

---

# Charter Township of Fenton

---

**Financial Report  
with Supplemental Information  
December 31, 2019**

<b>Independent Auditor's Report</b>	1-2
<b>Management's Discussion and Analysis</b>	3-6
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8-9
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	10
Reconciliation of the Balance Sheet to the Statement of Net Position	11
Statement of Revenue, Expenditures, and Changes in Fund Balances	12
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities	13
Proprietary Funds:	
Statement of Net Position	14
Statement of Revenue, Expenses, and Changes in Net Position	15
Statement of Cash Flows	16
Fiduciary Funds:	
Statement of Fiduciary Net Position	17
Statement of Changes in Fiduciary Net Position	18
Notes to Financial Statements	19-37
<b>Required Supplemental Information</b>	38
Budgetary Comparison Schedule - General Fund	39
Budgetary Comparison Schedule - Major Special Revenue Funds	40-41
Schedule of Changes in the Net OPEB (Asset) Liability and Related Ratios	42
Schedule of OPEB Contributions	43
Schedule of OPEB Investment Returns	44
Notes to Required Supplemental Information	45
<b>Other Supplemental Information</b>	46
Nonmajor Governmental Funds:	
Combining Balance Sheet	47
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	48
Agency Funds - Statement of Assets and Liabilities	49

## 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, 2019 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

#### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Fenton as of December 31, 2019 and the respective changes in its financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees  
Charter Township of Fenton

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

The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Plante & Moran, PLLC*

May 28, 2020

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, 2019. 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 and 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:

#### The Township's Net Position

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
<b>Assets</b>						
Current and other assets:						
Cash and investments	\$ 4,265,633	\$ 3,827,678	\$ 3,103,463	\$ 2,165,316	\$ 7,369,096	\$ 5,992,994
Receivables:						
Receivables	2,899,208	2,366,428	673,497	748,285	3,572,705	3,114,713
Internal balances	160,000	150,000	(160,000)	(150,000)	-	-
Other assets:						
Prepaid expenses	89,646	86,279	18,566	18,958	108,212	105,237
Restricted assets	-	-	-	534,063	-	534,063
Land held for resale	27,125	16,716	-	-	27,125	16,716
Net OPEB asset	77,283	-	-	-	77,283	-
Capital assets	4,316,399	3,623,671	35,295,607	36,097,566	39,612,006	39,721,237
Total assets	11,835,294	10,070,772	38,931,133	39,414,188	50,766,427	49,484,960
<b>Deferred Outflows of Resources</b>	21,892	35,638	173,444	199,042	195,336	234,680
<b>Liabilities</b>						
Current liabilities:						
Accounts payable	160,116	170,780	130,370	44,842	290,486	215,622
Accrued interest payable	6,718	7,594	110,712	126,308	117,430	133,902
Deposits payable	80,650	76,800	-	-	80,650	76,800
Accrued liabilities and other	9,541	9,178	-	-	9,541	9,178
Unearned revenue	-	-	604,240	444,465	604,240	444,465
Noncurrent liabilities:						
Due within one year:						
Compensated absences	47,401	45,555	-	-	47,401	45,555
Current portion of long-term debt	192,000	147,000	2,164,906	2,360,294	2,356,906	2,507,294
Due in more than one year:						
Compensated absences	-	28,715	-	-	-	28,715
Net OPEB liability	-	175,408	-	-	-	175,408
Long-term debt	1,799,000	1,373,000	13,899,236	16,023,214	15,698,236	17,396,214
Total liabilities	2,295,426	2,034,030	16,909,464	18,999,123	19,204,890	21,033,153
<b>Deferred Inflows of Resources</b>	2,582,136	2,439,278	-	-	2,582,136	2,439,278
<b>Net Position</b>						
Net investment in capital assets	3,821,399	3,058,671	19,404,909	18,447,163	23,226,308	21,505,834
Restricted:						
Fire operations	242,833	560,453	-	-	242,833	560,453
Waste collection	155,314	69,493	-	-	155,314	69,493
Mosquito control	173,920	181,086	-	-	173,920	181,086
Debt service	1,473,106	950,863	-	-	1,473,106	950,863
Public access programming	699,737	604,714	-	-	699,737	604,714
Dog park donations	14,598	9,794	-	-	14,598	9,794
Roads	124,122	-	-	-	124,122	-
Unrestricted	274,595	198,028	2,790,204	2,166,944	3,064,799	2,364,972
Total net position	<u>\$ 6,979,624</u>	<u>\$ 5,633,102</u>	<u>\$ 22,195,113</u>	<u>\$ 20,614,107</u>	<u>\$ 29,174,737</u>	<u>\$ 26,247,209</u>

# Charter Township of Fenton

## Management's Discussion and Analysis (Continued)

### Township's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 639,461	\$ 576,780	\$ 6,383,858	\$ 6,288,898	\$ 7,023,319	\$ 6,865,678
Operating grants	22,403	39,861	-	-	22,403	39,861
Capital grants	-	-	705,700	635,050	705,700	635,050
General revenue:						
Taxes - Property taxes	859,839	802,490	-	-	859,839	802,490
Intergovernmental	1,443,718	1,375,543	-	-	1,443,718	1,375,543
Investment earnings	32,284	24,256	-	395	32,284	24,651
Other revenue:						
Cable franchise fees	400,414	404,683	-	-	400,414	404,683
Gain (loss) on sale of capital assets	25,400	(11,710)	-	-	25,400	(11,710)
Special assessment revenue	2,658,941	1,475,707	-	-	2,658,941	1,475,707
Other miscellaneous income	17,980	18,408	-	-	17,980	18,408
<b>Total revenue</b>	<b>6,100,440</b>	<b>4,706,018</b>	<b>7,089,558</b>	<b>6,924,343</b>	<b>13,189,998</b>	<b>11,630,361</b>
<b>Expenses</b>						
General government	1,137,203	1,134,215	-	-	1,137,203	1,134,215
Legislative	71,520	112,342	-	-	71,520	112,342
Public safety	1,315,912	1,350,529	-	-	1,315,912	1,350,529
Public works	2,098,799	1,315,081	-	-	2,098,799	1,315,081
Community and economic development	39,826	73,706	-	-	39,826	73,706
Recreation and culture	35,736	112,460	-	-	35,736	112,460
Debt service	54,922	42,323	-	-	54,922	42,323
Sewer expenses	-	-	5,508,552	5,397,999	5,508,552	5,397,999
<b>Total expenses</b>	<b>4,753,918</b>	<b>4,140,656</b>	<b>5,508,552</b>	<b>5,397,999</b>	<b>10,262,470</b>	<b>9,538,655</b>
<b>Change in Net Position</b>	<b>\$ 1,346,522</b>	<b>\$ 565,362</b>	<b>\$ 1,581,006</b>	<b>\$ 1,526,344</b>	<b>\$ 2,927,528</b>	<b>\$ 2,091,706</b>

The governmental net position increased 24.0 percent from a year ago, increasing from \$5,633,102 to \$6,979,624. Last year's net position increased by 16.2 percent.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations - increased by \$76,567 for the governmental activities. This represents an increase of approximately 38.7 percent. The current level of unrestricted net position for our governmental activities stands at \$274,595.

The Township saw an increase in public works expenses due to a new trash collection contract and three special assessment street improvement projects.

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 \$623,000, or 29 percent. The increase in the business-type net position was related to increases in operating revenue.

## 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 \$2,640,362. This represents an increase of \$538,103 from the prior year. The Township's General Fund revenue, excluding other financing sources, totaled \$3.4 million. Property taxes were \$859,839, or 25 percent of the total revenue. State revenue sharing made up \$1,458,390, or 43 percent of total revenue.

#### ***Capital Assets and Debt Administration***

At the end of 2019, the Township had invested \$3.8 million and \$19.4 million in capital assets, net of related debt, in governmental activities and business-type activities, respectively. This amount complies with methods established by the Governmental Accounting Standards Board. Capital asset activity is disclosed in Note 4.

At year end, the Township had \$1,991,000 in governmental long-term debt. In the Sewer Fund, the Township has \$16.1 million in bonds outstanding. Long-term debt activity is disclosed in Note 6.

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

The COVID-19 pandemic will likely affect the Township's finances and budgets significantly in 2020. State revenue sharing is projected to decrease, and the economic impact of the pandemic on the general public may result in increased delinquency rates for property tax collections and utility payments. Between the existing cash reserves and the ability to adjust certain expense categories, the Township is well positioned to navigate the post-pandemic financial landscape.

The budget for 2019 was amended, as required by state law. Both the original and amended budgets have been shown in this document for 2019. The Township has again produced a timely budget for 2020.

#### ***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, 2019

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and investments (Note 3)	\$ 4,265,633	\$ 3,103,463	\$ 7,369,096
Receivables	2,899,208	673,497	3,572,705
Internal balances (Note 5)	160,000	(160,000)	-
Prepaid expenses	89,646	18,566	108,212
Land held for resale	27,125	-	27,125
Net OPEB asset (Note 9)	77,283	-	77,283
Capital assets: (Note 4)			
Assets not subject to depreciation	93,280	5,485	98,765
Assets subject to depreciation	4,223,119	35,290,122	39,513,241
Total assets	11,835,294	38,931,133	50,766,427
<b>Deferred Outflows of Resources</b>			
Bond refunding loss being amortized	-	173,444	173,444
Deferred OPEB costs (Note 9)	21,892	-	21,892
Total deferred outflows of resources	21,892	173,444	195,336
<b>Liabilities</b>			
Accounts payable	160,116	130,370	290,486
Accrued interest payable	6,718	110,712	117,430
Deposits payable	80,650	-	80,650
Accrued liabilities and other	9,541	-	9,541
Unearned revenue	-	604,240	604,240
Noncurrent liabilities:			
Due within one year:			
Compensated absences (Note 6)	47,401	-	47,401
Current portion of long-term debt (Note 6)	192,000	2,164,906	2,356,906
Due in more than one year - Long-term debt (Note 6)	1,799,000	13,899,236	15,698,236
Total liabilities	2,295,426	16,909,464	19,204,890
<b>Deferred Inflows of Resources</b>			
Property taxes levied for the following year	578,605	-	578,605
Special assessments levied for the following year	1,788,445	-	1,788,445
Deferred OPEB cost reductions (Note 9)	215,086	-	215,086
Total deferred inflows of resources	2,582,136	-	2,582,136
<b>Net Position</b>			
Net investment in capital assets	3,821,399	19,404,909	23,226,308
Restricted:			
Fire operations	242,833	-	242,833
Waste collection	155,314	-	155,314
Mosquito control	173,920	-	173,920
Debt service	1,473,106	-	1,473,106
Public access programming	699,737	-	699,737
Dog park donations	14,598	-	14,598
Roads	124,122	-	124,122
Unrestricted	274,595	2,790,204	3,064,799
Total net position	<u>\$ 6,979,624</u>	<u>\$ 22,195,113</u>	<u>\$ 29,174,737</u>

# Charter Township of Fenton

---

Functions/Programs	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,137,203	\$ 222,483	\$ -	\$ -
Legislative	71,520	-	-	-
Public safety	1,315,912	415,578	1,500	-
Public works	2,098,799	1,400	8,817	-
Community and economic development	39,826	-	-	-
Recreation and culture	35,736	-	12,086	-
Interest on long-term debt	54,922	-	-	-
Total governmental activities	4,753,918	639,461	22,403	-
Business-type activities - Sewer Fund	5,508,552	6,383,858	-	705,700
Total primary government	<b>\$ 10,262,470</b>	<b>\$ 7,023,319</b>	<b>\$ 22,403</b>	<b>\$ 705,700</b>

General revenue:

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

Total general revenue

**Change in Net Position**

**Net Position** - Beginning of year

**Net Position** - End of year

## Statement of Activities

**Year Ended December 31, 2019**

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (914,720)	\$ -	\$ (914,720)
(71,520)	-	(71,520)
(898,834)	-	(898,834)
(2,088,582)	-	(2,088,582)
(39,826)	-	(39,826)
(23,650)	-	(23,650)
(54,922)	-	(54,922)
(4,092,054)	-	(4,092,054)
-	1,581,006	1,581,006
(4,092,054)	1,581,006	(2,511,048)
859,839	-	859,839
1,443,718	-	1,443,718
32,284	-	32,284
400,414	-	400,414
25,400	-	25,400
2,658,941	-	2,658,941
17,980	-	17,980
5,438,576	-	5,438,576
1,346,522	1,581,006	2,927,528
5,633,102	20,614,107	26,247,209
<b>\$ 6,979,624</b>	<b>\$ 22,195,113</b>	<b>\$ 29,174,737</b>

# Charter Township of Fenton

## Governmental Funds Balance Sheet

December 31, 2019

	General Fund	Waste Collection Fund	Fire Fund	Debt Service - Four Lakes Improvement Fund	Nonmajor Funds	Total Governmental Funds
<b>Assets</b>						
Cash and investments (Note 3)	\$ 2,168,061	\$ 897,116	\$ 474,056	\$ 171,874	\$ 554,526	\$ 4,265,633
Receivables:						
Property taxes receivable	279,062	-	-	-	-	279,062
Special assessments receivable	139,090	458,060	251,973	424,371	651,586	1,925,080
Cable revenue receivables	102,477	-	-	-	-	102,477
Other receivables	12,009	4,125	-	-	458	16,592
Due from other governmental units	548,910	-	27,087	-	-	575,997
Due from other funds (Note 5)	179,800	-	5,014	-	-	184,814
Prepaid expenses	51,447	-	38,199	-	-	89,646
Land held for resale	27,125	-	-	-	-	27,125
<b>Total assets</b>	<b>\$ 3,507,981</b>	<b>\$ 1,359,301</b>	<b>\$ 796,329</b>	<b>\$ 596,245</b>	<b>\$ 1,206,570</b>	<b>\$ 7,466,426</b>
<b>Liabilities</b>						
Accounts payable	\$ 69,687	\$ 85,747	\$ 3,511	\$ -	\$ 1,171	\$ 160,116
Due to other funds (Note 5)	5,014	3,500	12,500	2,300	1,500	24,814
Deposits payable	80,650	-	-	-	-	80,650
Accrued liabilities and other	9,541	-	-	-	-	9,541
<b>Total liabilities</b>	<b>164,892</b>	<b>89,247</b>	<b>16,011</b>	<b>2,300</b>	<b>2,671</b>	<b>275,121</b>
<b>Deferred Inflows of Resources</b>						
Unavailable revenue	124,122	-	-	424,371	592,845	1,141,338
Property taxes levied for the following year	578,605	-	-	-	-	578,605
Special assessments levied for the following year	-	1,114,740	537,485	-	136,220	1,788,445
<b>Total deferred inflows of resources</b>	<b>702,727</b>	<b>1,114,740</b>	<b>537,485</b>	<b>424,371</b>	<b>729,065</b>	<b>3,508,388</b>
<b>Fund Balances</b>						
Nonspendable:						
Land held for resale	27,125	-	-	-	-	27,125
Prepays	51,447	-	38,199	-	-	89,646
Restricted:						
Fire operations	-	-	204,634	-	-	204,634
Debt service	-	-	-	169,574	286,316	455,890
Public access programming	699,737	-	-	-	-	699,737
Waste collection	-	155,314	-	-	-	155,314
Mosquito control	-	-	-	-	173,920	173,920
Dog park donations	-	-	-	-	14,598	14,598
Unassigned	1,862,053	-	-	-	-	1,862,053
<b>Total fund balances</b>	<b>2,640,362</b>	<b>155,314</b>	<b>242,833</b>	<b>169,574</b>	<b>474,834</b>	<b>3,682,917</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 3,507,981</b>	<b>\$ 1,359,301</b>	<b>\$ 796,329</b>	<b>\$ 596,245</b>	<b>\$ 1,206,570</b>	<b>\$ 7,466,426</b>

# Charter Township of Fenton

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

December 31, 2019

<b>Fund Balances Reported in Governmental Funds</b>	\$ 3,682,917
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	4,316,399
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	1,141,338
Bonds payable are not due and payable in the current period and are not reported in the funds	(1,991,000)
Accrued interest is not due and payable in the current period and is not reported in the funds	(6,718)
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) assets:	
Employee compensated absences	(47,401)
Other postemployment benefits	77,283
Deferred inflows related to OPEB are not recorded in the funds	21,892
Deferred outflows related to OPEB are not recorded in the funds	(215,086)
<b>Net Position of Governmental Activities</b>	<b><u>\$ 6,979,624</u></b>

# Charter Township of Fenton

## Governmental Funds

### Statement of Revenue, Expenditures, and Changes in Fund Balances

**Year Ended December 31, 2019**

	General Fund	Waste Collection Fund	Fire Fund	Debt Service - Four Lakes Improvement Fund	Nonmajor Funds	Total Governmental Funds
<b>Revenue</b>						
Property taxes	\$ 859,839	\$ -	\$ -	\$ -	\$ -	\$ 859,839
Special assessments	125,945	1,117,344	536,705	194,018	241,417	2,215,429
Intergovernmental:						
State-shared revenue and grants	1,458,390	-	-	-	-	1,458,390
Local contributions	-	-	-	-	12,086	12,086
Charges for services	209,877	-	93,776	-	-	303,653
Fines and forfeitures	13,056	-	-	-	-	13,056
Licenses and permits	318,457	-	-	-	-	318,457
Investment income	2,216	1,819	-	664	27,585	32,284
Other revenue:						
Cable franchise fees	400,414	-	-	-	-	400,414
Other miscellaneous income	17,920	-	-	-	-	17,920
Total revenue	3,406,114	1,119,163	630,481	194,682	281,088	5,631,528
<b>Expenditures</b>						
Current:						
General government	1,254,854	-	-	-	-	1,254,854
Legislative	71,520	-	-	-	-	71,520
Public safety	813,175	-	973,401	-	-	1,786,576
Public works	571,624	1,033,342	-	627,584	144,273	2,376,823
Community and economic development	39,826	-	-	-	-	39,826
Recreation and culture	28,449	-	-	-	7,287	35,736
Debt service:						
Principal	70,000	-	-	-	77,000	147,000
Interest and other debt service	18,663	-	-	15,524	21,611	55,798
Total expenditures	2,868,111	1,033,342	973,401	643,108	250,171	5,768,133
<b>Excess of Revenue Over (Under) Expenditures</b>	538,003	85,821	(342,920)	(448,426)	30,917	(136,605)
<b>Other Financing Sources</b>						
Proceeds from the issuance of bonds	-	-	-	618,000	-	618,000
Proceeds from sale of capital assets	100	-	25,300	-	-	25,400
Total other financing sources	100	-	25,300	618,000	-	643,400
<b>Net Change in Fund Balances</b>	538,103	85,821	(317,620)	169,574	30,917	506,795
<b>Fund Balances - Beginning of year</b>	2,102,259	69,493	560,453	-	443,917	3,176,122
<b>Fund Balances - End of year</b>	<u>\$ 2,640,362</u>	<u>\$ 155,314</u>	<u>\$ 242,833</u>	<u>\$ 169,574</u>	<u>\$ 474,834</u>	<u>\$ 3,682,917</u>

## 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, 2019

<b>Net Change in Fund Balances Reported in Governmental Funds</b>	\$ 506,795
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	1,051,241
Depreciation expense	(358,513)
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	443,512
Issuing debt provides current financial resources to governmental funds but increases long-term liabilities in the statement of net position	(618,000)
Repayment of bond principal is an expenditure in the governmental funds but not in the statement of activities (where it reduces long-term debt)	147,000
Interest expense is recognized in the government-wide statements as it accrues	876
Compensated absences do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	26,869
Decreases in the obligation for other postemployment benefits and related deferred outflows and inflows are recorded when earned in the statement of activities	<u>146,742</u>
<b>Change in Net Position of Governmental Activities</b>	<b><u><u>\$ 1,346,522</u></u></b>

# Charter Township of Fenton

## Proprietary Funds Statement of Net Position

December 31, 2019

	<u>Enterprise Fund - Sewer Fund</u>
<b>Assets</b>	
Current assets:	
Cash and investments (Note 3)	\$ 3,103,463
Receivables:	
User fees	412,730
Connection fees	3,340
Delinquent usage receivable	257,427
Prepaid expenses	<u>18,566</u>
Total current assets	3,795,526
Noncurrent assets:	
Capital assets: (Note 4)	
Assets not subject to depreciation	5,485
Assets subject to depreciation	<u>35,290,122</u>
Total noncurrent assets	<u>35,295,607</u>
Total assets	39,091,133
<b>Deferred Outflows of Resources</b> - Bond refunding loss being amortized	173,444
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	130,370
Accrued interest payable	110,712
Due to other funds (Note 5)	160,000
Unearned revenue	604,240
Current portion of long-term debt (Note 6)	<u>2,164,906</u>
Total current liabilities	3,170,228
Noncurrent liabilities - Long-term debt (Note 6)	<u>13,899,236</u>
Total liabilities	<u>17,069,464</u>
<b>Net Position</b>	
Net investment in capital assets	19,404,909
Unrestricted	<u>2,790,204</u>
Total net position	<u><u>\$ 22,195,113</u></u>

# Charter Township of Fenton

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

Year Ended December 31, 2019

	Enterprise Fund - Sewer Fund
<b>Operating Revenue</b> - Charges for services	\$ 6,383,858
<b>Operating Expenses</b>	
Sewer treatment fees	2,326,635
Other contractual services	956,328
Equipment repairs and maintenance	3,876
Insurance	34,171
Billing fees and postage	8,230
Administrative expense	160,000
Utilities	119,024
Miscellaneous	14,761
Depreciation	1,336,022
Total operating expenses	<u>4,959,047</u>
<b>Operating Income</b>	1,424,811
<b>Nonoperating Expense</b> - Bond interest expense	<u>(549,505)</u>
<b>Income</b> - Before capital contributions	875,306
<b>Capital Contributions</b> - Tap-in fees	<u>705,700</u>
<b>Change in Net Position</b>	1,581,006
<b>Net Position</b> - Beginning of year	<u>20,614,107</u>
<b>Net Position</b> - End of year	<u><u>\$ 22,195,113</u></u>

# Charter Township of Fenton

## Proprietary Funds Statement of Cash Flows

Year Ended December 31, 2019

	<u>Enterprise Fund - Sewer Fund</u>
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 6,466,151
Payments to suppliers	(3,227,105)
Internal activity - Payments to other funds	<u>(150,000)</u>
Net cash provided by operating activities	3,089,046
<b>Cash Flows from Capital and Related Financing Activities</b>	
Tap-in fees	705,700
Purchase of capital assets	(534,063)
Principal and interest paid on capital debt	<u>(2,856,599)</u>
Net cash used in capital and related financing activities	<u>(2,684,962)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	404,084
<b>Cash and Cash Equivalents - Beginning of year</b>	<u>2,699,379</u>
<b>Cash and Cash Equivalents - End of year</b>	<b><u>\$ 3,103,463</u></b>
<b>Classification of Cash and Cash Equivalents - Cash and cash equivalents</b>	<b><u>\$ 3,103,463</u></b>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>	
Operating income	\$ 1,424,811
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	1,336,022
Changes in assets and liabilities:	
Receivables	82,293
Due to other funds	10,000
Prepaid and other assets	392
Accounts payable	<u>235,528</u>
Net cash provided by operating activities	<b><u>\$ 3,089,046</u></b>

**Charter Township of Fenton**

**Fiduciary Funds  
Statement of Fiduciary Net Position**

**December 31, 2019**

	<u>Retiree Health Care Fund</u>	<u>Agency Funds</u>
<b>Assets</b>		
Cash and investments	\$ -	\$ 7,591,300
Investments - Mutual funds	526,489	-
	<u>526,489</u>	<u>-</u>
Total assets	526,489	<u><b>\$ 7,591,300</b></u>
<b>Liabilities</b>		
Accounts payable	-	\$ 20,807
Deposits payable	-	322,756
Undistributed taxes	-	7,247,737
	<u>-</u>	<u>7,247,737</u>
Total liabilities	-	<u><b>\$ 7,591,300</b></u>
<b>Net Position Restricted for Other Employee Benefits</b>	<u><b>\$ 526,489</b></u>	

**Charter Township of Fenton**

**Fiduciary Funds**  
**Statement of Changes in Fiduciary Net Position**

**Year Ended December 31, 2019**

	<u>Retiree Health Care Fund</u>
<b>Additions</b>	
Investment income (expense):	
Net increase in fair value of investments	\$ 78,198
Investment-related expenses	<u>(2,118)</u>
Total investment income	76,080
Contributions - Employer	<u>67,358</u>
Total additions	143,438
<b>Deductions - Benefit payments</b>	<u>17,358</u>
<b>Net Increase in Restricted Net Position</b>	126,080
<b>Net Position Restricted for Other Employee Benefits - Beginning of year</b>	<u>400,409</u>
<b>Net Position Restricted for Other Employee Benefits - End of year</b>	<u><u>\$ 526,489</u></u>

December 31, 2019

### 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) applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Government Accounting Standards Board (GASB).

#### ***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.

December 31, 2019

**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.
- The Four Lakes Improvement Debt Service Fund is used to account for the revenue and expenditures related to street improvements within the four lakes special assessment district and to record tax, interest, and other revenue for payment of interest, principal, and other expenditures of long-term debt.

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.

December 31, 2019

**Note 1 - Significant Accounting Policies (Continued)**

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.

***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.

**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:

	<u>Depreciable Life - Years</u>
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 "other financing sources," 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 2020 operations. In addition, there are deferred inflows in the governmental funds related to special assessments that have been completed during or prior to 2019, 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**

Net position of the Township is classified in three components. Net investment in capital assets, net of related debt, consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position is further classified as expendable and nonexpendable. Expendable restricted net position has been limited for use by donors and as held in trust for debt service and self-insured professional liability. Nonexpendable restricted net position has been restricted by donors to be maintained in perpetuity. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

**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.

**Note 1 - Significant Accounting Policies (Continued)**

- Assigned: Intent to spend resources on specific purposes expressed by the governing body. Assignments must be authorized by resolution and approved by the governing body.
- Unassigned: Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

**Property Tax Revenue**

Property taxes are levied on each December 1 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 2018 property tax revenue was levied and collectible on December 1, 2018 and is recognized as revenue in the year ended December 31, 2019 when the proceeds of the levy are budgeted and available for the financing of operations.

The 2018 taxable valuation of the Township totaled \$803 million, on which taxes levied consisted of 0.6845 mills for operating purposes. This resulted in \$551,897 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 asset 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 asset, 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 any OPEB liabilities.

**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 sewer services. Operating expenses for enterprise funds include the cost of providing services, maintaining the system, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Note 1 - Significant Accounting Policies (Continued)**

**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.

**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 were originally effective for the Township's financial statements for the year ended December 31, 2019 but were extended to December 31, 2020 with the issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*.

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 were originally effective for the Township's financial statements for the year ending December 31, 2020 but were extended to June 30, 2022 with the issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*.

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 were originally effective for the Township's financial statements for the year ending December 31, 2020 but were extended to December 31, 2021 with the issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*.

**December 31, 2019**

**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:

Cumulative shortfall at January 1, 2019		\$ (726,105)
Current year permit revenue		314,273
Related expenses:		
Direct costs	\$ 66,637	
Estimated indirect costs	72,681	<u>139,318</u>
Current year surplus		<u>174,955</u>
Cumulative shortfall December 31, 2019		<u><u>\$ (551,150)</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 that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that 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.

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 certificate of deposit, but not the remainder of state statutory authority, as listed above. The Township's deposits and investment policies are in accordance with statutory authority.

December 31, 2019

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

The Township's cash and investments are subject to custodial credit risk, which is examined in more detail below:

***Custodial Credit Risk of Bank Deposits***

Custodial credit risk is the risk that, in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$14,746,585 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 Federal Deposit Insurance Corporation (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, 2019. The equity securities are classified as Level 1 and are valued using prices quoted in active markets for those securities.

- Equity securities in mutual funds of \$526,489 are valued using quoted marketed prices (Level 1 inputs).

December 31, 2019

**Note 4 - Capital Assets**

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

**Governmental Activities**

	Balance January 1, 2019	Reclassifications	Additions	Disposals and Adjustments	Balance December 31, 2019
Capital assets not being depreciated:					
Land	\$ 93,280	\$ -	\$ -	\$ -	\$ 93,280
Construction in progress	5,360	(5,360)	-	-	-
Subtotal	98,640	(5,360)	-	-	93,280
Capital assets being depreciated:					
Buildings and improvements	2,268,099	-	22,745	-	2,290,844
Machinery and equipment	2,865,007	-	593,111	(348,676)	3,109,442
Furniture and fixtures	26,767	-	-	-	26,767
Land improvements	395,618	-	-	-	395,618
Road improvements	2,494,137	5,360	435,385	-	2,934,882
Subtotal	8,049,628	5,360	1,051,241	(348,676)	8,757,553
Accumulated depreciation:					
Buildings and improvements	1,091,907	-	63,696	-	1,155,603
Machinery and equipment	2,051,946	-	125,197	(348,676)	1,828,467
Furniture and fixtures	17,761	-	529	-	18,290
Land improvements	328,902	-	11,730	-	340,632
Road improvements	1,034,081	-	157,361	-	1,191,442
Subtotal	4,524,597	-	358,513	(348,676)	4,534,434
Net capital assets being depreciated	3,525,031	5,360	692,728	-	4,223,119
Net governmental activities capital assets	<u>\$ 3,623,671</u>	<u>\$ -</u>	<u>\$ 692,728</u>	<u>\$ -</u>	<u>\$ 4,316,399</u>

December 31, 2019

**Note 4 - Capital Assets (Continued)**

*Business-type Activities*

	Balance January 1, 2019	Reclassifications	Additions	Disposals and Adjustments	Balance December 31, 2019
Capital assets not being depreciated:					
Land	\$ 5,485	\$ -	\$ -	\$ -	\$ 5,485
Construction in progress	737,307	(1,271,370)	534,063	-	-
Subtotal	742,792	(1,271,370)	534,063	-	5,485
Capital assets being depreciated:					
Buildings	520,171	-	-	-	520,171
Sewer system infrastructure	60,567,569	1,271,370	-	-	61,838,939
Subtotal	61,087,740	1,271,370	-	-	62,359,110
Accumulated depreciation:					
Buildings	89,417	-	13,404	-	102,821
Sewer system infrastructure	25,643,549	-	1,322,618	-	26,966,167
Subtotal	25,732,966	-	1,336,022	-	27,068,988
Net capital assets being depreciated	35,354,774	1,271,370	(1,336,022)	-	35,290,122
Net business-type activities capital assets	<u>\$ 36,097,566</u>	<u>\$ -</u>	<u>\$ (801,959)</u>	<u>\$ -</u>	<u>\$ 35,295,607</u>

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

Governmental activities:	
General government	\$ 55,960
Public works	157,361
Public safety	145,192
Total governmental activities	<u>\$ 358,513</u>
Business-type activities - Sewer	<u>\$ 1,336,022</u>

**Note 5 - Interfund Receivables, Payables, and Transfers**

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Waste Collection Fund	\$ 3,500
	Fire Fund	12,500
	Four Lakes Improvement Fund	2,300
	Sewer Fund	160,000
	Nonmajor governmental funds	1,500
	Total General Fund	179,800
Fire Fund	General Fund	5,014
	Total	<u>\$ 184,814</u>

December 31, 2019

**Note 5 - Interfund Receivables, Payables, and Transfers (Continued)**

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.

**Note 6 - Long-term Debt**

Significant details regarding the Township's long-term liabilities for the year ended December 31, 2019 can be summarized as follows:

**Governmental Activities**

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable -					
Direct borrowings and direct placements:					
General Obligation Limited Tax Bonds	\$ 565,000	\$ -	\$ (70,000)	\$ 495,000	\$ 75,000
Installment obligations:					
Lake Valley SAD	710,000	-	(50,000)	660,000	55,000
Liberty Shores SAD	245,000	-	(27,000)	218,000	27,000
Four Lakes Improvement SAD	-	618,000	-	618,000	35,000
Total direct borrowings and direct placements principal outstanding	1,520,000	618,000	(147,000)	1,991,000	192,000
Accumulated sick and vacation time	74,270	35,554	(62,423)	47,401	47,401
Total governmental activities long-term debt	<u>\$ 1,594,270</u>	<u>\$ 653,554</u>	<u>\$ (209,423)</u>	<u>\$ 2,038,401</u>	<u>\$ 239,401</u>

December 31, 2019

**Note 6 - Long-term Debt (Continued)**

***Business-type Activities***

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable:					
Direct borrowings and direct placements:					
Refunded General Obligation Capital Improvement Bonds 2018	\$ 1,791,000	\$ -	\$ (132,000)	\$ 1,659,000	\$ 143,000
General Obligation Capital Improvement Bonds 2017	1,550,000	-	(155,000)	1,395,000	160,000
General Obligation Capital Improvement Bonds 2018	1,300,000	-	(111,000)	1,189,000	115,000
<b>Total direct borrowings and direct placements principal outstanding</b>	<b>4,641,000</b>	<b>-</b>	<b>(398,000)</b>	<b>4,243,000</b>	<b>418,000</b>
Other debt:					
2016 Refunded General Obligation Capital Improvement Bonds Series 2007	5,730,000	-	(555,000)	5,175,000	570,000
Bond refunding premium	499,859	-	(55,540)	444,319	55,540
2013 Refunded Sewage Disposal System No. 3 2004 B and Improvement Projects Series 2004 A	5,425,000	-	(740,000)	4,685,000	830,000
Bond refunding premium	378,116	-	(63,020)	315,096	63,020
2014 Refunded Sewage Disposal System No. 3 Series 2003A	1,385,000	-	(225,000)	1,160,000	220,000
Bond refunding premium	50,069	-	(8,342)	41,727	8,346
District 3 Expansion (98) Refunding 2007 (County Bond)	320,846	-	(320,846)	-	-
Bond refunding discount	(46,382)	-	46,382	-	-
<b>Total other debt principal outstanding</b>	<b>13,742,508</b>	<b>-</b>	<b>(1,921,366)</b>	<b>11,821,142</b>	<b>1,746,906</b>
<b>Total business-type activities long-term debt</b>	<b>\$ 18,383,508</b>	<b>\$ -</b>	<b>\$ (2,319,366)</b>	<b>\$ 16,064,142</b>	<b>\$ 2,164,906</b>

December 31, 2019

**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				
	Direct Borrowings and Direct Placements			Direct Borrowings and Direct Placements		Other Debt		
	Principal	Interest	Total	Principal	Interest	Principal	Interest	Total
2020	\$ 192,000	\$ 57,521	\$ 249,521	\$ 418,000	\$ 145,625	\$ 1,620,000	\$ 433,950	\$ 2,617,575
2021	219,000	47,420	266,420	431,000	134,241	1,715,000	373,725	2,653,966
2022	224,000	41,266	265,266	446,000	122,492	1,780,000	303,200	2,651,692
2023	229,000	34,792	263,792	454,000	110,405	1,855,000	221,350	2,640,755
2024	234,000	28,081	262,081	469,000	98,012	1,925,000	141,200	2,633,212
2025-2029	783,000	60,614	843,614	2,025,000	593,242	2,125,000	172,200	4,915,442
2030-2031	110,000	2,846	112,846	-	-	-	-	-
<b>Total</b>	<b>\$ 1,991,000</b>	<b>\$ 272,540</b>	<b>\$ 2,263,540</b>	<b>\$ 4,243,000</b>	<b>\$ 1,204,017</b>	<b>\$11,020,000</b>	<b>\$ 1,645,625</b>	<b>\$18,112,642</b>

**Revenue Pledged in Debt Payment**

The Township has pledged substantially all revenue of the General Fund to repay the above obligations related to the 2016 Refunded General Obligation Capital Improvement Bonds Series 2007, 2013 Refunded Sewage Disposal System No. 3 Series 2004, and 2014 Refunded Sewage Disposal System No. 3 Series 2003 bonds. In addition, the Township has pledged to raise property taxes, to the extent permitted by law, if necessary, to fund the repayment of the bonds.

**Bond Refunding**

In previous years, the Township defeased advance refundings. As of December 31, 2019, there is still \$13,440,000 of bonds outstanding that is considered defeased.

**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.

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 and 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 \$843,382 and \$622,709, respectively. The Township's 2019 contributions were \$63,255. Employees contributed \$45,031 during 2019.

**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, 2019
Inactive plan members or beneficiaries currently receiving benefits	2
Active plan members	<hr/> 2
Total plan members	<hr/> <hr/> 4

***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 \$17,358, plus it contributed \$50,000 into a prefunded retiree healthcare fund, which is reported in this financial statement as an other employee benefit trust fund type.

***Net OPEB Liability (Asset)***

The Township has chosen to use December 31 as its measurement date for the net OPEB liability (asset). The December 31, 2019 fiscal year end reported net OPEB asset was determined using a measure of the total OPEB liability and the OPEB net position as of the December 31, 2019 measurement date. The December 31, 2019 measurement date total OPEB liability was determined by an actuarial valuation performed as of December 31, 2019.

December 31, 2019

**Note 9 - Other Postemployment Benefit Plan (Continued)**

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

Changes in Net OPEB Liability (Asset)	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability (Asset)
<b>Balance at December 31, 2018</b>	\$ 575,817	\$ 400,409	\$ 175,408
Changes for the year:			
Service cost	4,726	-	4,726
Interest	39,984	-	-
Differences between expected and actual experience	(183,647)	-	(183,647)
Changes in assumptions	29,684	-	29,684
Contributions - Employer	-	67,358	(67,358)
Net investment income	-	78,198	(78,198)
Benefit payments, including refunds	(17,358)	(17,358)	-
Administrative expenses	-	(2,118)	2,118
<b>Net changes</b>	<b>(126,611)</b>	<b>126,080</b>	<b>(252,691)</b>
<b>Balance at December 31, 2019</b>	<b>\$ 449,206</b>	<b>\$ 526,489</b>	<b>\$ (77,283)</b>

The plan's fiduciary net position represents 117 percent of the total OPEB liability.

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

For the year ended December 31, 2019, the Township recognized OPEB expense of \$(79,384).

At December 31, 2019, 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	\$ -	\$ 135,606
Changes in assumptions	21,892	67,370
Net difference between projected and actual earnings on OPEB plan investments	-	12,110
<b>Total</b>	<b>\$ 21,892</b>	<b>\$ 215,086</b>

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
2020	\$ (96,563)
2021	(53,388)
2022	(33,533)
2023	(9,710)
<b>Total</b>	<b>\$ (193,194)</b>

December 31, 2019

**Note 9 - Other Postemployment Benefit Plan (Continued)**

**Actuarial Assumptions**

The total OPEB liability in the December 31, 2019 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 6.99 percent; a healthcare cost trend rate of 8.5 percent for 2020, decreasing 0.25 percent per year to an ultimate rate of 4.5 percent for 2036 and later years; and the Public General 2010 Employee and Healthy Retiree mortality tables with the 2019 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 6.99 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.

**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, 2019 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	0.75

**Sensitivity of the Net OPEB Asset to Changes in the Discount Rate**

The following presents the net OPEB asset of the Township, calculated using the discount rate of 6.99 percent, as well as what the Township's net OPEB asset 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 Percentage Point Decrease (5.99%)	Current Discount Rate (6.99%)	1 Percentage Point Increase (7.99%)
Net OPEB asset of the Charter Township of Fenton Retiree Medical Plan	\$ (15,813)	\$ (77,283)	\$ (127,942)

December 31, 2019

**Note 9 - Other Postemployment Benefit Plan (Continued)**

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

The following presents the net OPEB asset of the Township, calculated using the healthcare cost trend rate of 8.5 percent, as well as what the Township's net OPEB asset 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 Percentage Point Decrease (7.5%)	Current Healthcare Cost Trend Rate (8.5%)	1 Percentage Point Increase (9.5%)
Net OPEB liability (asset) of the Charter Township of Fenton Retiree Medical Plan	\$ (131,558)	\$ (77,283)	\$ (11,004)

***Assumption Changes***

The discount rate of 6.99 percent used in the December 31, 2019 actuarial valuation has been updated from 7.00 percent, which was used in the December 31, 2018 actuarial valuation.

The Public General 2010 Employee and Healthy Retiree mortality tables with 2019 improvement scale used in the December 31, 2019 actuarial have been updated from the RP-2014 mortality tables with MP-2018 improvement scale, which were used in the December 31, 2018 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 for the Charter Township of Fenton Retiree Medical Plan as of December 31, 2019:

Asset Class	Target Allocation
Global equity	63.20 %
Global fixed income	30.50
Real assets	3.10
Diversifying strategies	2.10
Cash or cash equivalents	1.10
Total	<u>100.00 %</u>

***Rate of Return***

For the year ended December 31, 2019, the annual money-weighted rate of return (loss) on OPEB plan investments, net of OPEB plan investment expense, was 19.0 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 (Public Act 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.

**December 31, 2019**

**Note 10 - Tax Abatements (Continued)**

For the fiscal year ended December 31, 2019, the Township abated \$1,173 of taxes under this program. There are no provisions to recapture taxes; however, the abatement may be eliminated if taxes are not paid timely.

**Note 11 - Subsequent Events**

The United States and the State of Michigan declared a state of emergency in March 2020 due to the global coronavirus disease 2019 (COVID-19) pandemic. The financial statement impact of COVID-19 will impact subsequent periods of the Township. The impact on the Township's future operating costs, revenue, and any recovery from emergency funding, either federal or state, cannot be estimated at this time. Subsequent to year end, the Township's investment portfolio within the OPEB plan has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions and due to market volatility, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

---

## Required Supplemental Information

---

# Charter Township of Fenton

## Required Supplemental Information Budgetary Comparison Schedule General Fund

**Year Ended December 31, 2019**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 834,600	\$ 841,600	\$ 859,839	\$ 18,239
Special assessments	-	110,000	125,945	15,945
Intergovernmental	1,465,000	1,436,000	1,458,390	22,390
Charges for services	192,500	218,700	209,877	(8,823)
Fines and forfeitures	11,500	11,500	13,056	1,556
Licenses and permits	253,800	273,800	318,457	44,657
Investment income	1,500	1,500	2,216	716
Other revenue	459,000	459,000	418,334	(40,666)
Total revenue	3,217,900	3,352,100	3,406,114	54,014
<b>Expenditures</b>				
Current services:				
General government	1,418,100	1,394,600	1,254,854	139,746
Legislative	127,500	97,500	71,520	25,980
Public safety	865,400	897,900	813,175	84,725
Public works	473,100	638,700	571,624	67,076
Community and economic development	63,300	53,600	39,826	13,774
Recreation and culture	130,500	130,500	28,449	102,051
Debt service	89,000	89,000	88,663	337
Total expenditures	3,166,900	3,301,800	2,868,111	433,689
<b>Excess of Revenue Over Expenditures</b>	51,000	50,300	538,003	487,703
<b>Other Financing Sources</b> - Proceeds from sale of capital assets	-	-	100	100
<b>Net Change in Fund Balance</b>	51,000	50,300	538,103	487,803
<b>Fund Balance</b> - Beginning of year	2,102,259	2,102,259	2,102,259	-
<b>Fund Balance</b> - End of year	<u>\$ 2,153,259</u>	<u>\$ 2,152,559</u>	<u>\$ 2,640,362</u>	<u>\$ 487,803</u>

**Charter Township of Fenton**

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

**Year Ended December 31, 2019**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Special assessments	\$ 1,094,400	\$ 1,115,000	\$ 1,117,344	\$ 2,344
Investment income	600	1,800	1,819	19
Total revenue	1,095,000	1,116,800	1,119,163	2,363
<b>Expenditures</b> - Current services - Public works	1,033,000	1,033,500	1,033,342	158
<b>Net Change in Fund Balance</b>	62,000	83,300	85,821	2,521
<b>Fund Balance</b> - Beginning of year	69,493	69,493	69,493	-
<b>Fund Balance</b> - End of year	<u>\$ 131,493</u>	<u>\$ 152,793</u>	<u>\$ 155,314</u>	<u>\$ 2,521</u>

**Charter Township of Fenton**

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

**Year Ended December 31, 2019**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Special assessments	\$ 535,000	\$ 536,000	\$ 536,705	\$ 705
Charges for services	106,500	107,100	93,776	(13,324)
Total revenue	641,500	643,100	630,481	(12,619)
<b>Expenditures</b> - Current services - Public safety - Fire and EMS	616,600	1,207,500	973,401	234,099
<b>Excess of Revenue Over (Under) Expenditures</b>	24,900	(564,400)	(342,920)	221,480
<b>Other Financing Sources</b> - Proceeds from sale of capital assets	-	25,000	25,300	300
<b>Net Change in Fund Balance</b>	24,900	(539,400)	(317,620)	221,780
<b>Fund Balance</b> - Beginning of year	560,453	560,453	560,453	-
<b>Fund Balance</b> - End of year	<u>\$ 585,353</u>	<u>\$ 21,053</u>	<u>\$ 242,833</u>	<u>\$ 221,780</u>

## Charter Township of Fenton

### Required Supplemental Information

### Schedule of Changes in the Net OPEB (Asset) Liability and Related Ratios

	<b>Last Three Fiscal Years</b>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Total OPEB Liability</b>			
Service cost	\$ 4,726	\$ 7,129	\$ 6,785
Interest	39,984	36,662	61,268
Changes in benefit terms	-	-	(542,826)
Differences between expected and actual experience	(183,647)	(422)	-
Changes in assumptions	29,684	(177,814)	-
Benefit payments, including refunds	<u>(17,358)</u>	<u>(11,508)</u>	<u>(10,220)</u>
<b>Net Change in Total OPEB Liability</b>	(126,611)	(145,953)	(484,993)
<b>Total OPEB Liability - Beginning of year</b>	<u>575,817</u>	<u>721,770</u>	<u>1,206,763</u>
<b>Total OPEB Liability - End of year</b>	<b><u>\$ 449,206</u></b>	<b><u>\$ 575,817</u></b>	<b><u>\$ 721,770</u></b>
<b>Plan Fiduciary Net Position</b>			
Contributions - Employer	\$ 67,358	\$ 86,508	\$ 35,220
Net investment income (loss)	78,198	(24,845)	43,558
Administrative expenses	(2,118)	(1,738)	(1,457)
Benefit payments, including refunds	<u>(17,358)</u>	<u>(11,508)</u>	<u>(10,220)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	126,080	48,417	67,101
<b>Plan Fiduciary Net Position - Beginning of year</b>	<u>400,409</u>	<u>351,992</u>	<u>284,891</u>
<b>Plan Fiduciary Net Position - End of year</b>	<b><u>\$ 526,489</u></b>	<b><u>\$ 400,409</u></b>	<b><u>\$ 351,992</u></b>
<b>Net OPEB (Asset) Liability - Ending</b>	<b><u>\$ (77,283)</u></b>	<b><u>\$ 175,408</u></b>	<b><u>\$ 369,778</u></b>
<b>Plan Fiduciary Net Position as a Percentage of Total OPEB Liability</b>	117.2 %	69.5 %	48.8 %
<b>Covered Employee Payroll</b>	\$ 154,363	\$ 191,325	\$ 182,016

GASB 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 Contributions

**Last Ten Fiscal Years  
Years Ended December 31**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 47,838	\$ 129,743	\$ 103,724	\$ 72,141	\$ 111,391	\$ 111,391	\$ 111,391	\$ 110,586	\$ 110,586	\$ 164,485
Contributions in relation to the actuarially determined contribution	67,358	86,508	35,220	34,926	33,328	32,870	28,761	13,150	37,016	74,343
<b>Contribution Excess (Deficiency)</b>	<b>\$ 19,520</b>	<b>\$ (43,235)</b>	<b>\$ (68,504)</b>	<b>\$ (37,215)</b>	<b>\$ (78,063)</b>	<b>\$ (78,521)</b>	<b>\$ (82,630)</b>	<b>\$ (97,436)</b>	<b>\$ (73,570)</b>	<b>\$ (90,142)</b>
<b>Covered Employee Payroll</b>	<b>\$ 154,363</b>	<b>\$ 191,325</b>	<b>\$ 182,016</b>	<b>\$ 174,870</b>	<b>\$ 173,852</b>	<b>\$ 173,400</b>	<b>\$ 171,303</b>	<b>\$ 162,921</b>	<b>\$ 163,374</b>	<b>\$ 169,669</b>
<b>Contributions as a Percentage of Covered Employee Payroll</b>	43.6 %	45.2 %	19.3 %	20.0 %	19.2 %	19.0 %	16.8 %	8.1 %	22.7 %	43.8 %

#### Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date                      Actuarially determined contribution rates are calculated as of December 31, one year prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal (level percentage of compensation)
Asset valuation method	Equal to market value of assets
Inflation	2.00 percent
Salary increase	3.50 percent
Investment rate of return	7.00 percent (including inflation)
Mortality	RP-2014 mortality tables with the MP-2018 improvement scale

**Charter Township of Fenton**

---

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

---

**Last Three Fiscal Years  
Years Ended December 31**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return - Net of investment expense	19.00 %	(7.55)%	14.89 %

This schedule is being built prospectively and will ultimately show 10 years of data.

December 31, 2019

### ***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.

### ***OPEB Information***

#### **Benefit Changes**

There were no changes of benefit terms in 2019 or 2018.

In 2017, benefit terms changed related to closing the plan and amending plan eligibility, resulting in a decrease of the total OPEB liability.

#### **Changes in Assumptions**

In 2019, assumptions changed related to the discount rate and mortality tables, resulting in an increase of the total OPEB liability.

In 2018, assumptions changed related to the discount rate, healthcare cost trend rates, salary scale, and investment rate of return, resulting in a decrease of the total OPEB liability.

---

## Other Supplemental Information

---

**Charter Township of Fenton**

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds**

**December 31, 2019**

	Special Revenue Funds		Debt Service Funds		Total
	Mosquito Fund	Dog Park Fund	Lake Valley SAD	Liberty Shores SAD	
<b>Assets</b>					
Cash and investments	\$ 252,441	\$ 14,598	\$ 233,671	\$ 53,816	\$ 554,526
Receivables:					
Special assessments receivable	58,741	-	432,297	160,548	651,586
Other receivables	458	-	-	-	458
Total assets	<b>\$ 311,640</b>	<b>\$ 14,598</b>	<b>\$ 665,968</b>	<b>\$ 214,364</b>	<b>\$ 1,206,570</b>
<b>Liabilities - Due to other funds</b>	\$ 1,500	\$ -	\$ 1,171	\$ -	\$ 2,671
<b>Deferred Inflows of Resources</b>					
Unavailable revenue	-	-	432,297	160,548	592,845
Special assessments levied for the following year	136,220	-	-	-	136,220
Total deferred inflows of resources	136,220	-	432,297	160,548	729,065
Total liabilities and deferred inflows of resources	137,720	-	433,468	160,548	731,736
<b>Fund Balances</b>					
Restricted:					
Debt service	-	-	232,500	53,816	286,316
Mosquito control	173,920	-	-	-	173,920
Dog park donations	-	14,598	-	-	14,598
Total fund balances	173,920	14,598	232,500	53,816	474,834
Total liabilities, deferred inflows of resources, and fund balances	<b>\$ 311,640</b>	<b>\$ 14,598</b>	<b>\$ 665,968</b>	<b>\$ 214,364</b>	<b>\$ 1,206,570</b>

**Charter Township of Fenton**

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

**Year Ended December 31, 2019**

	Special Revenue Funds		Debt Service Funds		Total
	Mosquito Fund	Dog Park Fund	Lake Valley SAD	Liberty Shores SAD	
<b>Revenue</b>					
Special assessments	\$ 136,435	\$ -	\$ 62,315	\$ 42,667	\$ 241,417
Intergovernmental - Local contributions	-	12,086	-	-	12,086
Investment income	672	5	19,148	7,760	27,585
Total revenue	137,107	12,091	81,463	50,427	281,088
<b>Expenditures</b>					
Current services:					
Public works	144,273	-	-	-	144,273
Recreation and culture	-	7,287	-	-	7,287
Debt service:					
Principal	-	-	50,000	27,000	77,000
Interest and other debt service	-	-	14,438	7,173	21,611
Total expenditures	144,273	7,287	64,438	34,173	250,171
<b>Net Change in Fund Balances</b>	(7,166)	4,804	17,025	16,254	30,917
<b>Fund Balances - Beginning of year</b>	181,086	9,794	215,475	37,562	443,917
<b>Fund Balances - End of year</b>	<b>\$ 173,920</b>	<b>\$ 14,598</b>	<b>\$ 232,500</b>	<b>\$ 53,816</b>	<b>\$ 474,834</b>

**Charter Township of Fenton**

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

**December 31, 2019**

	<u>Trust and Agency Fund</u>	<u>Current Tax Collection Fund</u>	<u>Total Agency Funds</u>
<b>Assets - Cash and cash equivalents</b>	<b>\$ 343,563</b>	<b>\$ 7,247,737</b>	<b>\$ 7,591,300</b>
<b>Liabilities</b>			
Accounts payable	\$ 20,807	\$ -	\$ 20,807
Deposits payable	322,756	-	322,756
Undistributed taxes	-	7,247,737	7,247,737
Total liabilities	<b>\$ 343,563</b>	<b>\$ 7,247,737</b>	<b>\$ 7,591,300</b>

May 28, 2020

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, 2019 and have issued our report thereon dated May 28, 2020. 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 Updates 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.

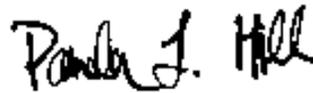
We would like to take this opportunity to thank the Township's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

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 these or any 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 February 17, 2020, 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 (GAAP). 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 letter about planning matters dated February 17, 2020.

### **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 2019, except for the implementation of Governmental Accounting Standards Board (GASB) Statement No. 88.

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 an independent third-party actuarial valuation. The significant assumptions used in the calculation include future rate of return on investments, life expectancies, and projected healthcare cost increases. 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.

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

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

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

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

### ***Disagreements with Management***

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

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. 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 28, 2020.

### ***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

### **COVID-19 Resource Center**

Plante & Moran, PLLC has assembled a COVID-19 task force of leaders across the firm to monitor, address, and mitigate risks presented by the virus, and we are sharing our insights within our COVID-19 resource center at <https://www.plantemoran.com/explore-our-thinking/areas-of-focus/covid-19-resource-center>. We will keep you updated with relevant economic analyses, crisis management guidelines, notices of changing regulations, and more to keep the Township running as smoothly as possible amidst uncertainty and unprecedented disruption.

Have questions about the Coronavirus Aid, Relief, and Economic Security (CARES) Act? Submit them at <https://www.plantemoran.com/campaigns/firm/cares-act> by simply providing your contact information and agreeing to our terms and conditions, and an expert from our task force will contact you within the next 24 hours.

### **Cybersecurity and Information Technology Controls**

Cyberattacks are on the rise across the globe, and the cost of these attacks is ever increasing. Because of these attacks, municipalities stand to lose their reputation, the ability to operate efficiently, and proprietary information or assets. Communities can also potentially be subject to financial and legal liabilities. Managing this issue is especially challenging because even a municipality with a highly mature cybersecurity risk management program still has a residual risk that a material cybersecurity breach could occur and not be detected in a timely manner. We understand that the technology department continues to monitor and evaluate this risk, which are critical best practices. Additionally, periodic assessments of the system in order to verify that the control environment is working as intended are key parts of measuring associated business risk. We encourage administration and those charged with governance to work with the technology team on this very important topic. If we can be of assistance in the process, we would be happy to do so.

### **Revenue Sharing**

Given the recent COVID-19 pandemic, there are anticipated declines in the state budgeted amounts presented below. Please refer to the Plante & Moran, PLLC COVID-19 resource center discussed above to keep updated on the economic analysis and other up-to-date information related to the pandemic.

The fiscal year 2020 governor's budget recommendation includes \$1.4 billion for revenue sharing broken down as follows:

<b>Description</b>	<b>Final 2019 Budget</b>	<b>Final 2020 Budget</b>
Constitutionally required payments	\$835.3 M	\$886.5 M
CVTRS	243.0 M	262.8 M
CVTRS - One-time payments	5.8 M	0 M
County revenue sharing	177.2 M	184.8 M
County incentive program	43.3 M	43.3 M
County one-time payments	1.0 M	0 M
Fiscally distressed community grants	2.5 M	5.0 M
Supplemental CVTRS	6.2 M	0 M
<b>Total</b>	<b>\$1,314.3 M</b>	<b>\$1,382.4 M</b>

## **Section II - Legislative Updates and Related Information (Continued)**

For the third year in a row, local units will experience an increase in 2020 based on the governor's budget recommendation, as the constitutional payment budget has been increased by \$68.1 million over the 2019 budget act appropriated amount. The FY 2020 budget also includes the "City, Village, and Township Revenue Sharing" (CVTRS) appropriation that was established in FY 2015, and that number increased to \$262.8 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 2020, qualified local units will once again need to comply with the same best practices as they did last year as follows:

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

The amount budgeted for distressed CVTRS has been increased from \$2.5 million in 2019 to \$5 million in 2020. The governor's recommendation has removed \$6.2 million for "supplemental CVTRS" payments in FY 2020.

### **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, the State has extended the deadline for compliance. On April 20, 2020, the State issued a memo that sets an implementation date for fiscal years ending on October 31, 2022 and thereafter. The State has committed to releasing various tools to help local units with implementation, including FAQs and clarification on which accounts should be used when implementing GASB 84. A significant revision to the current version of the chart of accounts will be issued in the future that will incorporate feedback received by the Treasury. This revision will include significant changes to the expenditure accounts 700-999, which will now mirror the old approach that allowed for various numbers within certain ranges. Going forward, the Treasury will issue the following three documents for any future revisions: a revised chart of accounts, a marked-up version of the chart showing the changes, and a summary of the revisions report. Local units can sign up for alerts at this link: [https://public.govdelivery.com/accounts/MITREAS/subscriber/new?qsp=MITREAS\\_1](https://public.govdelivery.com/accounts/MITREAS/subscriber/new?qsp=MITREAS_1).

### **Launch of MI Community Financial Dashboard**

The Michigan Department of Treasury launched 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>.

### **Public Act 202 of 2017**

On January 5, 2018, the Michigan Department of Treasury released initial reporting requirements under Public Act 202 of 2017 (the "Act"), which were primary components of the Act. These reporting requirements apply to all local units of government that offer or provide defined benefit pension and/or defined benefit OPEB retirement benefits.

## **Section II - Legislative Updates and Related Information (Continued)**

Local units began reporting funded ratios and contributions in accordance with these uniform assumptions, starting with their fiscal year 2019 if their audited financial statements were based on an actuarial valuation issued after December 31, 2018. If their fiscal year 2019 audited financial statements were based on an actuarial valuation issued prior to December 31, 2018, the local units will begin reporting on these uniform assumptions starting with their fiscal year 2020.

On October 21, 2019, the Michigan Department of Treasury released the updated uniform assumptions to be used for fiscal year 2020. Beginning with fiscal year 2020 reporting, all local governments must utilize the updated fiscal year 2020 uniform assumptions. Each year moving forward, the annual uniform assumptions will be updated and are expected to be utilized within Form 5572, where indicated, for that fiscal year. Local governments may utilize roll-forward procedures in nonvaluation years utilizing any updates to the uniform assumptions to calculate the data.

This means that the local unit may potentially need three calculations: a funding valuation (if the local unit chooses to have different assumptions for funding purposes), a valuation that complies with GAAP to be used for financial statement reporting, and a calculation that complies with the State's new uniform assumptions.

The releases by the Department of Treasury include the letters titled "Public Act 202: Selection of the Uniform Assumptions" and "Public Act 202: Selection of the Uniform Assumptions for Fiscal Year 2020," Numbered Letter 2018-1, Form 5572, detailed instructions for completion of Form 5572, and a listing of frequently asked questions. All documents can be located at [http://www.michigan.gov/treasury/0,4679,7-121-1751\\_51556\\_84499---,00.html](http://www.michigan.gov/treasury/0,4679,7-121-1751_51556_84499---,00.html).

Form 5572 is due annually for both pension and OPEB plans provided by an employer no later than six months after the end of your fiscal year.

In addition to submitting this new form to the Department of Treasury, a local unit must also post this information on its website, or in a public place if the local unit does not have a website. The governing body of a local unit will also need to receive a copy of this form, in accordance with the Act, but the Act does not require approval by the governing body before submission to the Treasury.

Public Act 202 defines that a local unit of government is in "underfunded status" if any of the following apply:

1. OPEB - Total plan assets are less than 40 percent of total plan liabilities according to the most recent annual report, and, for primary units of government\*, the annual required contribution for all of the retirement health systems of the local unit is greater than 12 percent of the local unit of government's governmental funds operations revenue.
2. Retirement pension plans - Total plan assets are less than 60 percent of total plan liabilities according to the most recent annual report, and, for primary units of government, the annual required contribution for all of the retirement pension systems of the local unit is greater than 10 percent of the local unit of government's governmental funds operations revenue.

\*Primary units of government are cities, villages, townships, and counties.

If, after submission of Form 5572, the Treasury determines your community to have underfunded status, you will have the opportunity to file a "waiver" under Section 6 of the Act. The waiver needs to provide a plan for how the underfunding is being addressed. This waiver will then be submitted to the Treasury.

## **Section II - Legislative Updates and Related Information (Continued)**

In the event that a local unit has underfunded plans and does not submit a waiver or the waiver is not approved, the Treasury will perform an internal review. The local unit will also need to submit a corrective action plan to the newly created Municipal Stability Board (under Section 7 of the Act). The local unit will be responsible for creating the corrective action plan.

For governments with OPEB plans, Section 4(l)(a)(i)(ii) of Public Act 202 of 2017 requires the local unit to pay retiree insurance premiums for the year, as well as the normal costs for the new employees hired after June 30, 2018. The actuary will likely need to calculate this number in order for governments to comply. In addition, if communities must essentially prefund this additional cost, those communities without a qualifying OPEB trust will need to consider where these contributions will go.

Questions should be directed via email to the Treasury offices at [LocalRetirementReporting@michigan.gov](mailto:LocalRetirementReporting@michigan.gov) or by visiting its website at [www.Michigan.gov/LocalRetirementReporting](http://www.Michigan.gov/LocalRetirementReporting).

### **Upcoming Accounting Standards Requiring Preparation**

#### ***GASB Statement No. 95 - Postponement of the Effective Dates of Certain Authoritative Guidance***

This new pronouncement was adopted in May 2020 and is effective immediately. This statement postpones the effective dates of the following pronouncements and implementation guides by one year:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide No. 2018-1, *Implementation Guidance Update - 2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update - 2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities*

## **Section II - Legislative Updates and Related Information (Continued)**

The effective dates of the following pronouncement and implementation guide are postponed by 18 months:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*

### ***GASB Statement No. 84 - Fiduciary Activities***

This new pronouncement is effective for reporting periods beginning after December 15, 2018 (December 15, 2019 after extension within GASB Statement No. 95). This statement 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 their 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 governments' fiduciary activities will need to move to governmental funds, while other activities that never before were considered fiduciary may now be reported as such under certain circumstances. It is also possible that certain pension and OPEB fiduciary funds will no longer be reported in a local unit's financial statements.

Given the potential to have a major impact on many governments, not only to their external financial statements, but also to their accounting system requirements and budget documents, we encourage you to start analyzing the impact of this standard now. The first step to implementation is identifying the types 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 will be effective for reporting periods beginning after December 15, 2019 (June 15, 2021 after extension within GASB Statement No. 95). 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-of-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

We recommend beginning to accumulate information now related to all significant lease agreements 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 in the coming months 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.

### ***GASB Statement No. 89 - Interest Incurred During Construction***

This new accounting pronouncement will be effective for reporting periods beginning after December 15, 2019 (December 15, 2020 after extension within GASB Statement No. 95). This statement eliminates capitalized interest and instead requires all interest expense, including the portion incurred during construction of a capital asset, to be expensed. Early adoption is encouraged.