

Watertown Charter Township,
Michigan

Year Ended
December 31,
2014

Financial
Statements

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WATERTOWN CHARTER TOWNSHIP, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

May 13, 2015

To the Board of Trustees of
Watertown Charter Township
Grand Ledge, Michigan

Report on 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 *Watertown Charter Township* (the "Township"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Township'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.

Independent Auditors' 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 of 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 auditor 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 Township'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 remaining aggregate fund information of Watertown Charter Township as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, as listed 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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 Township’s basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



MANAGEMENT'S DISCUSSION AND ANALYSIS

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

As the Township Board of Watertown Charter Township, Clinton County, Michigan, we offer readers of the Township's financial statements this narrative overview and analysis as an explanation of the financial activities of the Township for the fiscal year ended December 31, 2014.

Financial Highlights

- The assets of the Township exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$13,688,855 (net position for all activities). Of this amount, \$9,698,591 (unrestricted net position for all activities) may be used to meet the government's ongoing obligations to citizens and creditors. The assets of the Township at the close of 2013 exceeded its liabilities by \$13,842,912 (net position for all activities) of that amount, \$9,948,711 was unrestricted net position.
- The government's total net position decreased by \$154,057 in 2014.
- As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$5,062,643 which is a decrease of \$155,099 over 2013. Approximately 43 percent of this total amount, or \$2,165,825 is available for spending at the government's discretion (unassigned fund balance) compared to \$2,403,207 at the end of 2013. This modest decrease in fund balance is mostly due to construction projects completed in 2014 that were carried over from 2013 and the purchase of land. Management continues to maintain a conservative fiscal approach in response to uncertain State of Michigan related legislation and inflation costs.

The unassigned fund balance is where the Township saves for emergencies and reflects the Township's conservative fiscal approach to government management. This fund balance will be essential to continuing services without interruption as revenues remain uncertain.

The Township's total bonded debt decreased by \$390,000 during the current fiscal year; from \$2,705,000 at the end of fiscal year 2013 to \$2,315,000 at the end of fiscal year 2014.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Township's assets, liabilities and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include legislative, general government, public safety, public works, community and economic development and recreation and culture. The business-type activities of the Township include sanitary sewer and water distribution operations.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Township maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund, and for the two nonmajor funds, the Township improvement revolving fund and the cemetery improvement fund, in the aggregate. The general fund is where the Township funds are held to cover budgeted expenses for the year. In layman terms this is like a household checking account, out of which the township pays for its bills. Within the Township general fund is an account called fund balance. The fund balance is like a savings account, it is where the Township saves for special projects/needs and where unspent budgeted funds are kept for future use.

The Township adopts an annual appropriated budget for its general fund. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

Proprietary Funds. Enterprise funds, the only propriety fund type used by the Township, are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses enterprise funds to account for its sanitary sewer and for water distribution operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements provide separate information for the sanitary sewer and water distribution systems, both of which are considered to be major funds of the Township. Proprietary funds are where the user fees collected on behalf of the township are held for specific purposes. For example, sewer use bills, fire hydrant user fees, special assessments and special fees are used to pay for the sewer system operation, fire hydrants, bond payments for the developments for which they are collected.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Fiduciary funds are all the money's collected by the Township meant for another agency, for example, school taxes, Township taxes, library taxes, escrow accounts.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Watertown Charter Township, assets for all activities exceeded liabilities and deferred inflows of resources by \$13,688,855 at the close of the most recent fiscal year.

Of the Township's net position, \$3,702,151 (27 percent) reflects its investment in capital assets (e.g. infrastructure, land, buildings, equipment, and vehicles); less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

In addition, the Township owns assets in a joint venture with Eagle Township known as the Looking Glass Regional Fire Authority. Currently the Authority is funded through payments from Watertown Charter Township (62 percent) and Eagle Township (38 percent). The Authority reported capital assets (net of depreciation) of \$1,343,527 as of December 31, 2013 for fixtures, building, equipment, and land. The 2014 report is not available at the time of this Township audit.

At the end of the current year, due to conservative fiscal management, the Township is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

The government's net position for all activities decreased by \$154,057 during the current fiscal year.

Governmental Activities. Governmental activities decreased the Township's net position by \$109,945 during fiscal year 2014. Much of the decrease is attributable to construction projects completed in 2014 that were carried over from 2013.

Business-type Activities. Business-type activities decreased the Township's net position by \$44,112 during fiscal year 2014.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 6,750,650	\$ 6,926,973	\$ 5,666,895	\$ 5,850,771	\$12,417,545	\$12,777,744
Capital assets, net	263,798	193,928	4,832,881	5,029,878	5,096,679	5,223,806
Total assets	<u>7,014,448</u>	<u>7,120,901</u>	<u>10,499,776</u>	<u>10,880,649</u>	<u>17,514,224</u>	<u>18,001,550</u>
Long-term liabilities	450,228	503,064	1,907,358	2,237,238	2,357,586	2,740,302
Other liabilities	68,009	57,007	140,834	147,715	208,843	204,722
Total liabilities	<u>518,237</u>	<u>560,071</u>	<u>2,048,192</u>	<u>2,384,953</u>	<u>2,566,429</u>	<u>2,945,024</u>
Total deferred inflows of resources	1,258,940	1,213,614	-	-	1,258,940	1,213,614
Net position:						
Net Investment in capital assets	263,798	193,928	3,438,353	3,409,807	3,702,151	3,603,735
Restricted	288,113	290,466	-	-	288,113	290,466
Unrestricted	4,685,360	4,862,822	5,013,231	5,085,889	9,698,591	9,948,711
Total net position	<u>\$ 5,237,271</u>	<u>\$ 5,347,216</u>	<u>\$ 8,451,584</u>	<u>\$ 8,495,696</u>	<u>\$13,688,855</u>	<u>\$13,842,912</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Program revenues:						
Charges for services	\$ 177,502	\$ 335,164	\$ 599,186	\$ 678,518	\$ 776,688	\$ 1,013,682
Operating grants	-	25	-	-	-	25
Capital grants and revenues	-	1,159	-	-	-	1,159
General revenues:						
Property taxes	1,228,490	1,189,778	-	-	1,228,490	1,189,778
Other	570,976	550,720	56,061	31,636	627,037	582,356
Total revenues	1,976,968	2,076,846	655,247	710,154	2,632,215	2,787,000
Expenses:						
Legislative	40,421	41,560	-	-	40,421	41,560
General government	1,167,165	886,564	-	-	1,167,165	886,564
Public safety	357,774	475,333	-	-	357,774	475,333
Public works	354,432	267,910	-	-	354,432	267,910
Community and economic development	101,092	113,701	-	-	101,092	113,701
Recreation and culture	8,062	7,961	-	-	8,062	7,961
Interest and fiscal charges	17,967	20,267	-	-	17,967	20,267
Sewage disposal	-	-	628,501	669,641	628,501	669,641
Water extension	-	-	110,858	114,018	110,858	114,018
Total expenses	2,046,913	1,813,296	739,359	783,659	2,786,272	2,596,955
Change in net position, before transfers	(69,945)	263,550	(84,112)	(73,505)	(154,057)	190,045
Transfers	(40,000)	24,733	40,000	(24,733)	-	-
Change in net position	(109,945)	288,283	(44,112)	(98,238)	(154,057)	190,045
Net position:						
Beginning of year	5,347,216	5,058,933	8,495,696	8,593,934	13,842,912	13,652,867
End of year	\$ 5,237,271	\$ 5,347,216	\$ 8,451,584	\$ 8,495,696	\$ 13,688,855	\$ 13,842,912

Financial Analysis of the Township's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds. The focus of the Township's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of 2014, the Township's governmental funds reported combined ending fund balances of \$5,062,643 a decrease of \$155,099 in comparison with the prior year. Approximately 43 percent of this total amount or \$2,165,825 constitutes unassigned fund balance, which is an adequate amount to keep the Township operating in the case of unforeseen emergencies. The nonspendable portion of the fund balance, \$16,961, is amounts prepaid for 2015 expenses in 2014. The restricted portion of the governmental fund balance, \$538,638, is special assessments payments received for future bond payments, and the fund balances from the Township improvement revolving fund and the cemetery improvement fund set aside for special projects. The assigned amount is for Township Hall improvements. The remainder of the fund balance is committed and acts as the Township's savings account for specific needs and projects.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

The general fund is the chief operating fund of the Township. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,165,825 while total fund balance was \$4,774,530. The fund balance of the Township's general fund decreased by a total \$152,746 during the current fiscal year. While the Township saw a modest decrease in fund balance, the Township continues to be conservative as revenue sources continue to be uncertain. The support of the Township Board and lack of high turnover by department heads has assisted in supporting a conservative approach and operating with fiscal restraint.

Proprietary Funds. The Township's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the sewer fund and water extension funds at the end of the year amounted to \$4,544,205 and \$469,026, respectively. The sewer fund had a decrease for the year of \$72,236 and the water fund had an increase for the year of \$28,124, in total net position.

General Fund Budgetary Highlights

Differences between the original and final amended budgets were caused by three major expenses: The increase over anticipated construction in the Township led to increased building, electrical, mechanical, and plumbing inspections fees owed to inspectors. The Township purchased property on Watertown Parkway for which a final budget amendment was made to other property. The Board also made several supplemental budgetary appropriations throughout the year which were not considered material.

Capital Asset and Debt Administration

Capital Assets. The Township's investment in capital assets for its governmental and business-type activities as of December 31, 2014, amounted to \$5,096,679 (net of accumulated depreciation). Capital assets balances for the current year and the previous year ended December 31 were as follows:

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 93,846	\$ 42,187	\$ 82,000	\$ 82,000	\$ 175,846	\$ 124,187
Land improvements	90,454	93,038	-	-	90,454	93,038
Buildings and improvements	44,288	51,639	-	-	44,288	51,639
Sewage disposal system	-	-	4,750,881	4,947,878	4,750,881	4,947,878
Equipment	35,210	5,281	-	-	35,210	5,281
Vehicles	-	1,783	-	-	-	1,783
Total capital assets, net	\$ 263,798	\$ 193,928	\$ 4,832,881	\$ 5,029,878	\$ 5,096,679	\$ 5,223,806

The decrease in the Township's investment in capital assets for the current fiscal year of \$127,127 resulted primarily from depreciation of sewer system lines. Additional information on capital assets can be found in the notes to the financial statements.

Long-term Debt. At the end of the current fiscal year, the Township had total bonded debt outstanding of \$2,315,000. The entire debt is backed by the full faith and credit of the Township. Special assessment revenue is being collected to pay these bonds. Outstanding balances for the current year and the previous year ended December 31 were as follows:

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Special assessment bonds	\$ 410,000	\$ 470,000	\$ 1,545,000	\$ 1,815,000	\$ 1,955,000	\$ 2,285,000
Sewage disposal system bonds	-	-	360,000	420,000	360,000	420,000
Total bonded debt outstanding	\$ 410,000	\$ 470,000	\$ 1,905,000	\$ 2,235,000	\$ 2,315,000	\$ 2,705,000

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total assessed valuation. Additional information on long-term debt outstanding can be found in the notes to the financial statements.

Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the Township's budget for the 2015 fiscal year:

- The uncertainty of State revenue sharing.
- The uncertainty of the continuance of personal property tax as a revenue source.
- Department managers operating with a conservative and fiscally responsible budget approach.
- The Board of Trustees has passed a conservative balanced budget for 2015.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information are welcomed and should be addressed to the Township Manager, Watertown Charter Township, 12803 S. Wacousta Road, Grand Ledge, Michigan 48837, email: JTubbs@watertowntownship.com.

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BASIC FINANCIAL STATEMENTS

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WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Net Position

December 31, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,302,554	\$ 239,265	\$ 1,541,819
Restricted cash and cash equivalents	-	48,669	48,669
Investments	4,257,229	2,659,501	6,916,730
Receivables, net	1,133,786	1,483,065	2,616,851
Prepaid items	16,961	27,471	44,432
Assets held for resale	40,120	-	40,120
Investment in joint venture	-	1,208,924	1,208,924
Capital assets not being depreciated	93,846	82,000	175,846
Capital assets being depreciated, net	169,952	4,750,881	4,920,833
Total assets	7,014,448	10,499,776	17,514,224
Liabilities			
Accounts payable and accrued expenses	68,009	140,834	208,843
Long-term liabilities:			
Due within one year	72,068	325,000	397,068
Due in more than one year	378,160	1,582,358	1,960,518
Total liabilities	518,237	2,048,192	2,566,429
Deferred inflows of resources			
Taxes levied but intended for subsequent periods	1,258,940	-	1,258,940
Net position			
Net investment in capital assets	263,798	3,438,353	3,702,151
Restricted for capital projects	288,113	-	288,113
Unrestricted	4,685,360	5,013,231	9,698,591
Total net position	\$ 5,237,271	\$ 8,451,584	\$ 13,688,855

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2014

Functions / Programs	Expenses	Program Revenues	Net (Expense) Revenues
		Charges for Services	
Primary government			
Governmental activities:			
Legislative	\$ 40,421	\$ -	\$ (40,421)
General government	1,167,165	45,074	(1,122,091)
Public safety and health	357,774	3,331	(354,443)
Public works	354,432	-	(354,432)
Community and economic development	101,092	122,132	21,040
Recreation and culture	8,062	6,965	(1,097)
Interest on long-term debt	17,967	-	(17,967)
Total governmental activities	<u>2,046,913</u>	<u>177,502</u>	<u>(1,869,411)</u>
Business-type activities:			
Sewage disposal	628,501	460,204	(168,297)
Water extension	110,858	138,982	28,124
Total business-type activities	<u>739,359</u>	<u>599,186</u>	<u>(140,173)</u>
Total primary government	<u>\$ 2,786,272</u>	<u>\$ 776,688</u>	<u>\$ (2,009,584)</u>

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WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net position			
Net revenues (expenses)	\$ (1,869,411)	\$ (140,173)	\$ (2,009,584)
General revenues:			
Property taxes	1,228,490	-	1,228,490
Grants and contributions not restricted to specific programs	369,878	-	369,878
Other unrestricted revenues	153,915	34,002	187,917
Unrestricted investment earnings	47,183	-	47,183
Gain on investment in joint venture	-	22,059	22,059
Transfers - internal activities	(40,000)	40,000	-
Total general revenues and transfers	1,759,466	96,061	1,855,527
Change in net position	(109,945)	(44,112)	(154,057)
Net position, beginning of year	5,347,216	8,495,696	13,842,912
Net position, end of year	\$ 5,237,271	\$ 8,451,584	\$ 13,688,855

concluded.

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Balance Sheet

Governmental Funds

December 31, 2014

	General	Nonmajor Funds	Totals
Assets			
Cash and cash equivalents	\$ 1,291,405	\$ 11,149	\$ 1,302,554
Investments	3,980,265	276,964	4,257,229
Taxes receivable	643,367	-	643,367
Special assessments receivable	351,962	-	351,962
Accounts receivable	8,544	-	8,544
Due from other governments	129,913	-	129,913
Prepaid expenditures	16,961	-	16,961
Total assets	\$ 6,422,417	\$ 288,113	\$ 6,710,530
Liabilities			
Accounts payable	\$ 36,615	\$ -	\$ 36,615
Accrued wages	20,915	-	20,915
Other liabilities	2,000	-	2,000
Total liabilities	59,530	-	59,530
Deferred inflows of resources			
Taxes levied but intended for subsequent period	1,258,940	-	1,258,940
Special assessments	329,417	-	329,417
Total deferred inflows of resources	1,588,357	-	1,588,357
Fund balances			
Nonspendable	16,961	-	16,961
Restricted	250,525	288,113	538,638
Committed	2,175,419	-	2,175,419
Assigned	165,800	-	165,800
Unassigned	2,165,825	-	2,165,825
Total fund balances	4,774,530	288,113	5,062,643
Total liabilities, deferred inflows and fund balances	\$ 6,422,417	\$ 288,113	\$ 6,710,530

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
December 31, 2014

Fund balances - total governmental funds	\$ 5,062,643
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.	
Capital assets not being depreciated	93,846
Capital assets being depreciated, net	169,952
Assets held for resale	40,120
The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows of resources in the governmental funds, and thus are not included in fund balance.	
Deferred long-term receivable	329,417
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Bonds payable	(410,000)
Compensated absences	(40,228)
Accrued interest on long-term debt	(8,479)
Net position of governmental activities	<u>\$ 5,237,271</u>

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2014

	General	Nonmajor Funds	Totals
Revenues			
Taxes	\$ 1,228,490	\$ -	\$ 1,228,490
Special assessments	101,664	-	101,664
Licenses and permits	253,619	-	253,619
State revenue sharing	368,115	-	368,115
Charges for services	24,077	1,440	25,517
Interest	47,183	1,357	48,540
Rentals	13,270	-	13,270
Contributions and donations	1,763	-	1,763
Other	14,628	-	14,628
Total revenues	2,052,809	2,797	2,055,606
Expenditures			
Current:			
Legislative	40,421	-	40,421
General government	1,082,706	-	1,082,706
Public safety and health	252,417	-	252,417
Public works	404,684	-	404,684
Community and economic development	206,449	-	206,449
Recreation and culture	3,969	-	3,969
Capital outlay	100,856	150	101,006
Debt service:			
Principal	60,000	-	60,000
Interest	19,053	-	19,053
Total expenditures	2,170,555	150	2,170,705
Revenues over (under) expenditures	(117,746)	2,647	(115,099)
Other financing sources (uses)			
Transfers in	5,000	-	5,000
Transfers out	(40,000)	(5,000)	(45,000)
Total other financing sources (uses)	(35,000)	(5,000)	(40,000)
Net change in fund balances	(152,746)	(2,353)	(155,099)
Fund balances, beginning of year	4,927,276	290,466	5,217,742
Fund balances, end of year	\$ 4,774,530	\$ 288,113	\$ 5,062,643

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended December 31, 2014

Net change in fund balances - total governmental funds	\$ (155,099)
Amounts reported for <i>governmental activities</i> in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	99,449
Depreciation expense	(29,579)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.	
Net change in deferred property taxes receivable	(78,638)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long term-liabilities.	
Principal payments on long-term liabilities	60,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in accrued interest payable on long-term debt	1,085
Change in the accrual for compensated absences	(7,163)
Change in net position of governmental activities	<u>\$ (109,945)</u>

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenues				
Taxes	\$ 1,226,707	\$ 1,226,707	\$ 1,228,490	\$ 1,783
Special assessments	72,486	72,486	101,664	29,178
Licenses and permits:				
Landfill	45,000	45,000	28,000	(17,000)
Planning, zoning and building	68,205	120,405	122,132	1,727
Franchise fees	67,000	67,000	103,487	36,487
State revenue sharing	361,874	361,874	368,115	6,241
Charges for services:				
Fire runs	8,125	8,125	3,331	(4,794)
Cemetery	9,500	9,500	12,543	3,043
Parks and recreation	500	500	1,495	995
Other	6,300	6,300	6,708	408
Interest	52,880	52,880	47,183	(5,697)
Rentals:				
Parks	5,000	5,000	5,470	470
Other	7,800	7,800	7,800	-
Contributions and donations:				
G.L.I.T.	1,750	1,750	1,763	13
Other	305	305	14,628	14,323
Total revenues	1,933,432	1,985,632	2,052,809	67,177
Expenditures				
Legislative:				
Township board	53,041	53,041	40,421	(12,620)
General government:				
Supervisor	29,665	29,665	23,885	(5,780)
Elections	13,900	15,400	11,974	(3,426)
Assessor	67,057	67,057	63,889	(3,168)
Attorney	25,000	25,000	8,896	(16,104)
Clerk	75,004	75,004	70,760	(4,244)
Board of review	2,139	2,139	1,270	(869)
Treasurer	74,726	80,752	75,264	(5,488)
General services administration	408,181	411,781	380,644	(31,137)
Buildings and grounds	164,911	176,155	154,560	(21,595)
Other property	31,100	304,758	251,722	(53,036)
Cemetery	10,362	10,362	8,659	(1,703)
Insurance	20,900	22,000	21,562	(438)
Refunds and rebates	40,060	40,060	9,621	(30,439)
Total general government	963,004	1,260,132	1,082,706	(177,426)

continued...

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

General Fund

For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Expenditures (continued)				
Public safety and health:				
Public safety and health	\$ 344,361	\$ 352,661	\$ 251,816	\$ (100,845)
Building inspection	375	675	601	(74)
Total public safety and health	<u>344,736</u>	<u>353,336</u>	<u>252,417</u>	<u>(100,919)</u>
Public works:				
Drains at large	17,500	17,500	34,833	17,333
Highways, streets, and bridges	230,266	330,316	343,347	13,032
Street lighting	26,389	26,389	26,504	115
Total public works	<u>274,155</u>	<u>374,205</u>	<u>404,684</u>	<u>30,480</u>
Community and economic development -				
Planning and zoning	<u>164,146</u>	<u>216,346</u>	<u>206,449</u>	<u>(9,897)</u>
Recreation and culture -				
Parks and recreation	<u>11,129</u>	<u>11,129</u>	<u>3,969</u>	<u>(7,160)</u>
Capital outlay	<u>50,000</u>	<u>101,700</u>	<u>100,856</u>	<u>(844)</u>
Debt service				
Principal	65,000	65,000	60,000	(5,000)
Interest	21,959	21,959	19,053	(2,906)
Total debt service	<u>86,959</u>	<u>86,959</u>	<u>79,053</u>	<u>(7,906)</u>
Total expenditures	<u>1,947,170</u>	<u>2,456,848</u>	<u>2,170,555</u>	<u>(286,293)</u>
Revenues over (under) expenditures	<u>(13,738)</u>	<u>(471,216)</u>	<u>(117,746)</u>	<u>353,470</u>
Other financing sources (uses)				
Transfers in	30,000	30,000	5,000	(25,000)
Transfers out	-	(40,000)	(40,000)	-
Total other financing sources (uses)	<u>30,000</u>	<u>(10,000)</u>	<u>(35,000)</u>	<u>(25,000)</u>
Net change in fund balances	16,262	(481,216)	(152,746)	328,470
Fund balance, beginning of year	<u>4,927,276</u>	<u>4,927,276</u>	<u>4,927,276</u>	<u>-</u>
Fund balance, end of year	<u>\$ 4,943,538</u>	<u>\$ 4,446,060</u>	<u>\$ 4,774,530</u>	<u>\$ 328,470</u>

concluded.

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Net Position

Proprietary Funds

December 31, 2014

	Sewage Disposal	Water Extension	Totals
Assets			
Current assets:			
Cash and cash equivalents	\$ 192,375	\$ 46,890	\$ 239,265
Restricted cash and cash equivalents	25,046	23,623	48,669
Investments	1,993,802	665,699	2,659,501
Accounts receivable	9,264	-	9,264
Interest receivable	48,572	20,715	69,287
Current portion of special assessments receivable	202,007	104,948	306,955
Prepaid expenses	27,471	-	27,471
Total current assets	2,498,537	861,875	3,360,412
Noncurrent assets:			
Special assessments receivable, net of current portion	882,152	215,407	1,097,559
Investment in joint venture	1,208,924	-	1,208,924
Capital assets not being depreciated	82,000	-	82,000
Capital assets being depreciated, net	4,750,881	-	4,750,881
Total noncurrent assets	6,923,957	215,407	7,139,364
Total assets	9,422,494	1,077,282	10,499,776
Liabilities			
Current liabilities:			
Accounts payable	2,500	82,761	85,261
Accrued interest payable	42,908	12,665	55,573
Current portion of long-term debt	220,000	105,000	325,000
Total current liabilities	265,408	200,426	465,834
Long-term liabilities-			
Due in more than one year	1,174,528	407,830	1,582,358
Total liabilities	1,439,936	608,256	2,048,192
Net position			
Net investment in capital assets	3,438,353	-	3,438,353
Unrestricted	4,544,205	469,026	5,013,231
Total net position	\$ 7,982,558	\$ 469,026	\$ 8,451,584

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Revenues, Expenses and Changes in Fund Net Position Proprietary Funds For the Year Ended December 31, 2014

	Sewage Disposal	Water Extension	Totals
Operating revenues			
User fee charges	\$ 352,176	\$ 80,100	\$ 432,276
Hook-up fees and permits	60,830	39,820	100,650
Other	34,002	-	34,002
Total operating revenues	447,008	119,920	566,928
Operating expenses			
General administration	34,246	66	34,312
Sewage plant administration	334,164	-	334,164
Other operating costs	-	86,229	86,229
Depreciation	196,997	-	196,997
Total operating expenses	565,407	86,295	651,702
Operating income (loss)	(118,399)	33,625	(84,774)
Nonoperating revenues (expenses)			
Interest income	47,198	19,062	66,260
Interest expense	(63,094)	(24,563)	(87,657)
Gain on investment in joint venture	22,059	-	22,059
Total nonoperating revenues (expenses)	6,163	(5,501)	662
Income (loss) before transfers	(112,236)	28,124	(84,112)
Transfers in	40,000	-	40,000
Change in net position	(72,236)	28,124	(44,112)
Net position, beginning of year	8,054,794	440,902	8,495,696
Net position, end of year	\$ 7,982,558	\$ 469,026	\$ 8,451,584

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2014

	Sewage Disposal	Water Extension	Totals
Cash flows from operating activities			
Cash received from customers	\$ 445,974	\$ 119,920	\$ 565,894
Cash payments to suppliers for goods and services	(368,034)	(84,825)	(452,859)
Net cash provided by operating activities	77,940	35,095	113,035
Cash flows from noncapital financing activities			
Transfers in	40,000	-	40,000
Cash flows from capital and related financing activities			
Payments received on special assessments	241,627	112,647	354,274
Interest payments	(68,858)	(26,083)	(94,941)
Principal payments	(225,000)	(105,000)	(330,000)
Premium on special assessment debt	(785)	(162)	(947)
Net cash used in capital and related financing activities	(53,016)	(18,598)	(71,614)
Cash flows from investing activities			
Purchase of investments	(51,333)	(56,218)	(107,551)
Interest received	76,015	25,362	101,377
Net cash provided by (used in) investing activities	24,682	(30,856)	(6,174)
Net change in cash and cash equivalents	89,606	(14,359)	75,247
Cash and cash equivalents, beginning of year	127,815	84,872	212,687
Cash and cash equivalents, end of year	\$ 217,421	\$ 70,513	\$ 287,934
Reconciliation to the Statement of Net Position			
Cash and cash equivalents	\$ 192,375	\$ 46,890	\$ 239,265
Restricted cash and cash equivalents	25,046	23,623	48,669
	\$ 217,421	\$ 70,513	\$ 287,934

continued...

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2014

	Sewage Disposal	Water Extension	Totals
Cash flows from operating activities			
Operating income (loss)	\$ (118,399)	\$ 33,625	\$ (84,774)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	196,997	-	196,997
Change in:			
Accounts receivable	(1,034)	-	(1,034)
Prepaid expenses	376	-	376
Accounts payable	-	1,470	1,470
Net cash provided by operating activities	<u>\$ 77,940</u>	<u>\$ 35,095</u>	<u>\$ 113,035</u>

concluded.

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Fiduciary Net Position

Agency Fund
December 31, 2014

Assets

Cash and cash equivalents	\$ 1,120,131
Investments	<u>700,084</u>

Total assets

\$ 1,820,215

Liabilities

Current tax distributions and deposits payable	<u>\$ 1,820,215</u>
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The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Watertown Charter Township, Michigan is a municipal corporation governed by an elected supervisor and a seven-member board. The Township has determined that no entities should be consolidated into the financial statements as component units. The criteria for including a component unit include significant operational or financial relationships with the government.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

Property taxes, intergovernmental revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and as such have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Township reports the following major governmental fund -

The *general fund* is the government's primary operating fund. It accounts for all the financial resources of the general government, except those accounted for and reported in another fund.

The Township reports the following major proprietary funds:

The *sewage disposal fund* accounts for the activities of the government's sewage disposal system.

The *water extension fund* accounts for the debt payments of the government's water distribution system.

Additionally, the Township reports the following fund types:

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds are used to account for assets that the government holds for others in an agency capacity (such as taxes collected for other governments).

Property taxes, intergovernmental revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and as such have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues 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 revenues of the enterprise funds and of the government's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Restricted net position includes assets that are subject to restrictions beyond the government's control. The restrictions may be externally imposed or imposed by law. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

Assets, Liabilities and Equity

Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes and Township policy authorize the Township to invest in:

Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.

Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.

Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

Bankers' acceptances of United States banks.

Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.

Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and 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 accounting periods and are recorded as prepaid items when purchased in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the asset constructed.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	Years
Land improvements	40
Building and improvements	15-40
System infrastructure	40
Equipment	5-10
Vehicles	5

Compensated Absences

It is the government’s policy to permit eligible employees to accumulate earned but unused vacation and sick pay benefits. Union employees are allowed to accumulate an unlimited amount of sick leave and non-union employees are allowed to accumulate 480 hours of sick leave, which is paid only upon illness while in the employ of the Township or at a rate of 50% upon termination of employment. Union employees are allowed to accumulate five days of vacation time and non-union employees are allowed to accumulate ten days of vacation time. Employees are only paid for unused vacation at the time of termination. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

Deferred Inflows of Resources

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, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time. The governmental funds report unavailable revenues, which arises only under a modified accrual basis of accounting, from special assessments receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In addition, deferred inflows of resources are reported in the government-wide and governmental fund financial statements for property taxes levied during the year that were intended to finance future periods.

Fund Equity

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance* is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Trustees (the government's highest level of decision-making authority). A motion by the Board of Trustees is required to establish, modify, or rescind a fund balance commitment. The Township reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Trustees will assign any fund balance amounts. *Unassigned fund balance* is the residual classification for the general fund. The Township reports no assigned fund balances.

When the government incurs an expenditure for purposes for which various fund balance classifications can be used, it is the government's policy to use restricted fund balance first, then committed fund balance, assigned fund balance (if applicable), and finally unassigned fund balance.

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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates. The Township utilizes various investment instruments which are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

2. BUDGETARY INFORMATION

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end.

The budget for the general fund is adopted at the department level. The government does not utilize encumbrance accounting.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

3. EXCESS OF EXPENDITURES OVER BUDGET

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended December 31, 2014, excess of expenditures over appropriation were as follows:

	Final Budget	Actual	Excess
General fund:			
Drains at large	\$ 17,500	\$ 34,833	\$ 17,333
Highways, streets, and bridges	330,316	343,347	13,032
Street lighting	26,389	26,504	115

These excesses over appropriations were funded by available fund balance.

4. DEPOSITS AND INVESTMENTS

A reconciliation of cash and investments as shown on the Statement of Net Position and Statement of Fiduciary Net Position to deposits and investments as classified for note disclosure purposes is as follows:

Statement of Net Position	
Cash and cash equivalents	\$ 1,541,819
Restricted cash and cash equivalents	48,669
Investments	6,916,730
Statement of Fiduciary Net Position	
Cash and cash equivalents	1,120,131
Investments	<u>700,084</u>
Total	<u>\$ 10,327,433</u>

Following is a reconciliation of deposit and investment balances as of December 31, 2014:

Deposits and investments	
Bank deposits:	
Checking and savings accounts	\$ 2,619,925
Certificates of deposit	3,588,521
Investments	4,118,587
Cash on hand	<u>400</u>
Total	<u>\$ 10,327,433</u>

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year end, \$2,628,708 of the Township's bank balance of \$6,241,653 was exposed to custodial credit risk because it was uninsured and uncollateralized.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

The Township chooses to disclose its investments by specifically identifying each. As of year end, the Township had the following investments:

	Carrying Amount	Credit Rating	Maturity
Money market funds:			
First Merit	\$ 341,052	n/a	n/a
Huntington	240,959	n/a	n/a
MBIA	2,087,942	AAAm S&P	n/a
U.S. agencies:			
Federal Home Loan Mortgage	499,232	AA+ S&P	1-5 years
Federal Home Loan Bank	550,000	AA+ S&P	1-5 years
Federal Farm Credit Bank	399,402	AA+ S&P	1-5 years
Total	\$ 4,118,587		

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Township does not have a policy for investment custodial credit risk. None of the Township's investments were exposed to custodial credit risk at year end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the accounting policies. The Township's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings, where applicable, have been identified above for the Township's investments.

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the accounting policies. The Township's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturities of investments, where applicable, have been identified above for the Township's investments.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the accounting policies. The Township's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

5. RECEIVABLES

Receivables are comprised of the following at year-end:

	General Fund / Governmental Activities	Amounts Not Expected to be Collected Within One Year
Accounts	\$ 8,544	\$ -
Taxes	643,367	-
Special assessments	351,962	278,255
Due from other governments	129,913	-
	<u>\$ 1,133,786</u>	<u>\$ 278,255</u>

	Sewage Disposal Enterprise Fund	Water Disposal Enterprise Fund	Total Business-type Activities	Amounts Not Expected to be Collected Within One Year
Accounts	\$ 9,264	\$ -	\$ 9,264	\$ -
Special assessments	1,084,159	320,355	1,404,514	1,097,559
Interest	48,572	20,715	69,287	-
	<u>\$ 1,141,995</u>	<u>\$ 341,070</u>	<u>\$ 1,483,065</u>	<u>\$ 1,097,559</u>

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Payables are comprised of the following at year-end:

	General Fund	Government-Wide Statements	Total Governmental Activities
Accounts	\$ 36,615	\$ -	\$ 36,615
Accrued wages	20,915	-	20,915
Other liabilities	2,000	-	2,000
Accrued interest	-	8,479	8,479
	<u>\$ 59,530</u>	<u>\$ 8,479</u>	<u>\$ 68,009</u>

	Sewage Disposal Enterprise Fund	Water Disposal Enterprise Fund	Total Business-type Activities
Accounts	\$ 2,500	\$ 82,761	\$ 85,261
Accrued interest	42,908	12,665	55,573
	<u>\$ 45,408</u>	<u>\$ 95,426</u>	<u>\$ 140,834</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

Interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. At December 31, 2014, there were no due to/due from other funds present.

For the year ended December 31, 2014, interfund transfers consisted of \$40,000 from the general fund to the sewage disposal enterprise fund for administrative costs. In addition, the cemetery improvement nonmajor governmental fund transferred \$5,000 to the general fund for cost reimbursement.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorizations.

8. CAPITAL ASSETS

Primary government

Capital asset activity for the primary government for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 42,187	\$ 51,659	\$ -	\$ 93,846
Capital assets being depreciated:				
Land improvements	103,375	-	-	103,375
Buildings and improvements	180,842	-	-	180,842
Equipment	45,416	47,790	-	93,206
Vehicles	29,763	-	-	29,763
	<u>359,396</u>	<u>47,790</u>	<u>-</u>	<u>407,186</u>
Less accumulated depreciation for:				
Land improvements	(10,337)	(2,584)	-	(12,921)
Buildings and improvements	(129,203)	(7,351)	-	(136,554)
Equipment	(40,135)	(17,861)	-	(57,996)
Vehicles	(27,980)	(1,783)	-	(29,763)
	<u>(207,655)</u>	<u>(29,579)</u>	<u>-</u>	<u>(237,234)</u>
Total capital assets being depreciated, net	<u>151,741</u>	<u>18,211</u>	<u>-</u>	<u>169,952</u>
Governmental activities capital assets, net	<u>\$ 193,928</u>	<u>\$ 69,870</u>	<u>\$ -</u>	<u>\$ 263,798</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

	Beginning Balance	Additions	Disposals	Ending Balance
Business-type Activities				
Capital assets not being depreciated -				
Land	\$ 82,000	\$ -	\$ -	\$ 82,000
Capital assets being depreciated -				
Sewage disposal system	7,877,913	-	-	7,877,913
Less accumulated depreciation for -				
Sewage disposal system	(2,930,035)	(196,997)	-	(3,127,032)
Total capital assets being depreciated, net	4,947,878	(196,997)	-	4,750,881
Business-type activities capital assets, net	\$ 5,029,878	\$ (196,997)	\$ -	\$ 4,832,881

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

Depreciation of governmental activities by function	
General government	\$ 25,486
Recreation and culture	4,093
	<u>\$ 29,579</u>
Depreciation of business-type activities by function	
Sewage disposal	<u>\$ 196,997</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

9. LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
\$345,000 special assessment bonds due in annual installments of \$5,000 to \$25,000 through August 1, 2021, interest at 5%	\$ 190,000	\$ -	\$ (25,000)	\$ 165,000	\$ 25,000
\$535,000 special assessment bonds due in annual installments of \$20,000 to \$40,000 through August 1, 2021, interest at 3.875%	280,000	-	(35,000)	245,000	35,000
Compensated absences	33,064	13,217	(6,053)	40,228	12,068
Total	\$ 503,064	\$ 13,217	\$ (66,053)	\$ 450,228	\$ 72,068
Business-type Activities					
\$995,000 sewage disposal system bonds due in annual installments of \$50,000 to \$60,000 through March 1, 2020, interest at 5.1% to 7.5%	\$ 420,000	\$ -	\$ (60,000)	\$ 360,000	\$ 60,000
\$360,000 special assessment bonds due in annual installments of \$25,000 to \$30,000 through August 1, 2018, interest at 2.3% to 4.1%	135,000	-	(25,000)	110,000	25,000
\$990,000 special assessment bonds due in annual installments of \$70,000 to \$75,000 through August 1, 2018, interest at 2.6% to 4.6%	360,000	-	(70,000)	290,000	70,000

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
\$150,000 special assessment bonds due in annual installments of \$100,000 to \$15,000 through August 1, 2018, interest at 2.3% to 4.1%	\$ 60,000	\$ -	\$ (10,000)	\$ 50,000	\$ 10,000
\$2,010,000 special assessment bonds due in annual installments of \$85,000 to \$150,000 through August 1, 2021, interest at 3.875%	1,060,000	-	(140,000)	920,000	135,000
\$395,000 special assessment bonds due in annual installments of \$15,000 to \$30,000 through August 1, 2021, interest at 3.875%	200,000	-	(25,000)	175,000	25,000
Unamortized bond discounts	(5,330)	-	1,067	(4,263)	-
Unamortized bond premiums	7,568	-	(947)	6,621	-
Total	\$ 2,237,238	\$ -	\$ (329,880)	\$ 1,907,358	\$ 325,000

Annual debt service requirements to maturity for long-term debt are as follows:

Year Ended December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 60,000	\$ 17,744	\$ 325,000	\$ 80,599
2016	60,000	15,138	325,000	66,702
2017	60,000	12,531	340,000	52,652
2018	60,000	9,925	335,000	37,841
2019	60,000	7,319	215,000	23,075
2020-2021	110,000	14,388	365,000	19,382
	\$ 410,000	\$ 77,045	\$ 1,905,000	\$ 280,251

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

10. JOINT VENTURES

Southern Clinton Township Municipal Utilities Authority

The Southern Clinton Township Municipal Utilities Authority was created by contractual agreement between the Township, DeWitt Charter Township, Bath Charter Township, and the City of DeWitt to operate, maintain, administer and manage the sewage disposal system for the benefit of the contracting municipalities. Currently, the Township's ownership percentage in the joint venture is 16.202%. As of December 31, 2013 the date of the most recent audit report of the Authority, the Township's share of the Authority's net assets was \$1,208,924. Separate financial statements for the Southern Clinton Township Municipal Utilities Authority are available at the office of the Authority at 3671 W. Herbison Road, DeWitt, MI 48820.

Looking Glass Regional Fire Authority

The Township created a joint fire department with Eagle Township to be known as the Looking Glass Regional Fire Authority. The Authority will provide fire protection services to the entire geographical area comprising Eagle Township and the Charter Township of Watertown, and may contract with other municipalities to provide fire protection services. Currently, the Authority is funded primarily through contributions from Watertown Charter Township (62%) and Eagle Township (38%). During the year ended December 31, 2014, the Township contributed \$248,466 to the Authority. Separate financial statements for the Looking Glass Regional Fire Authority are available at the office of the Authority at 7720 W. Grand River Avenue, Grand Ledge, MI 48837.

11. RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government carried commercial insurance to cover all risks of losses during the year ended December 31, 2014. The Township has had no settled claims from these risks that exceeded its commercial coverage in any of the past three fiscal years.

12. PROPERTY TAXES

The government's property taxes are levied on the assessed taxable value of property in the Township each December 1, which is the lien date, and are due in full by March 1 of the succeeding year, at which time uncollected taxes become delinquent. The December 1 levy is recorded as receivable and deferred inflows at year end because it is intended to fund expenditures of the following fiscal year.

Assessed values as established annually by the government, and subject to acceptance by the Township, are equalized by the State at an estimated 50% of current market value. Real and personal property in the Township for the 2013 levy were assessed and equalized at \$243,488,324 (not including properties subject to Industrial Facilities Tax exemption), representing roughly 50% of estimated current market value. The government's general operating tax rate for the 2013 levy was 4.5277 mills.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

13. CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Township expects such amounts, if any, to be immaterial.

14. PENSION PLAN

The Watertown Charter Township Group Pension Plan is a defined contribution pension plan established by the Township to provide retirement benefits to all participating full-time employees of the Township. Plan provisions and contribution requirements are established and may be amended by the Township Board. The Township is required to contribute 10% of employee gross earnings. Employee contributions are optional. Employee contributions vest immediately, whereas employer contributions vest at a rate of 20% per year. There are 13 participants in the plan.

For the year ended December 31, 2014, the Township's contribution to the Plan was \$48,710. Employee contributions were \$7,435.

15. STATE CONSTRUCTION CODE ACT COMPLIANCE

Public Act 245 of 1999 amended the State Construction Act to require Michigan municipal governments to establish fees that bear a reasonable relationship to the cost of operating their building departments, effective January 1, 2000. The Township has elected to record this activity in the general fund.

Public Act 245 of 1999 amended the State Construction Act to require Michigan municipal governments to establish fees that bear a reasonable relationship to the cost of operating their building departments, effective January 1, 2000. The Township has elected to record this activity in the general fund.

Revenue - building fee revenue	\$ 111,907
Expenditures	<u>(128,933)</u>
Current year loss	<u>\$ (17,026)</u>
Loss absorbed in 2001-2014	<u>\$ (150,622)</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

16. FUND BALANCES - GOVERNMENTAL FUNDS

	General Fund	Nonmajor Funds	Total
Nonspendable - Prepays	\$ 16,961	\$ -	\$ 16,961
Restricted for:			
Debt covenants	250,525	-	250,525
Township improvement	-	223,993	223,993
Cemetery improvement	-	64,120	64,120
Total restricted	250,525	288,113	538,638
Committed for:			
Parks	39,900	-	39,900
Cemetery	57,500	-	57,500
Office building and grounds	328,836	-	328,836
Roads and bridges	995,186	-	995,186
Fire expenditures and capital improvements	523,997	-	523,997
Legal expenditures	230,000	-	230,000
Total committed	2,175,419	-	2,175,419
Assigned for - Township hall	165,800	-	165,800
Unassigned	2,165,825	-	2,165,825
Total fund balances, governmental funds	\$ 4,774,530	\$ 288,113	\$ 5,062,643

17. NET INVESTMENT IN CAPITAL ASSETS

	Governmental Activities	Business-type Activities
Investment in capital assets	\$ 263,798	\$ 4,832,881
Bond indebtedness	-	(1,394,528)
Net investment in capital assets	\$ 263,798	\$ 3,438,353



WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2014

	Capital Projects Township Improvement Revolving	Capital Projects Cemetery Improvement	Totals
Assets			
Cash and cash equivalents	\$ 6,485	\$ 4,664	\$ 11,149
Investments	217,508	59,456	276,964
Total assets	<u>\$ 223,993</u>	<u>\$ 64,120</u>	<u>\$ 288,113</u>
Fund balances			
Restricted	<u>\$ 223,993</u>	<u>\$ 64,120</u>	<u>\$ 288,113</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended December 31, 2014

	Capital Projects Township Improvement Revolving	Capital Projects Cemetery Improvement	Totals
Revenues			
Charges for services-cemetery	\$ -	\$ 1,440	\$ 1,440
Interest and rentals	824	533	1,357
Total revenues	824	1,973	2,797
Expenditures			
Capital outlay	-	150	150
Revenues over expenditures	824	1,823	2,647
Other financing uses			
Transfers out	-	(5,000)	(5,000)
Net changes in fund balances	824	(3,177)	(2,353)
Fund balances, beginning of year	223,169	67,297	290,466
Fund balances, end of year	\$ 223,993	\$ 64,120	\$ 288,113