
Charter Township of Fenton

**Financial Report
with Supplemental Information
December 31, 2018**

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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, 2018 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 opinion.

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, 2018 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.

Emphasis of Matter

As described in Note 1 to the financial statements, the Township adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which established accounting and financial reporting standards for postemployment benefits other than pensions provided to the employees of state and local governments. Our opinion is not modified with respect to this matter.

To the Board of Trustees
Charter Township of Fenton

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplemental information, 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 an opinion 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 other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plante & Moran, PLLC

May 21, 2019

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, 2018. 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 the reader 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.

Charter Township of Fenton

Management's Discussion and Analysis (Continued)

Government-wide Overall Financial Analysis

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

Township's Net Position

	Governmental Activities		Business-type Activities		Total	
	2018 *	2017	2018	2017	2018	2017
Assets						
Current and other assets:						
Cash and cash equivalents	\$ 3,827,678	\$ 3,847,190	\$ 2,165,316	\$ 1,415,771	\$ 5,992,994	\$ 5,262,961
Receivables:						
Receivables	2,366,428	2,184,826	748,285	745,019	3,114,713	2,929,845
Internal balances	150,000	(8,813)	(150,000)	8,813	-	-
Other assets:						
Prepaid expenses	86,279	72,467	18,958	18,737	105,237	91,204
Restricted assets	-	-	534,063	177,278	534,063	177,278
Land held for resale	16,716	4,215	-	-	16,716	4,215
Capital assets	3,623,671	3,643,576	36,097,566	36,461,962	39,721,237	40,105,538
Total assets	10,070,772	9,743,461	39,414,188	38,827,580	49,484,960	48,571,041
Deferred Outflows of Resources	35,638	-	199,042	185,798	234,680	185,798
Liabilities						
Current liabilities:						
Accounts payable	170,780	298,846	44,842	70,421	215,622	369,267
Accrued interest payable	7,594	8,908	126,308	134,267	133,902	143,175
Due to other governmental units	-	120,000	-	-	-	120,000
Deposits payable	76,800	63,950	-	-	76,800	63,950
Accrued liabilities and other	9,178	9,214	-	-	9,178	9,214
Unearned revenue	-	-	444,465	437,580	444,465	437,580
Noncurrent liabilities:						
Due within one year:						
Compensated absences	45,555	45,508	-	-	45,555	45,508
Current portion of long-term debt	147,000	136,000	2,360,294	2,230,839	2,507,294	2,366,839
Due in more than one year:						
Compensated absences	28,715	59,514	-	-	28,715	59,514
Net OPEB liability	175,408	589,213	-	-	175,408	589,213
Long-term debt	1,373,000	1,520,000	16,023,214	17,052,508	17,396,214	18,572,508
Total liabilities	2,034,030	2,851,153	18,999,123	19,925,615	21,033,153	22,776,768
Deferred Inflows of Resources	2,439,278	2,044,004	-	-	2,439,278	2,044,004
Net Position						
Net investment in capital assets	3,058,671	3,008,576	18,447,163	17,541,691	21,505,834	20,550,267
Restricted:						
Fire operations	560,453	498,605	-	-	560,453	498,605
Waste collection	69,493	102,170	-	-	69,493	102,170
Mosquito control	181,086	174,140	-	-	181,086	174,140
Debt service	950,863	1,078,622	-	-	950,863	1,078,622
Public access programming	604,714	578,280	-	-	604,714	578,280
Dog park donations	9,794	13,758	-	-	9,794	13,758
Unrestricted	198,028	(605,847)	2,166,944	1,546,072	2,364,972	940,225
Total net position	<u>\$ 5,633,102</u>	<u>\$ 4,848,304</u>	<u>\$ 20,614,107</u>	<u>\$ 19,087,763</u>	<u>\$ 26,247,209</u>	<u>\$ 23,936,067</u>

Charter Township of Fenton

Management's Discussion and Analysis (Continued)

Township's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenue						
Program revenue:						
Charges for services	\$ 576,780	\$ 517,536	\$ 6,288,898	\$ 6,240,484	\$ 6,865,678	\$ 6,758,020
Operating grants	39,861	104,006	-	-	39,861	104,006
Capital grants	-	-	635,050	405,700	635,050	405,700
General revenue:						
Taxes - Property taxes	802,490	779,601	-	-	802,490	779,601
Intergovernmental	1,375,543	1,338,139	-	-	1,375,543	1,338,139
Investment earnings	24,256	7,343	395	572	24,651	7,915
Other revenue:						
Cable franchise fees	404,683	407,980	-	-	404,683	407,980
Loss on sale of capital assets	(11,710)	-	-	-	(11,710)	-
Special assessment revenue	1,475,707	1,838,485	-	-	1,475,707	1,838,485
Other miscellaneous income	18,408	74,230	-	-	18,408	74,230
Total revenue	4,706,018	5,067,320	6,924,343	6,646,756	11,630,361	11,714,076
Expenses						
General government	1,134,215	1,117,525	-	-	1,134,215	1,117,525
Legislative	112,342	75,209	-	-	112,342	75,209
Public safety	1,350,529	1,289,995	-	-	1,350,529	1,289,995
Public works	1,315,081	1,582,840	-	-	1,315,081	1,582,840
Community and economic development	73,706	81,677	-	-	73,706	81,677
Recreation and culture	112,460	90,236	-	-	112,460	90,236
Debt service	42,323	49,014	-	-	42,323	49,014
Sewer expenses	-	-	5,397,999	5,521,742	5,397,999	5,521,742
Total expenses	4,140,656	4,286,496	5,397,999	5,521,742	9,538,655	9,808,238
Transfers	-	(125,000)	-	125,000	-	-
Change in Net Position	\$ 565,362	\$ 655,824	\$ 1,526,344	\$ 1,250,014	\$ 2,091,706	\$ 1,905,838

*The Township implemented Governmental Accounting Standards Board (GASB) Statement No. 75 in fiscal year 2018. Fiscal year 2017 amounts have not been modified to reflect the retroactive application of the change; however, the ending net position for that year was adjusted to properly state the fiscal year 2018 beginning net position.

The governmental net position increased 16.2 percent from a year ago, increasing from \$4,848,304 to \$5,633,102. Last year's net position increased by 15.6 percent.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations - increased by \$803,875 for the governmental activities. This represents an increase of approximately 406 percent. The current level of unrestricted net position for our governmental activities stands at \$605,847 deficit, the deficit is mainly due to the adoption of GASB 75 and the OPEB liability recorded on the Township's financial statements.

The Township saw a decrease in public works expenses due to road projects that were capitalizable under GASB 51 this year versus road costs in the previous year that were not related to main roads.

The Township's business-type activities consist of the Sewer Fund. The net position of business-type activities increased by 8 percent. Last year's net position increased by 8 percent. Unrestricted net position of the business-type activities increased by approximately \$620,000, or 40 percent. Increases in the business-type net position were related to increases in operating revenue and a decrease in other contractual services.

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 \$2,102,259. This represents an increase of \$405,683 from the prior year. The Township's General Fund revenue, excluding other financing sources, totaled \$3.1 million. Property taxes were \$802,490, or 26 percent of the total revenue. State revenue sharing made up \$1,401,370, or 45 percent of total revenue.

Capital Assets and Debt Administration

At the end of 2018, the Township had invested \$3.1 million and \$18.4 million in capital assets, net of related debt in governmental activities and business-type activities, respectively. This amount complies with methods established by the GASB. Capital asset activity is disclosed in Note 4.

At year end, the Township had \$1,520,000 in governmental long-term debt. In the Sewer Fund, the Township has \$18.4 million in bonds outstanding. Long-term debt activity is disclosed in Note 6.

Economic Factors and Next Year's Budgets and Rates

The budget for 2018 was amended, as required by state law. Both the original and amended budgets have been shown in this document for 2018. The Township has again produced a timely budget for 2019.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's 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, 2018

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents (Note 3)	\$ 3,827,678	\$ 2,165,316	\$ 5,992,994
Receivables	2,366,428	748,285	3,114,713
Internal balances (Note 5)	150,000	(150,000)	-
Prepaid expenses	86,279	18,958	105,237
Restricted assets - Cash and cash equivalents (Note 1)	-	534,063	534,063
Land held for resale	16,716	-	16,716
Capital assets: (Note 4)			
Assets not subject to depreciation	98,640	742,792	841,432
Assets subject to depreciation	3,525,031	35,354,774	38,879,805
Total assets	10,070,772	39,414,188	49,484,960
Deferred Outflows of Resources			
Bond refunding loss being amortized	-	199,042	199,042
Deferred OPEB costs (Note 9)	35,638	-	35,638
Liabilities			
Accounts payable	170,780	44,842	215,622
Accrued interest payable	7,594	126,308	133,902
Deposits payable	76,800	-	76,800
Accrued liabilities and other	9,178	-	9,178
Unearned revenue	-	444,465	444,465
Noncurrent liabilities:			
Due within one year:			
Compensated absences (Note 6)	45,555	-	45,555
Current portion of long-term debt (Note 6)	147,000	2,360,294	2,507,294
Due in more than one year:			
Compensated absences (Note 6)	28,715	-	28,715
Net OPEB liability (Note 9)	175,408	-	175,408
Long-term debt (Note 6)	1,373,000	16,023,214	17,396,214
Total liabilities	2,034,030	18,999,123	21,033,153
Deferred Inflows of Resources			
Property taxes levied for the following year	552,150	-	552,150
Special assessments levied for the following year	1,764,245	-	1,764,245
Deferred OPEB cost reductions (Note 9)	122,883	-	122,883
Total deferred inflows of resources	2,439,278	-	2,439,278
Net Position			
Net investment in capital assets	3,058,671	18,447,163	21,505,834
Restricted:			
Fire operations	560,453	-	560,453
Waste collection	69,493	-	69,493
Mosquito control	181,086	-	181,086
Debt service	950,863	-	950,863
Public access programming	604,714	-	604,714
Dog park donations	9,794	-	9,794
Unrestricted	198,028	2,166,944	2,364,972
Total net position	<u>\$ 5,633,102</u>	<u>\$ 20,614,107</u>	<u>\$ 26,247,209</u>

See notes to financial statements.

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	\$ 1,134,215	\$ 208,865	\$ -	\$ -
Legislative	112,342	-	-	-
Public safety	1,350,529	361,685	-	-
Public works	1,315,081	6,230	30,145	-
Community and economic development	73,706	-	-	-
Recreation and culture	112,460	-	9,716	-
Interest on long-term debt	42,323	-	-	-
Total governmental activities	4,140,656	576,780	39,861	-
Business-type activities - Sewer Fund	5,397,999	6,288,898	-	635,050
Total primary government	\$ 9,538,655	\$ 6,865,678	\$ 39,861	\$ 635,050

General revenue:

- Property taxes
- State-shared revenue
- Special assessment revenue
- Investment income
- Cable franchise fees
- Loss on sale of capital assets
- Other miscellaneous income

Total general revenue

Change in Net Position

Net Position - As restated - Beginning of year (Note 1)

Net Position - End of year

Statement of Activities

Year Ended December 31, 2018

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (925,350)	\$ -	\$ (925,350)
(112,342)	-	(112,342)
(988,844)	-	(988,844)
(1,278,706)	-	(1,278,706)
(73,706)	-	(73,706)
(102,744)	-	(102,744)
(42,323)	-	(42,323)
(3,524,015)	-	(3,524,015)
-	1,525,949	1,525,949
(3,524,015)	1,525,949	(1,998,066)
802,490	-	802,490
1,375,543	-	1,375,543
1,475,707	-	1,475,707
24,256	395	24,651
404,683	-	404,683
(11,710)	-	(11,710)
18,408	-	18,408
4,089,377	395	4,089,772
565,362	1,526,344	2,091,706
5,067,740	19,087,763	24,155,503
\$ 5,633,102	\$ 20,614,107	\$ 26,247,209

Charter Township of Fenton

Governmental Funds Balance Sheet

December 31, 2018

	General Fund	Waste Collection Fund	Fire Fund	Nonmajor Funds	Total Governmental Funds
Assets					
Cash and cash equivalents (Note 3)	\$ 1,723,436	\$ 799,674	\$ 783,901	\$ 520,667	\$ 3,827,678
Receivables:					
Property taxes receivable	261,476	-	-	-	261,476
Special assessments receivable	17,749	438,386	259,415	756,206	1,471,756
Cable revenue receivables	102,459	2,311	-	-	104,770
Other receivables	603	-	-	290	893
Due from other governmental units	499,153	-	28,380	-	527,533
Due from other funds (Note 5)	166,506	-	3,690	-	170,196
Prepaid expenses	50,881	-	35,398	-	86,279
Land held for resale	16,716	-	-	-	16,716
Total assets	\$ 2,838,979	\$ 1,240,371	\$ 1,110,784	\$ 1,277,163	\$ 6,467,297
Liabilities					
Accounts payable	\$ 94,902	\$ 73,478	\$ 2,400	\$ -	\$ 170,780
Due to other funds (Note 5)	3,690	3,000	12,006	1,500	20,196
Deposits payable	76,800	-	-	-	76,800
Accrued liabilities and other	9,178	-	-	-	9,178
Total liabilities	184,570	76,478	14,406	1,500	276,954
Deferred Inflows of Resources					
Unavailable revenue	-	-	-	697,826	697,826
Property taxes levied for the following year	552,150	-	-	-	552,150
Special assessments levied for the following year	-	1,094,400	535,925	133,920	1,764,245
Total deferred inflows of resources	552,150	1,094,400	535,925	831,746	3,014,221
Fund Balances					
Nonspendable:					
Land held for resale	16,716	-	-	-	16,716
Prepays	50,881	-	35,398	-	86,279
Restricted:					
Fire operations	-	-	525,055	-	525,055
Debt service	-	-	-	253,037	253,037
Public access programming	604,714	-	-	-	604,714
Waste collection	-	69,493	-	-	69,493
Mosquito control	-	-	-	181,086	181,086
Dog park donations	-	-	-	9,794	9,794
Assigned - Hogan Road Bridge Replacement	50,000	-	-	-	50,000
Unassigned	1,379,948	-	-	-	1,379,948
Total fund balances	2,102,259	69,493	560,453	443,917	3,176,122
Total liabilities, deferred inflows of resources, and fund balances	\$ 2,838,979	\$ 1,240,371	\$ 1,110,784	\$ 1,277,163	\$ 6,467,297

Charter Township of Fenton

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position

December 31, 2018

Fund Balances Reported in Governmental Funds	\$ 3,176,122
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	3,623,671
Special assessment receivables that are not collected soon after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds	697,826
Bonds payable are not due and payable in the current period and are not reported in the funds	(1,520,000)
Accrued interest is not due and payable in the current period and is not reported in the funds	(7,594)
Some employee fringe benefits 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	(249,678)
Deferred inflows related to OPEB are not recorded in the funds	35,638
Deferred outflows related to OPEB are not recorded in the funds	(122,883)
Net Position of Governmental Activities	<u>\$ 5,633,102</u>

Charter Township of Fenton

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended December 31, 2018

	General Fund	Waste Collection Fund	Fire Fund	Nonmajor Funds	Total Governmental Funds
Revenue					
Property taxes	\$ 802,490	\$ -	\$ -	\$ -	\$ 802,490
Special assessments	-	860,110	535,226	198,614	1,593,950
Intergovernmental:					
Federal grants	21,524	-	-	-	21,524
State-shared revenue and grants	1,401,370	-	-	-	1,401,370
Local contributions	-	-	-	9,716	9,716
Charges for services	191,105	-	112,748	-	303,853
Fines and forfeitures	12,302	-	-	-	12,302
Licenses and permits	243,419	-	-	-	243,419
Investment income	1,495	720	-	22,041	24,256
Other revenue:					
Cable franchise fees	404,683	-	-	-	404,683
Other miscellaneous income	18,408	-	-	-	18,408
Total revenue	3,096,796	860,830	647,974	230,371	4,835,971
Expenditures					
Current:					
General government	1,216,137	-	-	-	1,216,137
Legislative	112,342	-	-	-	112,342
Public safety	855,691	-	663,862	-	1,519,553
Public works	248,778	893,507	-	134,767	1,277,052
Community and economic development	73,706	-	-	-	73,706
Recreation and culture	98,773	-	-	13,687	112,460
Debt service:					
Principal	70,000	-	-	66,000	136,000
Interest on long-term debt	21,186	-	-	22,451	43,637
Total expenditures	2,696,613	893,507	663,862	236,905	4,490,887
Excess of Revenue Over (Under) Expenditures	400,183	(32,677)	(15,888)	(6,534)	345,084
Other Financing Sources - Proceeds from sale of capital assets	5,500	-	77,736	-	83,236
Net Change in Fund Balances	405,683	(32,677)	61,848	(6,534)	428,320
Fund Balances - Beginning of year	1,696,576	102,170	498,605	450,451	2,747,802
Fund Balances - End of year	\$ 2,102,259	\$ 69,493	\$ 560,453	\$ 443,917	\$ 3,176,122

Charter Township of Fenton

Governmental Funds

Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities

Year Ended December 31, 2018

Net Change in Fund Balances Reported in Governmental Funds	\$ 428,320
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	375,691
Depreciation expense	(300,650)
Net book value of assets disposed of	(94,946)
Revenue is recorded in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	(118,243)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	136,000
Interest expense is recognized in the government-wide statements as it accrues	1,314
Some employee costs (OPEB and compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	137,876
Change in Net Position of Governmental Activities	<u>\$ 565,362</u>

Charter Township of Fenton

Proprietary Funds Statement of Net Position

December 31, 2018

	<u>Enterprise Fund</u> <u>Sewer Fund</u>
Assets	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 2,165,316
Receivables:	
User fees	468,321
Connection fees	5,610
Delinquent usage receivable	274,354
Prepaid expenses	<u>18,958</u>
Total current assets	2,932,559
Noncurrent assets:	
Restricted assets (Note 1)	534,063
Capital assets: (Note 4)	
Assets not subject to depreciation	742,792
Assets subject to depreciation	<u>35,354,774</u>
Total noncurrent assets	<u>36,631,629</u>
Total assets	39,564,188
Deferred Outflows of Resources - Bond refunding loss being amortized	199,042
Liabilities	
Current liabilities:	
Accounts payable	44,842
Accrued interest payable	126,308
Due to other funds (Note 5)	150,000
Unearned revenue	444,465
Current portion of long-term debt (Note 6)	<u>2,360,294</u>
Total current liabilities	3,125,909
Noncurrent liabilities - Long-term debt (Note 6)	<u>16,023,214</u>
Total liabilities	<u>19,149,123</u>
Net Position	
Net investment in capital assets	18,447,163
Unrestricted	<u>2,166,944</u>
Total net position	<u><u>\$ 20,614,107</u></u>

Charter Township of Fenton

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position

Year Ended December 31, 2018

	<u>Enterprise Fund</u> <u>Sewer Fund</u>
Operating Revenue - Charges for services	\$ 6,288,898
Operating Expenses	
Sewer treatment fees	2,279,630
Other contractual services	887,555
Equipment repairs and maintenance	6,478
Insurance	28,925
Billing fees and postage	7,660
Administrative expense	150,000
Utilities	119,492
Miscellaneous	824
Depreciation	<u>1,278,712</u>
Total operating expenses	<u>4,759,276</u>
Operating Income	1,529,622
Nonoperating Revenue (Expense)	
Investment income	395
Bond interest expense	(574,675)
Bond issuance costs and agent fees	<u>(64,048)</u>
Total nonoperating expense	<u>(638,328)</u>
Income - Before capital contributions	891,294
Capital Contributions - Tap-in fees	<u>635,050</u>
Change in Net Position	1,526,344
Net Position - Beginning of year	<u>19,087,763</u>
Net Position - End of year	<u><u>\$ 20,614,107</u></u>

Charter Township of Fenton

Proprietary Funds Statement of Cash Flows

Year Ended December 31, 2018

	<u>Enterprise Fund</u> <u>Sewer Fund</u>
Cash Flows from Operating Activities	
Receipts from customers	\$ 6,290,247
Payments to suppliers	(3,356,364)
Internal activity - Payments from other funds	8,813
	<u>2,942,696</u>
Net cash provided by operating activities	2,942,696
Cash Flows from Capital and Related Financing Activities	
Issuance of bonds	3,091,000
Tap-in fees	637,714
Purchase of capital assets	(914,316)
Principal and interest paid on capital debt	(4,650,764)
	<u>(1,836,366)</u>
Net cash used in capital and related financing activities	(1,836,366)
Net Increase in Cash and Cash Equivalents	1,106,330
Cash and Cash Equivalents - Beginning of year	<u>1,593,049</u>
Cash and Cash Equivalents - End of year	<u>\$ 2,699,379</u>
Classification of Cash and Cash Equivalents	
Cash and investments	\$ 2,165,316
Restricted cash	534,063
	<u>2,699,379</u>
Total cash and cash equivalents	<u>\$ 2,699,379</u>
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 1,529,622
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation and amortization	1,278,712
Changes in assets and liabilities:	
Receivables	1,349
Due to other funds	158,813
Prepaid and other assets	(221)
Accounts payable	(25,579)
	<u>2,942,696</u>
Net cash provided by operating activities	<u>\$ 2,942,696</u>

Charter Township of Fenton

**Fiduciary Funds
Statement of Fiduciary Net Position**

December 31, 2018

	<u>Retiree Health Care Fund</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ -	\$ 6,823,626
Investments - Mutual funds	400,409	-
	<u>400,409</u>	<u>-</u>
Total assets	400,409	<u>\$ 6,823,626</u>
Liabilities		
Accounts payable	-	\$ 4,773
Due to other governmental units	-	70
Deposits payable	-	345,575
Undistributed taxes	-	6,473,208
	<u>-</u>	<u>6,473,208</u>
Total liabilities	-	<u>\$ 6,823,626</u>
Net Position Held in Trust for Pension and Other Employee Benefits	<u>\$ 400,409</u>	

Charter Township of Fenton

Fiduciary Funds Statement of Changes in Fiduciary Net Position

Year Ended December 31, 2018

	<u>Retiree Health Care Fund</u>
Additions	
Investment income (expense):	
Interest and dividends	\$ 5,627
Net decrease in fair value of investments	(30,472)
Investment-related expenses	<u>(1,738)</u>
Total investment income	(26,583)
Contributions - Employer	<u>86,508</u>
Total additions	59,925
Deductions - Benefit payments	<u>11,508</u>
Net Increase in Net Position Held in Trust	48,417
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	<u>351,992</u>
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	<u><u>\$ 400,409</u></u>

December 31, 2018

Note 1 - Significant Accounting Policies

Accounting and Reporting Principles

The Charter Township of Fenton (the "Township") is a municipality in the state of Michigan. 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.

Reporting Entity

The Charter Township of Fenton is governed by an elected seven-member council (board). In accordance with governmental accounting principles, there are no separate legal entities appropriate to be reported within these financial statements.

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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. 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 revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (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 revenue 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 sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenue 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.

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 for which specific revenue was used. The various funds are aggregated into three broad fund types:

Governmental Funds

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 government services other than those specifically assigned to another fund.

Note 1 - Significant Accounting Policies (Continued)

- The Waste Collection Fund is used to account for the customer charges that are to be used to pay contracted services for rubbish collection and disposal.
- The Fire Fund is used to account for the revenue and expenditures related to fire protection and emergency medical services.

Additionally, the Township reports the following nonmajor governmental fund types:

- Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes.
- Capital projects funds are used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, and technology upgrades and for remodeling and repairs. The funds operate until the purpose for which they were created is accomplished.
- Debt service funds are used to record tax, interest, and other revenue for payment of interest, principal, and other expenditures on long-term debt.

Proprietary Funds

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 sanitary sewer collection system that transports sewage to the treatment plant operated by Genesee County, Michigan.

Fiduciary Funds

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 following:

- The Retiree Health Care 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. These 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.

Furthermore, 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.

Note 1 - Significant Accounting Policies (Continued)

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 healthcare-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.

Revenue is not recognized until it is collected, or collected soon enough after the end of the year that it is 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. Conversely, special assessments and property taxes will be collected after the period of availability; receivables have been recorded for these, along with a "deferred inflow."

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.

Specific Balances and Transactions

Cash and Cash Equivalents

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

Investments are reported at fair value or estimated fair value.

Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is 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."

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.

Restricted Assets

Unspent bond proceeds of the Sewer Fund are required to be set aside for capital projects related to sewer pump stations. These amounts have also been classified as restricted assets.

Note 1 - Significant Accounting Policies (Continued)

Capital Assets

Capital assets, which include property, building, 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 acquisition 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.

Infrastructure, buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

	Depreciable Life - Years
	<hr/>
Roads	20
Sewer system infrastructure	50
Buildings and improvements	15-40
Machinery and equipment	3-15
Furniture and fixtures	5
Land improvements	15

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 lives 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 and debt service funds are generally used to liquidate governmental long-term debt, and the Sewer Fund is generally used to liquidate business-type debt.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

The Township reports a deferred outflow in the Sewer Fund and government-wide statements related to bond refunding loss that is being amortized. The Township also reports deferred outflows in the government-wide statements related to deferred OPEB costs, as detailed in Note 9.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

Note 1 - Significant Accounting Policies (Continued)

The Township reports deferred inflows in the governmental funds and in the government-wide statements related to property taxes and special assessments that have been levied by the Township prior to year end, but are used to fund 2019 operations. In addition, there are deferred inflows in the governmental funds related to special assessments that have been completed during or prior to 2018, but the revenue is unavailable at year end and is expected to be received in future periods. The Township also reports deferred inflows in the government-wide statements related to deferred OPEB cost reductions, as detailed in Note 9.

Net Position Flow Assumption

The Township will sometimes 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 Township's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumptions

The Township will sometimes 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 Township's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). 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.
- 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.

Note 1 - Significant Accounting Policies (Continued)

Property Tax Revenue

Property taxes are levied on each December 1 and become an enforceable lien at that time; the tax is based 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 2017 property tax revenue was levied and collectible on December 1, 2017 and is recognized as revenue in the year ended December 31, 2018 when the proceeds of the levy are budgeted and available for the financing of operations.

The 2017 taxable valuation of the Township totaled 764 million, on which taxes levied consisted of 0.6915 mills for operating purposes. This resulted in \$527,912 for operations. These amounts are recognized in the respective General Fund financial statements as tax revenue.

Other Postemployment Benefit Costs

The Township offers retiree healthcare benefits to retirees. The Township records a net OPEB liability for the difference between the total OPEB liability calculated by the actuary and the OPEB plan's fiduciary net position. For the purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB plan. For this purpose, benefit payments are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. The General Fund is used to liquidate the OPEB liability.

Compensated Absences (Paid Time Off)

It is the Township's policy to permit employees to earn a certain number of paid time off hours on a monthly basis, based on years of service. An amount is accrued for the estimated amount that the Township will pay upon employment termination. This liability is reported in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. Generally, the fund that reports each employee's compensation (the General Fund) is used to liquidate the obligations.

Proprietary Funds Operating Classification

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Sewer Fund is charges to customers for sales and services. The Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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.

Reclassification

Certain 2017 amounts have been reclassified to conform to the 2018 presentation.

Note 1 - Significant Accounting Policies (Continued)

Adoption of New Accounting Pronouncement

During the current year, the Township adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which replaces GASB Statement No. 45. As a result, the government-wide statements now include a liability for the Township's estimated unfunded other postemployment benefit (OPEB) costs. Some of the changes in this net OPEB liability will be recognized immediately as part of the OPEB expense measurement, and part will be deferred and recognized over future years. Refer to the other postemployment benefit plan disclosure (see Note 9) for further details. This change does not impact the modified accrual funds.

The financial statements for the year ended December 31, 2017 have been restated in order to adopt GASB Statement No. 75. The effect of this new standard was a decrease in net position to record the net OPEB liability at December 31, 2017. Additionally, the net OPEB obligation previously recorded in the government-wide statements and proprietary funds in accordance with GASB Statement No. 45 has been eliminated, and the overall result was an increase in governmental activities net position as of the beginning of the current fiscal year.

	Governmental Activities
Net position - Beginning of year, as previously reported	\$ 4,848,304
Adjustment for GASB Statement No. 75 - To record the net OPEB liability	(369,777)
Adjustment for GASB Statement No. 75 - To eliminate the net OPEB obligation previously recorded under GASB Statement. No. 45	589,213
Net position - Beginning of year, as restated	\$ 5,067,740

Upcoming Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The Township is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Township's financial statements for the year ending December 31, 2019.

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Township is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Township's financial statements for the year ending December 31, 2021.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement establishes criteria to improve the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Township is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Township's financial statements for the year ending December 31, 2019.

Note 1 - Significant Accounting Policies (Continued)

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that, in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The provisions of this statement are effective for the Township's financial statements for the December 31, 2020 fiscal year.

Note 2 - Stewardship, Compliance, and Accountability

Excess of Expenditures Over Appropriations in Budgeted Funds

The Township did not have any expenditure budget variances.

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, 2018		\$ (834,585)
Current year permit revenue		239,720
Related expenses:		
Direct costs	\$ 60,232	
Estimated indirect costs	71,008	131,240
		<u>108,480</u>
Current year surplus		<u>108,480</u>
Cumulative shortfall December 31, 2018		<u><u>\$ (726,105)</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. 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 Retiree Health Care Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

Note 3 - Deposits and Investments (Continued)

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

The Township's cash and investments are subject to 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 \$14,092,529 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The Township believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution 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.

Fair Value Measurements

The Township categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

In instances whereby inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Township's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Township has the following recurring fair value measurements as of December 31, 2018. The equity securities are classified as Level 1 and are valued using prices quoted in active markets for those securities.

December 31, 2018

Note 4 - Capital Assets

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

Governmental Activities

	Balance January 1, 2018	Reclassifications	Additions	Disposals and Adjustments	Balance December 31, 2018
Capital assets not being depreciated:					
Land	\$ 93,280	\$ -	\$ -	\$ -	\$ 93,280
Construction in progress	-	-	5,360	-	5,360
Subtotal	93,280	-	5,360	-	98,640
Capital assets being depreciated:					
Buildings and improvements	2,258,450	-	9,649	-	2,268,099
Machinery and equipment	2,997,149	-	270,575	(402,717)	2,865,007
Furniture and fixtures	26,767	-	-	-	26,767
Land improvements	395,618	-	-	-	395,618
Road improvements	2,404,030	-	90,107	-	2,494,137
Subtotal	8,082,014	-	370,331	(402,717)	8,049,628
Accumulated depreciation:					
Buildings and improvements	1,029,327	-	62,580	-	1,091,907
Machinery and equipment	2,274,160	-	85,557	(307,771)	2,051,946
Furniture and fixtures	17,232	-	529	-	17,761
Land improvements	310,414	-	18,488	-	328,902
Road improvements	900,585	-	133,496	-	1,034,081
Subtotal	4,531,718	-	300,650	(307,771)	4,524,597
Net capital assets being depreciated	3,550,296	-	69,681	(94,946)	3,525,031
Net governmental activities capital assets	<u>\$ 3,643,576</u>	<u>\$ -</u>	<u>\$ 75,041</u>	<u>\$ (94,946)</u>	<u>\$ 3,623,671</u>

Business-type Activities

	Balance January 1, 2018	Reclassifications	Additions	Disposals and Adjustments	Balance December 31, 2018
Capital assets not being depreciated:					
Land	\$ 5,485	\$ -	\$ -	\$ -	\$ 5,485
Construction in progress	1,484,424	(1,661,433)	914,316	-	737,307
Subtotal	1,489,909	(1,661,433)	914,316	-	742,792
Capital assets being depreciated:					
Buildings	520,171	-	-	-	520,171
Sewer system infrastructure	58,906,136	1,661,433	-	-	60,567,569
Subtotal	59,426,307	1,661,433	-	-	61,087,740
Accumulated depreciation:					
Buildings	76,013	-	13,404	-	89,417
Sewer system infrastructure	24,378,241	-	1,265,308	-	25,643,549
Subtotal	24,454,254	-	1,278,712	-	25,732,966
Net capital assets being depreciated	34,972,053	1,661,433	(1,278,712)	-	35,354,774
Net business-type activity capital assets	<u>\$ 36,461,962</u>	<u>\$ -</u>	<u>\$ (364,396)</u>	<u>\$ -</u>	<u>\$ 36,097,566</u>

December 31, 2018

Note 4 - Capital Assets (Continued)

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

Governmental activities:	
General government	\$ 62,733
Public works	133,496
Public safety	<u>104,421</u>
Total governmental activities	<u>\$ 300,650</u>
Business-type activities - Sewer	<u>\$ 1,278,712</u>

Construction Commitments

The Township has active construction projects at year end. The projects include the 2018 Capital Improvement bond issue and the sewer pump station upgrades. At year end, the Township's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Sewer pump station upgrades	<u>\$ 737,307</u>	<u>\$ 534,063</u>

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Waste Collection Fund	\$ 3,000
	Fire Fund	12,006
	Sewer Fund	150,000
	Nonmajor governmental funds	<u>1,500</u>
	Total General Fund	166,506
Fire Fund	General Fund	<u>3,690</u>
	Total	<u>\$ 170,196</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.

December 31, 2018

Note 6 - Long-term Debt

The Township was a participant in the county-wide sanitary sewer construction program. This program was financed by general obligation bonds issued by Genesee County, Michigan (the "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 for the year ended December 31, 2018 can be summarized as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable:					
General Obligation Limited Tax Bonds	\$ 635,000	\$ -	\$ (70,000)	\$ 565,000	\$ 70,000
Installment obligations:					
Lake Valley SAD	760,000	-	(50,000)	710,000	50,000
Liberty Shores SAD	261,000	-	(16,000)	245,000	27,000
Total notes payable	1,656,000	-	(136,000)	1,520,000	147,000
Accumulated sick and vacation time	105,022	25,971	(56,723)	74,270	45,555
Total governmental activities long-term debt	<u>\$ 1,761,022</u>	<u>\$ 25,971</u>	<u>\$ (192,723)</u>	<u>\$ 1,594,270</u>	<u>\$ 192,555</u>

Business-type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable:					
Refunded General Obligation Capital Improvement Bonds 2018	\$ -	\$ 1,791,000	\$ -	\$ 1,791,000	\$ 132,000
General Obligation Capital Improvement Bonds 2018	-	1,300,000	-	1,300,000	111,000
Refunded General Obligation Capital Improvement Bonds 2016	6,270,000	-	(540,000)	5,730,000	555,000
Bond refunding premium	555,399	-	(55,540)	499,859	55,540
Refunded Sewage Disposal System No. 3 2004 B and Improvement Projects Series 2004 A	6,175,000	-	(750,000)	5,425,000	740,000
Bond refunding premium	441,136	-	(63,020)	378,116	63,020
District 3 Expansion (98) Refunding 2007 (County Bond)	645,238	-	(324,392)	320,846	320,847
Bond refunding discount	(51,840)	-	5,458	(46,382)	(5,458)
General Obligation Capital Improvement Bonds 2009	1,880,000	-	(1,880,000)	-	-
General Obligation Capital Improvement Bonds 2017	1,700,000	-	(150,000)	1,550,000	155,000
Refunded Sewage Disposal System No. 3 2003	1,610,000	-	(225,000)	1,385,000	225,000
Bond refunding premium	58,414	-	(8,345)	50,069	8,345
Total business-type activities long-term debt	<u>\$ 19,283,347</u>	<u>\$ 3,091,000</u>	<u>\$ (3,990,839)</u>	<u>\$ 18,383,508</u>	<u>\$ 2,360,294</u>

Note 6 - Long-term Debt (Continued)

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending December 31	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 147,000	\$ 39,378	\$ 186,378	\$ 2,238,847	\$ 655,339	\$ 2,894,186
2020	157,000	35,425	192,425	2,038,000	583,187	2,621,187
2021	157,000	31,302	188,302	2,146,000	511,577	2,657,577
2022	162,000	26,958	188,958	2,226,000	429,304	2,655,304
2023	167,000	22,294	189,294	2,309,000	335,367	2,644,367
2024-2028	565,000	50,033	615,033	6,353,000	655,565	7,008,565
2029-2031	165,000	6,366	171,366	190,999	4,190	195,189
Total	\$ 1,520,000	\$ 211,756	\$ 1,731,756	\$ 17,501,846	\$ 3,174,529	\$ 20,676,375

Future Revenue Pledged for Debt Payment

The above contractual obligation to the County related to the District 3 Expansion Refunding Series 2007 bonds is a result of the County's 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's bonds provided financing for sewer improvements. The remaining principal and interest to be paid on the bonds total \$327,264. During the current year, net revenue of the system totaled \$2,808,334, compared to the annual debt requirements of \$343,714.

Bond Refunding

During the year, the Township issued \$1,791,000 in general obligation (revenue) bonds with an average interest rate of 2.92 percent. The proceeds of these bonds were used to advance refund \$1,760,000 of outstanding General Obligation Capital Improvement Series 2009 bonds with an average interest rate of 4.875 percent. The net proceeds of \$1,791,000 (after payment of \$35,057 in underwriting fees, insurance, and other issuance costs), plus an additional \$42,900 of Sewer Fund monies, 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 from the long-term debt. The advance refunding reduced total debt service payments over the next 11 years by approximately \$203,000, which represents an economic gain of approximately \$162,000.

Note 7 - Risk Management

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

The Michigan Municipal Risk Management Authority's State Pool program (the "Authority") 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.

Note 7 - Risk Management (Continued)

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 incurred claims in the current year related to sewer backups, which did not exceed the amount of insurance deductibles. There is no unpaid claim balance at the beginning or end of the year for unemployment claims.

Note 8 - Defined Contribution Pension Plan

The Township sponsors a defined contribution pension plan (the "Charter Township of Fenton Group 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 \$853,496 and \$606,251, respectively. The Township's 2018 contributions were \$59,358. Employees contributed \$46,298 during 2018.

Note 9 - Other Postemployment Benefit Plan

Plan Description

The Township provides OPEB for all employees who meet eligibility requirements. The benefits are provided through the Charter Township of Fenton Retiree Medical Plan (the "Plan"), a single-employer defined benefit plan administered by the Township.

The financial statements of the OPEB plan are included in these financial statements as the Retiree Health Care Fund (a fiduciary fund).

Management of the plan is vested in the Township board, which consists of seven elected members.

Benefits Provided

The Plan provides healthcare benefits for eligible retirees. Benefits are provided through a third-party insurer, and the full cost of the benefits is covered by the plan. The benefits are defined under collective bargaining agreements. As of December 31, 2017, the plan was closed to new entrants.

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

	Charter Township of Fenton Retiree Medical Plan
	<hr/>
Date of member count	December 31, 2017
Inactive plan members or beneficiaries currently receiving benefits	2
Active plan members	<hr/> 3
Total plan members	<hr/> <hr/> 5

Note 9 - Other Postemployment Benefit Plan (Continued)

Contributions

Retiree healthcare costs are paid by the Township on a "pay-as-you-go" basis. The Township has no obligation to make contributions in advance of when the insurance premiums are due for payment. In the current year, the Township paid postemployment healthcare premiums of \$11,508, plus it contributed \$75,000 into a prefunded retiree healthcare fund, which is reported in this financial statement as an other employee benefit trust fund type.

Net OPEB Liability

The Township has chosen to use the December 31 measurement date as its measurement date for the net OPEB liability. The December 31, 2018 fiscal year-end reported net OPEB liability was determined using a measure of the total OPEB liability and the OPEB net position as of the December 31, 2018 measurement date. The December 31, 2018 measurement date total OPEB liability was determined by an actuarial valuation performed as of December 31, 2017, which used updated procedures to roll forward the estimated liability to December 31, 2018.

Changes in the net OPEB liability during the measurement year were as follows:

Changes in Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
Balance at December 31, 2017	\$ 721,770	\$ 351,992	\$ 369,778
Changes for the year:			
Service cost	7,129	-	7,129
Interest	36,662	-	36,662
Differences between expected and actual experience	(422)	-	(422)
Changes in assumptions	(177,814)	-	(177,814)
Contributions - Employer	-	86,508	(86,508)
Net investment loss	-	(24,845)	24,845
Benefit payments, including refunds	(11,508)	(11,508)	-
Administrative expenses	-	(1,738)	1,738
Net changes	(145,953)	48,417	(194,370)
Balance at December 31, 2018	\$ 575,817	\$ 400,409	\$ 175,408

The plan's fiduciary net position represents 70 percent of the total OPEB liability.

December 31, 2018

Note 9 - Other Postemployment Benefit Plan (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the Township recognized OPEB expense of (\$20,616).

At December 31, 2018, the Township reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 291
Changes in assumptions	-	122,592
Net difference between projected and actual earnings on OPEB plan investments	35,638	-
Total	\$ 35,638	\$ 122,883

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending December 31	Amount
2019	\$ (46,443)
2020	(46,443)
2021	(3,268)
2022	8,909
Total	\$ (87,245)

Actuarial Assumptions

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using an inflation assumption of 2.0 percent; assumed salary increases (including inflation) of 3.5 percent; an investment rate of return (net of investment expenses) of 7.00 percent; a healthcare cost trend rate of 8.5 percent for 2019, decreasing 0.25 percent per year to an ultimate rate of 4.5 percent for 2035 and later years; and the RP-2014 mortality tables with the MP-2018 improvement scale. These assumptions were applied to all periods included in the measurement.

Discount Rate

The discount rate used to measure the total OPEB liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that Township contributions will be made at rates equal to the difference between actuarially determined contribution rates.

Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Note 9 - Other Postemployment Benefit Plan (Continued)

Investment Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic real rates of return as of the December 31, 2018 measurement date for each major asset class included in the OPEB plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Global equity	6.00 %
Global fixed income	3.50
Real assets	4.20
Diversifying strategies	2.75

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Township, calculated using the discount rate of 7.0 percent, as well as what the Township's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.0%)	Current Discount Rate (7.0%)	1 Percent Increase (8.0%)
Net OPEB liability of the Charter Township of Fenton Retiree Medical Plan	\$ 260,756	\$ 175,408	\$ 105,312

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the Township, calculated using the healthcare cost trend rate of 8.5 percent, as well as what the Township's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (7.5%)	Current Healthcare Cost Trend Rate (8.5%)	1 Percent Increase (9.5%)
Net OPEB liability of the Charter Township of Fenton Retiree Medical Plan	\$ 95,048	\$ 175,408	\$ 274,446

Assumption Changes

The discount rate of 7.0 percent used in the December 31, 2018 actuarial valuation has been updated from 5.07 percent, which was used in the December 31, 2017 actuarial valuation.

Healthcare cost trend rates of 8.5 percent for pre-65 participants and 7.0 percent for post-65 participants, graded down to an ultimate rate of 4.5 percent used in the December 31, 2018 actuarial valuation, have been updated from 8.0 percent for pre-65 participants and 5.0 percent for post-65 participants, graded down to an ultimate rate of 5.0 percent, which was used in the December 31, 2017 actuarial valuation.

Note 9 - Other Postemployment Benefit Plan (Continued)

The salary scale of 3.5 percent used in the December 31, 2018 actuarial valuation has been updated from 2.0 percent, which was used in the December 31, 2017 actuarial valuation.

The investment rate of return of 7.00 percent used in the December 31, 2018 actuarial valuation has been updated from 5.07 percent, which was used in the December 31, 2017 actuarial valuation.

Investment Policy

The Township's policy in regard to the allocation of invested assets is established and may be amended by the Township board by a majority vote of its members. It is the policy of the Township to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Township's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Township's adopted asset allocation policy as of December 31, 2018:

Charter Township of Fenton Retiree Medical Plan

Asset Class	Target Allocation
Global equity	65.00 %
Global fixed income	30.00
Real assets	3.00
Diversifying strategies	2.00
Total	100.00 %

Rate of Return

For the year ended December 31, 2018, the annual money-weighted rate of return (loss) on OPEB plan investments, net of OPEB plan investment expense, was (7.55) percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 10 - Tax Abatements

The Township uses the Industrial Facilities Tax exemption (PA 198 of 1974) to enter into agreements with local businesses to construct new industrial facilities or rehabilitate historical facilities. Under the program, the Township grants reductions of 50 percent of the property tax bill for new property (or it can freeze taxable values for rehabilitation properties) for up to 12 years.

For the fiscal year ended December 31, 2018, the Township abated \$1,926 of taxes under this program. There are no provisions to recapture taxes; however, the abatement may be eliminated if taxes are not paid timely.

Required Supplemental Information

Charter Township of Fenton

Required Supplemental Information Budgetary Comparison Schedule General Fund

Year Ended December 31, 2018

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 799,900	\$ 812,500	\$ 802,490	\$ (10,010)
Intergovernmental	1,372,200	1,405,000	1,422,894	17,894
Charges for services	189,600	193,700	191,105	(2,595)
Fines and forfeitures	16,500	13,500	12,302	(1,198)
Licenses and permits	223,800	243,800	243,419	(381)
Investment income	1,500	1,500	1,495	(5)
Other revenue	495,000	489,000	423,091	(65,909)
Total revenue	3,098,500	3,159,000	3,096,796	(62,204)
Expenditures				
Current services:				
General government	1,236,700	1,352,400	1,216,137	136,263
Legislative	87,000	127,500	112,342	15,158
Public safety	843,200	863,900	855,691	8,209
Public works	465,600	335,100	248,778	86,322
Community and economic development	88,900	92,800	73,706	19,094
Recreation and culture	135,400	129,000	98,773	30,227
Debt service	91,700	91,700	91,186	514
Total expenditures	2,948,500	2,992,400	2,696,613	295,787
Excess of Revenue Over Expenditures	150,000	166,600	400,183	233,583
Other Financing (Uses) Sources				
Transfers out	(150,000)	-	-	-
Proceeds from sale of capital assets	-	5,500	5,500	-
Total other financing (uses) sources	(150,000)	5,500	5,500	-
Net Change in Fund Balance	-	172,100	405,683	233,583
Fund Balance - Beginning of year	1,696,576	1,696,576	1,696,576	-
Fund Balance - End of year	<u>\$ 1,696,576</u>	<u>\$ 1,868,676</u>	<u>\$ 2,102,259</u>	<u>\$ 233,583</u>

Charter Township of Fenton

Required Supplemental Information
 Budgetary Comparison Schedule - Major Special Revenue Funds
 Waste Collection Fund

Year Ended December 31, 2018

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Revenue				
Special assessments	\$ 845,000	\$ 859,000	\$ 860,110	\$ 1,110
Investment income	-	600	720	120
Total revenue	845,000	859,600	860,830	1,230
Expenditures - Current services - Public works	884,500	895,500	893,507	1,993
Net Change in Fund Balance	(39,500)	(35,900)	(32,677)	3,223
Fund Balance - Beginning of year	102,170	102,170	102,170	-
Fund Balance - End of year	<u>\$ 62,670</u>	<u>\$ 66,270</u>	<u>\$ 69,493</u>	<u>\$ 3,223</u>

Charter Township of Fenton

Required Supplemental Information
 Budgetary Comparison Schedule - Major Special Revenue Funds (Continued)
 Fire Fund

Year Ended December 31, 2018

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Special assessments	\$ 535,000	\$ 535,000	\$ 535,226	\$ 226
Charges for services	106,500	106,500	112,748	6,248
Total revenue	641,500	641,500	647,974	6,474
Expenditures - Current services - Public safety - Fire and EMS	883,700	928,800	663,862	264,938
Excess of Expenditures Over Revenue	(242,200)	(287,300)	(15,888)	271,412
Other Financing Sources - Proceeds from sale of capital assets	65,000	79,500	77,736	(1,764)
Net Change in Fund Balance	(177,200)	(207,800)	61,848	269,648
Fund Balance - Beginning of year	498,605	498,605	498,605	-
Fund Balance - End of year	<u>\$ 321,405</u>	<u>\$ 290,805</u>	<u>\$ 560,453</u>	<u>\$ 269,648</u>

Charter Township of Fenton

Required Supplemental Information Schedule of Changes in the Net OPEB Liability and Related Ratios

	Last Two Fiscal Years	
	2018	2017
Total OPEB Liability		
Service cost	\$ 7,129	\$ 6,785
Interest	36,662	61,268
Changes in benefit terms	-	(542,826)
Differences between expected and actual experience	(422)	-
Changes in assumptions	(117,814)	-
Benefit payments, including refunds	(11,508)	(10,220)
Net Change in Total OPEB Liability	(145,953)	(484,993)
Total OPEB Liability - Beginning of year	721,770	1,206,763
Total OPEB Liability - End of year	\$ 575,817	\$ 721,770
Plan Fiduciary Net Position		
Contributions - Employer	\$ 75,000	\$ 25,000
Contributions - Active and inactive plan members not yet receiving benefits	11,508	10,220
Net investment (loss) income	(24,845)	43,558
Administrative expenses	(1,738)	(1,457)
Benefit payments, including refunds	(11,508)	(10,220)
Net Change in Plan Fiduciary Net Position	48,417	67,101
Plan Fiduciary Net Position - Beginning of year	351,992	284,891
Plan Fiduciary Net Position - End of year	\$ 400,409	\$ 351,992
Net OPEB Liability - Ending	\$ 175,408	\$ 369,778
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	69.5 %	48.8 %
Covered Employee Payroll	\$ 191,325	\$ 182,016

GASB No. 74 was implemented in fiscal year 2017. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Charter Township of Fenton

**Required Supplemental Information
Schedule of OPEB Investment Returns**

**Last Two Fiscal Years
Years Ended December 31**

	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return - Net of investment expense	(7.55)%	14.89 %

This schedule is being built prospectively and will ultimately show ten years of data.

December 31, 2018

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 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).

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.

Other Supplemental Information

Charter Township of Fenton

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds

December 31, 2018

	Special Revenue Funds		Debt Service Funds		Total
	Mosquito Fund	Dog Park Fund	Lake Valley SAD	Liberty Shores SAD	
Assets					
Cash and cash equivalents	\$ 257,836	\$ 9,794	\$ 215,475	\$ 37,562	\$ 520,667
Receivables:					
Special assessments receivable	58,380	-	494,611	203,215	756,206
Other receivables	290	-	-	-	290
Total assets	\$ 316,506	\$ 9,794	\$ 710,086	\$ 240,777	\$ 1,277,163
Liabilities - Due to other funds	\$ 1,500	\$ -	\$ -	\$ -	\$ 1,500
Deferred Inflows of Resources					
Unavailable revenue	-	-	494,611	203,215	697,826
Special assessments levied for the following year	133,920	-	-	-	133,920
Total deferred inflows of resources	133,920	-	494,611	203,215	831,746
Total liabilities and deferred inflows of resources	135,420	-	494,611	203,215	833,246
Fund Balances					
Restricted:					
Debt service	-	-	215,475	37,562	253,037
Mosquito control	181,086	-	-	-	181,086
Dog park donations	-	9,794	-	-	9,794
Total fund balances	181,086	9,794	215,475	37,562	443,917
Total liabilities, deferred inflows of resources, and fund balances	\$ 316,506	\$ 9,794	\$ 710,086	\$ 240,777	\$ 1,277,163

Charter Township of Fenton

**Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds**

Year Ended December 31, 2018

	Special Revenue Funds		Debt Service Funds		Total
	Mosquito Fund	Dog Park Fund	Lake Valley SAD	Liberty Shores SAD	
Revenue					
Special assessments	\$ 134,364	\$ -	\$ 35,928	\$ 28,322	\$ 198,614
Intergovernmental - Local contributions	-	9,716	-	-	9,716
Investment income	349	7	20,058	1,627	22,041
Total revenue	134,713	9,723	55,986	29,949	230,371
Expenditures					
Current services:					
Public works	127,767	-	7,000	-	134,767
Recreation and culture	-	13,687	-	-	13,687
Debt service:					
Principal	-	-	50,000	16,000	66,000
Interest on long-term debt	-	-	15,023	7,428	22,451
Total expenditures	127,767	13,687	72,023	23,428	236,905
Net Change in Fund Balances	6,946	(3,964)	(16,037)	6,521	(6,534)
Fund Balances - Beginning of year	174,140	13,758	231,512	31,041	450,451
Fund Balances - End of year	\$ 181,086	\$ 9,794	\$ 215,475	\$ 37,562	\$ 443,917

Charter Township of Fenton

**Other Supplemental Information
Statement of Assets and Liabilities
Agency Funds**

December 31, 2018

	<u>Trust and Agency Fund</u>	<u>Current Tax Collection Fund</u>	<u>Total Agency Funds</u>
Assets - Cash and cash equivalents	\$ 350,418	\$ 6,473,208	\$ 6,823,626
Liabilities			
Accounts payable	\$ 4,773	\$ -	\$ 4,773
Due to other governmental units	70	-	70
Deposits payable	345,575	-	345,575
Undistributed taxes	-	6,473,208	6,473,208
Total liabilities	\$ 350,418	\$ 6,473,208	\$ 6,823,626

Charter Township of Fenton

Other Supplemental Information
Budgetary Comparison Schedule - Nonmajor Governmental Funds
Mosquito Fund

Year Ended December 31, 2018

	<u>Original Budget - Unaudited</u>	<u>Amended Budget - Unaudited</u>	<u>Actual</u>	<u>Variance with Amended Budget - Unaudited</u>
Revenue				
Special assessments	\$ 130,000	\$ 134,000	\$ 134,364	\$ 364
Investment income	-	300	349	49
Total revenue	130,000	134,300	134,713	413
Expenditures - Current services - Public works	151,500	151,500	127,767	23,733
Net Change in Fund Balance	(21,500)	(17,200)	6,946	24,146
Fund Balance - Beginning of year	174,140	174,140	174,140	-
Fund Balance - End of year	<u>\$ 152,640</u>	<u>\$ 156,940</u>	<u>\$ 181,086</u>	<u>\$ 24,146</u>

Charter Township of Fenton

Other Supplemental Information
Budgetary Comparison Schedule - Nonmajor Governmental Funds
(Continued)
Dog Park Fund

Year Ended December 31, 2018

	Original Budget - Unaudited	Amended Budget - Unaudited	Actual	Variance with Amended Budget - Unaudited
Revenue - Local contributions	\$ 20,000	\$ 20,000	\$ 9,723	\$ (10,277)
Expenditures - Recreation and culture	20,000	20,000	13,687	6,313
Net Change in Fund Balance	-	-	(3,964)	(3,964)
Fund Balance - Beginning of year	13,758	13,758	13,758	-
Fund Balance - End of year	<u>\$ 13,758</u>	<u>\$ 13,758</u>	<u>\$ 9,794</u>	<u>\$ (3,964)</u>

May 21, 2019

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, 2018 and have issued our report thereon dated May 21, 2019. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Required Communications with Those Charged with Governance

Section II - Legislative and Informational Items

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

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

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

This report is intended solely for the use of 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.

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



Pamela Hill, CPA
Partner



Stephanie Atkinson, CPA
Manager

Section I - Required Communications with Those Charged with Governance

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 30, 2019, 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 Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

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

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 April 11, 2019.

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 Township are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2018, except for the implementation of GASB No. 75.

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

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

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

The most sensitive estimates affecting the financial statements were the useful lives of capital assets and the calculation of the estimated cost of the other postemployment benefit liability. Management's estimate of the useful lives of assets is based on the prior history of similar assets. The calculation of the estimated cost of the other postemployment benefit liability is based on a third-party valuation. We evaluated the key factors and assumptions used to develop the useful lives of capital assets and the estimated cost of the other postemployment benefit liability 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.

Section I - Required Communications with Those Charged with Governance (Continued)

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. We did not detect any misstatements as a result of audit procedures.

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 21, 2019.

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 II - Legislative Updates and Related Information

Updated Uniform Chart of Accounts

In April 2017, the State released an updated Uniform Chart of Accounts. Originally, local units of government were expected to comply with the changes beginning with June 30, 2018 year ends. However, on June 4, 2018, the State extended the deadline for compliance to “sometime in 2019.” While a mandatory implementation date has not been set, on November 27, 2018 further guidance was issued. The Treasury is encouraging those who have not yet implemented to delay doing so to allow the Treasury to digest the suggestions that have been made to make the process smoother. In the meantime, the Treasury is working on developing training and additional information to assist in the transition. The Treasury also assured that plenty of advance warning would be given when a date is set, and that it will most likely be for years beginning January 1, 2020 or later.

Local units should begin evaluating this new chart of accounts to determine what changes will be necessary, including any budgetary changes, and set up a plan to achieve compliance. Some accounting software vendors have already been working with some local units on an automated remapping solution. The changes in the chart of accounts are not voluminous, but will require some review. The new Uniform Chart of Accounts can be found at the following link: http://www.michigan.gov/documents/uniformchart_24524_7.pdf.

Revenue Sharing

The FY 2019 budget recommendation includes \$1.3 billion for revenue sharing broken down as follows:

Description	Final 2018 Budget	Final 2019 Budget
Constitutionally required payments	\$798.1 M	\$835.3 M
CVTRS	243.0 M	243.0 M
CVTRS - One-time payments	5.8 M	5.8 M
County revenue sharing	176.9 M	177.2 M
County incentive program	43.2 M	43.3 M
County one-time payments	-	1.0 M
Fiscally distressed community grants	5.0 M	2.5 M
Supplemental CVTRS	6.2 M	6.2 M
Total	\$1,278.2 M	\$1,314.3 M

For the second year in a row, local units will experience an increase in 2019, as the constitutional payment budget has been increased by \$37.2 million over the 2018 budget act appropriated amount. The FY 2019 budget also includes the “City, Village, and Township Revenue Sharing” (CVTRS) appropriation, which was established in FY 2015, and that number remains flat at \$243 million. Each community’s overall increase will vary, as each has a different mix of constitutional and CVTRS.

In order to receive the CVTRS payments in FY 2019, qualified local units will once again need to comply with the same best practices as they did last year:

- A citizen’s guide to local finances with disclosure of unfunded liabilities
- Performance dashboard
- Debt service report
- Two-year budget projection

Section II - Legislative Updates and Related Information (Continued)

The amount budgeted for distressed CVTRS has been reduced from \$5 million in 2018 to \$2.5 million in 2019. The State has once again budgeted \$6.2 million for “supplemental CVTRS” payments in FY 2019, but added a requirement that funds must be used to pay down debt, pension, or OPEB. Any city, village, or township receiving CVTRS payments will receive an additional payment equal to its population multiplied by \$0.807929 (rounded to the nearest dollar).

The “one-time” additional CVTRS payments that were in the 2018 budget are also part of the 2019 budget and remain flat at \$5.8 million. Additionally, \$1.0 million was added as a one-time payment for counties to be used for debt, pension, and OPEB. The one-time payment to counties will be distributed to all counties at a rate of 0.4627 percent of full funding under the Glen Steil State Revenue Sharing Act.

Launch of MI Community Financial Dashboard

The Michigan Department of Treasury launched of the MI Community Financial Dashboard. This dashboard will provide you and your community members with easy-to-use visual data regarding your municipality. The data presented on the dashboard is pulled from the Annual Local Fiscal Report (F65) submitted by your local unit. The dashboard will present data from fiscal years 2010 through 2017. You can sign in and review the dashboard here: <http://micommunityfinancials.michigan.gov#!/dashboard/COUNTY/?lat=44.731431779455505&lng=-83.018211069625&zoom=5>

Upcoming Accounting Standards Requiring Preparation

GASB Statement No. 84 - Fiduciary Activities

GASB 84 provides criteria for state and local governments to use to identify whether an activity is fiduciary and should be reported as a fiduciary fund type in its financial statements. In addition, once identified as a fiduciary activity, GASB 84 also provides specific reporting requirements.

This statement has the potential to significantly impact what governments report currently as a fiduciary activity. Upon adoption, we anticipate that some government’s fiduciary activities will need to move to governmental funds, while other activities that never before were considered fiduciary will now be reported as such. It is also possible that certain pension and OPEB fiduciary funds will no longer be reported in a local unit’s financial statements.

Although this standard will not be effective for another year, given its potential to have a major impact on many governments, not only to its external financial statements, but also to its accounting system requirements and budget document, we encourage you to start analyzing the impact of this standard now. The first step to implementation is identifying the type of activities that should be analyzed and then running those activities through the lens of this standard.

GASB Statement No. 87 - Leases

This new accounting pronouncement related to leases will be effective beginning with the Township’s 2020 fiscal year. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

Section II - Legislative Updates and Related Information (Continued)

We recommend the Township begin accumulating information related to all significant lease agreements now in order to more efficiently implement this new standard once it becomes effective.

Plante & Moran, PLLC will be providing trainings and other resources to our clients over the coming months in order to help prepare for the implementation of all these new standards. In the interim, please reach out to your engagement team for assistance in getting started.