue	(25,000)	(10,000)	(9,837)	163
Fund Balance - Beginning of year	92,942	92,942	92,942	-
Fund Balance -End of year	<u>\$ 67,942</u>	<u>\$ 82,942</u>	<u>\$ 83,105</u>	<u>\$ 163</u>

**Charter Township of Fenton
Required Supplemental Information
Budgetary Comparison Schedule-Fire Special Revenue Fund
Year Ended December 31, 2006**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Special Assessments	\$ 491,000	\$ 491,000	\$ 491,400	\$ 400
Charges for services	58,000	88,000	87,895	(105)
Interest	5,000	5,000	11,133	6,133
Other revenue	500	500	-	(500)
Total revenue	554,500	584,500	590,428	5,928
Expenditures				
Public safety	553,900	604,600	514,421	90,179
Excess of Revenue Over (Under) Expenditure	600	(20,100)	76,007	96,107
Fund Balance - Beginning of year	266,533	266,533	266,533	-
Fund Balance -End of year	\$ 267,133	\$ 246,433	\$ 342,540	96,107

Other Supplementary Information

**Charter Township of Fentor
Non-Major Governmental Fund
Combining Balance Sheet
December 31, 2006**

	Mosquito Control Fund	Special Assessment Debt Fund	Total Non-Major Governmental Funds
Assets			
Cash and equivalents	\$ 87,946	\$ 79,997	\$ 167,943
Receivables:			
Accounts	50	-	50
Special assessments	133,660	121,524	255,184
Total assets	\$ 221,656	\$ 201,521	\$ 423,177
Liabilities and Fund Balance			
Liabilities			
Unearned revenue	\$ 148,644	\$ 123,024	\$ 271,668
Total liabilities	148,644	123,024	271,668
Fund Balances			
Special revenue funds	73,012	-	73,012
Debt service fund	-	78,497	78,497
Total fund balances	73,012	78,497	151,509
Total liabilities and fund balances	\$ 221,656	\$ 201,521	\$ 423,177

**Charter Township of Fenton
Non-Major Governmental Funds
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Year Ended December 31, 2006**

	Mosquito Control Fund	Special Assessment Debt Fund	Total Non-Major Governmental Funds
Revenue			
Special assessments	\$ 148,026	\$ 44,963	192,989
Interest	5,523	13,594	19,117
Total revenue	153,549	58,557	212,106
Expenditures			
Current:			
General government	151,906	-	151,906
Debt Service:			
Principal	-	50,000	50,000
Interest	-	16,608	16,608
Total expenditures	151,906	66,608	218,514
Excess of Revenue Over (Under) Expenditure	1,643	(8,051)	(6,408)
Fund Balances - Beginning of year	71,369	86,548	157,917
Fund Balances -End of year	\$ 73,012	\$ 78,497	\$ 151,509

**Charter Township of Fenton
 Budgetary Comparison Schedule
 Non-Major Governmental Fund
 Mosquito Special Revenue Fund
 Year Ended December 31, 2006**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Special assessments	\$ 146,000	\$ 148,000	\$ 148,026	\$ 26
Interest	1,500	5,500	5,523	23
Total revenue	147,500	153,500	153,549	49
Expenditures				
General government	146,500	152,000	151,906	94
Excess of Revenue Over Expenditure:	1,000	1,500	1,643	143
Fund Balance - Beginning of year	71,369	71,369	71,369	-
Fund Balance -End of year	\$ 72,369	\$ 72,869	\$ 73,012	\$ 143

**Charter Township of Fenton
Agency Funds
Balance Sheets
December 31, 2006**

	Agency Funds		
	Trust & Agency Fund	Current Tax Collection Fund	Totals
Assets			
Cash and equivalents	\$ 210,225	\$ 2,584,138	\$ 2,794,363
Total assets	\$ 210,225	\$ 2,584,138	\$ 2,794,363
Liabilities			
Accounts payable	\$ 6,477	\$ -	\$ 6,477
Deposits payable	203,730	-	203,730
Due to other government:	18	10,802	10,820
Undistributed taxes	-	2,573,336	2,573,336
Total liabilities	\$ 210,225	\$ 2,584,138	\$ 2,794,363



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April 23, 2007

To the Board of Trustees
Charter Township of Fenton
Fenton, Michigan

Dear Board of Trustees:

We recently completed our audit of the Charter Township of Fenton's (the "Township") financial statements for the year ended December 31, 2006. As a result of our audit, we have the following information to communicate to you.

Retiree Health Care Benefits

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government wide financial statements, rather than the individual fund level.

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the government wide statement of net assets. This valuation will need to be performed by an actuary only if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. Plans with fewer than 100 participants may either hire an actuary, or perform the calculation themselves (at least every three years).

This statement is effective for the fiscal year beginning December 1, 2009. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates. The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the "interperiod equity" issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution. So - funding the contribution will actually reduce your long run cost.

Revenue Sharing (Updated March 2007)

The future of the State's revenue sharing program may be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The State's budget shortfalls continue to be significant. The magnitude of the State's deficit has become even more pronounced after the State's January 2007 revenue estimating conference. According to economists, Michigan's budget is \$3 billion short of the revenue needed to cover basic services this year and next (State fiscal year's 2006/2007 and 2007/2008). The outcome of other matters will also impact revenue sharing and those matters include:

- **Future of County participation in Statutory Revenue Sharing** In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the "revenue sharing formula" and to what extent? Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?
- **Statutory Revenue Sharing formula expires in 2007** Legislative action is required on this Act for appropriations to continue into 2008 and beyond.
- **Changing Michigan Business Tax Structure** The Michigan Single Business Tax has been eliminated effective December 31, 2007 which will result in the loss of \$1.9 billion from the State's budget in 2008. The Governor's fiscal year 2007/2008 budget recommends replacing a majority of the repealed Single Business Tax revenue with a new Michigan Business Tax and the enactment of a new excise tax on service providers. The new Michigan Business Tax ("MBT") is projected to generate approximately \$480 million less annually in revenue than currently generated by the Single Business Tax but the new two percent excise tax on most services is projected (if effective on June 1, 2007) to raise about \$576 million in the remainder of the fiscal 2006/2007 to help with State's budget deficit for that year and to raise \$1.47 billion in the State's fiscal year 2007/2008. The Governor's budget also includes several other tax increases and changes. Much debate will occur prior to the enactment of a final tax structure plan.

As introduced, the Governor's budget for fiscal year 2007/2008 includes a revenue sharing increase of \$27 million to be distributed using the three part formula currently contained in the revenue sharing act (taxable value per capita, population/unit type and yield equalization) with an additional \$14.5 million for public safety funding. While specific details have not been announced yet, communities would only be eligible for the increase if they can demonstrate service sharing with other local governments.

While the debate has begun, there still remain considerably more questions than answers regarding long-term funding of statutory revenue sharing. **Additionally, there are several practical short term concerns including:**

- If revenue sharing cuts are enacted for the State’s fiscal year 2006/2007, then these unplanned revenue sharing payment reductions could impact the Township’s year ending December 31, 2007. However, the amounts may not be known until spring or summer providing local governments will little or no time to react.
- Final decisions on revenue sharing funding levels for the State’s fiscal year 2007/2008 will likely not be complete in time for local governments working on 2008 budgets.

The following chart depicts the Township’s actual and estimated revenue-sharing payments over a five year period - from the State’s fiscal year ended September 30, 2002 through the estimated amounts for fiscal year ending September 30, 2007:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Constitutional	\$ 850,095	\$ 864,486	\$ 855,096	\$ 875,502	\$ 890,408	\$ 888,750
Statutory	<u>137,195</u>	<u>105,537</u>	<u>16,715</u>	-	-	-
Total	<u>\$ 987,290</u>	<u>\$ 970,023</u>	<u>\$ 871,811</u>	<u>\$ 875,502</u>	<u>\$ 890,408</u>	<u>\$ 888,750</u>
Increase (decrease)		(17,267)	(98,212)	3,691	14,906	(1,658)
% change		-1.7%	-10.1%	0.4%	1.7%	-0.2%

While the significant declines in this funding source experienced in recent years appear to have slowed, it is clear that the total amount of money distributed is unlikely to increase without significant changes to the State’s revenue structure. This has clearly impacted the Township’s ability to finance operations and capital spending. As of now, there appears to be no long-term solution to the State’s structural deficit in its General Fund, and as long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

The authority for the statutory portion of revenue sharing terminates on September 30, 2007. This currently does not have an impact on the Township since the Township has not received any statutory payment since the fiscal year ended September 30, 2004. We have not heard any significant discussion in Lansing regarding the plans for renewal at this time.

We continue to urge the Township to be conservative in its estimation of state-shared revenues as this line item in the State’s budget remains vulnerable. We will continue to update the Township as developments occur.

Personal Property Tax (Updated March 2007)

Over the last six years, the State's personal property tax laws and regulations have changed substantially. In 2000, the State Tax Commission updated the general business depreciation tables that are used to calculate personal property taxes, resulting in approximately 10% drop in property tax revenue. In addition, the State Tax Commission also approved new personal property tax tables for utilities which made drastic changes to transmission and distribution property of utilities (resulting in approximately 30% revenue loss to local units of government). Also, the Michigan Supreme Court in *WPW Acquisition Co v. City of Troy* ruled that the Proposal A cap prevents assessors from increasing the taxable value of commercial rental property above the rate of inflation using the occupancy methodology even when reductions in taxable value were previously granted due to a decrease in occupancy.

Further reductions to personal property tax remain part of the State's tax structure discussions. Personal property taxes are a significant revenue source to many local governments. For the Township, personal property tax represents 2% of its tax base. If the State's new business tax structure provides personal property tax relief, the question is will local governments be held harmless by the State and to what extent? The Governor's tax plan as introduced proposes to change the property tax system to mitigate the impact of the WPW case. A similar attempt to make this correction occurred in 2005 and 2006 with no success.

New Cable Franchise Legislation (Updated March 2007)

The Governor signed cable franchise legislation (House Bill 6456) into law effective January 1, 2007. The new law (Public Act 480 of 2006) creates the "Uniform Video Services Local Franchise Act" which provides a statewide framework for franchising agreements instead of individual community agreements. This Act requires video service providers to obtain a local franchise, good for 10 years, from the franchising entity (the local unit of government). As part of the local franchise, the provider is required to pay an annual video service provider fee, not to exceed 5% of gross revenue, as well as an annual fee for the costs of the PEG access facilities, not to exceed 2% of gross revenue. The Act allows providers to terminate the current franchise contracts before their expiration date, in order to enter into this new local franchise agreement under the statewide framework.

Local units of government will be impacted in the following ways:

Under the Act, no additional fees or charges other than those stipulated under the Act may be written into the local franchise agreements.

To the extent existing cable franchise agreements provided more funding than provided for under the new Act, municipalities will see reduced fees from these new local franchise agreements.

A credit, based on annual maintenance fees paid for use of public rights of way, to video service providers is allowed under the Act. This credit could eliminate or significantly reduce any revenue the local unit might receive under the bills franchise fee.

Audits of the video service providers' calculation of gross revenue is limited to once every two years.

It is expected that local governments will receive their first payment under the new Act beginning in May 2007. We strongly encourage you to review this payment compared to payments previously received and follow up with your provider as required.

Property Tax Legislation (Updated March 2007)

A series of House bills were introduced in 2007 dealing with the treatment of the uncapping of value on sale or transfer of property. With the passage of Proposal A in 1994, changes to the taxable value of an individual property are limited to the lesser of the rate of inflation or 5 percent – until the property is sold or transferred. The difference between the capped taxable value amount and state equalized value at the time of transfer is referred to as the “uncapped” value or the “pop-up” value. As several published studies and reports have demonstrated, the treatment of “uncapped” values or the “pop up” amount when a property is transferred or sold as growth on existing property subject to the Headlee rollback calculation has resulted in continued downward pressure on millage rates. This treatment is due to definitional changes made to the General Property Tax Act in 1994.

The three bills in the package are House Bills 4440, 4441, and 4442 and would propose to do the following:

- House Bill 4440 This bill establishes an 18 month moratorium on the “pop-up” or “uncapping” of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the timeframe of the moratorium would continue to pay property taxes at the previous taxable value amount. The “pop-up” or “uncapping” of taxable value would be delayed until the property was sold or transferred in later years.
- House Bill 4441 This bill increases the real estate transfer tax by .10% and earmarks the money to be returned to local government for potential loss in revenue occurring from House Bill 4440.
- House Bill 4442 This bill would change the General Property Tax Act to exempt the “pop-up” or “uncapped” value from the Headlee rollback calculation. If this legislation were enacted, increases in taxable value resulting from property sales or transfers would be treated as “additions” to taxable value or new growth versus growth on existing property.

House Bills 4440 and 4441 passed the House on March 14 (HB 4440 has been assigned to the Senate Finance Committee). House Bill 4442 has not been voted on yet in the House. The bills are not tie barred.

Bonding to fund Liability for Other Post Employment Benefits (Updated September 2006)

The day quickly approaches for local governments to measure the liability for non-pension benefits granted to government employees at retirement (most notably retiree health care). Once these benefits are measured, local governments will face the tough choice of advance funding these benefits (which some are doing now), remain on a pay-as-you go plan (which is the path for most local governments) or

a combination thereof. To provide local governments with additional funding options, legislation was introduced in 2006 which would allow for bonding as a funding tool. The legislation was passed by the Michigan Legislature and vetoed by the Governor. The legislation is likely to be reconsidered in 2007.

Municipal Finance Act Revisions – REMINDER

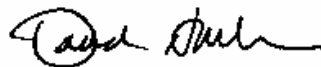
The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day “exemption from prior approval” process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the Township’s year end December 31, 2006 and is good for one year thereafter. The Township should consider the need to file a qualifying statement for each of its component units.

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements- In addition to the comments and recommendations listed above a report on internal control over financial reporting and on compliance and other matters was issued in conjunction with the audit. Within the report it notes that the Township restated the fund balance of the governmental funds as well as the net assets of the governmental activities of the government-wide reporting level to capitalize a road improvement that should have been recorded in a prior year and also to report the debt service activity of the private road special assessments in a debt service fund rather than an agency fund. In accordance with the new Statement on Auditing Standard No. 112 this restatement is technically considered a material weakness in internal controls over financial reporting due to the size of the adjustment. This report letter has been issued separately.

We would like to thank all of the Township’s personnel for their assistance during the audit. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

Plante & Moran, PLLC



Tadd Harburn, CPA