

# **Charter Township of Fenton**

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**Financial Report  
with Supplemental Information  
December 31, 2011**

# Charter Township of Fenton

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# Charter Township of Fenton

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## Independent Auditor's Report

To the Board of Trustees  
Charter Township of Fenton

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 as of and for the year ended December 31, 2011, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Fenton's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Fenton, as of December 31, 2011 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, and the budgetary comparison schedules, as identified on pages 39-43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Trustees  
Charter Township of Fenton

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Fenton basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

During the year, the Township implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as discussed in Note 1. In addition, fund balance classifications in the governmental fund financial statements have been changed to reflect the five new classifications under GASB 54.

As discussed in Note 1 to the financial statements, the Township changed its method of recording public access programming revenue and expenditures.

*Plante & Moran, PLLC*

May 15, 2012

# Charter Township of Fenton

## Management's Discussion and Analysis

Our discussion and analysis of the Charter Township of Fenton's financial performance provides an overview of the Township financial activities for the fiscal year ended December 31, 2011. Please read it in conjunction with the Charter Township of Fenton's financial statements.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

### Governmental Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior two years:

	Governmental Activities				
	2009	2010	2011	Change	Percent Change
Other assets	\$ 3,601,311	\$ 3,909,722	\$ 3,806,441	\$ (103,281)	-3%
Capital assets	<u>2,765,994</u>	<u>3,565,290</u>	<u>3,912,699</u>	<u>347,409</u>	10%
Total assets	6,367,305	7,475,012	7,719,140	244,128	3%
Current liabilities	2,154,841	2,180,708	2,145,884	(34,824)	-2%
Long-term liabilities	<u>1,006,606</u>	<u>1,971,625</u>	<u>1,890,293</u>	<u>(81,332)</u>	-4%
Total liabilities	<u>3,161,447</u>	<u>4,152,333</u>	<u>4,036,177</u>	<u>(116,156)</u>	-3%
Net assets:					
Invested in capital assets, net of related debt	2,093,478	2,076,147	2,494,899	418,752	20%
Restricted	692,772	948,624	589,410	(359,214)	-38%
Unrestricted	<u>419,608</u>	<u>297,908</u>	<u>598,654</u>	<u>300,746</u>	101%
Total net assets	<u>\$ 3,205,858</u>	<u>\$ 3,322,679</u>	<u>\$ 3,682,963</u>	<u>\$ 360,284</u>	11%

# Charter Township of Fenton

## Management's Discussion and Analysis (Continued)

	Governmental Activities				Percent
	2009	2010	2011	Change	Change
<b>Revenue</b>					
Program revenue:					
Charges for services	\$ 1,006,014	\$ 1,036,063	\$ 947,080	\$ (88,983)	-9%
Operating grants	6,780	34,297	11,029	(23,268)	-68%
Capital grants	8,610	-	-	-	0%
General revenue:					
Property taxes	818,998	797,201	712,338	(84,863)	-11%
Township-wide assessments	869,155	869,057	852,841	(16,216)	
State-shared revenue	795,166	841,241	1,184,129	342,888	41%
Investment earnings	26,752	19,174	16,129	(3,045)	-16%
Other revenue	<u>281,437</u>	<u>310,473</u>	<u>385,238</u>	<u>74,765</u>	24%
Total revenue	<u>3,812,912</u>	<u>3,907,506</u>	<u>4,108,784</u>	<u>201,278</u>	5%
<b>Program Expenses</b>					
General government	1,233,113	368,199	538,249	170,050	46%
Legislative	52,283	79,912	45,991	(33,921)	-42%
Public safety	1,365,027	1,373,088	1,941,386	568,298	41%
Public works	1,078,100	1,895,014	1,082,539	(812,475)	-43%
Recreation and cultural	-	35,480	82,296	46,816	
Interest on long-term debt	<u>42,465</u>	<u>38,992</u>	<u>58,039</u>	<u>19,047</u>	49%
Total expenses	<u>3,770,988</u>	<u>3,790,685</u>	<u>3,748,500</u>	<u>(42,185)</u>	-1%
<b>Change in Net Assets</b>	<u>\$ 41,924</u>	<u>\$ 116,821</u>	<u>\$ 360,284</u>	<u>\$ 243,463</u>	208%

The governmental net assets increased 11 percent from a year ago - increasing from \$3,322,679 to \$3,682,963. Last year's net assets increased by 12 percent.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by \$300,746 for the governmental activities. This represents an increase of approximately 101 percent. The current level of unrestricted net assets for our governmental activities stands at \$598,654, which may be used to meet the Township's ongoing obligations to citizens and creditors.

# Charter Township of Fenton

## Management's Discussion and Analysis (Continued)

### Business-type Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior two years:

	Business-Type Activities				Percent Change
	2009	2010	2011	Change	
Other assets	\$ 3,566,216	\$ 3,341,805	\$ 3,104,384	\$ (237,421)	-7%
Capital assets	<u>43,222,956</u>	<u>42,458,156</u>	<u>41,237,612</u>	<u>(1,220,544)</u>	-3%
Total assets	46,789,172	45,799,961	44,341,996	(1,457,965)	-3%
Current liabilities	840,132	967,187	772,343	(194,844)	-20%
Long-term liabilities	<u>33,133,772</u>	<u>31,515,588</u>	<u>29,754,665</u>	<u>(1,760,923)</u>	-6%
Total liabilities	<u>33,973,904</u>	<u>32,482,775</u>	<u>30,527,008</u>	<u>(1,955,767)</u>	-6%
Net assets:					
Invested in capital assets, net of related debt	10,570,479	11,121,741	11,482,947	361,206	3%
Restricted	-	-	13,158	13,158	100%
Unrestricted	<u>2,244,789</u>	<u>2,195,445</u>	<u>2,318,883</u>	<u>123,438</u>	6%
Total net assets	<u>\$ 12,815,268</u>	<u>\$ 13,317,186</u>	<u>\$ 13,814,988</u>	<u>\$ 497,802</u>	4%

	Business-Type Activities				Percent Change
	2009	2010	2011	Change	
Operating revenue	\$ 6,027,438	\$ 6,023,873	\$ 6,021,083	\$ (2,790)	0%
Operating expenses, other than depreciation	2,697,928	2,888,361	3,083,647	195,286	7%
Depreciation and amortization	<u>956,508</u>	<u>1,234,221</u>	<u>1,235,131</u>	<u>910</u>	0%
<b>Operating income (loss)</b>	2,373,002	1,901,291	1,702,305	(198,986)	-10%
Property tax revenue	10	-	-	-	0%
Interest income	8,110	4,784	1,404	(3,380)	-71%
Interest expense	1,354,544	1,421,158	1,258,002	(163,156)	-11%
Nonoperating expenses	2,860	2,439	2,366	(73)	-3%
Nonoperating revenue	125,428	-	-	-	0%
Capital contributions	<u>66,490</u>	<u>19,440</u>	<u>54,461</u>	<u>35,021</u>	180%
<b>Change in Net Assets</b>	<u>\$ 1,215,636</u>	<u>\$ 501,918</u>	<u>\$ 497,802</u>	<u>\$ (4,116)</u>	-1%

The Township's business-type activities consist of the Sewer Fund. The net assets of business type activities increased by 4 percent. Last year's net assets also increased by 4 percent. Unrestricted net assets of the business-type activities increased by \$123,438 or 6 percent.



# Charter Township of Fenton

## Management's Discussion and Analysis (Continued)

### The Township Funds

The following table shows the total governmental fund activity, on a modified accrual basis:

	Governmental Funds				Percent Change
	2009	2010	2011	Change	
<b>Revenue</b>					
Property taxes	\$ 818,998	\$ 797,201	\$ 712,338	\$ (84,863)	-11%
Charges for services	388,910	422,458	332,735	(89,723)	-21%
Licenses and permits	35,899	41,577	44,211	2,634	6%
State-shared revenues	795,166	841,241	1,184,129	342,888	41%
Federal, state, and local grants	25,022	53,201	28,831	(24,370)	-46%
Cable franchise fees	281,437	310,473	328,940	18,467	6%
Fines and forfeitures	14,444	18,761	17,387	(1,374)	-7%
Interest and rentals	26,752	19,174	16,129	(3,045)	-16%
Special assessments	1,436,930	1,429,120	1,399,773	(29,347)	-2%
Other	-	1,350	12,172	10,822	0%
Total revenue	3,823,558	3,934,556	4,076,645	142,089	4%
<b>Expenditures</b>					
Current:					
General government	1,066,879	1,240,899	1,039,184	(201,715)	-16%
Legislative	52,283	79,912	45,002	(34,910)	-44%
Public safety	1,230,034	1,232,454	1,788,053	555,599	45%
Public works	1,055,509	1,828,992	1,011,976	(817,016)	-45%
Recreation and culture	-	35,480	82,296	46,816	0%
Debt service	225,696	200,998	213,050	12,052	6%
Total expenditures	3,630,401	4,618,735	4,179,561	(439,174)	-10%
<b>Excess of Revenue Over (Under) Expenditures</b>	193,157	(684,179)	(102,916)	581,263	-85%
<b>Other Financing Sources</b>					
Proceeds from sales of capital assets	-	-	46,526	46,526	0%
Issuance of debt/debt defeasance	-	990,000	-	(990,000)	100%
Total other financing sources	-	990,000	46,526	(943,474)	100%
<b>Net Change in Fund Balance</b>	193,157	305,821	(56,390)	(362,211)	-118%
<b>Fund Balances - Beginning of year</b>	1,229,450	1,422,607	1,728,428	305,821	21%
<b>Fund Balances - End of year</b>	\$ 1,422,607	\$ 1,728,428	\$ 1,672,038	\$ (56,390)	-3%

# **Charter Township of Fenton**

## **Management's Discussion and Analysis (Continued)**

### **General Fund Budgetary Highlights**

As the Township completed the year, its General Fund reported a fund balance of \$1,406,047. This represents an increase of \$372,884 from the prior year. The Township's General Fund revenues excluding other financing sources were \$2.57 million. Property taxes were \$712,338 or 28 percent of the total revenue. State revenue sharing made up \$1,184,129 or 46 percent of total revenue.

### **Capital Asset and Debt Administration**

At the end of 2011, the Township had invested \$13.9 million in capital assets, net of related debt. This amount complies with methods established by the Governmental Accounting Standards Board (GASB).

### **Long-term Debt**

At year end the Township had \$1.9 million in governmental long-term debt, including \$70,000 in special assessment debt. In the Sewer Enterprise Fund the Township has \$30 million in bonds outstanding.

### **Economic Factors and Next Year's Budgets and Rates**

The budget for 2011 was amended as required by State law. Both the original and amended budgets have been shown in this document for 2011. The Township has again produced a timely budget for 2012.

### **Contacting the Township Management**

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

# Charter Township of Fenton

## Statement of Net Assets December 31, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 2,300,474	\$ 1,961,414	\$ 4,261,888
Receivables	1,407,255	909,107	2,316,362
Prepaid items	88,940	220,705	309,645
Land held for resale	9,772	-	9,772
Net OPEB asset (Note 10)	-	13,158	13,158
Capital assets: (Note 5)			
Assets not subject to depreciation	129,182	5,485	134,667
Assets subject to depreciation	3,783,517	41,232,127	45,015,644
Total assets	7,719,140	44,341,996	52,061,136
<b>Liabilities</b>			
Accounts payable	86,636	81,383	168,019
Accrued interest payable	24,834	268,595	293,429
Due to other governmental units	151,361	-	151,361
Deposits payable	17,750	-	17,750
Deferred revenue	1,865,303	422,365	2,287,668
Noncurrent liabilities: (Note 7)			
Due within one year	193,556	1,853,838	2,047,394
Due in more than one year	1,696,737	27,900,827	29,597,564
Total liabilities	4,036,177	30,527,008	34,563,185
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	2,494,899	11,482,947	13,977,846
Restricted:			
Fire operations	95,752	-	95,752
Waste collection	85,660	-	85,660
Mosquito control	73,943	-	73,943
Debt service	23,989	-	23,989
OPEB	-	13,158	13,158
Public access programming	310,066	-	310,066
Unrestricted	598,654	2,318,883	2,917,537
Total net assets	<u>\$ 3,682,963</u>	<u>\$ 13,814,988</u>	<u>\$ 17,497,951</u>

# Charter Township of Fenton

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 538,249	\$ 264,482	\$ -	\$ -
Legislative	45,991	-	-	-
Public safety	1,941,386	682,598	-	-
Public works	1,082,539	-	11,029	-
Recreation and culture	82,296	-	-	-
Interest on long-term debt	58,039	-	-	-
Total governmental activities	3,748,500	947,080	11,029	-
Sewer Fund	5,579,146	6,021,083	-	54,461
Total primary government	<b>\$ 9,327,646</b>	<b>\$ 6,968,163</b>	<b>\$ 11,029</b>	<b>\$ 54,461</b>

## General revenues:

Taxes and collection fees  
Income taxes  
State-shared revenue  
Investment income  
Cable franchise fees  
Other miscellaneous income  
Gain on sale of fixed assets

Total general revenues

## Change in Net Assets

**Net Assets** - Beginning of year, as restated (Note 1)

**Net Assets** - End of year

**Statement of Activities**  
**Year Ended December 31, 2011**

Net (Expense) Revenue and Changes in Net Assets

Primary Government

<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
\$ (273,767)	\$ -	\$ (273,767)
(45,991)	-	(45,991)
(1,258,788)	-	(1,258,788)
(1,071,510)	-	(1,071,510)
(82,296)	-	(82,296)
(58,039)	-	(58,039)
<u>(2,790,391)</u>	<u>-</u>	<u>(2,790,391)</u>
<u>-</u>	<u>496,398</u>	<u>496,398</u>
(2,790,391)	496,398	(2,293,993)
712,338	-	712,338
852,841	-	852,841
1,184,129	-	1,184,129
16,129	1,404	17,533
328,940	-	328,940
9,772	-	9,772
46,526	-	46,526
<u>3,150,675</u>	<u>1,404</u>	<u>3,152,079</u>
360,284	497,802	858,086
<u>3,322,679</u>	<u>13,317,186</u>	<u>16,639,865</u>
<b><u>\$ 3,682,963</u></b>	<b><u>\$ 13,814,988</u></b>	<b><u>\$ 17,497,951</u></b>

# Charter Township of Fenton

## Governmental Funds Balance Sheet December 31, 2011

	General Fund	Waste Collection Fund	Fire Fund	Nonmajor Funds	Total
<b>Assets</b>					
Cash and cash equivalents (Note 3)	\$ 1,273,054	\$ 547,445	\$ 310,577	\$ 169,398	\$ 2,300,474
Receivables:					
Property taxes receivable	228,387	294,240	270,042	-	792,669
Special assessments receivable	43,451	-	-	81,456	124,907
Accounts	85,745	-	-	-	85,745
Due from other governmental units	381,205	-	22,729	-	403,934
Due from other funds	712	-	268	-	980
Prepaid items	55,073	-	33,867	-	88,940
Land held for resale	9,772	-	-	-	9,772
	<u>\$ 2,077,399</u>	<u>\$ 841,685</u>	<u>\$ 637,483</u>	<u>\$ 250,854</u>	<u>\$ 3,807,421</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 22,512	\$ 55,585	\$ 8,539	\$ -	\$ 86,636
Due to other governmental units	151,361	-	-	-	151,361
Due to other funds	268	-	712	-	980
Deposits payable	17,750	-	-	-	17,750
Deferred revenue (Note 4)	479,461	700,440	532,480	166,275	1,878,656
	<u>671,352</u>	<u>756,025</u>	<u>541,731</u>	<u>166,275</u>	<u>2,135,383</u>
<b>Fund Balances</b>					
Nonspendable:					
Assets held for resale	9,772	-	-	-	9,772
Prepays	55,073	-	33,867	-	88,940
Restricted:					
Fire operations	-	-	61,885	-	61,885
Debt service	-	-	-	10,636	10,636
Public access programming	310,066	-	-	-	310,066
Waste collection	-	85,660	-	-	85,660
Mosquito control	-	-	-	73,943	73,943
Unassigned	1,031,136	-	-	-	1,031,136
	<u>1,406,047</u>	<u>85,660</u>	<u>95,752</u>	<u>84,579</u>	<u>1,672,038</u>
Total liabilities and fund balances	<u>\$ 2,077,399</u>	<u>\$ 841,685</u>	<u>\$ 637,483</u>	<u>\$ 250,854</u>	<u>\$ 3,807,421</u>

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

# Charter Township of Fenton

## Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets Year Ended December 31, 2011

<b>Fund Balance Reported in Governmental Funds</b>	\$ 1,672,038
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 funds	3,912,699
Special assessment receivables expected to be collected over seven years, such that they are not available to pay for current year expenditures, are not recognized in the funds	13,353
Bonds payable are not due and payable in the current period and are not reported in the funds	(1,452,800)
Accrued interest is not due and payable in the current period and is not reported in the funds	(24,834)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(107,357)
Other long-term liabilities, such as net post employment obligations, do not present a claim on current financial resources and are not reported as fund liabilities	<u>(330,136)</u>
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 3,682,963</u></b>

# Charter Township of Fenton

## Governmental Funds

### Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2011

	General Fund	Waste Collection Fund	Fire Fund	Non-Major Funds	Total
<b>Revenue</b>					
Taxes and collection fees	\$ 712,338	\$ -	\$ -	\$ -	\$ 712,338
Licenses and permits	44,211	-	-	-	44,211
Federal grants	4,576	-	-	-	4,576
State revenue	1,208,384	-	-	-	1,208,384
Charges for services	230,580	-	102,155	-	332,735
Fines and forfeitures	17,387	-	-	-	17,387
Investment income	12,231	69	138	3,691	16,129
Other revenue:					
Special assessments	-	700,080	532,545	167,148	1,399,773
Cable franchise fees	328,940	-	-	-	328,940
Other miscellaneous income	12,172	-	-	-	12,172
Total revenue	<u>2,570,819</u>	<u>700,149</u>	<u>634,838</u>	<u>170,839</u>	<u>4,076,645</u>
<b>Expenditures</b>					
Current:					
General government	1,039,184	-	-	-	1,039,184
Legislative	45,002	-	-	-	45,002
Public safety	742,540	-	1,045,513	-	1,788,053
Public works	164,838	668,915	-	178,223	1,011,976
Recreation and culture	82,296	-	-	-	82,296
Debt Service:					
Principal	116,483	-	-	35,000	151,483
Interest on long-term debt	57,618	-	-	3,949	61,567
Total expenditures	<u>2,247,961</u>	<u>668,915</u>	<u>1,045,513</u>	<u>217,172</u>	<u>4,179,561</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	322,858	31,234	(410,675)	(46,333)	(102,916)
<b>Other Financing Sources (Uses)</b>					
Proceeds from sale of capital assets	26	-	46,500	-	46,526
Transfers in	50,000	-	-	-	50,000
Transfers out	-	-	(50,000)	-	(50,000)
Total other financing sources (uses)	<u>50,026</u>	<u>-</u>	<u>(3,500)</u>	<u>-</u>	<u>46,526</u>
<b>Net Change in Fund Balances</b>	372,884	31,234	(414,175)	(46,333)	(56,390)
<b>Fund Balances - Beginning of year (Note 1)</b>	<u>1,033,163</u>	<u>54,426</u>	<u>509,927</u>	<u>130,912</u>	<u>1,728,428</u>
<b>Fund Balances - End of year</b>	<u>\$ 1,406,047</u>	<u>\$ 85,660</u>	<u>\$ 95,752</u>	<u>\$ 84,579</u>	<u>\$ 1,672,038</u>

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



# Charter Township of Fenton

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2011

**Net Change in Fund Balances - Total Governmental Funds** \$ (56,390)

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

Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	643,793
Depreciation expense	(296,382)

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	(15,597)
--	----------

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	151,483
---	---------

Decrease in accrued interest on long-term debt reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements until they come due for payment	3,528
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Increase in accumulated employee sick and vacation time and other post employment benefit obligations reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements until they come due for payment	(70,151)
--	----------

**Change in Net Assets of Governmental Activities** \$ 360,284

# Charter Township of Fenton

## Proprietary Fund Statement of Net Assets December 31, 2011

	<u>Enterprise Fund</u> <u>Sewer Fund</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 1,961,414
Receivables:	
Delinquent usage receivable	371,649
User fees	521,954
Connection fees	15,504
Prepaid items	<u>220,705</u>
Total current assets	3,091,226
Noncurrent assets:	
Net OPEB asset	13,158
Capital assets	<u>41,237,612</u>
Total noncurrent assets	<u>41,250,770</u>
Total assets	44,341,996
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	81,383
Accrued interest payable	268,595
Deferred revenue	422,365
General obligation contracts payable - Current	<u>1,853,838</u>
Total current liabilities	2,626,181
Noncurrent liabilities:	
General obligation contracts payable - Long-term	<u>27,900,827</u>
Total noncurrent liabilities	<u>27,900,827</u>
Total liabilities	<u>30,527,008</u>
<b>Net Assets</b>	
Invested in capital assets - Net of related debt	11,482,947
Restricted:	
OPEB	13,158
Unrestricted	<u>2,318,883</u>
Total net assets	<u><u>\$ 13,814,988</u></u>

# Charter Township of Fenton

## Proprietary Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2011

	<u>Enterprise Fund</u> <u>Sewer Fund</u>
<b>Operating Revenue</b>	
Charges for services	\$ 6,021,083
Total operating revenue	6,021,083
<b>Operating Expenses</b>	
Sewer treatment fees	1,713,190
Other contractual services	902,125
Equipment repairs and maintenance	94,780
Insurance	35,622
Billing fees and postage	8,483
Administrative expense	223,275
Utilities	100,275
Miscellaneous	5,897
Depreciation	1,235,131
Total operating expenses	<u>4,318,778</u>
<b>Operating Income</b>	1,702,305
<b>Nonoperating Revenue (Expenses)</b>	
Investment income	1,404
Bond interest expense	(1,258,002)
Bond agent fees	(2,366)
<b>Income - Before contributions</b>	<u>443,341</u>
<b>Capital Contributions</b>	
Tap in fees	<u>54,461</u>
<b>Change in Net Assets</b>	497,802
<b>Net Assets - Beginning of year</b>	<u>13,317,186</u>
<b>Net Assets - End of year</b>	<u><u>\$ 13,814,988</u></u>

# Charter Township of Fenton

## Proprietary Fund Statement of Cash Flows Year Ended December 31, 2011

	<u>Enterprise Fund</u> <u>Sewer Fund</u>
<b>Cash Flow from Operating Activities</b>	
Receipts from customers	\$ 5,910,030
Payments to suppliers	(3,038,933)
Payments to employees	(36,433)
Internal activity - Payments to other funds	<u>(197,979)</u>
Net cash provided by operating activities	2,636,685
<b>Cash Flows from Capital and Related Financing Activities</b>	
Tap in fees	54,939
Purchase of capital assets	(14,587)
Principal and interest paid on capital debt	<u>(3,023,740)</u>
Net cash used in capital and related financing activities	(2,983,388)
<b>Cash Flows from Investment Activities</b>	
Interest received on investments	<u>338</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(346,365)
<b>Cash and Cash Equivalents - Beginning of year</b>	<u>2,307,779</u>
<b>Cash and Cash Equivalents - End of year</b>	<b><u>\$ 1,961,414</u></b>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>	
Operating income	\$ 1,702,305
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation and amortization	1,235,131
Changes in assets and liabilities:	
Receivables	(111,053)
Prepaid and other assets	1,117
Accounts payable	(179,678)
Due to other funds	2,021
Net OPEB obligation	<u>(13,158)</u>
Net cash provided by operating activities	<b><u>\$ 2,636,685</u></b>

# Charter Township of Fenton

## Fiduciary Funds Statement of Fiduciary Net Assets December 31, 2011

	Retiree Health	
	<u>Care Fund</u>	<u>Agency Funds</u>
<b>Assets</b>		
Cash and cash equivalents	\$ -	\$ 4,432,731
Investments:		
Mutual funds	<u>110,622</u>	<u>-</u>
Total assets	110,622	<u>\$ 4,432,731</u>
<b>Liabilities</b>		
Accounts payable	-	\$ 21,536
Due to other governmental units	-	228
Deposits payable	-	223,622
Undistributed taxes	-	<u>4,187,345</u>
Total liabilities	<u>-</u>	<u>\$ 4,432,731</u>
<b>Net Assets Held in Trust for Pension and Other Employee Benefits</b>	<u>\$ 110,622</u>	

# Charter Township of Fenton

## Fiduciary Funds Statement of Changes in Fiduciary Net Assets - Retiree Health Care Fund Year Ended December 31, 2011

	<u>Retiree Health Care Fund</u>
<b>Additions</b>	
Investment income:	
Interest and dividends	\$ 1,245
Net increase in fair value of investments	(2,628)
Investment-related expenses	(367)
Contributions:	
Employer contributions	<u>36,433</u>
Total additions	34,683
<b>Net Assets Held in Trust for Pension and Other Employee Benefits - Beginning of year</b>	<u>75,939</u>
<b>Net Assets Held in Trust for Pension and Other Employee Benefits - End of year</b>	<u><b>\$ 110,622</b></u>

# Charter Township of Fenton

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## Notes to Financial Statements December 31, 2011

### Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Fenton (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of Fenton:

#### **Reporting Entity**

The Charter Township of Fenton is governed by an elected seven-member board. 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, 2011.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) 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. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. 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 revenue.

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 are reported as a separate column in the fund financial statements.

# Charter Township of Fenton

## Notes to Financial Statements December 31, 2011

### Note 1 - Summary of Significant Accounting Policies (Continued)

**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, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted 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.



# Charter Township of Fenton

## Notes to Financial Statements December 31, 2011

### Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the Township 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.

The Mosquito Control Fund is used to account for the customer charges which are to be used to pay contracted services for mosquito control.

The Postemployment Benefit Trust Fund accumulates resources for postemployment benefit payments for Township retired employees.

The 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 issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

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

Amounts reported as program revenue 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 revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When an expense is incurred for purposes for which both restricted and unrestricted net assets or fund balance are available, the Township's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the Township's policy to spend funds in this order: committed, assigned, and unassigned.

# Charter Township of Fenton

## Notes to Financial Statements December 31, 2011

### Note 1 - Summary of Significant Accounting Policies (Continued)

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

**Restatement of Prior Year Net Assets** - The financial statements for the year ended December 31, 2011 have been restated in order to correct the method of accounting used to record PEG fees. The effect of this correction was to increase government wide net assets by \$280,932, from \$3,020,281 to \$3,301,213, and to increase General Fund fund balance by \$280,932, from \$730,765 to \$1,011,697.

#### **Property Tax Revenue**

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

The Township's 2010 tax is levied and collectible on December 1, 2010 and is recognized as revenue in the year ended December 31, 2011, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2010 taxable valuation of the Township totaled \$686 million, on which taxes levied consisted of 0.7122 mills for operating purposes. This resulted in \$480,971 for operating. These amounts are recognized in the respective General Fund financial statements as tax revenue.

#### **Assets, Liabilities, and Net Assets or Equity**

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

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

# Charter Township of Fenton

## Notes to Financial Statements December 31, 2011

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$2,500 (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 useful lives:

Land improvements	15 years
Building and improvements	15-40 years
Sewer system infrastructure	50 years
Machinery and equipment	3-15 years
Furniture and fixtures	5 years
Roads	20 years

**Compensated Absences (Vacation and Sick Leave)** - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation 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.

# Charter Township of Fenton

## Notes to Financial Statements December 31, 2011

### Note 1 - Summary of Significant Accounting Policies (Continued)

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

**Other Postemployment Benefit Costs** - The Township offers retiree health care benefits to retirees. The Township receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, OPEB costs are recognized as contributions are made. For the government wide and proprietary funds, the Township reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

**Fund Equity** - In march 2009, the GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund-type Definitions. The objective of the Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unrestricted, committed, assigned, and unassigned. The Township implemented Statement No. 54 during the year, whose impact was only the utilization of these new fund balance classifications.

In the fund financial statements, governmental funds report the following components of fund balance.

**Nonspendable:** Amounts that are not in spendable from or are legally or contractually required to be maintained intact.

**Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions or enabling legislation for use for a specific purpose.

# Charter Township of Fenton

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## Notes to Financial Statements December 31, 2011

### Note I - Summary of Significant Accounting Policies (Continued)

Committed: Amounts that have been formally set aside by the Township for use for specific purposes. Commitments are made and can be rescinded only via resolutions of the Township Board.

Assigned: Intent to spend resources on specific purposes expressed by the governing body. Assignments must be authorized by resolution and approved by the governing body.

Unassigned: Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed or assigned to those purposes.

**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.

**Restatement of Prior Year Net Assets** - The financial statements for the year ended December 31, 2011 have been restated in order to correct the method of accounting used to record PEG fees. The effect of this correction was to increase government-wide net assets by \$302,398, from \$3,020,281 to \$3,322,679, and to increase General Fund fund balance by \$302,398, from \$730,765 to \$1,033,163.

# Charter Township of Fenton

## Notes to Financial Statements December 31, 2011

### Note 2 - Stewardship, Compliance, and Accountability

**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 surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at January 1, 2011		\$	(944,291)
Current year permit revenue			40,934
Related expenses:			
Direct costs	\$	(31,549)	
Estimated indirect costs		<u>(62,673)</u>	<u>(94,222)</u>
Current year shortfall			<u>(53,288)</u>
Cumulative shortfall at December 31, 2011		\$	<u>(997,579)</u>

### Note 3 - 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 matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles 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.

# Charter Township of Fenton

## Notes to Financial Statements December 31, 2011

### Note 3 - Deposits and Investments (Continued)

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

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had no bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U. S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Mutual fund - equities	\$ 110,622	2-5 stars	Morningstar

### Note 4 - Deferred Revenue

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:

	Governmental Funds			Enterprise Funds
	Unavailable	Unearned	Total	
Property taxes and special assessments	\$ 13,353	\$ 1,865,303	\$ 1,878,656	\$ -
User fees (unearned)	-	-	-	422,365

# Charter Township of Fenton

## Notes to Financial Statements December 31, 2011

### Note 5 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance January 1, 2011	Additions	Disposals	Balance December 31, 2011
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 129,182	\$ -	\$ -	\$ 129,182
Capital assets being depreciated:				
Roads	1,320,438	72,151	-	1,392,589
Buildings and improvements	2,198,048	16,835	-	2,214,883
Machinery and equipment	2,263,238	554,805	(224,825)	2,593,218
Furniture and fixtures	16,172	2	-	16,174
Land improvements	395,618	-	-	395,618
	<u>6,193,514</u>	<u>643,793</u>	<u>(224,825)</u>	<u>6,612,482</u>
Accumulated depreciation:				
Furniture and fixtures	229,808	69,630	-	299,438
Buildings and improvements	604,277	60,320	-	664,597
Machinery and equipment	1,744,486	143,537	(224,825)	1,663,198
Furniture and fixtures	16,174	-	-	16,174
Land improvements	162,661	22,895	-	185,556
	<u>2,757,406</u>	<u>296,382</u>	<u>(224,825)</u>	<u>2,828,963</u>
Net capital assets being depreciated	<u>3,436,108</u>	<u>347,411</u>	<u>-</u>	<u>3,783,519</u>
Net capital assets	<u>\$ 3,565,290</u>	<u>\$ 347,411</u>	<u>\$ -</u>	<u>\$ 3,912,701</u>
<b>Business-type Activities</b>				
Capital assets not being depreciated:				
Land	\$ -	\$ 5,485	\$ -	\$ 5,485
Capital assets being depreciated:				
Buildings	47,990	-	-	47,990
Sewer lines and equipment	58,415,511	9,102	-	58,424,613
	<u>58,463,501</u>	<u>9,102</u>	<u>-</u>	<u>58,472,603</u>
Subtotal				
Buildings	17,597	1,600	-	19,197
Sewer lines and equipment	15,987,748	1,233,531	-	17,221,279
	<u>16,005,345</u>	<u>1,235,131</u>	<u>-</u>	<u>17,240,476</u>
Net capital assets being depreciated	<u>42,458,156</u>	<u>(1,226,029)</u>	<u>-</u>	<u>41,232,127</u>
Net capital assets	<u>\$ 42,458,156</u>	<u>\$ (1,220,544)</u>	<u>\$ -</u>	<u>\$ 41,237,612</u>



# Charter Township of Fenton

## Notes to Financial Statements December 31, 2011

### Note 5 - Capital Assets (Continued)

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

Governmental activities:		
General government		\$ 67,620
Public safety		159,132
Public works		<u>69,630</u>
	Total governmental activities	<u>\$ 296,382</u>
Business-type activities:		
Sewer		<u>\$ 1,235,131</u>

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Fire	\$ 712
Fire	General	<u>268</u>
	Total	<u>\$ 980</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Fire	<u>\$ 50,000</u>

The transfers from the Fire Fund to the General Fund represent the repayment of funds previously transferred for purchase of a fire truck.

# Charter Township of Fenton

## Notes to Financial Statements December 31, 2011

### Note 7 - 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:

	Principal Outstanding December 31, 2011
General obligation contracts payable at December 31, 2011, in the Sewer Fund are comprised of the following individual issues:	
\$1,240,000 Ripley Rolston contract due in annual installments of \$75,000 to \$100,000 through October 1, 2017, interest at 5 to 5.5 percent	\$ 575,000
\$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	2,925,000
\$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	3,950,000
\$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	6,250,000
\$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	2,289,758
\$11,000,000 2007 General Obligation Limited Tax Capital Improvement Bonds contract due in annual installments of \$345,000 to \$810,000 through September 1, 2027, interest at 4 to 4.5 percent	9,505,000
\$1,990,667 Refinancing of Sewer Disposal System No. 3 Series 2007 contract due in annual installments of \$7,091 to \$320,847 through April 1, 2019, interest at 4 percent	1,754,907
\$2,600,000 2009 General Obligation Limited Tax Capital Improvement Bonds contract due in annual installments of \$95,000 to \$205,000 through November 1, 2029, interest at 4.875 percent	2,505,000
	<u>\$ 29,754,665</u>

# Charter Township of Fenton

## Notes to Financial Statements December 31, 2011

### Note 7 - Long-term Debt (Continued)

Governmental long-term debt payable at December 31, 2011 consists of the following liabilities:

Installment purchase obligation to the State Bank, payable in annual installments of \$71,300 through April 1, 2017, plus interest at 4.5 percent, secured by the Township's limited tax full faith and credit	\$ 427,800
2010 General Obligation Limited Tax Capital Improvement Bonds payable in annual installments ranging from \$50,000 to \$90,000, through May 1, 2025, plus interest at 6.1 percent offset by 45 percent interest subsidy, secured by the Township's limited tax full faith credit	990,000
Special Assessment Debt with Governmental Commitment Bonds payable to Citizens Banking Corporation, payable in Woodhull Landing, Curtwood/Silver Ridge, and Byram Lake Drive Special Assessment Road Improvement Projects and the Township's limited tax full faith and credit	35,000
Net OPEB obligation	330,136
Compensated absences	107,357
Total general long-term debt	<u>\$ 1,890,293</u>

A summary of changes in long-term debt during 2011 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>					
Notes payable:					
Genesee County Road Commission	\$ 45,183	\$ -	\$ 45,183	\$ -	\$ -
General Obligation Limited Tax Bonds	990,000	-	-	990,000	50,000
Installment obligations:					
The State Bank	499,100	-	71,300	427,800	71,300
Special assessment debt with governmental commitment:					
Citizens Banking Corporation	70,000	-	35,000	35,000	35,000
Total notes payable	1,604,283	-	151,483	1,452,800	156,300
Net post employment benefit obligation	246,712	95,287	11,863	330,136	-
Accumulated sick and vacation time	120,630	37,256	50,529	107,357	37,256
Total governmental activities	<u>\$ 1,971,625</u>	<u>\$ 132,543</u>	<u>\$ 213,875</u>	<u>\$ 1,890,293</u>	<u>\$ 193,556</u>

# Charter Township of Fenton

## Notes to Financial Statements December 31, 2011

### Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type Activities</b>					
General obligation contracts:					
Ripley Rolston Contract	\$ 650,000	\$ -	\$ 75,000	\$ 575,000	\$ 75,000
Sewer Disposal System No. 3 2003A	3,100,000	-	175,000	2,925,000	200,000
Sewage Disposal System No. 3 2004B	4,100,000	-	150,000	3,950,000	150,000
Improvement Projects Series 2004 A	6,575,000	-	325,000	6,250,000	350,000
Sewer Disposal System No. 3 1996A-Refunding	2,747,368	-	457,610	2,289,758	461,025
District 3 Expansion (98) Refunding 2007	1,838,220	-	83,313	1,754,907	102,813
General Obligation Capital Improvement Bonds 2007	9,905,000	-	400,000	9,505,000	420,000
General Obligation Capital Improvement Bonds 2009	2,600,000	-	95,000	2,505,000	95,000
	<u>31,515,588</u>	<u>-</u>	<u>1,760,923</u>	<u>29,754,665</u>	<u>1,853,838</u>
Net post employment benefit asset	<u>-</u>	<u>27,111</u>	<u>40,269</u>	<u>(13,158)</u>	<u>-</u>
Total business-type activities	<u>\$ 31,515,588</u>	<u>\$ 27,111</u>	<u>\$ 1,801,192</u>	<u>\$ 29,741,507</u>	<u>\$ 1,853,838</u>

Annual requirements to amortize all debt outstanding as of December 31, 2011, including interest payments, are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 156,300	\$ 52,620	\$ 208,920	\$ 1,853,838	\$ 1,285,312	\$ 3,139,150
2013	126,300	46,658	172,958	1,923,590	1,203,428	3,127,018
2014	131,300	41,519	172,819	2,020,310	1,113,780	3,134,090
2015	131,300	36,298	167,598	2,130,638	1,022,104	3,152,742
2016	136,300	30,993	167,293	2,298,432	927,120	3,225,552
2017-2021	426,300	91,697	517,997	9,892,857	3,356,782	13,249,639
2022-2026	345,000	23,737	368,737	8,240,000	1,261,045	9,501,045
2027-2031	-	-	-	1,395,000	137,263	1,532,263
Total	<u>\$ 1,452,800</u>	<u>\$ 323,522</u>	<u>\$ 1,776,322</u>	<u>\$ 29,754,665</u>	<u>\$ 10,306,834</u>	<u>\$ 40,061,499</u>

Act 359, Public Acts of State 1947, as amended, provides that net indebtedness of municipalities cannot exceed 10 percent of the assessed real and personal property in the Township. As of December 31, 2011, the Charter Township of Fenton incurred \$427,800 applicable to the limitation (the sewer utility contracts and special assessment debt are excluded from the limitation). The Township's debt limit is \$74,536,355.

A discount on the 2007 General Obligation Capital Improvement Bonds was \$109,142 and is being amortized over the life of the bond. The unamortized portion of the discount is \$84,585 at December 31, 2011.

# Charter Township of Fenton

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## Notes to Financial Statements December 31, 2011

### Note 7 - Long-term Debt (Continued)

**Future Revenues Pledged for Debt Payment** - The above contractual obligations to the County are a result of the County issuance of bonds on the Township's behalf. The Township has pledged substantially all revenue of the Sewer Fund, net of operating expenses, to repay the obligations; in addition, it has pledged to raise property taxes, to the extent permitted by law, if necessary to fund the obligation to repay the County. Proceeds from the County bonds provided financing for sewer improvements. The remaining principal and interest to be paid on the bonds is \$20,026,515. During the current year, net revenues of the system were \$1,757,543 compared to the annual debt requirements of \$1,479,734.

### Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for employees 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 and sewer discharge claims; the Township is uninsured for unemployment 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 for unemployment claims.

# Charter Township of Fenton

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## Notes to Financial Statements December 31, 2011

### **Note 9 - Defined Contribution Pension Plan**

The Township has a defined contribution pension plan covering all eligible employees who wish to participate. The plan is administered by John Hancock 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 \$858,983 and \$570,753 respectively. The Township's 2011 contributions were \$57,123. Employees contributed \$43,220 during 2011.

### **Note 10 - Other Postemployment Benefits**

**Plan Description** - The Township provides retiree health care benefits to certain active employees after they retire or leave office. This is a single employer defined benefit plan administered by the Township. The benefits are provided under an ordinance passed by the Township.

**Funding Policy** -The Township has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). The Township has elected to use an actuary to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC is allocated between governmental activities and business-type activities based on payroll percentages.

# Charter Township of Fenton

## Notes to Financial Statements December 31, 2011

### Note 10 - Other Postemployment Benefits (Continued)

**Funding Progress** - For the year ended December 31, 2011 the Township has estimated the cost of providing retiree health care benefits through an actuarial valuation as of December 31, 2011. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 110,586
Interest on the prior year's net OPEB obligation	11,812
Less adjustment to the annual required contribution	<u>(15,116)</u>
Annual OPEB cost	107,282
Amounts contributed:	
Payments of current premiums	(583)
Advance funding	<u>(36,433)</u>
Increase in net OPEB obligation	70,266
OPEB obligation - beginning of year	<u>246,712</u>
OPEB obligation - end of year	<u>\$ 316,978</u>

The Sewer Fund opted to contribute more than the ARC for the current year, resulting in a net OPEB asset in the Sewer Fund.

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the current year were as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
12/31/09	12/31/08	\$ 164,485	3.5
12/31/10	12/31/08	164,485	45.2
12/31/11	12/31/11	110,586	34.0

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)
12/31/08	\$ -	\$ 1,380,749	\$ 1,380,749	-
12/31/11	110,622	1,041,248	930,626	10.6

### Note 10 - Other Postemployment Benefits (Continued)

**Actuarial Methods and Assumptions** - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following assumptions were made:

**Retirement age for active employees** - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 55, or at the first subsequent year in which the member would qualify for benefits.

**Mortality** - Life expectancies were based on mortality tables from the National Center for Health Statistics.

**Turnover** - Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

**Healthcare cost trend rate** - The expected rate of increase in healthcare insurance premiums was based on projections of the NIH National Health Expenditure Projections, 2009-2019.

**Health insurance premiums** - 2011 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

**Inflation rate** - The expected long-term inflation assumption of 2.0% percent was based on past trend of wage increases.

**Payroll growth rate** - The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the Township's short-term investment portfolio, a discount rate of 4.8 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2011, was thirty years.



# Charter Township of Fenton

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## Notes to Financial Statements December 31, 2011

### Note 11 - Upcoming Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement 14 and Statement 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the Statement also clarifies the reporting of equity interests in legally separate organizations. The Township is currently evaluating the impact this standard will have on the financial statements when adopted, during the Township's 2013 calendar year.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. The Township is currently evaluating the impact this standard will have on the financial statements when adopted, during the Township's 2012 calendar year.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Statement will be effective for the Township's 2012 calendar year. The Statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This Statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Once implemented, this Statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

## **Required Supplemental Information**

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# Charter Township of Fenton

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2011

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Taxes and collection fees	\$ 723,000	\$ 719,000	\$ 712,338	\$ (6,662)
Licenses and permits	58,400	43,400	44,211	811
Federal grants	5,000	5,000	4,576	(424)
State revenue	877,400	1,125,900	1,208,384	82,484
Charges for services	252,600	236,700	230,580	(6,120)
Fines and forfeitures	27,000	24,000	17,387	(6,613)
Investment income	27,000	22,000	12,231	(9,769)
Other revenue:				
Cable franchise fees	225,000	225,000	328,940	103,940
Other miscellaneous income	200	200	12,172	11,972
Total revenue	2,195,600	2,401,200	2,570,819	169,619
<b>Expenditures - Current</b>				
General government	1,127,400	1,159,600	1,039,184	120,416
Legislative	70,500	68,000	45,002	22,998
Public safety	734,100	779,300	742,540	36,760
Public works	136,500	349,700	164,838	184,862
Recreation and culture	-	-	82,296	(82,296)
Debt service:				
Principal	71,300	71,300	116,483	(45,183)
Interest on long-term debt	55,800	55,800	57,618	(1,818)
Total expenditures	2,195,600	2,483,700	2,247,961	235,739
<b>Excess of Revenue Over (Under)</b>				
<b>Expenditures</b>	-	(82,500)	322,858	405,358
<b>Other Financing Sources</b>				
Proceeds from sale of capital assets	-	-	26	26
Transfers in	-	50,000	50,000	-
Total other financing sources	-	50,000	50,026	26
<b>Net Change in Fund Balance</b>	-	(32,500)	372,884	405,384
<b>Fund Balance - Beginning of year, as restated (Note 1)</b>	1,033,163	1,033,163	1,033,163	-
<b>Fund Balance - End of year</b>	<b>\$ 1,033,163</b>	<b>\$ 1,000,663</b>	<b>\$ 1,406,047</b>	<b>\$ 405,384</b>

# Charter Township of Fenton

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund - Fire Fund Year Ended December 31, 2011

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Charges for services	\$ 128,500	\$ 113,500	\$ 102,155	\$ (11,345)
Investment income	2,000	200	138	(62)
Other revenue:				
Special assessments	532,000	532,000	532,545	545
Total revenue	662,500	645,700	634,838	(10,862)
<b>Expenditures - Current</b>				
Public safety	1,086,600	1,125,100	1,045,513	79,587
Total expenditures	1,086,600	1,125,100	1,045,513	79,587
<b>Excess of Revenue Over Expenditures</b>	(424,100)	(479,400)	(410,675)	68,725
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of capital assets	-	46,500	46,500	-
Transfers out	-	(50,000)	(50,000)	-
<b>Net Change in Fund Balance</b>	(424,100)	(482,900)	(414,175)	68,725
<b>Fund Balance - Beginning of year</b>	509,927	509,927	509,927	-
<b>Fund Balance - End of year</b>	<u>\$ 85,827</u>	<u>\$ 27,027</u>	<u>\$ 95,752</u>	<u>\$ 68,725</u>

# Charter Township of Fenton

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund - Waste Collection Fund Year Ended December 31, 2011

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Investment income	\$ 1,000	\$ 100	\$ 69	\$ (31)
Other revenue:				
Special assessments	684,000	700,000	700,080	80
Total revenue	685,000	700,100	700,149	49
<b>Expenditures - Current</b>				
Public works	687,500	698,000	668,915	29,085
Total expenditures	687,500	698,000	668,915	29,085
<b>Net Change in Fund Balance</b>	(2,500)	2,100	31,234	29,134
<b>Fund Balance - Beginning of year</b>	54,426	54,426	54,426	-
<b>Fund Balance - End of year</b>	<u>\$ 51,926</u>	<u>\$ 56,526</u>	<u>\$ 85,660</u>	<u>\$ 29,134</u>

# Charter Township of Fenton

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## Note to Required Supplemental Information Year Ended December 31, 2011

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds, except that operating transfers and debt proceeds have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)". All annual appropriations lapse at fiscal year end.

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

1. A public hearing is held in conjunction with a regular board meeting.
2. The Township board adopts the budget on a departmental level at a regular board meeting.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level (i.e., the level at which expenditures may not legally exceed appropriations).

## **Other Supplemental Information**

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# Charter Township of Fenton

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds December 31, 2011

	Special Revenue Fund	Debt Service Funds		Total Nonmajor Governmental Funds
<b>Assets</b>	Mosquito Fund	Debt Service Funds		Funds
Cash and investments	\$ 158,762	\$ 10,636		\$ 169,398
Receivables:				
Special assessments receivable	68,103	13,353		81,456
Total assets	<b>\$ 226,865</b>	<b>\$ 23,989</b>		<b>\$ 250,854</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Deferred revenue	\$ 152,922	\$ 13,353		\$ 166,275
Total liabilities	152,922	13,353		166,275
<b>Fund Balances</b>				
Restricted:				
Debt service	-	10,636		10,636
Mosquito control	73,943	-		73,943
Total fund balances	73,943	10,636		84,579
Total liabilities and fund balances	<b>\$ 226,865</b>	<b>\$ 23,989</b>		<b>\$ 250,854</b>



# Charter Township of Fenton

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended December 31, 2011

	Special Revenue Fund	Debt Service Funds	Total Nonmajor Governmental Funds
	Mosquito Fund	Debt Service Funds	Funds
<b>Revenue</b>			
Investment income	\$ 26	\$ 3,665	\$ 3,691
Other revenue	152,761	14,387	167,148
Total revenue	152,787	18,052	170,839
<b>Expenditures</b>			
Current - Public works	178,223	-	178,223
Debt service:			
Principal	-	35,000	35,000
Interest on long-term debt	-	3,949	3,949
Total expenditures	178,223	38,949	217,172
<b>Net Change in Fund Balances</b>	(25,436)	(20,897)	(46,333)
<b>Fund Balances - Beginning of year</b>	99,379	31,533	130,912
<b>Fund Balances - End of year</b>	<b>\$ 73,943</b>	<b>\$ 10,636</b>	<b>\$ 84,579</b>

# Charter Township of Fenton

## Other Supplemental Information Nonmajor Governmental Fund - Mosquito Fund Budgetary Comparison Year Ended December 31, 2011

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Investment income	\$ 1,000	\$ 100	\$ 26	\$ (74)
Other revenue - Special assessments	152,500	152,500	152,761	261
Total revenue	153,500	152,600	152,787	187
<b>Expenditures - Current</b>				
Public works	168,900	178,900	178,223	677
<b>Net Change in Fund Balance</b>	(15,400)	(26,300)	(25,436)	864
<b>Fund Balance - Beginning of year</b>	99,379	99,379	99,379	-
<b>Fund Balance - End of year</b>	<b>\$ 83,979</b>	<b>\$ 73,079</b>	<b>\$ 73,943</b>	<b>\$ 864</b>

# Charter Township of Fenton

## Other Supplemental Information Agency Funds Statement of Assets and Liabilities December 31, 2011

	Agency Funds		
	Trust and Agency Fund	Current Tax Collection Fund	Total Agency Funds
<b>Assets</b>			
Cash and cash equivalents	<u>\$ 245,158</u>	<u>\$ 4,187,573</u>	<u>\$ 4,432,731</u>
<b>Liabilities</b>			
Accounts payable	\$ 21,536	\$ -	\$ 21,536
Due to other governmental units	-	228	228
Deposits payable	223,622	-	223,622
Undistributed taxes	-	4,187,345	4,187,345
Total liabilities	<u>\$ 245,158</u>	<u>\$ 4,187,573</u>	<u>\$ 4,432,731</u>

May 15, 2012

To Board of Trustees  
Charter Township of Fenton

We have audited the financial statements of Charter Township of Fenton for the year ended December 31, 2011 and have issued our report thereon dated May 15, 2012. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Communications Required Under SAS 115

Section II – Communications Required Under SAS 114

Section I – Legislative and Informational Items

Section I includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the Board of Trustees of Fenton Township.

Section II contains updated legislative and informational items that we believe will be of interest to you.

We would like to take this opportunity to thank the Township's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

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

We welcome any questions you may have regarding the following communications and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

**Plante & Moran, PLLC**



Tadd Harburn, CPA



Chrystal Simpson, CPA

## **Section I - Communications Required Under SAS 115**

In planning and performing our audit of the financial statements of Charter Township of Fenton as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the government's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the government's internal control. Accordingly, we do not express an opinion on the effectiveness of the government's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

We consider the following deficiency in the government's internal control to "technically" be a material weakness:

### **Public Access Fees**

The following item came about during a discussion about the implementation of GASB 54 and what type of restricted fund balances the Township has. It resulted in a one-time prior period adjustment that was determined to be needed.

During the current year, a change was identified as being necessary in the method of accounting for public access fees received by the Township. In the past, the public access fees received by the Township were recorded as a liability until eligible project expenditures were paid out. This liability was due to the Township's belief that the separate consortium provided guidance as to how the funds would be spent and it was their funds. However, in reviewing more closely, the Township's administrative responsibilities relative to how the money is spent and that the fees come to the Township as its revenue designated for a specific purpose, the public access fees collected are to be recorded as revenue when received and the public programming payments are to be recorded as expenditures in the General Fund. Any unspent funds would be classified as restricted fund balance in accordance with GASB 54. It should be noted that the funds were always properly administered by the Township just the reporting needed to be changed.

## **Section II - Communications Required Under SAS 114**

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated January 5, 2012, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of Fenton Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on March 13, 2012.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Fenton Township are described in Note I to the financial statements. A new accounting standard was adopted during the year related to GASB 54 related to fund balance classifications as described in Note I of the financial statements.

We noted no transactions entered into by the Township during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

The most sensitive estimates affecting the financial statements were the useful lives for capital assets and the actuarial valuations of other postemployment benefit obligations. Useful lives of capital assets are based on management's estimate of their useful lives. The actuarial valuation is based on key assumptions. We evaluated the key factors and assumptions used to develop the estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

***Difficulties Encountered in Performing the Audit***

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

***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There was a material adjustment recorded related to the change in accounting for program access fees as outlined in the SAS 115 section of the letter above. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

***Disagreements with Management***

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

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated May 15, 2012.

***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Township’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

To our knowledge, there were no such consultations with other accountants.



### **SECTION III – Legislative and Informational Items**

#### **Budgetary Stress**

- Property taxes have declined due to decreases in taxable value. After decades of relatively dependable inflationary increases, taxable valuations as of December 31 dropped approximately \$98 million since 2008, and are projected to decrease another 2.3 percent next year, subject to the final Board of Review and Michigan Tax Tribunal changes.
- State shared revenue experienced a steady decline since 2001, as the State used it to balance its own budget.
- Building permits, interest income and other miscellaneous revenues, it seems have dropped off the charts.

Expected revenue for the new year, 2012, is anticipated to be 1.6 percent lower than 2011. This has permanently re-set the level of services that the Township can afford to provide. In reaction to this revenue decline, the Township has:

- Modified its health care benefit provisions to current employees
- Reduction of staffing levels through attrition

We would like to commend the Township for the actions taken to date. Difficult decisions need to be made to remain fiscally prudent, since any cuts impact employees as well as service levels that residents had come to expect. Unfortunately, the taxable value continues to decline, and we anticipate that additional cost reductions or revenue increases will become necessary in the 2012 budget.

#### **Impact of Census Results on State Shared Revenue**

The 2010 census data was released on March 22, 2011. Census results indicated an overall decline in population for the State of Michigan of 0.6 percent. The impact of the census on local units of government will vary widely; based mostly upon whether or not a local unit was receiving statutory revenue sharing payments prior to the change to EVIP. For the Charter Township of Fenton, the impact of the census was a retroactive increase of \$117,214 in June and August of 2011 related to the statutory revenue sharing. Going forward, the increase in population will have an impact on both constitutional and payments through the new EVIP program.

#### **State Initiatives Impacting Local Units of Government**

As you know, Governor Snyder began his tenure with several significant initiatives, and he is moving his agenda forward at a quick pace. He is focused on initiatives to improve the transparency and efficiency of local units – cities, townships, villages and counties. More specifically, his current local government initiatives include:

- Replace “statutory revenue sharing” with the EVIP program. This program decreased the amount paid to local units by approximately 1/3 and required local units to earn the remaining \$200 million by demonstrating best practices in the following areas:
  - Transparency - provide more accessible financial information to citizens;
  - Service sharing – consolidation or collaboration with other units of government
  - Employee benefits – slimmed down pension and health care benefits
- Significantly strengthening the powers of emergency managers through Public Act 4
- Amendments to Act 312, police and fire arbitration
- Changes to the Urban Cooperation Act
- Potential elimination of personal property taxes

Each of these initiatives could have an impact on the Charter Township of Fenton, and will be discussed in more detail below.

### **EVIP Program Requirements**

Charter Township of Fenton is not eligible to receive statutory revenue sharing, the following are requirements of the EVIP program that although the Township is not required to follow, are considered to be best practices.

#### Accountability and Transparency

Governor Snyder’s proposal called for each local unit to produce a citizen’s guide to their finances (a “transparency tool”) and a performance “dashboard” by October 1, 2011. The citizen’s guide was a simplified view of financial data, and the performance dashboard consisted of comparisons of key metrics for your community.

For fiscal year 2013, the Governor is making the following recommendations as part of the budget to comply with this portion of EVIP. The following would be due by October 1, 2012 (or by the 1<sup>st</sup> day of a payment month):

- A Citizen’s Guide (similar to FY 2012; must now also include most recent finances including a recognition of unfunded liabilities)
- A Performance Dashboard (there will be no specific requirements in FY 2013, local units will have the flexibility to decide what to include)
- A Projected Budget Report
  - Minimum of 3 years of projected revenues and expenditures (it is unclear if this will be required for just the General Fund or all funds)
  - Detailed listing of debt service requirements
  - An explanation of any assumptions used in creating the projections

- A signed certification form

#### Service Sharing and Consolidation

The second requirement for EVIP had an implementation date of January 1, 2012. The State required local units to submit a plan that identifies the increased sharing of services with other governments, or consolidation of services. Past endeavors were considered this first year, in addition to the State looking for communities to develop plans to enter into new sharing arrangements. Communities were required to certify that they had plans that they intended to implement. Actual sharing agreements did not need to be in place by January 1, 2012.

The State required the service sharing plans to include estimates of potential savings and costs associated with sharing services. In addition, the State set aside a small amount (\$5 million out of the \$200 million) to assist communities with one-time implementation costs related to launching new service sharing initiatives. These grant dollars have already been awarded.

Looking forward to FY 2013, the State is setting aside \$25 million (of which \$10 million is specifically for public safety) out of the \$210 million of EVIP funds to be used for the competitive grant assistance program. This funding will be made available to all cities, villages, townships and counties and the application deadline will be determined by Treasury. The recommendations for compliance with this portion of EVIP are as follows:

- A consolidation plan or updated consolidation plan
  - o Assuming the Township submitted a plan in 2012 the following updates will be necessary:
    - Whether or not the proposal(s) were fully implemented
    - A listing of any barriers encountered while implementing
    - A timeline of the steps taken to accomplish the proposal
    - One new proposal with required information (savings estimate and timeline)
- A signed certification form

#### Employee Compensation Best Practices

The new EVIP program requires a plan to make changes only to new, modified, or extended employee contracts. The program requires each unit to develop an employee compensation plan (which it intends to implement). The plan should address each of the following (it is important to note that none of these changes has to be implemented by May 1; further there is no penalty or pay-back if some components of the plan are unable to ultimately be successfully implemented):

- a) Placing all new hires in a defined contribution plan or a hybrid retirement plan that caps annual employer contributions at 10 percent of base salary.

- b) Where applicable, a 1.5 percent multiplier should be used to determine employee pensions. A 2 percent multiplier should be used for employees who are not eligible for social security benefits.
- c) Implementing controls to avoid pension spiking such as using a three-year salary average that does not include more than a total of 240 hours of paid leave and overtime to determine benefit levels.
- d) If health care is offered, all new hires must be on an 80/20 employer to employee health care premium split.

This requirement begins on May 1, 2012. At that point, the Township will have to certify that they have developed a plan that they intend to implement.

While this requirement date for FY 2012 has not yet passed, the Governor is already making recommendations for compliance in FY 2013. These requirements include:

- Assuming an initial plan is submitted in FY 2012 the following will be required by May 1, 2013 for FY 2013:
  - A report on implementing the previous year's plan
  - A list of any barriers encountered in implementing the plan
  - A list of all contracts or employment agreements, when they expire and the date contracts/agreements were or will be entered into
- A signed certification form

The FY 2013 requirements state that any retirement plans offered as part of any contracts and employment agreements that are entered into after September 30, 2012 must include the following provisions:

- Retirement plans for all employees must adhere to the maximum multiplier limits; average accrued leave and final average calculations for pension calculations must be consistent with the FY 2012 requirements
- Retirement plans for new hires must cap annual employer contributions

In addition, the Governor's budget will be requiring that any eligible local unit must certify to the Department of Treasury by April 13, 2013 that they are either in compliance with sections 3, 4 or 5 of PA 152 of 2011 (see below for more discussion) OR that they do not provide health benefits to their employees or public officials. Section 3 refers to the hard caps; section 4 relates to 80/20 and section 5 is the provision that states no changes are necessary until the expiration of existing contracts (those signed prior to September 2011). Opting out of PA 152 of 2011 will not qualify under the EVIP program.

Very recently, HB 5382 was passed by the House General Government Subcommittee on Appropriations. This Bill would still have to be passed by both the House and Senate, so discussions are far from final. The Bill differs from the Governor's recommendation, in the following areas:

- Increases the Governor's proposed EVIP budget from \$210 million to \$220 million
- Reduces the 3 year budget requirement to one year
- Changes the Governor's proposed requirement for an additional consolidation project and would allow communities to qualify even if they do not have a new project as long as it is explained why such project was not feasible
- Allows for communities that are in compliance with PA 152 to comply with the employee compensation category

As mentioned, this Bill is newly introduced. What the actual requirements will be for FY 2013 remains up in the air at this point. Stay tuned.

### **Healthcare Limitations**

PA 152 of 2011, the "Publicly Funded Health Insurance Contribution Act", was signed into law by the Governor in late September 2011. This new law requires all public employers to place hard caps on the amounts they contribute toward healthcare with an option to elect an 80 percent contribution cap rather than a hard cap. There is also an option for a "local unit" to opt out entirely. Please note that local unit has a different definition than public employer. Not all public employers are deemed to be local units.

PA 152 would limit annual costs for medical benefit plans to the following:

- \$5,500 for single coverage
- \$11,000 for individual and spousal coverage
- \$15,000 for family coverage

These limits would apply to "contract years" beginning after January 1, 2012 (although it would not apply to employees covered by a union contract entered into before September 27, 2011 until that contract expired). Current guidance from the Treasury Department defines "contract year" as the one-year period beginning on the date that newly elected or newly renewed coverage begins for a group of persons under a medical benefit plan. (Typically this period begins soon after the close of the annual open enrollment.)

Alternatively, given a majority vote of its governing bodies, a public employer can opt out of the hard cap and into an 80 percent contribution cap. Under this option, public employers would pay no more than 80 percent of the total annual costs for all of the medical benefit plans it offers or contributed to for its employees and elected public officials. This option would REQUIRE that publically elected officials would have to pay 20 percent or more of the total annual costs of that plan, but the employee's share of the costs could be allocated as the government sees fit.

This Act does contain a complete opt-out provision, but only for local units. It would allow communities to opt-out of these provisions entirely with a 2/3 vote of the governing body.

Failure to comply with the provisions in this Act will result in a 10 percent reduction in each EVIP payment for the period of noncompliance. Opting out by a 2/3 vote of the governing body under the provisions of this act is not considered failure to comply.

### **Potential Elimination of the Personal Property Tax**

There has been much talk regarding elimination of personal property tax. If personal property tax were completely eliminated, this would reduce revenue for communities across the State by approximately \$770 million. Including the school districts, the lost revenue would be over \$1 billion.

Obviously, this would be devastating to many communities as personal property taxes are a significant component of a local unit's tax structure. Proposed legislation may be introduced any day now. The expectation is for the legislation to have a phase-out for industrial personal property beginning in 2016 and being phased out over 10 years' time. There is some discussion of the phase-out being based on the year it was added to the tax roll. In addition, it is expected that companies with less than \$40,000 in commercial personal property would be exempt from the tax going forward. The reasoning from the legislature is that this will eliminate up to 75 percent of the physical bills that need to be processed but would not dramatically impact the tax dollars generated at the local unit level. The component of the legislation that remains in question is what the replacement revenue plan will be. Many reports indicate the replacement revenue is supposed to come from expiring tax credits and the plan is to start appropriating these funds in 2016, which is obviously several years out. The Charter Township of Fenton personal property tax currently brings in approximately \$16,700.

### **Emergency Managers – Public Act 4 of 2011**

On March 16, 2011, PA 4, *Local Government and School District Fiscal Accountability Act*, was signed into law. This Act repeals Public Act 72 of 1990, the previous *Local Government Fiscal Responsibility Act*. Under the new Act, the State Treasurer can conduct a preliminary review to determine the existence of a local government financial problem if one or more of 18 different "triggering events" occur. Some of these events are truly a sign of financial stress, such as incurring payless paydays or defaulting on a bond or note payment. Others are more subjective, including a blanket statement that the existence of "other facts or circumstances...as determined by the State Treasurer" is sufficient to start the process.

If a finding of probable financial stress is made, the Governor shall appoint a review team. The team would conduct its review and report back to the Governor and State Treasurer within 60 days of its appointment. Depending on the severity of the findings during the review, the actions then taken could range from none to a declaration of a financial emergency, the local unit would be placed in receivership, and an Emergency Manager (EM) appointed in place of the existing governing body and chief administrative officer.

For communities that have some of the triggers but seem to have a plan to address them, there is an in-between step whereby a consent agreement is entered into and monitored.

Clearly, this legislation is causing great anxiety in terms of both the uncertainty as to how aggressive the State will be in implementing the legislation as well the broadness of the powers granted to an EM. Any new EMs would have the authority to reject, modify or terminate the terms of an existing contract or collective bargaining agreement. This legislation may ultimately change the tenor of future union negotiations, in that it gives the collective bargaining representatives a strong incentive to work with the Township to avoid receivership by an EM.

It should be noted that petitions have been delivered to the State calling for a referendum to repeal the law granting special powers to emergency managers. Public Act 4 will remain in effect until State election officials certify the petitions. If the required number of signatures exists, the law could be suspended or Public Act 72, which is the Emergency Financial Manager law, may come back into play. Public Act 72 does not grant the same level of powers to an Emergency Manager. It is uncertain at this time how this will play out.

### **Amendments to Act 312, Police & Fire Arbitration**

Public Act 312 prohibits public police and fire department employees from the right to strike. Whenever contracts are not resolved, the employees or employer may initiate binding arbitration in lieu of striking. The arbitrator's decision is final and binding upon the parties involved. In July 2011, Public Act 116 of 2011 was signed into law and contains the following provisions:

- A stronger consideration of a community's ability to pay;
- Internal salary and benefit comparisons
- Reducing the timeframe of the process to no more than 180 days.

### **Retro-Pay Prohibition**

Public Act 54 of 2011, which was signed by the Governor on June 7, prohibits retroactive pay on an expired contract and calls for employees working under an expired agreement to bear the cost of any increased healthcare costs until a new contract is in effect. During that period, the public employer is authorized to make payroll deductions necessary to pay the increased cost of maintaining those benefits.

### **Deficit Elimination Plans**

The Michigan Department of Treasury issued numbered letter 2012-1 in February of 2012 which clarifies when a deficit elimination plan is required and how to quantify the deficit requiring elimination. In addition, it also charges local units with the responsibility to file deficit elimination plans concurrent with the submission of the audit report to the Department of Treasury. Local units should no longer be waiting on a letter from the State to file their plans. The plans are now due on or before the filing of your financial statement. Failure to file a plan can result in withholding of 25 percent of the EVIP revenue sharing payments.

The plans should typically result in elimination of the deficit within one year but should never exceed five years. These plans should also have acceptable evidence to support the plan. The letter defines “acceptable evidence” as certified board/council resolutions approving the funding and the journal entry showing that the transfer was made in the general ledger. Additionally, if there is a projected multi-year budget, this too must be approved by the council/board and submitted. Plans and support can be emailed to [Treas\\_MunicipalFinance@michigan.gov](mailto:Treas_MunicipalFinance@michigan.gov) OR mailed to the Michigan Department of Treasury.

The letter defines a fund deficit, since the law lacks any reference to generally accepted accounting terminology. It states that for governmental funds (not proprietary funds, fiduciary funds or discretely presented component units) “a plan is necessary to eliminate any “unrestricted fund balance” deficits. Unrestricted fund balance is the sum of the committed, assigned, and unassigned balances.” Determining whether a deficit exists is more challenging for proprietary funds, fiduciary funds, and discretely presented component units and local units will be expected to apply the test that is explained in the letter. We highly recommend that local units review the letter at the following link to ensure that they comply with the requirements: [http://www.michigan.gov/treasury/0,1607,7-121-1751\\_2194\\_2196---,00.html#2012](http://www.michigan.gov/treasury/0,1607,7-121-1751_2194_2196---,00.html#2012).





