

Charter Township of Fenton

**Financial Report
with Supplemental Information
December 31, 2013**

Charter Township of Fenton

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	8
Statement of Activities	9-10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11
Reconciliation of the Balance Sheet to the Statement of Net Position	12
Statement of Revenue, Expenditures, and Changes in Fund Balances	13
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Proprietary Fund:	
Statement of Net Position	15
Statement of Revenue, Expenses, and Changes in Net Position	16
Statement of Cash Flows	17
Fiduciary Funds:	
Statement of Fiduciary Net Position	18
Statement of Changes in Fiduciary Net Position	19
Notes to Financial Statements	20-39
Required Supplemental Information	40
Budgetary Comparison Schedule - General Fund	41
Budgetary Comparison Schedule - Major Special Revenue Funds	42-43
Note to Required Supplemental Information	44
Schedule of Funding Progress - OPEB	45
Other Supplemental Information	46
Nonmajor Governmental Funds - Budgetary Comparison Schedule - Mosquito Fund	
Fiduciary Funds - Agency Funds - Statement of Assets and Liabilities	48

Independent Auditor's Report

To the Board of Trustees
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, 2013, 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.

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, 2013 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.

To the Board of Trustees
Charter Township of Fenton

Emphasis of Matter

As described in Note 11 to the financial statements in 2013, the Township adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result, certain balances are reported as deferred inflows of resources, rather than as liabilities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the major fund budgetary comparison schedules, and the schedule of funding progress for OPEB, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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

June 10, 2014

Charter Township of Fenton

Management's Discussion and Analysis

Our discussion and analysis of the Charter Township of Fenton's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2013. 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
	2011*	2012*	2013	Change	
Assets					
Other assets	\$ 3,806,441	\$ 3,821,920	\$ 4,137,556	\$ 315,636	8%
Capital assets	3,912,699	3,940,962	3,724,113	(216,849)	-6%
Total assets	7,719,140	7,762,882	7,861,669	98,787	1%
Liabilities					
Current liabilities	280,581	289,819	321,154	31,335	11%
Long-term liabilities	1,890,293	1,814,357	1,737,359	(76,998)	-4%
Total liabilities	2,170,874	2,104,176	2,058,513	(45,663)	-2%
Deferred Inflows of Resources	1,865,303	1,859,495	1,862,647	3,152	0%
Net Position					
Net investment in capital assets	2,494,899	2,644,462	2,553,913	(90,549)	-3%
Restricted	589,410	744,829	937,847	193,018	26%
Unrestricted	598,654	409,920	448,749	38,829	9%
Total net position	\$ 3,682,963	\$ 3,799,211	\$ 3,940,509	\$ 141,298	4%

(* Amounts in 2012 and 2011 have been restated for the implementation of GASB No. 65, as disclosed in the notes to the financial statements.)

Charter Township of Fenton

Management's Discussion and Analysis (Continued)

	Governmental Activities				Percent Change
	2011	2012	2013	Change	
Revenue					
Program revenue:					
Charges for services	\$ 947,080	\$ 450,617	\$ 444,151	\$ (6,466)	-1%
Operating grants	11,029	14,511	8,032	(6,479)	-45%
General revenue:					
Property taxes	712,338	656,684	626,966	(29,718)	-5%
Township-wide assessments	852,841	1,387,923	1,384,283	(3,640)	63%
State-shared revenue	1,184,129	1,134,057	1,156,130	22,073	2%
Investment earnings	16,129	22,551	11,253	(11,298)	-50%
Other revenue	385,238	354,402	687,951	333,549	94%
Total revenue	4,108,784	4,020,745	4,318,766	298,021	7%
Program Expenses					
General government	1,093,054	913,063	1,201,131	288,068	32%
Legislative	45,991	54,633	48,855	(5,778)	-11%
Public safety	1,386,581	1,373,411	1,364,449	(8,962)	-1%
Public works	1,082,539	1,402,809	1,167,404	(235,405)	-17%
Recreation and cultural	82,296	112,055	54,166	(57,889)	36%
Interest on long-term debt	58,039	48,526	41,463	(7,063)	-15%
Total expenses	3,748,500	3,904,497	3,877,468	(27,029)	-1%
Transfers	-	-	(300,000)	(300,000)	
Change in Net Position	<u>\$ 360,284</u>	<u>\$ 116,248</u>	<u>\$ 141,298</u>	<u>\$ 25,050</u>	22%

The governmental net position increased 4 percent from a year ago - increasing from \$3,799,211 to \$3,940,509. Last year's net position increased by 3 percent.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations - increased by \$38,829 for the governmental activities. This represents an increase of approximately 9 percent. The current level of unrestricted net position for our governmental activities stands at \$448,749, which may be used to meet the Township's ongoing obligations to citizens and creditors.

The Township saw a decrease in public works expense during the year due to various road projects that were completed during the prior year. The Township saw an increase in other revenue of approximately \$334,000 of which \$312,000 was due to the property held for resale that was sold. The general government expense increased by approximately \$288,000 primarily due to increases in salaries and fringe benefits as well as purchases of equipment below the Township's capitalization threshold.

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
	2011*	2012*	2013	Change	
Assets					
Other assets	\$ 3,019,799	\$ 2,808,630	\$ 2,703,486	\$ (105,144)	-4%
Capital assets	41,237,612	40,065,730	39,004,825	(1,060,905)	-3%
Total assets	44,257,411	42,874,360	41,708,311	(1,166,049)	-3%
Deferred Outflows of Resources					
	-	-	129,402	129,402	100%
Liabilities					
Current liabilities	772,343	757,725	741,261	(16,464)	-2%
Long-term liabilities	29,670,080	27,821,699	26,181,782	(1,639,917)	-6%
Total liabilities	30,442,423	28,579,424	26,923,043	(1,656,381)	-6%
Net Position					
Net investment in capital assets	11,482,947	12,356,232	12,823,043	466,811	4%
Restricted	13,158	-	-	-	100%
Unrestricted	2,318,883	1,938,704	2,091,627	152,923	8%
Total net position	\$ 13,814,988	\$ 14,294,936	\$ 14,914,670	\$ 619,734	4%

(* Amounts in 2012 and 2011 have been restated for the implementation of GASB No. 65, as disclosed in the notes to the financial statements.)

	Business-type Activities				Percent Change
	2011	2012	2013	Change	
Operating revenue	\$ 6,021,083	\$ 6,015,320	\$ 6,015,995	\$ 675	0%
Operating expenses, other than depreciation	3,083,647	3,118,582	3,226,874	108,292	3%
Depreciation and amortization	1,235,131	1,218,008	1,190,248	(27,760)	-2%
Operating Income	1,702,305	1,678,730	1,598,873	(79,857)	-5%
Interest income	1,404	827	907	80	10%
Interest expense	1,258,002	1,281,110	1,445,502	164,392	13%
Nonoperating expenses	2,366	2,849	2,249	(600)	-21%
Capital contributions	54,461	84,350	167,705	83,355	99%
Transfers	-	-	(300,000)	(300,000)	
Change in Net Position	\$ 497,802	\$ 479,948	\$ 619,734	\$ 139,786	29%

The Township's business-type activities consist of the Sewer Fund. The net position of business-type activities increased by 4 percent. Last year's net position increased by 3 percent. Unrestricted net position of the business-type activities increased by \$152,923 or 8 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
	2011	2012	2013	Change	
Revenue					
Property taxes	\$ 712,338	\$ 656,684	\$ 626,966	\$ (29,718)	-5%
Charges for services	332,735	337,740	329,065	(8,675)	-3%
Licenses and permits	44,211	69,276	77,408	8,132	12%
State-shared revenues	1,184,129	1,134,057	1,156,130	22,073	2%
Federal, state, and local grants	28,831	33,832	27,861	(5,971)	-18%
Cable franchise fees	328,940	349,416	369,784	20,368	6%
Fines and forfeitures	17,387	16,187	16,484	297	2%
Interest and rentals	16,129	22,551	11,253	(11,298)	-50%
Special assessments	1,399,773	1,399,276	1,384,283	(14,993)	-1%
Other	12,172	6,186	313,382	307,196	49%
Total revenue	4,076,645	4,025,205	4,312,616	287,411	7%
Expenditures					
Current:					
General government	1,039,184	1,090,212	1,176,910	86,698	8%
Legislative	45,002	54,633	48,855	(5,778)	-11%
Public safety	1,788,053	1,233,350	1,212,577	(20,773)	-2%
Public works	1,011,976	1,304,727	1,077,346	(227,381)	-17%
Recreation and culture	82,296	112,055	54,166	(57,889)	36%
Debt service	213,050	208,072	174,777	(33,295)	-16%
Total expenditures	4,179,561	4,003,049	3,744,631	(258,418)	-6%
Excess of Revenue (Under) Over Expenditures	(102,916)	22,156	567,985	545,829	2464%
Other Financing Sources (Uses)					
Proceeds from sales of capital assets	46,526	-	6,150	6,150	100%
Transfers - Net	-	-	(300,000)	(300,000)	100%
Total other financing sources (uses)	46,526	-	(293,850)	(293,850)	100%
Net Change in Fund Balances	(56,390)	22,156	274,135	251,979	1137%
Fund Balances - Beginning of year	1,728,428	1,672,038	1,694,194	22,156	1%
Fund Balances - End of year	<u>\$ 1,672,038</u>	<u>\$ 1,694,194</u>	<u>\$ 1,968,329</u>	<u>\$ 274,135</u>	16%

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 \$1,379,813. This represents an increase of \$137,389 from the prior year. The Township's General Fund revenues excluding other financing sources were \$2.8 million. Property taxes were \$626,966 or 22 percent of the total revenue. State revenue sharing made up \$1,183,091 or 42 percent of total revenue.

Capital Asset and Debt Administration

At the end of 2013, the Township had invested \$15.6 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 \$1.7 million in governmental long-term debt. In the Sewer Enterprise Fund, the Township has \$26 million in bonds outstanding.

Economic Factors and Next Year's Budgets and Rates

The budget for 2013 was amended as required by State law. Both the original and amended budgets have been shown in this document for 2013. The Township has again produced a timely budget for 2014.

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, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents (Note 3)	\$ 2,842,288	\$ 1,787,678	\$ 4,629,966
Receivables	1,293,482	798,645	2,092,127
Internal balances	(100,000)	100,000	-
Other assets	96,809	15,141	111,950
Land held for resale	4,977	-	4,977
Net OPEB assets (Note 10)	-	2,022	2,022
Capital assets (Note 5):			
Assets not subject to depreciation	93,280	122,828	216,108
Assets subject to depreciation	3,630,833	38,881,997	42,512,830
Total assets	7,861,669	41,708,311	49,569,980
Deferred Outflows of Resources -			
Bond refunding loss being amortized	-	129,402	129,402
Liabilities			
Accounts payable	163,506	139,903	303,409
Accrued interest payable	14,574	178,738	193,312
Due to other governmental units	115,624	-	115,624
Deposits payable	27,450	-	27,450
Unearned user fees	-	422,620	422,620
Noncurrent liabilities (Note 7):			
Due within one year	176,339	2,060,310	2,236,649
Due in more than one year	1,561,020	24,121,472	25,682,492
Total liabilities	2,058,513	26,923,043	28,981,556
Deferred Inflows of Resources (Note 4)			
Property taxes levied for the following year	477,748	-	477,748
Other resources received before the period resources may be used	1,384,899	-	1,384,899
Total deferred inflows of resources	1,862,647	-	1,862,647
Net Position			
Net investment in capital assets	2,553,913	12,823,043	15,376,956
Restricted for:			
Fire operations	439,200	-	439,200
Waste collection	58,343	-	58,343
Mosquito control	90,973	-	90,973
Public access programming	349,331	-	349,331
Unrestricted	448,749	2,091,627	2,540,376
Total net position	<u>\$ 3,940,509</u>	<u>\$ 14,914,670</u>	<u>\$ 18,855,179</u>

Charter Township of Fenton

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,201,131	\$ 260,257	\$ -	\$ -
Legislative	48,855	-	-	-
Public safety	1,364,449	183,894	-	-
Public works	1,167,404	-	8,032	-
Recreation and culture	54,166	-	-	-
Interest on long-term debt	41,463	-	-	-
Total governmental activities	3,877,468	444,151	8,032	-
Sewer Fund	5,864,873	6,015,995	-	167,705
Total primary government	\$ 9,742,341	\$ 6,460,146	\$ 8,032	\$ 167,705

General revenue:

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

Total general revenue

Transfers

Change in Net Position

Net Position - Beginning of year

Net Position - End of year

Statement of Activities
Year Ended December 31, 2013

Net (Expense) Revenue and Changes in Net		
Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (940,874)	\$ -	\$ (940,874)
(48,855)	-	(48,855)
(1,180,555)	-	(1,180,555)
(1,159,372)	-	(1,159,372)
(54,166)	-	(54,166)
(41,463)	-	(41,463)
(3,425,285)	-	(3,425,285)
-	318,827	318,827
(3,425,285)	318,827	(3,106,458)
626,966	-	626,966
1,384,283	-	1,384,283
1,156,130	-	1,156,130
11,253	907	12,160
369,784	-	369,784
312,017	-	312,017
6,150	-	6,150
3,866,583	907	3,867,490
(300,000)	300,000	-
141,298	619,734	761,032
3,799,211	14,294,936	18,094,147
\$ 3,940,509	\$ 14,914,670	\$ 18,855,179

Charter Township of Fenton

Governmental Funds Balance Sheet December 31, 2013

	General Fund	Waste Collection Fund	Fire Fund	Nonmajor Fund - Mosquito Fund	Total
Assets					
Cash and cash equivalents (Note 3)	\$ 1,410,371	\$ 568,155	\$ 675,084	\$ 188,678	\$ 2,842,288
Receivables:					
Property taxes receivable	205,693	-	-	-	205,693
Special assessments receivable	16,887	255,240	235,154	56,424	563,705
Cable revenue receivables	93,903	-	-	-	93,903
Due from other governmental units	401,313	-	28,868	-	430,181
Due from other funds	13,400	-	3,694	-	17,094
Other assets	60,388	-	36,421	-	96,809
Land held for resale	4,977	-	-	-	4,977
Total assets	<u>\$ 2,206,932</u>	<u>\$ 823,395</u>	<u>\$ 979,221</u>	<u>\$ 245,102</u>	<u>\$ 4,254,650</u>
Liabilities					
Accounts payable	\$ 102,603	\$ 60,592	\$ 311	\$ -	\$ 163,506
Due to other governmental units	115,624	-	-	-	115,624
Due to other funds	103,694	1,500	11,000	900	117,094
Deposits payable	27,450	-	-	-	27,450
Total liabilities	349,371	62,092	11,311	900	423,674
Deferred Inflows of Resources					
Property taxes levied for the following year	477,748	-	-	-	477,748
Special assessments levied for the following year	-	702,960	528,710	153,229	1,384,899
Total deferred inflows of resources	477,748	702,960	528,710	153,229	1,862,647
Fund Balances					
Nonspendable:					
Assets held for resale	4,977	-	-	-	4,977
Prepays	60,388	-	36,421	-	96,809
Restricted:					
Fire operations	-	-	402,779	-	402,779
Public access programming	349,331	-	-	-	349,331
Waste collection	-	58,343	-	-	58,343
Mosquito control	-	-	-	90,973	90,973
Unassigned	965,117	-	-	-	965,117
Total fund balances	<u>1,379,813</u>	<u>58,343</u>	<u>439,200</u>	<u>90,973</u>	<u>1,968,329</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,206,932</u>	<u>\$ 823,395</u>	<u>\$ 979,221</u>	<u>\$ 245,102</u>	<u>\$ 4,254,650</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 Position December 31, 2013

Fund Balance Reported in Governmental Funds	\$ 1,968,329
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	3,724,113
Bonds payable are not due and payable in the current period and are not reported in the funds	(1,170,200)
Accrued interest is not due and payable in the current period and is not reported in the funds	(14,574)
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	(72,407)
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>(494,752)</u>
Net Position of Governmental Activities	<u>\$ 3,940,509</u>

Charter Township of Fenton

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2013

	General Fund	Waste Collection Fund	Fire Fund	Nonmajor Fund - Mosquito Fund	Total
Revenue					
Taxes and collection fees	\$ 626,966	\$ -	\$ -	\$ -	\$ 626,966
Licenses and permits	77,408	-	-	-	77,408
Federal grants	900	-	-	-	900
State revenue	1,183,091	-	-	-	1,183,091
Charges for services	228,385	-	100,680	-	329,065
Fines and forfeitures	16,484	-	-	-	16,484
Investment income	11,253	-	-	-	11,253
Other revenue:					
Special assessments	-	702,360	528,840	153,083	1,384,283
Cable franchise fees	369,784	-	-	-	369,784
Other miscellaneous income	313,382	-	-	-	313,382
Total revenue	<u>2,827,653</u>	<u>702,360</u>	<u>629,520</u>	<u>153,083</u>	<u>4,312,616</u>
Expenditures					
Current:					
General government	1,176,910	-	-	-	1,176,910
Legislative	48,855	-	-	-	48,855
Public safety	750,061	-	462,516	-	1,212,577
Public works	191,645	729,951	-	155,750	1,077,346
Recreation and culture	54,166	-	-	-	54,166
Debt service:					
Principal	126,300	-	-	-	126,300
Interest on long-term debt	48,477	-	-	-	48,477
Total expenditures	<u>2,396,414</u>	<u>729,951</u>	<u>462,516</u>	<u>155,750</u>	<u>3,744,631</u>
Excess of Revenue Over (Under) Expenditures	431,239	(27,591)	167,004	(2,667)	567,985
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	6,150	-	-	-	6,150
Transfers out	(300,000)	-	-	-	(300,000)
Net Change in Fund Balances	137,389	(27,591)	167,004	(2,667)	274,135
Fund Balances - Beginning of year	1,242,424	85,934	272,196	93,640	1,694,194
Fund Balances - End of year	<u>\$ 1,379,813</u>	<u>\$ 58,343</u>	<u>\$ 439,200</u>	<u>\$ 90,973</u>	<u>\$ 1,968,329</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, 2013

Net Change in Fund Balances - Total Governmental Funds \$ 274,135

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	114,762
Depreciation expense	(295,711)
Net book value of assets disposed of	(35,902)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 126,300

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 7,014

Increase in accumulated employee sick and vacation pay 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 (49,300)

Change in Net Position of Governmental Activities \$ 141,298

Charter Township of Fenton

Proprietary Fund Statement of Net Position December 31, 2013

	<u>Enterprise Fund</u> <u>Sewer Fund</u>
Assets	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 1,787,678
Receivables:	
Delinquent usage receivable	280,258
Receivables from sales to customers on account	300
User fees	507,751
Connection fees	10,336
Due from other funds	100,000
Other assets	<u>15,141</u>
Total current assets	2,701,464
Noncurrent assets:	
Net OPEB asset	2,022
Capital assets (Note 5):	
Assets not subject to depreciation	122,828
Assets subject to depreciation	<u>38,881,997</u>
Total noncurrent assets	<u>39,006,847</u>
Total assets	41,708,311
Deferred Outflows of Resources -	
Bond refunding loss being amortized	129,402
Liabilities	
Current liabilities:	
Accounts payable	139,903
Accrued interest payable	178,738
Unearned user fees	422,620
General obligation contracts payable - Current	<u>2,060,310</u>
Total current liabilities	2,801,571
Noncurrent liabilities - General obligation contracts payable (Note 7)	<u>24,121,472</u>
Total liabilities	<u>26,923,043</u>
Net Position	
Net investment in capital assets	12,823,043
Unrestricted	<u>2,091,627</u>
Total net position	<u><u>\$ 14,914,670</u></u>

Charter Township of Fenton

Proprietary Fund Statement of Revenue, Expenses, and Changes in Net Position Year Ended December 31, 2013

	<u>Enterprise Fund</u> <u>Sewer Fund</u>
Operating Revenue - Charges for services	6,015,995
Operating Expenses	
Sewer treatment fees	1,704,569
Other contractual services	1,108,231
Equipment repairs and maintenance	16,487
Insurance	34,313
Billing fees and postage	7,431
Administrative expense	224,958
Utilities	121,323
Miscellaneous	9,562
Depreciation	1,190,248
Total operating expenses	<u>4,417,122</u>
Operating Income	1,598,873
Nonoperating Revenue (Expenses)	
Investment income	907
Bond interest expense	(1,445,502)
Bond agent fees	(2,249)
Total nonoperating expenses	<u>(1,446,844)</u>
Income - Before contributions	152,029
Capital Contributions - Tap-in fees	167,705
Transfers In	<u>300,000</u>
Change in Net Position	619,734
Net Position - Beginning of year	<u>14,294,936</u>
Net Position - End of year	<u><u>\$ 14,914,670</u></u>

Charter Township of Fenton

Proprietary Fund Statement of Cash Flows Year Ended December 31, 2013

	<u>Enterprise Fund</u> <u>Sewer Fund</u>
Cash Flows from Operating Activities	
Receipts from customers	\$ 6,090,711
Payments to suppliers	(2,951,853)
Payments to employees	(224,500)
Internal activity - Payments to other funds	(107,431)
Other	<u>(129,402)</u>
Net cash provided by operating activities	2,677,525
Cash Flows from Noncapital Financing Activities -	
Transfers from other funds	300,000
Cash Flows from Capital and Related Financing Activities	
Tap-in fees	176,018
Purchase of capital assets	(129,343)
Principal and interest paid on capital debt	<u>(3,049,024)</u>
Net cash used in capital and related financing activities	<u>(3,002,349)</u>
Net Decrease in Cash and Cash Equivalents	(24,824)
Cash and Cash Equivalents - Beginning of year	<u>1,812,502</u>
Cash and Cash Equivalents - End of year	<u>\$ 1,787,678</u>
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 1,598,873
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation and amortization	1,190,248
Changes in assets and liabilities:	
Receivables	74,716
Prepaid and other assets	(15,141)
Accounts payable	57,773
Due to other funds	(100,000)
Net OPEB obligation	458
Other	<u>(129,402)</u>
Net cash provided by operating activities	<u>\$ 2,677,525</u>

Charter Township of Fenton

Fiduciary Funds Statement of Fiduciary Net Position December 31, 2013

	Retiree Health Care Fund	Agency Funds
Assets		
Cash and cash equivalents	\$ -	\$ 4,632,973
Investments - Mutual funds	185,111	-
Total assets	185,111	<u>\$ 4,632,973</u>
Liabilities		
Accounts payable	-	\$ 26,571
Due to other governmental units	-	10
Deposits payable	-	227,251
Undistributed taxes	-	4,379,141
Total liabilities	-	<u>\$ 4,632,973</u>
Net Position Held in Trust for Pension and Other Employee Benefits	<u>\$ 185,111</u>	

Charter Township of Fenton

Fiduciary Funds Statement of Changes in Fiduciary Net Position Retiree Health Care Fund Year Ended December 31, 2013

	<u>Retiree Health Care Fund</u>
Additions	
Investment income:	
Interest and dividends	\$ 1,795
Net increase in fair value of investments	21,918
Investment-related expenses	<u>(711)</u>
Net investment income	23,002
Contributions - Employer	<u>24,500</u>
Total additions	47,502
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	<u>137,609</u>
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	<u><u>\$ 185,111</u></u>

Charter Township of Fenton

Notes to Financial Statements December 31, 2013

Note I - Summary of Significant Accounting Policies

Reporting Entity

The Charter Township of Fenton is governed by an elected seven-member council (board). The accompanying financial statements present the Township. The Township had no component units at December 31, 2013.

Accounting and Reporting Principles

The Township follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Government Accounting Standards Board.

Fund Accounting

The Township accounts for its various activities in several different funds in order to demonstrate accountability for how we have spent certain resources - separate funds allow us to show the particular expenditures that specific revenues were used for. The various funds are aggregated into three broad fund types:

Governmental funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds. The Township reports the following funds as “major” governmental funds:

- The General Fund is the primary operating fund because it accounts for all financial resources used to provide general government services, other than those specifically assigned to 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 Mosquito Control Fund is used to account for the customer charges which are to be used to pay contracted services for mosquito control (note that this is not a "major fund" because the amount of activity is not financially significant).

Proprietary funds include enterprise funds (which provide goods or services to users in exchange for charges or fees). The Township reports the following fund as a “major” enterprise 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, 2013

Note I - Summary of Significant Accounting Policies (Continued)

Fiduciary funds include amounts held in a fiduciary capacity for others. These amounts will not be used to operate our government's programs. Activities that are reported as fiduciary include:

- 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 organizations, 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.

Interfund Activity: During the course of operations, the Township has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree health care related costs, or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Charter Township of Fenton

Notes to Financial Statements December 31, 2013

Note I - Summary of Significant Accounting Policies (Continued)

Revenues are not recognized until they are collected, or collected soon enough after the end of the year that they are available to pay for obligations outstanding at the end of the year. For this purpose, the Township considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period.

Proprietary funds and fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. 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. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenues 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. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

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 for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes and other items not properly included among program revenues are reported instead as general revenue.

For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the Township's water and 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.

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

Charter Township of Fenton

Notes to Financial Statements December 31, 2013

Note I - Summary of Significant Accounting Policies (Continued)

Specific Balances and Transactions

Cash, Cash Equivalents, 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. Investments are stated at fair value.

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 the 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:

<u>Capital Asset Class</u>	<u>Lives</u>
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

Charter Township of Fenton

Notes to Financial Statements December 31, 2013

Note I - Summary of Significant Accounting Policies (Continued)

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. Compensated absences attributable to the governmental activities will be liquidated primarily by the General Fund.

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 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 expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as an "other financing source," as well as bond premiums and discounts. The General Fund is generally used to liquidate governmental long-term debt.

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 statements 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. The net pension OPEB obligation has generally been liquidated from the funds from which the individual employees' salaries are paid, which are generally the General Fund and the Sewer Fund.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Township has a deferred outflow in the Sewer Fund and government-wide statements related to bond refunding loss that is being amortized.

Charter Township of Fenton

Notes to Financial Statements December 31, 2013

Note I - Summary of Significant Accounting Policies (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. There are deferred inflows in the governmental funds and in the government-wide statements related to property taxes and special assessments that have been collected by the Township prior to year end but are used to fund 2014 operations.

Net Position Flow Assumption

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

Fund Balance Flow Assumption

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

Fund Balance Policies

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

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.

Charter Township of Fenton

Notes to Financial Statements December 31, 2013

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.

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 2012 tax is levied and collectible on December 1, 2012 and is recognized as revenue in the year ended December 31, 2013, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2012 taxable valuation of the Township totaled \$665 million, on which taxes levied consisted of 0.7122 mills for operating purposes. This resulted in \$390,028 for operating. These amounts are recognized in the respective General Fund financial statements as tax revenue.

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, 2013

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, 2013		\$ (1,015,018)
Current year permit revenue		73,494
Related expenses:		
Direct costs	\$ (38,132)	
Estimated indirect costs	<u>(57,854)</u>	<u>(95,986)</u>
Current year shortfall		<u>(22,492)</u>
Cumulative shortfall at December 31, 2013		<u>\$ (1,037,510)</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, 2013

Note 3 - Deposits and Investments (Continued)

The Township's cash and investments are subject to custodial credit risk, which is 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 \$10,490,841 of 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.

Note 4 - Deferred Inflows of Resources

At the end of the current fiscal year, the various components of deferred inflows of resources are as follows:

	Governmental Funds	Governmental Activities
Property taxes levied for 2014 operations	\$ 477,748	\$ 477,748
Special assessments levied for 2014 operations	1,384,899	1,384,899
Total deferred inflows	<u>\$ 1,862,647</u>	<u>\$ 1,862,647</u>

Charter Township of Fenton

Notes to Financial Statements December 31, 2013

Note 5 - Capital Assets

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

	Balance January 1, 2013	Additions	Disposals	Balance December 31, 2013
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 129,182	\$ -	\$ (35,902)	\$ 93,280
Capital assets being depreciated:				
Roads	1,694,570	53,285	-	1,747,855
Buildings and improvements	2,214,883	5,000	-	2,219,883
Machinery and equipment	2,601,808	56,477	-	2,658,285
Furniture and fixtures	16,174	-	-	16,174
Land improvements	395,618	-	-	395,618
Subtotal	6,923,053	114,762	-	7,037,815
Accumulated depreciation:				
Roads	384,167	90,058	-	474,225
Buildings and improvements	724,917	60,446	-	785,363
Machinery and equipment	1,777,562	122,310	-	1,899,872
Furniture and fixtures	16,174	2	-	16,176
Land improvements	208,451	22,895	-	231,346
Subtotal	3,111,271	295,711	-	3,406,982
Net capital assets being depreciated	3,811,782	(180,949)	-	3,630,833
Net capital assets	\$ 3,940,964	\$ (180,949)	\$ (35,902)	\$ 3,724,113
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 5,485	\$ -	\$ -	\$ 5,485
Construction in progress	-	117,343	-	117,343
Subtotal	5,485	117,343	-	122,828
Capital assets being depreciated:				
Buildings	47,990	-	-	47,990
Sewer lines and equipment	58,470,739	12,000	-	58,482,739
Subtotal	58,518,729	12,000	-	58,530,729
Accumulated depreciation:				
Buildings	20,797	1,600	-	22,397
Improvements other than buildings	18,437,687	1,188,648	-	19,626,335
Subtotal	18,458,484	1,190,248	-	19,648,732
Net capital assets being depreciated	40,060,245	(1,178,248)	-	38,881,997
Net capital assets	\$ 40,065,730	\$ (1,060,905)	\$ -	\$ 39,004,825

Charter Township of Fenton

Notes to Financial Statements December 31, 2013

Note 5 - Capital Assets (Continued)

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

Governmental activities:		
General government		\$ 67,584
Public safety		138,067
Public works		<u>90,060</u>
	Total governmental activities	<u>\$ 295,711</u>
	Business-type activities - Sewer	<u>\$ 1,190,248</u>

Note 6 - Interfund Receivables and Payables

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from Other Funds		
General Fund	Fire Fund	\$ 11,000
	Waste Collection Fund	1,500
	Other governmental funds	<u>900</u>
	Total General Fund	13,400
Sewer Fund	General Fund	100,000
Fire Fund	General Fund	<u>3,694</u>
	Total	<u>\$ 117,094</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>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Sewer Fund	<u>\$ 300,000</u>

The transfers from the General Fund to the Sewer Fund represent transfers of unrestricted resources.

Charter Township of Fenton

Notes to Financial Statements December 31, 2013

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, 2013
General obligation contracts payable at December 31, 2013 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	\$ 400,000
\$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	2,525,000
\$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 4 to 5 percent	150,000
\$8,000,000 Improvement Projects Series 2004A contract due in annual installments of \$350,000 to \$700,000 through April 2024, interest at 4 to 5 percent	400,000
\$4,419,010 Refinancing of Sewer Disposal System No. 3 Series 1996A contract due in annual installments of \$452,488 to \$459,318 through May 1, 2016, interest at 4.75 to 5 percent	1,366,000
\$8,235,000 Refinancing of Sewer Disposal System No. 3 Bonds Series 2004B and Improvement Projects Series 2004A contract due in annual installments of \$40,000 to \$1,040,000 through December 31, 2024, interest at 2 to 5 percent	8,235,000
Bond refunding premium	693,216

Charter Township of Fenton

Notes to Financial Statements December 31, 2013

Note 7 - Long-term Debt (Continued)

	Principal Outstanding December 31, 2013
\$11,000,000 2007 General Obligation Limited Tax Capital Improvement Bonds contract due in annual installments of \$455,000 to \$810,000 through September 1, 2027, interest at 4 to 4.5 percent	\$ 8,650,000
\$1,990,667 Refinancing of Sewer Disposal System No. 3 Series 2007 contract due in annual installments of \$155,992 to \$320,847 through April 1, 2019, interest at 4 percent	1,526,237
Bond refunding discount	(73,671)
\$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>2,310,000</u>
Total	<u>\$ 26,181,782</u>

Governmental long-term debt payable at December 31, 2013 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	\$ 285,200
2010 General Obligation Limited Tax Capital Improvement Bonds payable in annual installments ranging from \$60,000 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	885,000
Net OPEB obligation	494,752
Compensated absences	<u>72,407</u>
Total general long-term debt	<u>\$ 1,737,359</u>

Charter Township of Fenton

Notes to Financial Statements December 31, 2013

Note 7 - Long-term Debt (Continued)

A summary of changes in long-term debt during 2013 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	\$ 940,000	\$ -	\$ 55,000	\$ 885,000	\$ 60,000
Installment obligations - The State Bank	356,500	-	71,300	285,200	71,300
Total notes payable	1,296,500	-	126,300	1,170,200	131,300
Net postemployment benefit obligation	411,294	108,996	25,538	494,752	-
Accumulated sick and vacation time	106,563	10,883	45,039	72,407	45,039
Total governmental activities	<u>\$ 1,814,357</u>	<u>\$ 119,879</u>	<u>\$ 196,877</u>	<u>\$ 1,737,359</u>	<u>\$ 176,339</u>
Business-type Activities					
General obligation contracts:					
Ripley Rolston Contract	\$ 500,000	\$ -	\$ 100,000	\$ 400,000	\$ 100,000
Sewer Disposal System No. 3 2003A	2,725,000	-	200,000	2,525,000	200,000
Sewage Disposal System No. 3 2004B	3,800,000	-	3,650,000	150,000	150,000
Improvement Projects Series 2004 A	5,900,000	-	5,500,000	400,000	400,000
Refunded Sewage Disposal System No. 3 2004 B and Improvement Projects Series 2004 A	-	8,235,000	-	8,235,000	40,000
Bond Refunding Premium	-	693,216	-	693,216	-
Sewer Disposal System No. 3 1996A-Refunding	1,828,733	-	462,733	1,366,000	459,318
District 3 Expansion (98) Refunding 2007	1,652,094	-	125,857	1,526,237	155,992
Bond Refunding Discount	(79,128)	-	(5,457)	(73,671)	-
General Obligation Capital Improvement Bonds 2007	9,085,000	-	435,000	8,650,000	455,000
General Obligation Capital Improvement Bonds 2009	2,410,000	-	100,000	2,310,000	100,000
Subtotal	27,821,699	8,928,216	10,568,133	26,181,782	2,060,310
Net postemployment benefit asset	(2,480)	31,012	30,554	(2,022)	-
Total business-type activities	<u>\$ 27,819,219</u>	<u>\$ 8,959,228</u>	<u>\$ 10,598,687</u>	<u>\$ 26,179,760</u>	<u>\$ 2,060,310</u>

Charter Township of Fenton

Notes to Financial Statements December 31, 2013

Note 7 - Long-term Debt (Continued)

Annual requirements to amortize all debt outstanding as of December 31, 2013, including interest payments, are as follows:

Years Ending December 31	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 131,300	\$ 41,519	\$ 172,819	\$ 2,060,310	\$ 1,367,320	\$ 3,427,630
2015	131,300	36,298	167,598	2,130,638	959,504	3,090,142
2016	136,300	30,993	167,293	2,298,431	877,520	3,175,951
2017	136,300	25,604	161,904	2,002,619	800,787	2,803,406
2018	70,000	20,130	90,130	1,964,392	734,028	2,698,420
2019-2023	385,000	63,661	448,661	9,700,847	2,506,768	12,207,615
2024-2028	180,000	6,039	186,039	5,200,000	630,413	5,830,413
2029-2033	-	-	-	205,000	9,994	214,994
Total	\$ 1,170,200	\$ 224,244	\$ 1,394,444	\$ 25,562,237	\$ 7,886,334	\$ 33,448,571

Act 359, Public Acts of 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, 2013, the Charter Township of Fenton incurred \$285,200 applicable to the limitation (the sewer utility contracts and special assessment debt are excluded from the limitation). The Township's debt limit is \$70,767,209.

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 \$73,671 at December 31, 2013.

Advance and Current Refundings - During December 2013, the Township refinanced its Sewer Disposal System No. 3 Bonds Series 2004B and Improvement Projects Series 2004A in the amount of \$8,235,000. The debt has a maturity of 11 years and bears an interest rate of 2 percent through May 2018, 3 percent for 2019, 4 percent for 2020 and 2024, and 5 percent for 2021 through 2023. The proceeds of \$8,858,218 (after payment of \$78,816 in issuance costs and a bond premium of \$415,000) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed. The advance refunding reduced total debt service payments over the next years by approximately \$709,000, which represents an economic gain of \$563,743.

Charter Township of Fenton

Notes to Financial Statements December 31, 2013

Note 7 - Long-term Debt (Continued)

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 \$16,984,544. During the current year, net revenues of the system were \$1,767,485 compared to the annual debt requirements of \$1,587,990.

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 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.

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.

Charter Township of Fenton

Notes to Financial Statements December 31, 2013

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 were \$836,350 and \$589,426, respectively. The Township's 2013 contributions were \$54,294. Employees contributed \$42,003 during 2013.

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 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, 2013

Note 10 - Other Postemployment Benefits (Continued)

Funding Progress - For the year ended December 31, 2013, the Township has estimated the cost of providing retiree health care benefits through an actuarial valuation as of December 31, 2013. 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)	\$ 111,391
Interest on the prior year's net OPEB obligation	28,617
Less adjustment to the annual required contribution	<u>(27,330)</u>
Annual OPEB cost	112,678
Amounts contributed:	
Payments of current premiums	(4,262)
Advance funding by Sewer Fund	<u>(24,500)</u>
Increase in net OPEB obligation	83,916
OPEB obligation - Beginning of year	<u>408,814</u>
OPEB obligation - End of year	<u><u>\$ 492,730</u></u>

The Sewer Fund opted to contribute more than the ARC applicable to the Sewer Fund 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>
12/31/11	12/31/11	\$ 110,586	34.0 %
12/31/12	12/31/11	110,586	12.0
12/31/13	12/31/13	111,391	26.0

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
12/31/13	160,611	1,029,542	868,931	15.6

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 - 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, 2005-2020.

Health Insurance Premiums - 2013 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 7 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, 2013 was 30 years.

Charter Township of Fenton

Notes to Financial Statements December 31, 2013

Note 11 - Change in Accounting

During the current year, the Township adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead to classify them as deferred inflows of resources, deferred outflows of resources, or as outflows of resources.

As a result of implementing this statement, the following liabilities have been reclassified, as indicated:

<u>Item</u>	<u>Amount</u>	<u>Prior Reporting Classification/Treatment</u>	<u>New Classification After Adoption of GASB Statement No. 65</u>
Property taxes billed, but which were levied for next year's budget	\$ 477,748	Liability	Deferred inflow of resources
Special assessments billed, but which were levied for next year's budget	1,384,899	Liability	Deferred inflow of resources
Bond refunding loss being amortized	129,402	Asset	Deferred outflow of resources

There were also bond issuance costs that had been recorded as an asset in prior years amounting to \$104,856. In the current year, this asset was expensed due to adoption of GASB No. 65 which requires that bond issuance costs be expensed versus amortized.

Required Supplemental Information

Charter Township of Fenton

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2013

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Taxes and collection fees	\$ 656,000	\$ 612,000	\$ 626,966	\$ 14,966
Licenses and permits	63,700	83,700	77,408	(6,292)
Federal grants	5,000	12,000	900	(11,100)
State revenue	1,161,700	1,181,700	1,183,091	1,391
Charges for services	233,500	233,500	228,385	(5,115)
Fines and forfeitures	21,000	21,500	16,484	(5,016)
Investment income	13,500	13,500	11,253	(2,247)
Other revenue:				
Cable franchise fees	340,000	350,000	369,784	19,784
Other miscellaneous income	1,200	301,200	313,382	12,182
Total revenue	2,495,600	2,809,100	2,827,653	18,553
Expenditures - Current				
General government	1,169,500	1,265,500	1,176,910	88,590
Legislative	65,900	73,900	48,855	25,045
Public safety	749,500	790,500	750,061	40,439
Public works	247,200	267,400	191,645	75,755
Recreation and culture	90,000	90,000	54,166	35,834
Debt service:				
Principal	126,400	126,400	126,300	100
Interest on long-term debt	47,100	48,600	48,477	123
Total expenditures	2,495,600	2,662,300	2,396,414	265,886
Excess of Revenue Over Expenditures	-	146,800	431,239	284,439
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	6,100	6,150	50
Transfers out	-	(300,000)	(300,000)	-
Net Change in Fund Balance	-	(147,100)	137,389	284,489
Fund Balance - Beginning of year	1,242,424	1,242,424	1,242,424	-
Fund Balance - End of year	<u>\$ 1,242,424</u>	<u>\$ 1,095,324</u>	<u>\$ 1,379,813</u>	<u>\$ 284,489</u>

Charter Township of Fenton

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Fire Fund Year Ended December 31, 2013

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Charges for services	\$ 110,500	\$ 110,500	\$ 100,680	\$ (9,820)
Investment income	200	200	-	(200)
Other revenue - Special assessments	532,000	528,000	528,840	840
Total revenue	642,700	638,700	629,520	(9,180)
Expenditures - Current -				
Public safety	568,200	627,400	462,516	164,884
Net Change in Fund Balance	74,500	11,300	167,004	155,704
Fund Balance - Beginning of year	272,196	272,196	272,196	-
Fund Balance - End of year	<u>\$ 346,696</u>	<u>\$ 283,496</u>	<u>\$ 439,200</u>	<u>\$ 155,704</u>

Charter Township of Fenton

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Waste Collection Fund Year Ended December 31, 2013

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue - Other revenue - Special assessments	\$ 700,000	\$ 700,000	\$ 702,360	\$ 2,360
Expenditures - Current - Public works	736,500	736,500	729,951	6,549
Net Change in Fund Balance	(36,500)	(36,500)	(27,591)	8,909
Fund Balance - Beginning of year	85,934	85,934	85,934	-
Fund Balance - End of year	<u>\$ 49,434</u>	<u>\$ 49,434</u>	<u>\$ 58,343</u>	<u>\$ 8,909</u>

Charter Township of Fenton

Note to Required Supplemental Information Year Ended December 31, 2013

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).

Charter Township of Fenton

Required Supplemental Information Schedule of Funding Progress - OPEB Year Ended December 31, 2013

The schedule of funding progress 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)	Annual OPEB Costs	Percentage of OPEB Costs Contributed
12/31/08	\$ -	\$ 1,380,749	\$ 1,380,749	-	\$ 107,282	35.0
12/31/11	110,622	1,041,248	930,626	10.6	104,986	12.5
12/31/13	160,611	1,029,542	868,931	15.6	112,678	25.5

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
12/31/11	12/31/11	\$ 110,586	34.0
12/31/12	12/31/11	110,586	12.0
12/31/13	12/31/13	111,391	26.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2013, the latest actuarial valuation, follows:

Amortization method	Level percent
Amortization period (perpetual)	30 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	2.0%
*Includes inflation at	2.0%
Cost of living adjustments	None

Other Supplemental Information

Charter Township of Fenton

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Fund Mosquito Fund Year Ended December 31, 2013

	Original Budget - Unaudited	Amended Budget - Unaudited	Actual	Variance with Amended Budget
Revenue - Other revenue - Special assessments	\$ 152,500	\$ 152,500	\$ 153,083	\$ 583
Expenditures - Current - Public works	172,400	172,400	155,750	16,650
Net Change in Fund Balance	(19,900)	(19,900)	(2,667)	17,233
Fund Balance - Beginning of year	93,640	93,640	93,640	-
Fund Balance - End of year	<u>\$ 73,740</u>	<u>\$ 73,740</u>	<u>\$ 90,973</u>	<u>\$ 17,233</u>

Charter Township of Fenton

Other Supplemental Information Fiduciary Funds - Agency Funds Statement of Assets and Liabilities December 31, 2013

	Agency Funds		
	Trust and Agency Fund	Current Tax Collection Fund	Total Agency Funds
Assets - Cash and cash equivalents	\$ 253,832	\$ 4,379,141	\$ 4,632,973
Liabilities			
Accounts payable	\$ 26,571	\$ -	\$ 26,571
Due to other governmental units	10	-	10
Deposits payable	227,251	-	227,251
Undistributed taxes	-	4,379,141	4,379,141
Total liabilities	\$ 253,832	\$ 4,379,141	\$ 4,632,973

June 10, 2014

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, 2013 and have issued our report thereon dated June 10, 2014. 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 AU 265

Section II - Required Communications with Those Charged with Governance

Section III - Legislative and Related Informational Items

Section I includes any deficiencies we observed in the Township's accounting principles or internal control that we believe are significant. Current auditing standards require us to formally communicate annually matters we note about the Township's accounting policies and internal control.

Section II 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 the Charter Township of Fenton.

Section III presents legislative and other informational items relevant to the Township. These comments are offered in the interest of helping the Township in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operational or administrative efficiency and effectiveness.

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 the board of trustees and management of the Charter Township of Fenton and is not intended to be and should not be used by anyone other than these specified parties.

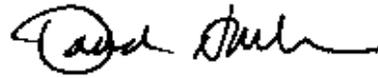
To the Board of Trustees
Charter Township of Fenton

June 10, 2014

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

A handwritten signature in black ink, appearing to read "Tadd Harburn". The signature is fluid and cursive, with a large initial "T" and "H".

Tadd A. Harburn, CPA

A handwritten signature in black ink, appearing to read "Chrystal Simpson". The signature is cursive and clearly legible.

Chrystal Simpson, CPA

Section I - Communications Required Under AU 265

In planning and performing our audit of the financial statements of Charter Township of Fenton as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township'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, material weaknesses or significant deficiencies may exist that were not identified.

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.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We consider the following deficiency in the Township's internal control to be a significant deficiency:

Auditor Proposed Journal Entry

The Township identified and recorded the majority of the year-end accrual adjustments. However, during the audit, Plante & Moran, PLLC identified a journal entry that was required to record and classify elements of the bond refunding transaction in the Sewer Fund among various balance sheet line items. The deferred outflow, bond issuance costs, and bond premium would have been understated by approximately \$129,000, \$149,000, and \$278,000, respectively, without the proposed journal entry. We understand that bond refunding transactions are infrequent and the accounting is unique. GASB No. 65 is new this year and this was the first time the Township had ever done a refunding bond issue which is quite different than the Township's typical bond issues. We recommend for future refunding transactions the Township perform an analysis of the bond refunding documents and determine how the transaction should be recorded in accordance with GASB No. 65.

Section II - Required Communications with Those Charged with Governance

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 13, 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 meeting about planning matters on March 21, 2014.

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 1 to the financial statements.

As disclosed in Note 11 to the basic financial statements, in 2013, the Township adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result, property tax revenue levied for the following year is reported as a deferred inflow of resources, rather than as a liability.

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

We noted 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 based on prior history of similar assets. 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 significant 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 schedule summarizes 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 June 10, 2014.

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 Related Informational Items

Personal Property Tax

Significant personal property tax legislation is moving quickly through the Legislature. Key provisions of the 10-bill package include:

1. In August 2014, Michigan voters will be asked to approve a shift in Use Tax dollars to create a replacement fund. If rejected, the eligible manufacturing exemption described below will not occur, and the \$40,000 Small Taxpayer Exemption under PA 48 of 2012 would be effective for just the 2014 tax year (personal property tax would be levied again in 2015 for these small businesses).
2. The much-talked about local Essential Services Assessment (ESA) would be replaced with a State-assessed ESA, which is actually a tax but is being referred to as an assessment simply so that it is recognized as the substitute for the local ESA.
3. The new bills increase the reimbursement to local units for lost personal property tax revenue to an amount stated as 100 percent replacement.

Two key provisions under the previous personal property tax reform legislation (PA 408 of 2012) remain:

1. Under PA 408 of 2012, businesses with less than \$40,000 of combined industrial and commercial personal property TV (\$80,000 true cash value) would not have to file PPT returns or pay any personal property tax. This provision remains unchanged in these new bills. This exemption begins with the 2014 tax year (December 31, 2013 assessments).
2. "Eligible Manufacturing" property would be exempt from PPT. This would be phased in beginning in 2016 (December 31, 2015 assessment date), with the following provisions:
 - a. Any property purchased subsequent to December 31, 2012 would be exempt immediately.
 - b. Property purchased prior to December 31, 2012 would be reduced to zero by its 10th year of existence (should take nine years).

Reimbursement to Communities:

Communities will first need to calculate their losses. Losses are either debt loss or non-debt loss, as follows:

- **Debt Loss** - Debt loss is defined as the amount of ad valorem and dedicated taxes that go toward debt that are lost as a result of the personal property tax exemption. During 2014-2015 and 2015-2016, revenue distributed by the newly created Local Community Stabilization Authority (LCSA) would equal either a community's debt loss or, in the case of a TIF, the small taxpayer loss. Through the 2015-2016 fiscal year, the losses are limited to the impact of the \$40,000 small business exemption. When the phase-out of Eligible Manufacturing property would begin to occur when tax bills go out in 2016, the debt loss (and corresponding reimbursement) will increase.
- **Non-debt Loss** - Non-debt loss is calculated using the lowest rate of each individual millage levied in the period between 2012 and the year immediately preceding the current year. This will exclude debt millage. The department will compute the loss by comparing the current year taxable value of commercial and industrial property to the taxable value that existed at December 31, 2012 (2013 tax year). In 2016, cities will be reimbursed for non-debt loss for 2014 and 2015 related to the small taxpayer exemption loss. This is for cities only. For 2014 and 2015, townships will be getting reimbursed for the debt loss related to the small business exemption, but not the other losses created by the small business exemption. Starting in 2016, all municipalities are reimbursed for non-debt loss.

Reimbursement for the losses comes from two funding sources:

Essential Services Reimbursement - Beginning in 2015-2016, the LCSA would receive a portion of the Use Tax as well as the full Essential Services Assessments in which to reimburse local units. This assessment is set at a prescribed millage rate based on the acquisition cost of property (depreciation will no longer apply). The rate is set at 2.4 mills for a property's first five years; then 1.25 mills for the next five; then 0.9 mills thereafter. Essential services are defined as ambulance, fire, and police services as well as jail operations. This includes the cost of related pension funding.

The losses described by the bill are to be paid in order of this priority: school debt; Intermediate School District losses; school operations; government essential services; debt and TIFA forgone increases; and all other reimbursements. In theory, if there is not enough money available, the lower priority items may not be fully reimbursed. However, that department has indicated that they expect the fund to have enough to cover all reimbursements.

- **All Other Reimbursements** - These reimbursements come from the Use Tax and would also begin in 2015-2016 and initially be proportional to each local unit's share of total "qualified losses", taking into account the losses of all municipalities. Over time, the reimbursement will shift to be based on each entity's share of eligible manufacturing personal property (based on the amount used in the ESA calculation above). Beginning in FY 2017-2018, 5 percent of the revenue would be distributed proportionally based on each local unit's share of eligible manufacturing personal property. The 5 percent portion would increase in 5 percent increments in each subsequent year. By FY 2036-2037, all revenue in the last category of reimbursements would be distributed based on the local unit's share of eligible manufacturing personal property. In short, in the beginning, the reimbursement is closely tied to the amount of lost personal property taxes, but over time, the community's reimbursement will be tied to the level of eligible manufacturing personal property.

Retro-pay Prohibition - Proposed Changes

Public Act 54 of 2011, which was signed by the governor on June 7, 2011, 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.

The Legislature has been working over the past two years to pass a bill to amend PA 54 of 2011 to allow those who are eligible to negotiate contracts under PA 312 of 1969 to be exempt from PA 54. HB 5097 of 2013 was recently reviewed by the House Commerce Committee, but has not passed the House or the Senate. The passing of this bill would mean that police, fire, and emergency medical personnel would be eligible to receive retroactive increases in compensation after expiration of their collective bargaining agreement and would also be exempt from having to pay the increased cost of benefits during the time without a contract.

Michigan Qualifying Statement Revisions and Changes to Filing Process

Bulletin 6 was issued by the State Department of Treasury and was effective beginning May 1, 2013. The bulletin details out the revisions made to the form, changes in the electronic filing process, and provides information on the new process to submit a reconsideration request.

The Qualifying Statement is now Form 5047. The new form and link to the online filing are available at: www.michigan.gov/municipalfinance. You can also find Bulletin 6 by following this same link.

Several minor changes have been made to the form including the following: additional question asking for the municipality's six-digit municode, information buttons to provide added instruction, and elimination of the requirement to include SEV and population. In addition, changes were made to help ease the completion of the form such as the elimination of certain questions which were duplicative of information that the Department of Treasury already had at its disposal (i.e., audit filing date) as well as separating out compound questions to ease the process of responding to them.

The more significant change, however, is with the electronic filing process. Since May 1, 2013, there is now only one way in which a Qualifying Statement can be submitted:

1. The form is now a PDF that can be downloaded and saved. The form is fillable allowing preparers to type in responses and save the form with answers intact.
2. The PDF will be uploaded via the Department of Treasury website. The upload page is: www.michigan.gov/municipalfinance. Once you are on the webpage, choose the Online Qualifying Statement link.
3. The State has a set naming convention that should be used for each uploaded file. The file should be named as follows: municipality's six-digit municode + fiscal year + the words "QStmt" (example: 7830402012QStmt). Please note the system will only accept one Qualifying Statement per fiscal year per municipality.
4. Municipalities will not be able to use the same username and password that they used for filings prior to May 1, 2013. The State has directed each municipality to call the Local Audit and Finance Division at 517.373.3227 to obtain a new username and password.

The Bulletin also allows the Qualifying Statement to be filed by an individual other than the Chief Administrative Officer (CAO) as long as the CAO is made aware and takes full responsibility for the filing. The filer will be asked to indicate whether they are the CAO or the designee at the time the Qualifying Statement is filed.

Amendments to Public Act 152 of 2011 (Health Care Limitations)

On December 11, 2013, legislation was passed (formerly SB 541-545) in an effort to clarify PA 152 of 2011. These amendments are effective immediately. SB 542 and 543 have perhaps the most direct financial impact on communities.

SB 542: This bill modified the current law which allows employers to opt between a percentage-based cap or a dollar-limit (hard cap) on employee health insurance premiums. The bill increases the dollar-cap for individual and spouse coverage from the current limit under PA 152 of \$11,000 to \$13,455. This applies for all medical plan coverage years beginning in calendar year 2013 according to the current language. The \$13,455 cap is increased annually for any changes in medical CPI on an annual basis. Please keep in mind that if your coverage year began after January 1, 2013, this could have resulted in an unanticipated additional cost of \$2,455 per employee. Several communities have questioned this aspect but it does not appear to have been addressed in the bill.

Currently, PA 152 excludes elected officials from the number of employees in the dollar cap formula. This would no longer be the case; they would become part of that calculation.

SB 543: This bill applies only to those public employers that adopt the 80/20 percentage-based option. It clarifies that all public employers (excluding the State) have to have support of a 2/3 vote by the governing body prior to the start of each medical benefit plan coverage year. If this does not occur, the public employer would then have to follow the hard cap requirement.

Client: **Charter Township of Fenton**
Opinion Unit: **General Fund**
Y/E: **12/31/2013**

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			\$ 15,500			\$ (15,500)		\$ (15,500)
B2									
PROJECTED ADJUSTMENTS:									
C1									
C2									
	Combined effect	-	-	15,500	-	-	(15,500)	-	(15,500)
	Total	\$ -	\$ -	\$ 15,500	\$ -	\$ -	\$ (15,500)	\$ -	\$ (15,500)

PASSED DISCLOSURES:

D1
D2

Client: **Charter Township of Fenton**
Opinion Unit: **Governmental Activities**
Y/E: **12/31/2013**

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			\$ 15,500			\$ (15,500)		\$ (15,500)
B2									
PROJECTED ADJUSTMENTS:									
C1									
C2									
	Combined effect	\$ -	\$ -	15,500	-	-	(15,500)	-	(15,500)
	Total	\$ -	\$ -	\$ 15,500	\$ -	\$ -	\$ (15,500)	\$ -	\$ (15,500)

PASSED DISCLOSURES:

D1
D2