

Charter Township of Fenton

**Financial Report
with Supplemental Information
December 31, 2012**

Charter Township of Fenton

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Independent Auditor's Report

To the Board of Directors
Charter Township of Fenton

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Fenton (the "Township") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Charter Township of Fenton's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Board of Directors
Charter Township of Fenton

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, 2012 and the respective changes in its financial position, and where applicable, cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the major fund budgetary comparison schedules on pages 3-7 and 38-40, respectively, 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, which 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Fenton's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Plante & Morse, PLLC

May 21, 2013

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's financial activities for the fiscal year ended December 31, 2012. 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 position 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's 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 position and changes in net position, compared to the prior two years:

	Governmental Activities				Percent Change
	2010	2011	2012	Change	
Assets					
Other assets	\$ 3,909,722	\$ 3,806,441	\$ 3,821,920	\$ 15,479	0%
Capital assets	<u>3,565,290</u>	<u>3,912,699</u>	<u>3,940,962</u>	<u>28,263</u>	1%
Total assets	7,475,012	7,719,140	7,762,882	43,742	1%
Liabilities					
Current liabilities	2,180,708	2,145,884	2,149,314	3,430	0%
Long-term liabilities	<u>1,971,625</u>	<u>1,890,293</u>	<u>1,814,357</u>	<u>(75,936)</u>	-4%
Total liabilities	<u>4,152,333</u>	<u>4,036,177</u>	<u>3,963,671</u>	<u>(72,506)</u>	-2%
Net Position					
Net investment in capital assets	2,076,147	2,494,899	2,644,462	149,563	6%
Restricted	948,624	589,410	744,829	155,419	26%
Unrestricted	<u>297,908</u>	<u>598,654</u>	<u>409,920</u>	<u>(188,734)</u>	-32%
Total net position	<u>\$ 3,322,679</u>	<u>\$ 3,682,963</u>	<u>\$ 3,799,211</u>	<u>\$ 116,248</u>	3%

Charter Township of Fenton

Management's Discussion and Analysis (Continued)

	Governmental Activities				Percent Change
	2010	2011	2012	Change	
Revenue					
Program revenue:					
Charges for services	\$ 1,036,063	\$ 947,080	\$ 450,617	\$ (496,463)	-52%
Operating grants	34,297	11,029	14,511	3,482	32%
General revenue:					
Property taxes	797,201	712,338	656,684	(55,654)	-8%
Township-wide assessments	869,057	852,841	1,387,923	535,082	63%
State-shared revenue	841,241	1,184,129	1,134,057	(50,072)	-4%
Investment earnings	19,174	16,129	22,551	6,422	40%
Other revenue	310,473	385,238	354,402	(30,836)	-8%
Total revenue	3,907,506	4,108,784	4,020,745	(88,039)	-2%
Program Expenses					
General government	368,199	1,093,054	913,063	(179,991)	-16%
Legislative	79,912	45,991	54,633	8,642	19%
Public safety	1,373,088	1,386,581	1,373,411	(13,170)	-1%
Public works	1,895,014	1,082,539	1,402,809	320,270	30%
Recreation and cultural	35,480	82,296	112,055	29,759	36%
Interest on long-term debt	38,992	58,039	48,526	(9,513)	-16%
Total expenses	3,790,685	3,748,500	3,904,497	155,997	4%
Change in Net Position	<u>\$ 116,821</u>	<u>\$ 360,284</u>	<u>\$ 116,248</u>	<u>\$ (244,036)</u>	-68%

The governmental net position increased 3 percent from a year ago - increasing from \$3,682,963 to \$3,799,211. Last year's net position increased by 11 percent.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations - decreased by \$188,734 for the governmental activities. This represents a decrease of approximately 32 percent. The current level of unrestricted net position for our governmental activities stands at \$409,920, which may be used to meet the Township's ongoing obligations to citizens and creditors.

The Township saw an increase in public works expense during the year due to various road projects that were completed during the year.

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 position and changes in net position, compared to the prior two years:

	Business-type Activities				Percent Change
	2010	2011	2012	Change	
Assets					
Other assets	\$ 3,341,805	\$ 3,104,384	\$ 2,887,758	\$ (216,626)	-7%
Capital assets	<u>42,458,156</u>	<u>41,237,612</u>	<u>40,065,730</u>	<u>(1,171,882)</u>	-3%
Total assets	45,799,961	44,341,996	42,953,488	(1,388,508)	-3%
Liabilities					
Current liabilities	967,187	772,343	757,725	(14,618)	-2%
Long-term liabilities	<u>31,515,588</u>	<u>29,754,665</u>	<u>27,900,827</u>	<u>(1,853,838)</u>	-6%
Total liabilities	<u>32,482,775</u>	<u>30,527,008</u>	<u>28,658,552</u>	<u>(1,868,456)</u>	-6%
Net Position					
Net investment in capital assets	11,121,741	11,482,947	12,356,232	873,285	8%
Restricted	-	13,158	-	(13,158)	100%
Unrestricted	<u>2,195,445</u>	<u>2,318,883</u>	<u>1,938,704</u>	<u>(380,179)</u>	-16%
Total net position	<u>\$ 13,317,186</u>	<u>\$ 13,814,988</u>	<u>\$ 14,294,936</u>	<u>\$ 479,948</u>	3%

	Business-type Activities				Percent Change
	2010	2011	2012	Change	
Operating revenue	\$ 6,023,873	\$ 6,021,083	\$ 6,015,320	\$ (5,763)	0%
Operating expenses, other than depreciation	2,888,361	3,083,647	3,118,582	34,935	1%
Depreciation and amortization	<u>1,234,221</u>	<u>1,235,131</u>	<u>1,218,008</u>	<u>(17,123)</u>	-1%
Operating Income	1,901,291	1,702,305	1,678,730	(23,575)	-1%
Interest income	4,784	1,404	827	(577)	-41%
Interest expense	1,421,158	1,258,002	1,281,110	23,108	2%
Nonoperating expenses	2,439	2,366	2,849	483	20%
Capital contributions	<u>19,440</u>	<u>54,461</u>	<u>84,350</u>	<u>29,889</u>	55%
Change in Net Position	<u>\$ 501,918</u>	<u>\$ 497,802</u>	<u>\$ 479,948</u>	<u>\$ (17,854)</u>	-4%

The Township's business-type activities consist of the Sewer Fund. The net position of business type activities increased by 3 percent. Last year's net position increased by 4 percent. Unrestricted net position of the business-type activities decreased by \$380,179 or 16 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
	2010	2011	2012	Change	
Revenue					
Property taxes	\$ 797,201	\$ 712,338	\$ 656,684	\$ (55,654)	-8%
Charges for services	422,458	332,735	337,740	5,005	2%
Licenses and permits	41,577	44,211	69,276	25,065	57%
State-shared revenues	841,241	1,184,129	1,134,057	(50,072)	-4%
Federal, state, and local grants	53,201	28,831	33,832	5,001	17%
Cable franchise fees	310,473	328,940	349,416	20,476	6%
Fines and forfeitures	18,761	17,387	16,187	(1,200)	-7%
Interest and rentals	19,174	16,129	22,551	6,422	40%
Special assessments	1,429,120	1,399,773	1,399,276	(497)	0%
Other	1,350	12,172	6,186	(5,986)	49%
Total revenue	3,934,556	4,076,645	4,025,205	(51,440)	-1%
Expenditures					
Current:					
General government	1,240,899	1,039,184	1,090,212	51,028	5%
Legislative	79,912	45,002	54,633	9,631	21%
Public safety	1,232,454	1,788,053	1,233,350	(554,703)	-31%
Public works	1,828,992	1,011,976	1,304,727	292,751	29%
Recreation and culture	35,480	82,296	112,055	29,759	36%
Debt service	200,998	213,050	208,072	(4,978)	-2%
Total expenditures	4,618,735	4,179,561	4,003,049	(176,512)	-4%
Excess of Revenue (Under) Over Expenditures	(684,179)	(102,916)	22,156	125,072	-122%
Other Financing Sources					
Proceeds from sales of capital assets	-	46,526	-	(46,526)	100%
Issuance of debt/debt defeasance	990,000	-	-	-	100%
Total other financing sources	990,000	46,526	-	(46,526)	100%
Net Change in Fund Balances	305,821	(56,390)	22,156	78,546	-139%
Fund Balances - Beginning of year	1,422,607	1,728,428	1,672,038	(56,390)	-3%
Fund Balances - End of year	<u>\$ 1,728,428</u>	<u>\$ 1,672,038</u>	<u>\$ 1,694,194</u>	<u>\$ 22,156</u>	1%

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 \$1,242,424. This represents a decrease of \$163,623 from the prior year. The Township's General Fund revenues excluding other financing sources were \$2.5 million. Property taxes were \$656,684 or 26 percent of the total revenue. State revenue sharing made up \$1,160,369 or 46 percent of total revenue.

Capital Asset and Debt Administration

At the end of 2012, the Township had invested \$14.8 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 \$1.8 million in governmental long-term debt, including \$70,000 in special assessment debt. In the Sewer Enterprise Fund, the Township has \$28 million in bonds outstanding.

Economic Factors and Next Year's Budgets and Rates

The budget for 2012 was amended as required by State law. Both the original and amended budgets have been shown in this document for 2012. The Township has again produced a timely budget for 2013.

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 Position December 31, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents (Note 3)	\$ 2,378,019	\$ 1,812,502	\$ 4,190,521
Receivables	1,371,611	881,447	2,253,058
Other assets	63,339	191,329	254,668
Land held for resale	8,951	-	8,951
Net OPEB asset (Note 9)	-	2,480	2,480
Capital assets (Note 5):			
Assets not subject to depreciation	129,182	5,485	134,667
Assets subject to depreciation	3,811,780	40,060,245	43,872,025
Total assets	<u>7,762,882</u>	<u>42,953,488</u>	<u>50,716,370</u>
Liabilities			
Accounts payable	97,000	82,130	179,130
Accrued interest payable	21,588	252,295	273,883
Due to other governmental units	148,681	-	148,681
Deposits payable	22,550	-	22,550
Deferred revenue (Note 4)	1,859,495	423,300	2,282,795
Noncurrent liabilities (Note 6):			
Due within one year	181,565	1,923,590	2,105,155
Due in more than one year	1,632,792	25,977,237	27,610,029
Total liabilities	<u>3,963,671</u>	<u>28,658,552</u>	<u>32,622,223</u>
Net Position			
Net investment in capital assets	2,644,462	12,356,232	15,000,694
Restricted for:			
Fire operations	267,410	-	267,410
Waste collection	85,934	-	85,934
Mosquito control	93,640	-	93,640
Public access programming	297,845	-	297,845
Unrestricted	409,920	1,938,704	2,348,624
Total net position	<u>\$ 3,799,211</u>	<u>\$ 14,294,936</u>	<u>\$ 18,094,147</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	\$ 913,063	\$ 267,076	\$ -	\$ -
Legislative	54,633	-	-	-
Public safety	1,373,411	172,188	-	-
Public works	1,402,809	11,353	14,511	-
Recreation and culture	112,055	-	-	-
Interest on long-term debt	48,526	-	-	-
Total governmental activities	3,904,497	450,617	14,511	-
Sewer Fund	5,620,549	6,015,320	-	84,350
Total primary government	<u>\$ 9,525,046</u>	<u>\$ 6,465,937</u>	<u>\$ 14,511</u>	<u>\$ 84,350</u>

General revenue:

- Taxes and collection fees
- Special assessment revenue
- State-shared revenue
- Investment income
- Cable franchise fees
- Gain on sale of fixed assets

Total general revenue

Change in Net Position

Net Position - Beginning of year

Net Position - End of year

**Statement of Activities
Year Ended December 31, 2012**

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (645,987)	\$ -	\$ (645,987)
(54,633)	-	(54,633)
(1,201,223)	-	(1,201,223)
(1,376,945)	-	(1,376,945)
(112,055)	-	(112,055)
(48,526)	-	(48,526)
(3,439,369)	-	(3,439,369)
-	479,121	479,121
(3,439,369)	479,121	(2,960,248)
656,684	-	656,684
1,387,923	-	1,387,923
1,134,057	-	1,134,057
22,551	827	23,378
349,416	-	349,416
4,986	-	4,986
3,555,617	827	3,556,444
116,248	479,948	596,196
3,682,963	13,814,988	17,497,951
<u>\$ 3,799,211</u>	<u>\$ 14,294,936</u>	<u>\$ 18,094,147</u>

Charter Township of Fenton

Governmental Funds Balance Sheet December 31, 2012

	General Fund	Waste Collection Fund	Fire Fund	Nonmajor Funds	Total
Assets					
Cash and cash equivalents (Note 3)	\$ 1,120,263	\$ 546,288	\$ 528,557	\$ 182,911	\$ 2,378,019
Receivables:					
Property taxes receivable	225,256	-	-	-	225,256
Special assessments receivable	28,809	299,981	248,810	63,834	641,434
Accounts	91,652	140	-	28	91,820
Due from other governmental units	388,510	-	24,591	-	413,101
Prepaid items	43,906	-	19,433	-	63,339
Land held for resale	8,951	-	-	-	8,951
Total assets	<u>\$ 1,907,347</u>	<u>\$ 846,409</u>	<u>\$ 821,391</u>	<u>\$ 246,773</u>	<u>\$ 3,821,920</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 21,725	\$ 58,235	\$ 17,040	\$ -	\$ 97,000
Due to other governmental units	148,681	-	-	-	148,681
Deposits payable	22,550	-	-	-	22,550
Deferred revenue (Note 4)	471,967	702,240	532,155	153,133	1,859,495
Total liabilities	664,923	760,475	549,195	153,133	2,127,726
Fund Balances					
Nonspendable:					
Assets held for resale	8,951	-	-	-	8,951
Prepays	43,906	-	19,433	-	63,339
Restricted:					
Fire operations	-	-	252,763	-	252,763
Public access programming	297,845	-	-	-	297,845
Waste collection	-	85,934	-	-	85,934
Mosquito control	-	-	-	93,640	93,640
Unassigned	891,722	-	-	-	891,722
Total fund balances	<u>1,242,424</u>	<u>85,934</u>	<u>272,196</u>	<u>93,640</u>	<u>1,694,194</u>
Total liabilities and fund balances	<u>\$ 1,907,347</u>	<u>\$ 846,409</u>	<u>\$ 821,391</u>	<u>\$ 246,773</u>	<u>\$ 3,821,920</u>

Charter Township of Fenton

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position December 31, 2012

Fund Balance Reported in Governmental Funds	\$ 1,694,194
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	3,940,962
Bonds payable are not due and payable in the current period and are not reported in the funds	(1,296,500)
Accrued interest is not due and payable in the current period and is not reported in the funds	(21,588)
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	(106,563)
Other long-term liabilities, such as net postemployment obligations, do not present a claim on current financial resources and are not reported as fund liabilities	<u>(411,294)</u>
Net Position of Governmental Activities	<u>\$ 3,799,211</u>

Charter Township of Fenton

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2012

	General Fund	Waste Collection Fund	Fire Fund	Nonmajor Funds	Total
Revenue					
Taxes and collection fees	\$ 656,684	\$ -	\$ -	\$ -	\$ 656,684
Licenses and permits	69,276	-	-	-	69,276
Federal grants	7,520	-	-	-	7,520
State revenue	1,160,369	-	-	-	1,160,369
Charges for services	235,729	-	102,011	-	337,740
Fines and forfeitures	16,187	-	-	-	16,187
Investment income	9,540	-	-	13,011	22,551
Other revenue:					
Special assessments	-	702,100	532,545	164,631	1,399,276
Cable franchise fees	349,416	-	-	-	349,416
Other miscellaneous income	5,585	-	601	-	6,186
Total revenue	2,510,306	702,100	635,157	177,642	4,025,205
Expenditures					
Current:					
General government	1,090,212	-	-	-	1,090,212
Legislative	54,633	-	-	-	54,633
Public safety	774,637	-	458,713	-	1,233,350
Public works	469,320	701,826	-	133,581	1,304,727
Recreation and culture	112,055	-	-	-	112,055
Debt service:					
Principal	121,300	-	-	35,000	156,300
Interest on long-term debt	51,772	-	-	-	51,772
Total expenditures	2,673,929	701,826	458,713	168,581	4,003,049
Net Change in Fund Balances	(163,623)	274	176,444	9,061	22,156
Fund Balances - Beginning of year	1,406,047	85,660	95,752	84,579	1,672,038
Fund Balances - End of year	\$ 1,242,424	\$ 85,934	\$ 272,196	\$ 93,640	\$ 1,694,194

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, 2012

Net Change in Fund Balances - Total Governmental Funds	\$ 22,156
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	310,571
Depreciation expense	(282,308)
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	(13,353)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	156,300
Decrease in accrued interest on long-term debt reported in the statement of activities does not require the use of current resources, and therefore is not reported in the fund statements until it comes due for payment	3,246
Increase in accumulated employee sick and vacation time and other postemployment 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	(80,364)
Change in Net Position of Governmental Activities	<u>\$ 116,248</u>

Charter Township of Fenton

Proprietary Fund Statement of Net Position December 31, 2012

	Enterprise Fund
	<u>Sewer Fund</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 1,812,502
Receivables:	
Delinquent usage receivable	352,261
Accounts	1,632
User fees	510,112
Connection fees	17,442
Discount and bond issuance costs	<u>191,329</u>
Total current assets	2,885,278
Noncurrent assets:	
Net OPEB asset	2,480
Capital assets	<u>40,065,730</u>
Total noncurrent assets	<u>40,068,210</u>
Total assets	42,953,488
Liabilities	
Current liabilities:	
Accounts payable	82,130
Accrued interest payable	252,295
Deferred revenue	423,300
General obligation contracts payable - Current	<u>1,923,590</u>
Total current liabilities	2,681,315
Noncurrent liabilities - General obligation contracts payable - Long-term	<u>25,977,237</u>
Total liabilities	<u>28,658,552</u>
Net Position	
Net investment in capital assets	12,356,232
Unrestricted	<u>1,938,704</u>
Total net position	<u><u>\$ 14,294,936</u></u>

Charter Township of Fenton

Proprietary Fund Statement of Revenue, Expenses, and Changes in Net Position Year Ended December 31, 2012

	Enterprise Fund <u>Sewer Fund</u>
Operating Revenue - Charges for services	6,015,320
Operating Expenses	
Sewer treatment fees	1,707,749
Other contractual services	1,021,956
Equipment repairs and maintenance	10,795
Insurance	30,803
Billing fees and postage	6,624
Administrative expense	223,254
Utilities	109,603
Miscellaneous	7,798
Depreciation	<u>1,218,008</u>
Total operating expenses	<u>4,336,590</u>
Operating Income	1,678,730
Nonoperating Revenue (Expenses)	
Investment income	827
Bond interest expense	(1,281,110)
Bond agent fees	<u>(2,849)</u>
Total nonoperating expenses	<u>(1,283,132)</u>
Income - Before contributions	395,598
Capital Contributions - Tap-in fees	<u>84,350</u>
Change in Net Position	479,948
Net Position - Beginning of year	<u>13,814,988</u>
Net Position - End of year	<u><u>\$ 14,294,936</u></u>

Charter Township of Fenton

Proprietary Fund Statement of Cash Flows Year Ended December 31, 2012

	<u>Enterprise Fund</u> <u>Sewer Fund</u>
Cash Flows from Operating Activities	
Receipts from customers	\$ 6,046,453
Payments to suppliers	(2,871,382)
Payments to employees	(212,576)
Internal activity - Payments to other funds	<u>(6,624)</u>
Net cash provided by operating activities	2,955,871
Cash Flows from Capital and Related Financing Activities	
Tap-in fees	82,639
Purchase of capital assets	(46,126)
Principal and interest paid on capital debt	<u>(3,141,296)</u>
Net cash used in capital and related financing activities	<u>(3,104,783)</u>
Net Decrease in Cash and Cash Equivalents	(148,912)
Cash and Cash Equivalents - Beginning of year	<u>1,961,414</u>
Cash and Cash Equivalents - End of year	<u>\$ 1,812,502</u>
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 1,678,730
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation and amortization	1,218,008
Changes in assets and liabilities:	
Receivables	31,133
Prepaid and other assets	16,575
Accounts payable	747
Net OPEB obligation	<u>10,678</u>
Net cash provided by operating activities	<u>\$ 2,955,871</u>

Charter Township of Fenton

Fiduciary Funds Statement of Fiduciary Net Position December 31, 2012

	Retiree Health Care Fund	Agency Funds
Assets		
Cash and cash equivalents	\$ -	\$ 4,088,240
Investments - Mutual funds	137,609	-
Total assets	137,609	<u>\$ 4,088,240</u>
Liabilities		
Accounts payable	-	\$ 18,359
Due to other governmental units	-	33
Deposits payable	-	237,797
Undistributed taxes	-	3,832,051
Total liabilities	-	<u>\$ 4,088,240</u>
Net Position Held in Trust for Pension and Other Employee Benefits	<u>\$ 137,609</u>	

Charter Township of Fenton

Fiduciary Funds Statement of Changes in Fiduciary Net Position Retiree Health Care Fund Year Ended December 31, 2012

	Retiree Health Care Fund
Additions	
Investment income:	
Interest and dividends	\$ 1,342
Net increase in fair value of investments	13,637
Investment-related expenses	<u>(569)</u>
Net investment income	14,410
Contributions - Employer	<u>12,577</u>
Total additions	26,987
Net Position Held in Trust for Pension and Other Employee Benefits -	
Beginning of year	<u>110,622</u>
Net Position Held in Trust for Pension and Other Employee Benefits -	
End of year	<u><u>\$ 137,609</u></u>

Charter Township of Fenton

Notes to Financial Statements December 31, 2012

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, 2012.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government 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 revenue, 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 revenue. 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 revenue 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, 2012

Note I - 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, 2012

Note I - 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 position and statement of 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.

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.

Charter Township of Fenton

Notes to Financial Statements December 31, 2012

Note I - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

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

The Township's 2011 tax is levied and collectible on December 1, 2011 and is recognized as revenue in the year ended December 31, 2012, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2011 taxable valuation of the Township totaled \$670 million, on which taxes levied consisted of 0.7122 mills for operating purposes. This resulted in \$430,021 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.

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.

Charter Township of Fenton

Notes to Financial Statements December 31, 2012

Note I - Summary of Significant Accounting Policies (Continued)

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 pay 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.

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

Charter Township of Fenton

Notes to Financial Statements December 31, 2012

Note I - Summary of Significant Accounting Policies (Continued)

Nonspendable: Amounts that are not in spendable form 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.

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.

Charter Township of Fenton

Notes to Financial Statements December 31, 2012

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, 2012		\$	(997,579)
Current year permit revenue			66,255
Related expenses:			
Direct costs	\$	(31,009)	
Estimated indirect costs		<u>(52,685)</u>	<u>(83,694)</u>
Current year shortfall			<u>(17,439)</u>
Cumulative shortfall at December 31, 2012		\$	<u><u>(1,015,018)</u></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, 2012

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.

Effective December 31, 2010 through December 31, 2012, the FDIC implemented the "Dodd-Frank Act" which altered the FDIC coverage to fully guarantee all noninterest-bearing transaction accounts, but restricted the guarantee to a maximum of \$250,000 on account-bearing nominal interest rates. Effective January 1, 2013, the FDIC will no longer fully guarantee noninterest-bearing accounts, but will restrict the guarantee to a maximum of \$250,000 on all deposits. With the expiration of the Dodd-Frank Act, \$9,488,721 of bank deposits would be uninsured.

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	\$ 137,609	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
	Unearned	Unearned
Property taxes and special assessments	\$ 1,859,495	\$ -
User fees (unearned)	-	423,300

Charter Township of Fenton

Notes to Financial Statements December 31, 2012

Note 5 - Capital Assets

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

	Balance January 1, 2012	Additions	Disposals	Balance December 31, 2012
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 129,182	\$ -	\$ -	\$ 129,182
Capital assets being depreciated:				
Roads	1,392,589	301,981	-	1,694,570
Buildings and improvements	2,214,883	-	-	2,214,883
Machinery and equipment	2,593,218	8,590	(2)	2,601,806
Furniture and fixtures	16,174	-	-	16,174
Land improvements	395,618	-	-	395,618
Subtotal	6,612,482	310,571	(2)	6,923,051
Accumulated depreciation:				
Roads	299,438	84,729	-	384,167
Buildings and improvements	664,597	60,320	-	724,917
Machinery and equipment	1,663,198	114,364	-	1,777,562
Furniture and fixtures	16,174	-	-	16,174
Land improvements	185,556	22,895	-	208,451
Subtotal	2,828,963	282,308	-	3,111,271
Net capital assets being depreciated	3,783,519	28,263	(2)	3,811,780
Net capital assets	<u>\$ 3,912,701</u>	<u>\$ 28,263</u>	<u>\$ (2)</u>	<u>\$ 3,940,962</u>
Business-type Activities				
Capital assets not being depreciated -				
Land	\$ 5,485	\$ -	\$ -	\$ 5,485
Capital assets being depreciated:				
Buildings	47,990	-	-	47,990
Sewer lines and equipment	58,424,613	46,126	-	58,470,739
Subtotal	58,472,603	46,126	-	58,518,729
Accumulated depreciation:				
Buildings	19,197	1,600	-	20,797
Sewer lines and equipment	17,221,279	1,216,408	-	18,437,687
Subtotal	17,240,476	1,218,008	-	18,458,484
Net capital assets being depreciated	41,232,127	(1,171,882)	-	40,060,245
Net capital assets	<u>\$ 41,237,612</u>	<u>\$ (1,171,882)</u>	<u>\$ -</u>	<u>\$ 40,065,730</u>

Charter Township of Fenton

Notes to Financial Statements December 31, 2012

Note 5 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 64,443
Public safety	133,136
Public works	<u>84,729</u>
Total governmental activities	<u>\$ 282,308</u>
Business-type activities - Sewer	<u>\$ 1,218,008</u>

Note 6 - 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, 2012
General obligation contracts payable at December 31, 2012 in the Sewer Fund are comprised of the following individual issues:	
\$1,240,000 Ripley Rolston contract due in annual installments of \$100,000 through October 1, 2017, interest at 5 to 5.5 percent	\$ 500,000
\$4,000,000 Sewage Disposal System No. 3 Bonds Series 2003A contract due in annual installments of \$200,000 to \$250,000 through December 1, 2024, interest at 4.05 percent	2,725,000
\$4,600,000 Sewage Disposal System No. 3 Bonds Series 2004B contract due in annual installments of \$150,000 to \$400,000 through April 2024, interest at 5 percent	3,800,000
\$8,000,000 Improvement Projects Series 2004A contract due in annual installments of \$350,000 to \$700,000 through April 2024, interest at 5 percent	5,900,000
\$4,419,010 Refinancing of Sewer Disposal System No. 3 Series 1996A contract due in annual installments of \$452,488 to \$462,733 through May 1, 2016, interest at 2.5 to 5 percent	1,828,733

Charter Township of Fenton

Notes to Financial Statements December 31, 2012

Note 6 - Long-term Debt (Continued)

	Principal Outstanding December 31, 2012
\$11,000,000 2007 General Obligation Limited Tax Capital Improvement Bonds contract due in annual installments of \$435,000 to \$810,000 through September 1, 2027, interest at 4 to 4.5 percent	\$ 9,085,000
\$1,990,667 Refinancing of Sewer Disposal System No. 3 Series 2007 contract due in annual installments of \$125,857 to \$320,847 through April 1, 2019, interest at 4 percent	1,652,094
\$2,600,000 2009 General Obligation Limited Tax Capital Improvement Bonds contract due in annual installments of \$100,000 to \$205,000 through November 1, 2029, interest at 4.875 percent	<u>2,410,000</u>
Total	<u>\$ 27,900,827</u>

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	\$ 356,500
2010 General Obligation Limited Tax Capital Improvement Bonds payable in annual installments ranging from \$55,000 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	940,000
Net OPEB obligation	411,294
Compensated absences	<u>106,563</u>
Total general long-term debt	<u>\$ 1,814,357</u>

Charter Township of Fenton

Notes to Financial Statements December 31, 2012

Note 6 - Long-term Debt (Continued)

A summary of changes in long-term debt during 2012 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Notes payable:					
General Obligation Limited Tax Bonds	\$ 990,000	\$ -	\$ 50,000	\$ 940,000	\$ 55,000
Installment obligations - The State Bank	427,800	-	71,300	356,500	71,300
Special assessment debt with governmental commitment - Citizens Banking Corporation	35,000	-	35,000	-	-
Total notes payable	1,452,800	-	156,300	1,296,500	126,300
Net postemployment benefit obligation	330,136	97,936	16,778	411,294	-
Accumulated sick and vacation time	107,357	54,471	55,265	106,563	55,265
Total governmental activities	<u>\$ 1,890,293</u>	<u>\$ 152,407</u>	<u>\$ 228,343</u>	<u>\$ 1,814,357</u>	<u>\$ 181,565</u>
Business-type Activities					
General obligation contracts:					
Ripley Rolston Contract	\$ 575,000	\$ -	\$ 75,000	\$ 500,000	\$ 100,000
Sewer Disposal System No. 3 2003A	2,925,000	-	200,000	2,725,000	200,000
Sewage Disposal System No. 3 2004B	3,950,000	-	150,000	3,800,000	150,000
Improvement Projects Series 2004 A	6,250,000	-	350,000	5,900,000	350,000
Sewer Disposal System No. 3 1996A-Refunding	2,289,758	-	461,025	1,828,733	462,733
District 3 Expansion (98) Refunding 2007	1,754,907	-	102,813	1,652,094	125,857
General Obligation Capital Improvement Bonds 2007	9,505,000	-	420,000	9,085,000	435,000
General Obligation Capital Improvement Bonds 2009	2,505,000	-	95,000	2,410,000	100,000
Subtotal	29,754,665	-	1,853,838	27,900,827	1,923,590
Net postemployment benefit asset	(13,158)	27,865	17,187	(2,480)	-
Total business-type activities	<u>\$ 29,741,507</u>	<u>\$ 27,865</u>	<u>\$ 1,871,025</u>	<u>\$ 27,898,347</u>	<u>\$ 1,923,590</u>

Charter Township of Fenton

Notes to Financial Statements December 31, 2012

Note 6 - Long-term Debt (Continued)

Annual requirements to amortize all debt outstanding as of December 31, 2012, including interest payments, are as follows:

Years Ending December 31	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
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	136,300	25,604	161,904	2,032,619	835,587	2,868,206
2018-2022	370,000	76,326	446,326	9,900,238	2,944,708	12,844,946
2023-2027	265,000	13,504	278,504	7,195,000	945,301	8,140,301
2028-2032	-	-	-	400,000	29,494	429,494
Total	\$ 1,296,500	\$ 270,902	\$ 1,567,402	\$ 27,900,827	\$ 9,021,522	\$ 36,922,349

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, 2012, the Charter Township of Fenton incurred \$356,500 applicable to the limitation (the sewer utility contracts and special assessment debt are excluded from the limitation). The Township's debt limit is \$72,610,120.

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 \$79,128 at December 31, 2012.

Future Revenue 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 total \$18,510,243. During the current year, net revenues of the system were \$1,763,907 compared to the annual debt requirements of \$1,516,272.

Note 7 - 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 employee injuries and medical benefit claims and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to property loss, torts, errors and omissions, 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.

Charter Township of Fenton

Notes to Financial Statements December 31, 2012

Note 7 - Risk Management (Continued)

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 end of the year for unemployment claims.

Note 8 - 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 were \$834,453 and \$539,693, respectively. The Township's 2012 contributions were \$57,181. Employees contributed \$43,679 during 2012.

Note 9 - 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 calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 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, 2012

Note 9 - Other Postemployment Benefits (Continued)

Funding Progress - For the year ended December 31, 2012, 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 30 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	15,216
Less adjustment to the annual required contribution	<u>(20,816)</u>
Annual OPEB cost	104,986
Amounts contributed:	
Payments of current premiums	(573)
Advance funding	<u>(12,577)</u>
Increase in net OPEB obligation	91,836
OPEB obligation - Beginning of year	<u>316,978</u>
OPEB obligation - End of year	<u><u>\$ 408,814</u></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:

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
12/31/10	12/31/08	\$ 164,485	45.2 %
12/31/11	12/31/11	110,586	34.0
12/31/12	12/31/11	110,586	12.0

The funding progress of the plan is as follows:

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

Note 9 - 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 - Nongroup-specific age-based turnover data from GASB Statement No. 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, 2012 was 30 years.

Charter Township of Fenton

Notes to Financial Statements December 31, 2012

Note 10 - Upcoming Accounting Pronouncements

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the Township as of December 31, 2013.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Township is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending December 31, 2014.

Required Supplemental Information

Charter Township of Fenton

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2012

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Taxes and collection fees	\$ 694,000	\$ 653,700	\$ 656,684	\$ 2,984
Licenses and permits	48,400	67,700	69,276	1,576
Federal grants	5,000	7,800	7,520	(280)
State revenue	1,075,900	1,156,700	1,160,369	3,669
Charges for services	233,300	240,800	235,729	(5,071)
Fines and forfeitures	23,000	26,000	16,187	(9,813)
Investment income	22,000	16,300	9,540	(6,760)
Other revenue:				
Cable franchise fees	233,600	330,000	349,416	19,416
Other miscellaneous income	200	1,200	5,585	4,385
Total revenue	2,335,400	2,500,200	2,510,306	10,106
Expenditures - Current				
General government	1,141,800	1,180,900	1,090,212	90,688
Legislative	70,500	73,300	54,633	18,667
Public safety	764,300	795,500	774,637	20,863
Public works	185,800	475,700	469,320	6,380
Recreation and culture	-	113,000	112,055	945
Debt service:				
Principal	121,300	121,300	121,300	-
Interest on long-term debt	51,700	51,900	51,772	128
Total expenditures	2,335,400	2,811,600	2,673,929	137,671
Net Change in Fund Balance	-	(311,400)	(163,623)	147,777
Fund Balance - Beginning of year	1,406,047	1,406,047	1,406,047	-
Fund Balance - End of year	<u>\$ 1,406,047</u>	<u>\$ 1,094,647</u>	<u>\$ 1,242,424</u>	<u>\$ 147,777</u>

Charter Township of Fenton

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Fire Fund Year Ended December 31, 2012

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Charges for services	\$ 128,500	\$ 104,700	\$ 102,011	\$ (2,689)
Investment income	200	200	-	(200)
Other revenue:				
Special assessments	532,000	532,000	532,545	545
Other miscellaneous income	-	-	601	601
Total revenue	660,700	636,900	635,157	(1,743)
Expenditures - Current -				
Public safety	557,100	536,700	458,713	77,987
Net Change in Fund Balance	103,600	100,200	176,444	76,244
Fund Balance - Beginning of year	95,752	95,752	95,752	-
Fund Balance - End of year	\$ 199,352	\$ 195,952	\$ 272,196	\$ 76,244

Charter Township of Fenton

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Waste Collection Fund Year Ended December 31, 2012

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Investment income	\$ 1,000	\$ -	\$ -	\$ -
Other revenue - Special assessments	700,000	702,000	702,100	100
Total revenue	701,000	702,000	702,100	100
Expenditures - Current -				
Public works	717,500	717,500	701,826	15,674
Net Change in Fund Balance	(16,500)	(15,500)	274	15,774
Fund Balance - Beginning of year	85,660	85,660	85,660	-
Fund Balance - End of year	<u>\$ 69,160</u>	<u>\$ 70,160</u>	<u>\$ 85,934</u>	<u>\$ 15,774</u>

Charter Township of Fenton

Note to Required Supplemental Information Year Ended December 31, 2012

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

Charter Township of Fenton

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds December 31, 2012

	Special Revenue Fund		Total Nonmajor Governmental Funds
	Mosquito Fund	Debt Service Funds	Funds
Assets			
Cash and investments	\$ 182,911	\$ -	\$ 182,911
Receivables:			
Special assessments receivable	63,834	-	63,834
Accounts	28	-	28
Total assets	\$ 246,773	\$ -	\$ 246,773
Liabilities and Fund Balances			
Liabilities - Deferred revenue	\$ 153,133	\$ -	\$ 153,133
Fund Balances - Restricted - Mosquito control	93,640	-	93,640
Total liabilities and fund balances	\$ 246,773	\$ -	\$ 246,773

Charter Township of Fenton

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended December 31, 2012

	Special Revenue Fund		Total Nonmajor Governmental Funds
	Mosquito Fund	Debt Service Funds	
Revenue			
Investment income	\$ -	\$ 13,011	\$ 13,011
Other revenue	153,278	11,353	164,631
Total revenue	153,278	24,364	177,642
Expenditures			
Current - Public works	133,581	-	133,581
Debt service - Principal	-	35,000	35,000
Total expenditures	133,581	35,000	168,581
Net Change in Fund Balances	19,697	(10,636)	9,061
Fund Balances - Beginning of year	73,943	10,636	84,579
Fund Balances - End of year	\$ 93,640	\$ -	\$ 93,640

Charter Township of Fenton

Other Supplemental Information Nonmajor Governmental Fund - Mosquito Fund Budgetary Comparison Year Ended December 31, 2012

	Original Budget - Unaudited	Amended Budget - Unaudited	Actual	Variance with Amended Budget
Revenue				
Investment income	\$ 1,000	\$ -	\$ -	\$ -
Other revenue - Special assessments	152,500	152,500	153,278	778
Total revenue	153,500	152,500	153,278	778
Expenditures - Current -				
Public works	170,900	170,900	133,581	37,319
Net Change in Fund Balance	(17,400)	(18,400)	19,697	38,097
Fund Balance - Beginning of year	73,943	73,943	73,943	-
Fund Balance - End of year	<u>\$ 56,543</u>	<u>\$ 55,543</u>	<u>\$ 93,640</u>	<u>\$ 38,097</u>

Charter Township of Fenton

Other Supplemental Information Fiduciary Funds - Agency Funds Statement of Assets and Liabilities December 31, 2012

	Agency Funds		
	Trust and Agency Fund	Current Tax Collection Fund	Total Agency Funds
Assets - Cash and cash equivalents	\$ 256,189	\$ 3,832,051	\$ 4,088,240
Liabilities			
Accounts payable	\$ 18,359	\$ -	\$ 18,359
Due to other governmental units	33	-	33
Deposits payable	237,797	-	237,797
Undistributed taxes	-	3,832,051	3,832,051
Total liabilities	\$ 256,189	\$ 3,832,051	\$ 4,088,240

May 21, 2013

To the Board of Trustees
Charter Township of Fenton

We have audited the financial statements of the Charter Township of Fenton (the "Township") as of and for the year ended December 31, 2012 and have issued our report thereon dated May 21, 2013. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 28, 2013, 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 the Charter Township of Fenton. 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.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on April 22, 2013.

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 the Charter Township of Fenton are described in Note I to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2012.

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 they are 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 difficulties in dealing with management in performing and completing our audit.

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.

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.

The attached schedules summarize uncorrected misstatements of the financial statements which were requested to be recorded. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Township, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as the Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 21, 2013.

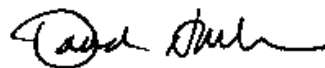
Management Consultations with Other Independent Accountants

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.

Very truly yours,

Plante & Moran, PLLC



Tadd Harburn, CPA



Chrystal Simpson, CPA

Attachment

Client: **Charter Township of Fenton**
 Opinion Unit: **Governmental Activities**
 Y/E: **12/31/2012**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Net income statement impact
FACTUAL MISSTATEMENTS:									
A1									
A2									
JUDGMENTAL ADJUSTMENTS:									
B1	To record estimate chargebacks expected to be received in future periods			\$ 20,530				\$ 20,530	\$ (20,530)
B2									
PROJECTED ADJUSTMENTS:									
C1									
C2									
		\$ -	\$ -	-	\$ -	\$ -	\$ -	-	-
	Combined effect	-	-	20,530	-	-	-	20,530	(20,530)
	Less effect of adjustments for which auditor's report is qualified	-	-	-	-	-	-	-	-
	Total	\$ -	\$ -	\$ 20,530	\$ -	\$ -	\$ -	\$ 20,530	\$ (20,530)

PASSED DISCLOSURES:

D1
 D2

Client: Charter Township of Fenton
 Opinion Unit: General Fund
 Y/E: 12/31/2012

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Net income statement impact
FACTUAL MISSTATEMENTS:									
A1									
A2									
JUDGMENTAL ADJUSTMENTS:									
B1	To record estimate chargebacks expected to be received in future periods			\$ 20,530				\$ 20,530	\$ (20,530)
B2									
PROJECTED ADJUSTMENTS:									
C1									
C2									
		\$ -	\$ -	-	\$ -	\$ -	\$ -	-	-
	Combined effect	-	-	20,530	-	-	-	20,530	(20,530)
	Less effect of adjustments for which auditor's report is qualified	-	-	-	-	-	-	-	-
	Total	\$ -	\$ -	\$ 20,530	\$ -	\$ -	\$ -	\$ 20,530	\$ (20,530)

PASSED DISCLOSURES:

D1
 D2