

Charter Township of Clayton

Genesee County

**Annual Financial Statements
and
Auditors' Report**

December 31, 2012

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**Charter Township of Clayton
List of Elected and Appointed Officials
December 31, 2012**

Township Board

Chris Gehringer, Supervisor

Dennis Milem, Clerk

Celeste Sywyk, Deputy Clerk

Rick Caruso, Treasurer

Patti Mlynek, Deputy Treasurer

Greg Childers, Trustee

Rich Tesner, Trustee

Tamara Kapraun, Trustee

Mike Crockett, Trustee



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Independent Auditors' Report

To the Board of Trustees
Charter Township of Clayton

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 Charter Township of Clayton, as of and for the year ended December 31, 2012, 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.

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 the auditors' 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.

Opinion

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 Charter Township of Clayton as of December 31, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 1 to the financial statements, during the year ended December 31, 2012, the Village adopted new accounting guidance, GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the Required Supplementary 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 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 regarding 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Charter Township of Clayton's financial statements as a whole. The list of elected and appointed officials and accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information is the responsibility of management and, other than the prior year information, was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional 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. The list of elected and appointed officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Yeo & Yeo, P.C.

Saginaw, Michigan
June 4, 2013

Charter Township of Clayton
Management's Discussion and Analysis
Year Ended December 31, 2012

Our discussion and analysis of the Charter Township of Clayton's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2012. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2012.

The General Fund continued to subsidize the Police assessments in order to provide our residents a quality service provided by local departments.

For the next fiscal year, the board will continue the use of a line item budget to assist in controlling the amount of spending and to better understand where the real costs are being incurred.

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 Charter Township of Clayton as a whole and present a longer-term 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 governmental services.

The fund financial statements present a short-term view; they tell us how the taxpayer's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

**Charter Township of Clayton
Management's Discussion and Analysis
Year Ended December 31, 2012**

The Charter Township of Clayton as a Whole

The following table shows, in a condensed format, the net position as of the current date and compared to the prior year:

	Governmental Activities 2012	Business-type Activities 2012	Total 2012	Total 2011
	<u>2012</u>	<u>2012</u>	<u>2012</u>	<u>2011</u>
Assets	\$ 1,879,786	\$ 2,255,575	\$ 4,135,361	\$ 3,891,041
Capital assets	363,149	5,132,043	5,495,192	5,543,994
Total assets	<u>2,242,935</u>	<u>7,387,618</u>	<u>9,630,553</u>	<u>9,435,035</u>
Current liabilities	75,227	220,665	295,892	1,109,070
Long term liabilities	33,531	1,323,986	1,357,517	1,393,167
Total liabilities	<u>108,758</u>	<u>1,544,651</u>	<u>1,653,409</u>	<u>2,502,237</u>
Deferred inflows of resources				
Total deferred inflows of resources	<u>540,598</u>	<u>-</u>	<u>540,598</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>649,356</u>	<u>1,544,651</u>	<u>2,194,007</u>	<u>2,502,237</u>
Net position				
Net investment in capital assets	329,618	3,738,876	4,068,494	4,084,032
Restricted	370,506	-	370,506	26,822
Unrestricted	<u>893,455</u>	<u>2,104,091</u>	<u>2,997,546</u>	<u>2,821,944</u>
Total net position	<u>\$ 1,593,579</u>	<u>\$ 5,842,967</u>	<u>\$ 7,436,546</u>	<u>\$ 6,932,798</u>

The Charter Township of Clayton's net position of governmental activities is \$1,593,579 and \$5,842,967 for business-type activities; of these amounts \$893,455 (governmental) and \$2,104,091 (business-type) are unrestricted assets.

**Charter Township of Clayton
Management's Discussion and Analysis
Year Ended December 31, 2012**

The following table shows, in a condensed format, the change in net position as of the current date and compared to the prior year:

Revenue	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total 2012</u>	<u>Total 2011</u>
Program revenue				
Charges for services	\$ 1,039,885	\$ 1,140,156	\$ 2,180,041	\$ 1,753,383
Operating grants and contributions	506	-	506	2,633
General revenue				
Property taxes	413,025	-	413,025	420,303
State-shared revenue	546,797	-	546,797	530,094
Unrestricted investment earnings	2,554	6,145	8,699	9,999
Other revenue	10,067	-	10,067	8,162
Total Revenue	<u>2,012,834</u>	<u>1,146,301</u>	<u>3,159,135</u>	<u>2,724,574</u>
 Expenses				
Program expenses				
General government	425,311	-	425,311	441,279
Public safety	720,702	-	720,702	712,887
Public works	512,288	-	512,288	440,213
Community and economic development	4,197	-	4,197	7,739
Recreation and culture	-	-	-	34
Water and sewer	-	992,889	992,889	970,906
Total expenses	<u>1,662,498</u>	<u>992,889</u>	<u>2,655,387</u>	<u>2,573,058</u>
 Change in net position	 <u>\$ 350,336</u>	 <u>\$ 153,412</u>	 <u>\$ 503,748</u>	 <u>\$ 151,516</u>

**Charter Township of Clayton
Management's Discussion and Analysis
Year Ended December 31, 2012**

Governmental Activities

The Charter Township of Clayton's total governmental activity revenues were \$2,012,834. This was a \$382,134 increase in revenues compared to the prior year.

Governmental activity expenditures of \$1,662,498 were recorded for the year.

At the end of 2012, the Township had \$5.50 million invested in a broad range of capital assets, including buildings, police equipment, and water and sewer lines.

The Township had a total of \$1.32 million in notes payable outstanding at the end of the current fiscal year. This note payable relates to an agreement with Genesee County for the Western Trunk Extension of the County's sanitary sewage disposal system.

Business Type Activities

The Township's business-type activities consist of a combined water and sewer fund. We provide water and sewer services from the Genesee County Drain Commission.

Charter Township of Clayton Funds

The fund financial statements provide detailed information about the most significant funds, not the Charter Township of Clayton as a whole. The Township Board of Trustees creates funds to help manage money for specific purposes as well as show accountability for certain activities, Police, Sanitation, and Fire Funds. The Township's governmental major funds include General Fund, Police, Sanitation, and Fire Funds.

a) **General Fund**

Functions relating to the general governmental activities of the Township, which are financed by property tax levies, by distribution of State revenues from fees charged for various municipal activities and services are recorded in the General Fund.

b) **Police Fund**

The Police Fund is funded through a property tax levy. The taxes collected in 2012 were \$199,833.

**Charter Township of Clayton
Management's Discussion and Analysis
Year Ended December 31, 2012**

c) **Sanitation Fund**

Residents have approved a special assessment to pay for township wide garbage collection. The assessment collected in 2012 was \$344,203.

d) **Fire Fund**

The Fire Fund is funded through a property tax levy.

General Fund Budgetary Highlights

Over the course of the year, the Township Board and Township administration monitor and amend the budget to account for unanticipated events during the year. Township departments overall stayed below budget, resulting in total expenditures of approximately \$41,000 below budget.

Economic Factors and Next Year's Budgets and Rates

Roughly 100% of the cost of fire protection had been funded from the general fund since the inception of the Swartz Creek Fire Department along with roughly 60% of the operating costs for the Police Department since its inception in 2003. However, beginning with the 2012 fiscal year, fire protection is now mainly funded through a millage. It is extremely difficult to provide the continued funding for all public safety, and the board understands the difficulties coming in future years to maintain what we have provided in the past. The new fire millage is designed to help maintain the current level of services being provided.

We, the board, are seeking cost cutting measures in all departments so we can continue to provide all essential services in the coming years.

As this budget year closes there are a number of factors that will influence next year's budget, including the negative growth rate in the state and township. The Township needs to continue to watch its budget very closely.

Contacting the Township of Clayton Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Charter Township of Clayton's finances and to show the Township's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the administration offices at the Township hall at 2011 South Morrish Road, Swartz Creek, Michigan 48473.

Charter Township of Clayton
Statement of Net Position
December 31, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,361,034	\$ 804,513	\$ 2,165,547
Investments	10,023	791,304	801,327
Receivables			
Taxes	269,223	-	269,223
Accounts	123,156	402,644	525,800
Special assessments	363,046	8,765	371,811
Due from other units of government	1,075	-	1,075
Internal balances	(248,349)	248,349	-
Prepaid items	578	-	578
Capital assets not being depreciated	63,842	-	63,842
Capital assets, net of accumulated depreciation	<u>299,307</u>	<u>5,132,043</u>	<u>5,431,350</u>
Total assets	<u>2,242,935</u>	<u>7,387,618</u>	<u>9,630,553</u>
Liabilities			
Accounts payable	45,897	-	45,897
Accrued and other liabilities	27,983	10,515	38,498
Due to other units of government	1,347	140,969	142,316
Noncurrent liabilities			
Due within one year	16,277	69,181	85,458
Due in more than one year	<u>17,254</u>	<u>1,323,986</u>	<u>1,341,240</u>
Total liabilities	<u>108,758</u>	<u>1,544,651</u>	<u>1,653,409</u>
Deferred inflows of resources			
Property taxes	<u>540,598</u>	<u>-</u>	<u>540,598</u>
Total liabilities and deferred inflows of resources	<u>649,356</u>	<u>1,544,651</u>	<u>2,194,007</u>
Net position			
Net investment in capital assets	329,618	3,738,876	4,068,494
Restricted	26,136	-	26,136
Unrestricted	<u>1,237,825</u>	<u>2,104,091</u>	<u>3,341,916</u>
Total net position	<u>\$ 1,593,579</u>	<u>\$ 5,842,967</u>	<u>\$ 7,436,546</u>

See Accompanying Notes to Financial Statements

Charter Township of Clayton
Statement of Activities
For the Year Ended December 31, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government							
Governmental activities							
General government	\$ 425,311	\$ 153,495	\$ -	\$ -	\$ (271,816)	\$ -	\$ (271,816)
Public safety	720,702	131,346	-	-	(589,356)	-	(589,356)
Public works	512,288	755,044	-	-	242,756	-	242,756
Community and economic development	4,197	-	506	-	(3,691)	-	(3,691)
Total governmental activities	<u>1,662,498</u>	<u>1,039,885</u>	<u>506</u>	<u>-</u>	<u>(622,107)</u>	<u>-</u>	<u>(622,107)</u>
Business-type activities							
Water and sewer	992,889	1,140,156	-	-	-	147,267	147,267
Total primary government	<u>\$ 2,655,387</u>	<u>\$ 2,180,041</u>	<u>\$ 506</u>	<u>\$ -</u>	<u>(622,107)</u>	<u>147,267</u>	<u>(474,840)</u>
General revenues							
Property taxes					413,025	-	413,025
State shared revenue					546,797	-	546,797
Unrestricted investment earnings					2,554	6,145	8,699
Gain on sale of capital assets					8,047	-	8,047
Miscellaneous					2,020	-	2,020
Total general revenues and transfers					<u>972,443</u>	<u>6,145</u>	<u>978,588</u>
Change in net position					350,336	153,412	503,748
Net position - beginning of year					<u>1,243,243</u>	<u>5,689,555</u>	<u>6,932,798</u>
Net position - end of year					<u>\$ 1,593,579</u>	<u>\$ 5,842,967</u>	<u>\$ 7,436,546</u>

See Accompanying Notes to Financial Statements

Charter Township of Clayton
Governmental Funds
Balance Sheet
December 31, 2012

	Special Revenue Funds				Nonmajor Governmental Funds	Total Governmental Funds
	General	Police	Sanitation	Fire		
Assets						
Cash and cash equivalents	\$ 1,088,599	\$ 78,267	\$ 131,828	\$ 46,559	\$ 15,781	\$ 1,361,034
Investments	10,023	-	-	-	-	10,023
Receivables						
Taxes	139,273	129,950	-	-	-	269,223
Accounts	107,987	15,169	-	-	-	123,156
Special assessments	-	-	233,179	106,676	23,191	363,046
Due from other units of government	1,075	-	-	-	-	1,075
Due from other funds	-	334	-	-	5,499	5,833
Prepaid items	578	-	-	-	-	578
Total assets	<u>\$ 1,347,535</u>	<u>\$ 223,720</u>	<u>\$ 365,007</u>	<u>\$ 153,235</u>	<u>\$ 44,471</u>	<u>\$ 2,133,968</u>
Liabilities						
Accounts payable	\$ 34,664	\$ 8,857	\$ -	\$ -	\$ 2,376	\$ 45,897
Accrued and other liabilities	11,604	16,379	-	-	-	27,983
Due to other funds	254,182	-	-	-	-	254,182
Due to other units of government	1,347	-	-	-	-	1,347
Total liabilities	<u>301,797</u>	<u>25,236</u>	<u>-</u>	<u>-</u>	<u>2,376</u>	<u>329,409</u>
Deferred inflows of resources						
Property taxes	200,697	186,666	-	153,235	-	540,598
Special assessments	-	-	344,370	-	33,235	377,605
Total deferred inflows of resources	<u>200,697</u>	<u>186,666</u>	<u>344,370</u>	<u>153,235</u>	<u>33,235</u>	<u>918,203</u>
Fund Balances						
Non-spendable	578	-	-	-	-	578
Restricted	-	-	20,637	-	5,499	26,136
Assigned	-	11,818	-	-	3,361	15,179
Unassigned	844,463	-	-	-	-	844,463
Total fund balances	<u>845,041</u>	<u>11,818</u>	<u>20,637</u>	<u>-</u>	<u>8,860</u>	<u>886,356</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,347,535</u>	<u>\$ 223,720</u>	<u>\$ 365,007</u>	<u>\$ 153,235</u>	<u>\$ 44,471</u>	<u>\$ 2,133,968</u>

Charter Township of Clayton
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Position of Governmental Activities
December 31, 2012

Total fund balances for governmental funds	\$ 886,356
Total net position for governmental activities in the statement of net position is different because:	
Capital assets net of accumulated depreciation used in governmental activities are not financial resources and therefore are not reported in the funds.	299,307
Capital assets not being depreciated used in governmental activities are not financial resources and therefore are not reported in the funds.	63,842
Certain receivables are not available to pay for current period expenditures and therefore are deferred inflows in the funds.	377,605
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	<u>(33,531)</u>
Net position of governmental activities	<u>\$ 1,593,579</u>

See Accompanying Notes to Financial Statements

Charter Township of Clayton
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2012

	Special Revenue Funds			Nonmajor Governmental Funds	Total Governmental Funds
	General	Police	Sanitation		
Revenues					
Taxes	\$ 213,192	\$ 199,833	\$ -	\$ -	\$ 413,025
Special assessments	-	-	344,203	33,236	377,439
Licenses and permits	31,320	2,466	-	-	33,786
Federal grants	-	-	-	506	506
State revenue sharing	546,797	-	-	-	546,797
Other state grants	-	2,450	-	-	2,450
Charges for services	132,625	-	-	-	132,625
Fines and forfeitures	-	82,675	-	-	82,675
Interest income	2,554	-	-	-	2,554
Other revenue	19,182	14,123	-	-	33,305
Total revenues	<u>945,670</u>	<u>301,547</u>	<u>344,203</u>	<u>33,742</u>	<u>1,625,162</u>
Expenditures					
Current					
General government	420,844	-	-	-	420,844
Public safety	165,461	582,188	-	-	747,649
Public works	137,496	-	343,681	29,978	511,155
Community and economic development	2,483	-	-	1,714	4,197
Principal retirement	-	18,289	-	-	18,289
Total expenditures	<u>726,284</u>	<u>600,477</u>	<u>343,681</u>	<u>31,692</u>	<u>1,702,134</u>
Excess (deficiency) of revenues over expenditures	<u>219,386</u>	<u>(298,930)</u>	<u>522</u>	<u>2,050</u>	<u>(76,972)</u>
Other financing sources (uses)					
Transfers in	-	249,000	-	-	249,000
Transfers out	(249,000)	-	-	-	(249,000)
Insurance recoveries	-	2,020	-	-	2,020
Issuance of debt	-	51,820	-	-	51,820
Sale of fixed assets	8,047	-	-	-	8,047
Total other financing sources and (uses)	<u>(240,953)</u>	<u>302,840</u>	<u>-</u>	<u>-</u>	<u>61,887</u>
Net change in fund balance	(21,567)	3,910	522	2,050	(15,085)
Fund balance - beginning of year	<u>866,608</u>	<u>7,908</u>	<u>20,115</u>	<u>6,810</u>	<u>901,441</u>
Fund balance - end of year	<u>\$ 845,041</u>	<u>\$ 11,818</u>	<u>\$ 20,637</u>	<u>\$ 8,860</u>	<u>\$ 886,356</u>

See Accompanying Notes to Financial Statements

Charter Township of Clayton
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2012

Net change in fund balances - Total governmental funds	\$ (15,085)
<p>Total change in net position reported for governmental activities in the statement of activities is different because:</p>	
<p>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.</p>	
Depreciation expense	(30,473)
Capital outlay	51,820
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.</p>	
Special assessments	377,605
<p>Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.</p>	
Capital lease proceeds	(51,820)
Repayments of long-term debt	<u>18,289</u>
Change in net position of governmental activities	<u>\$ 350,336</u>

See Accompanying Notes to Financial Statements

Charter Township of Clayton
Proprietary Funds
Statement of Net Position
December 31, 2012

	<u>Water and Sewer</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 804,513
Investments	791,304
Receivables	
Customers	402,644
Special assessments, current	1,464
Due from other funds	248,349
Total current assets	2,248,274
Noncurrent assets	
Special assessments receivable, deferred	7,301
Capital assets, net of accumulated depreciation	5,132,043
Total noncurrent assets	5,139,344
Total assets	7,387,618
Liabilities	
Current liabilities	
Accrued and other liabilities	10,515
Due to other units of government	140,969
Current portion of noncurrent liabilities	69,181
Total current liabilities	220,665
Noncurrent liabilities	
Long-term debt net of current portion	1,323,986
Total liabilities	1,544,651
Net position	
Net investment in capital assets	3,738,876
Unrestricted	2,104,091
Total net position	\$ 5,842,967

See Accompanying Notes to Financial Statements

Charter Township of Clayton
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended December 31, 2012

	Water and Sewer
Operating revenue	
Water usage fees	\$ 463,696
Sewer treatment fees	640,362
Interest penalty charges	36,098
Other revenue	220
Total operating revenue	1,140,376
Operating expenses	
Cost of water	403,176
Cost of sewage treatment	342,645
Other operation and maintenance	2,000
Hydrant expense	5,315
Pump station expense	56,212
Computer billing	5,016
Administration - salaries and fringe benefits	49,006
Depreciation	70,149
Total operating expenses	933,519
Operating income	206,857
Nonoperating revenue (expenses)	
Interest income	5,925
Interest expense	(59,370)
Total nonoperating expenses	(53,445)
Change in net position	153,412
Net position - beginning of year	5,689,555
Net position - end of year	\$ 5,842,967

See Accompanying Notes to Financial Statements

Charter Township of Clayton
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2012

	<u>Water and Sewer</u>
Cash flows from operating activities	
Receipts from customers	\$ 637,735
Receipts from interfund users	640,362
Receipts from other funds	104,562
Payments to other funds	(248,349)
Payments to suppliers	(816,063)
Payments for interfund services used	(54,022)
	<u>264,225</u>
Net cash provided by operating activities	
Cash flows from capital and related financing activities	
Principal and interest paid on long-term debt	(126,166)
	<u>(126,166)</u>
Cash flows from investing activities	
Proceeds from sales and maturities of investments	241,785
Interest received	5,925
	<u>247,710</u>
Net cash provided by investing activities	
Net change in cash and cash equivalents	385,769
Cash and cash equivalents - beginning of year	418,744
	<u>418,744</u>
Cash and cash equivalents - end of year	<u>\$ 804,513</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income	\$ 206,857
Adjustments to reconcile operating income to net cash from operating activities	
Depreciation and amortization expense	70,149
Changes in assets and liabilities	
Receivables (net)	137,721
Due from other funds	(143,787)
Due to other units of government	(6,715)
	<u>(6,715)</u>
Net cash provided by operating activities	<u>\$ 264,225</u>

See Accompanying Notes to Financial Statements

Charter Township of Clayton
Fiduciary Funds
Statement of Fiduciary Net Position
December 31, 2012

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 649,803
Liabilities	
Refundable deposits, bonds, etc.	\$ 10,219
Due to other units of government	<u>639,584</u>
 Total liabilities	 <u>\$ 649,803</u>

See Accompanying Notes to Financial Statements

Charter Township of Clayton
Notes to Financial Statements
December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The Charter Township of Clayton, Michigan elected Charter Township status in June 1978. The Charter Township of Clayton is governed by an elected seven-member Board. The Township provides the following services as authorized by its charter: public safety (police, fire, and building inspection), highway and streets, sanitation, public improvements, recreation, planning, and general administrative services. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. The Township currently does not have any component units as defined under current governmental accounting standards.

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. *Government 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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments 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. 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

Charter Township of Clayton
Notes to Financial Statements
December 31, 2012

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.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so 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 Township.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Police Fund is used to account for the activities related to the Township policing their own community.

The Sanitation Fund is used to account for the customer charges which are to be used to pay contracted services for rubbish collection.

The Fire Fund accounts for the revenues and expenditures of the fire department operations within the Township. Funding is a local property tax millage.

The Township reports the following major proprietary funds:

The Water Supply and Sewer System Fund is maintained for the operations of the water distribution system and sewage pumping

and collection system that transmit the sewage to Genesee County's treatment plant.

Additionally, the Township reports the following fiduciary activities:

The Agency Funds account for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities, and do not involve the measurement of results of operations).

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 sewer and water funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer and water funds include the cost of

Charter Township of Clayton
Notes to Financial Statements
December 31, 2012

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.

Assets, liabilities, and net position or equity

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value based on quoted market price. Certificate of deposits are stated at cost which approximates 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 arrangement outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. The Township considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

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

The 2012 taxable valuation of the government totaled \$191.5 million, on which ad valorem taxes consisted of 1.0400 mills for operating purposes, along with .9746 and .8000 mills of special levy voted for police and fire respectively. This resulted in \$192,141 for operating expenses, \$180,071 for police service and \$147,811 for fire service. These amounts are recognized in the respective General and Police Fund financial statements as tax revenue.

Capital assets – Capital assets, which include property, plant and equipment, intangible assets, 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 government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Charter Township of Clayton
Notes to Financial Statements
December 31, 2012

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Building improvements	20 years
Infrastructure	50 years
Other tools and equipment	5 years
Vehicles	5 years
Water and sewer distribution systems	60 years
Water and sewer treatment facilities	100 years

Deferred inflows of resources - A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period.

Compensated absences – It is the Township’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and 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, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds

payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Fund equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable - assets that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts constrained on use imposed by the Township’s highest level of decision-making, its Board of Trustees. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Trustees.

Assigned – amounts intended to be used for specific purposes, as determined the Board of Trustees. The Board of Trustees has the authority to assign funds. Residual amounts in governmental funds other than the general fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Township’s policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the Township’s policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Charter Township of Clayton
Notes to Financial Statements
December 31, 2012

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 assumption 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.

Comparative data

Comparative data is not included in the government's financial statements.

Adoption of New Accounting Standard

The Government Accounting Standards Board issued Statements 63 and 65, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and Items Previously Reported as Assets and Liabilities*, which the government adopted effective January 1, 2012. The new standards provide guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures.

Upcoming Accounting and Reporting Changes

The Government Accounting Standards Board has issued *Statements 67, Financial Reporting for Pension Plans and 68 Accounting and Financial Reporting for Pensions*. Statement 67 changes how public employee pension plans calculate and report their total pension liability. Statement 68 requires governments participating in public employee pension plans to recognize their portion of the long-term obligation for the pension benefits as a liability and to measure the annual costs of the pension benefits. The effect of these changes has not been determined. Statement 67 is effective for the year ending

December 31, 2014 and Statement 68 is effective for the year ending December 31, 2015.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. The amount of encumbrances at year end is not known. All annual appropriations lapse at fiscal year end.

Prior to November 1, the Township Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following January 1. Public hearings are conducted to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to January 1.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The Supervisor is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the Township Board.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

Charter Township of Clayton
Notes to Financial Statements
December 31, 2012

Excess of Expenditures over Appropriations

Fund	Budget	Actual	Over Budget
Major Governmental Fund - General:			
Transfers out	\$ 242,357	\$249,000	\$ 6,643
Major Governmental Fund - Police:			
Public safety	538,007	582,188	44,181

NOTE 3 - DEPOSITS AND INVESTMENTS

The township's cash and investments are subject to several types of risk, which are examined in more detail below:

Interest rate risk – The government does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates.

Credit risk – State statutes and the government's investment policy authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and

securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Township's deposits and investment policies are in accordance with statutory authority.

Concentration of credit risk – State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township has no policy that would further limit its investment choices. As of year end, the credit rating of debt securities (other than the U.S. government) is as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pool	\$281,090	AAAm	Standard & Poor's

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of bank failure, the Township's deposits may not be returned to it. The Township does not have a policy for custodial credit risk. As of year end, \$1,963,326 was exposed to custodial credit risk because it was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township does not have a policy for custodial credit risk. At year end, \$801,324 of investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name.

Charter Township of Clayton
Notes to Financial Statements
December 31, 2012

NOTE 4 - RECEIVABLES

The only receivables not expected to be collected in one year are as follows:

	Due After One Year	Fund
Primary government		
Special assessments	<u>\$ 7,301</u>	Water and sewer

NOTE 5 - DEFERRED INFLOWS OF RESOURCES

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

	Deferred Inflows
Primary government	
Special assessments	\$ 377,605
Property taxes	540,598
	<u>\$ 918,203</u>

NOTE 6 - CAPITAL ASSETS

Capital assets activity of the primary government for the current year was as follows:

	Balance January 1, 2012	Increases	Decreases	Balance December 31, 2012
Governmental activities				
Capital assets not being depreciated				
Land	\$ 63,842	\$ -	\$ -	\$ 63,842
Capital assets being depreciated				
Buildings	399,242	-	-	399,242
Building improvements	183,130	-	-	183,130
Vehicles	148,981	51,820	-	200,801
Equipment	128,998	-	-	128,998
Land improvements	32,846	-	-	32,846
Public Infrastructure	56,827	-	-	56,827
Total capital assets being depreciated	<u>950,024</u>	<u>51,820</u>	<u>-</u>	<u>1,001,844</u>
Less accumulated depreciation for				
Buildings	239,028	3,849	-	242,877
Building improvements	156,124	3,094	-	159,218
Vehicles	125,888	17,616	-	143,504
Equipment	125,590	3,408	-	128,998
Land improvements	16,339	1,373	-	17,712
Public Infrastructure	9,095	1,133	-	10,228
Total accumulated depreciation	<u>672,064</u>	<u>30,473</u>	<u>-</u>	<u>702,537</u>
Net capital assets being depreciated	<u>277,960</u>	<u>21,347</u>	<u>-</u>	<u>299,307</u>
Governmental activities capital assets, net	<u>\$ 341,802</u>	<u>\$ 21,347</u>	<u>\$ -</u>	<u>\$ 363,149</u>

Charter Township of Clayton
Notes to Financial Statements
December 31, 2012

	Balance January 1, 2012	Increases	Decreases	Balance December 31, 2012
Business-type activities				
Capital assets being depreciated				
Water system	\$ 5,271,318	\$ -	\$ -	\$ 5,271,318
Sewer system	1,046,216	-	-	1,046,216
Total capital assets being depreciated	<u>6,317,534</u>	<u>-</u>	<u>-</u>	<u>6,317,534</u>
Less accumulated depreciation for				
Water system	958,805	52,712	-	1,011,517
Sewer system	156,537	17,437	-	173,974
Total accumulated depreciation	<u>1,115,342</u>	<u>70,149</u>	<u>-</u>	<u>1,185,491</u>
Net capital assets being depreciated	<u>5,202,192</u>	<u>(70,149)</u>	<u>-</u>	<u>5,132,043</u>
Business-type capital assets, net	<u>\$ 5,202,192</u>	<u>\$ (70,149)</u>	<u>\$ -</u>	<u>\$ 5,132,043</u>

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

Governmental activities	
General government	\$ 4,467
Public safety	24,873
Public services	<u>1,133</u>
Total governmental activities	<u>30,473</u>
Business-type activities	
Water	52,712
Sewer	<u>17,437</u>
Total business-type activities	<u>70,149</u>
Total primary government	<u>\$ 100,622</u>

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
CDBG	General Fund	\$ 5,499
Police Fund	General Fund	334
Water & Sewer Fund	General Fund	<u>248,349</u>
	Total	<u>\$ 254,182</u>

The outstanding balances between funds result mainly 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.

The details for interfund transfers are as follows:

Funds Transferred From	Funds Transferred To	Amount
General Fund	Police Fund	<u>\$ 249,000</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies.

Charter Township of Clayton
Notes to Financial Statements
December 31, 2012

NOTE 8 - CAPITAL LEASE

The Township has a capital lease for two police vehicles. The future minimum payments associated with the lease agreement are as follows:

Year Ending December 31,	
2013	\$ 18,289
2014	<u>18,289</u>
Total minimum lease payments	36,578
Less amount representing interest	<u>3,047</u>
Present value of minimum lease payments	<u><u>\$ 33,531</u></u>
Asset	
Vehicles	\$ 51,820
Less accumulated depreciation	<u>1,727</u>
Total	<u><u>\$ 50,093</u></u>

NOTE 9 - LONG-TERM DEBT

The Township entered into a capital lease agreement for two police cars through October 2014. Payments during 2012 totaled \$18,289. Significant details regarding the Township's obligation relating to this agreement are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Capital leases					
Two police cars	<u>\$ -</u>	<u>\$ 51,820</u>	<u>\$ 18,289</u>	<u>\$ 33,531</u>	<u>\$ 16,277</u>

The Township entered into an agreement with Genesee County for the Western Trunk Extension of the County's Sanitary Sewage Disposal System running through Clayton Township. Significant details regarding the Township's obligation relating to this agreement are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities					
Bonds and notes payable					
General obligation					
contracts					
	<u>\$ 1,459,963</u>	<u>\$ -</u>	<u>\$ 66,796</u>	<u>\$ 1,393,167</u>	<u>\$ 69,181</u>

Total interest expense for the year was \$59,370, which is included as a direct expense of water and sewer on the statement of activities. Annual debt service requirements to maturity for the above obligation are as follows:

Year Ending December 31,	Principal	Interest	Total
2013	\$ 69,181	\$ 56,460	\$ 125,641
2014	73,952	53,597	127,549
2015	78,723	50,543	129,266
2016	81,109	47,346	128,455
2017	85,880	44,006	129,886
2018 - 2022	500,968	162,632	663,600
2023 - 2027	503,354	45,043	548,397
	<u>\$ 1,393,167</u>	<u>\$ 459,627</u>	<u>\$ 1,852,794</u>

Charter Township of Clayton
Notes to Financial Statements
December 31, 2012

The contractual obligation to the County is the result of the County issuance of bonds on the Township's behalf. Interest is due at a rate of 4.0% per year until 2020, when it will increase gradually to 4.35% in the last year of repayment. The Township has pledged substantially all revenue of the water and sewer fund, net of operating expenses, to repay the obligations; in addition, it has pledged to raise property taxes, to the extent permitted by law, if necessary to fund the obligation to repay the County. Proceeds from the County bonds provided financing for the construction of the Western Trunk Extension. The remaining principal and interest to be paid on the bonds is \$1,852,794. During the current year, net revenues of the system were \$358,237 compared to the annual debt requirements of \$125,976.

NOTE 10 - 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 government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 11 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined contribution pension plan

The Township provides pension benefits held at Nationwide Insurance to substantially all full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after 90 days of employment. As established by Township resolution, the Township contributes ten percent of employees' gross earnings and employee contributions for

each employee plus interest allocated to the employee's account are fully vested after five years of service.

The Township's total payroll for the current year was \$521,257. The current year contribution was calculated based on covered payroll of \$400,412 resulting in an employer contribution of \$40,042 and employee contributions of \$2,850.

Charter Township of Clayton
Notes to Financial Statements
December 31, 2012

NOTE 12 - JOINT VENTURES

In April 1980, the Township entered into a joint venture with the City of Swartz Creek to create the Swartz Creek Area Fire Department. The purpose of this joint venture was to obtain adequate fire protection for residents of the Township. The agreement calls for the quarterly accumulation of expenditures and then billing to each participating governmental unit on the basis of fire runs bi-annually. The City and Township provided the Fire Board with the use of several vehicles and real property. Title to these vehicles remains with the contributing unit of government. The Swartz Creek Area Fire Department submits each governmental unit's share of the annual operating budget before their respective governing boards for approval. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Audited financial statements are available for public inspection at the Fire Department.

	Year ended December 31, 2012
Total assets	\$ 130,566
Total liabilities	24,300
Total net position	106,266
Total revenues	255,825
Total expenditures	247,379

NOTE 13 - CONTINGENT LIABILITIES

The Township participates in the Department of Housing and Urban Development Community Block Grant Program and other federal grant programs. These programs are subject to compliance audit by the granting agencies. The amount, if any, of expenditures which may be subsequently disallowed by the granting agency cannot be determined at this time, although the Township expects such amounts, if any, to be immaterial.

The Township is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Township's attorneys, the resolution of these matters will not have a material adverse effect on the financial statements.

**Charter Township of Clayton
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2012**

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
Revenues				
Taxes				
Property taxes	\$ 217,316	\$ 217,316	\$ 213,192	\$ (4,124)
Licenses and permits	27,950	27,950	31,320	3,370
State revenue sharing	510,565	510,565	546,797	36,232
Charges for services	139,350	139,650	132,625	(7,025)
Interest income	4,500	4,500	2,554	(1,946)
Other revenue	320	6,920	19,182	12,262
Sale of fixed assets	4,000	4,000	8,047	4,047
Transfer in	-	105,309	-	(105,309)
Total revenues	<u>904,001</u>	<u>1,016,210</u>	<u>953,717</u>	<u>(62,493)</u>
Expenditures				
General government				
Township board	168,650	170,171	162,572	(7,599)
Supervisor	71,740	76,340	75,020	(1,320)
Clerk	64,013	79,353	79,016	(337)
Board of review	2,100	2,100	1,790	(310)
Treasurer	36,303	38,852	38,650	(202)
Elections	17,135	17,135	15,826	(1,309)
Buildings and grounds	42,300	41,800	40,642	(1,158)
Appeal board	1,400	1,100	550	(550)
Cemetery	5,350	6,850	6,778	(72)
Total general government	<u>408,991</u>	<u>433,701</u>	<u>420,844</u>	<u>(12,857)</u>
Public safety				
Fire department	137,260	137,260	132,444	(4,816)
Building inspection department	33,926	32,926	33,017	91
Total public safety	<u>171,186</u>	<u>170,186</u>	<u>165,461</u>	<u>(4,725)</u>
Public works				
Department of public works	92,100	167,116	137,496	(29,620)
Community and economic development				
Planning	3,700	2,700	2,483	(217)
Recreation and culture				
Recreation and culture	150	150	-	(150)
Transfers out	227,874	242,357	249,000	6,643
Total expenditures	<u>904,001</u>	<u>1,016,210</u>	<u>975,284</u>	<u>(40,926)</u>
Deficiency of revenues over expenditures	-	-	(21,567)	(21,567)
Fund balance - beginning of year	866,608	866,608	866,608	-
Fund balance - end of year	<u>\$ 866,608</u>	<u>\$ 866,608</u>	<u>\$ 845,041</u>	<u>\$ (21,567)</u>

**Charter Township of Clayton
Required Supplemental Information
Budgetary Comparison Schedule
Police Fund
For the Year Ended December 31, 2012**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 203,650	\$ 203,650	\$ 199,833	\$ (3,817)
Licenses and permits	1,400	1,400	2,466	1,066
Other state grants	-	-	2,450	2,450
Fines and forfeitures	97,500	97,500	82,675	(14,825)
Other revenue	12,100	12,100	14,123	2,023
Insurance recoveries	-	-	2,020	2,020
Capital lease proceeds	-	-	51,820	51,820
Transfers in	217,625	242,357	249,000	6,643
Total revenues	<u>532,275</u>	<u>557,007</u>	<u>604,387</u>	<u>47,380</u>
Expenditures				
Current				
Public safety	513,275	538,007	582,188	44,181
Debt service				
Principal retirement	19,000	19,000	18,289	(711)
Total expenditures	<u>532,275</u>	<u>557,007</u>	<u>600,477</u>	<u>43,470</u>
Excess of revenues over expenditures	-	-	3,910	3,910
Fund balance - beginning of year	7,908	7,908	7,908	-
Fund balance - end of year	<u>\$ 7,908</u>	<u>\$ 7,908</u>	<u>\$ 11,818</u>	<u>\$ 3,910</u>

See Accompanying Notes to Financial Statements

Charter Township of Clayton
Required Supplemental Information
Budgetary Comparison Schedule
Sanitation Fund
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 344,240	\$ 344,240	\$ 344,203	\$ (37)
Expenditures				
Current				
Public works	344,500	344,500	343,681	(819)
Excess of revenues over expenditures	-	-	522	522
Fund balance - beginning of year	20,115	20,115	20,115	-
Fund balance - end of year	<u>\$ 20,115</u>	<u>\$ 20,115</u>	<u>\$ 20,637</u>	<u>\$ 522</u>

See Accompanying Notes to Financial Statements

**Charter Township of Clayton
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2012**

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	<u>Lighting Districts</u>	<u>CDBG</u>	
Assets			
Cash and cash equivalents	\$ 15,781	\$ -	\$ 15,781
Receivables			
Special assessments	23,191	-	23,191
Due from other funds	-	5,499	5,499
	<u>38,972</u>	<u>5,499</u>	<u>44,471</u>
Total assets	<u>\$ 38,972</u>	<u>\$ 5,499</u>	<u>\$ 44,471</u>
Liabilities			
Accounts payable	<u>\$ 2,376</u>	<u>\$ -</u>	<u>\$ 2,376</u>
Deferred inflows of resources			
Special assessments	<u>33,235</u>	<u>-</u>	<u>33,235</u>
Fund Balances			
Restricted	-	5,499	5,499
Assigned	<u>3,361</u>	<u>-</u>	<u>3,361</u>
Total fund balances	<u>3,361</u>	<u>5,499</u>	<u>8,860</u>
Total liabilities, deferred inflows or resources and fund balances	<u>\$ 38,972</u>	<u>\$ 5,499</u>	<u>\$ 44,471</u>

See Accompanying Notes to Financial Statements

Charter Township of Clayton
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended December 31, 2012

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	<u>Lighting Districts</u>	<u>CDBG</u>	
Revenues			
Special assessments	\$ 33,236	\$ -	\$ 33,236
Federal grants	-	506	506
Total revenues	<u>33,236</u>	<u>506</u>	<u>33,742</u>
Expenditures			
Current			
Public works	29,978	-	29,978
Community and economic development	-	1,714	1,714
Total expenditures	<u>29,978</u>	<u>1,714</u>	<u>31,692</u>
Excess (deficiency) of revenues over expenditures	3,258	(1,208)	2,050
Fund balance - beginning of year	<u>103</u>	<u>6,707</u>	<u>6,810</u>
Fund balance - end of year	<u>\$ 3,361</u>	<u>\$ 5,499</u>	<u>\$ 8,860</u>

See Accompanying Notes to Financial Statements



3023 Davenport Ave.
Saginaw, MI 48602
(989) 793-9830 / (800) 968-0010
Fax (989) 793-0186

June 4, 2013

Management and the Board of Trustees
Charter Township of Clayton
2011 S. Morrish Road
Swartz Creek, MI 48473

We have completed our audit of the financial statements of Charter Township of Clayton as of and for the year ended December 31, 2012 and have issued our report dated June 4, 2013. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditors' Communication of Significant Matters with Those Charged with Governance

II Other Comment

We discussed these matters with various personnel in the organization during the audit and management. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Trustees, and others within the Township, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.
Saginaw, Michigan

Appendix I

Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated December 1, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies are described in Note 1 of the financial statements. The Township has adopted Government Accounting Standards *Statements 63 and 65, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and Items Previously Reported as Assets and Liabilities*, which the government adopted effective January 1, 2012. The new standards provide guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. We noted no transactions entered into by the Township during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the proper period.

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. There were no significant estimates in the financial statements.

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.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

There were no uncorrected misstatements that were more than trivial.

Disagreements with Management

For purposes 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 auditors' report. We had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other 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.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Report on Supplementary Information

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Appendix II
Other Comment

In planning and performing our audit of the financial statements of Charter Township of Clayton as of and for the year ended December 31, 2012, we considered Charter Township of Clayton's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

However, during our audit we became aware of a matter that is an opportunity for strengthening internal controls and improving operating efficiency. This letter does not affect our report dated June 4, 2013, on the financial statements of Charter Township of Clayton. Our comment and recommendation regarding that matter is:

Electronic Funds Transfer (EFT) Policy

Currently, the Township does not have a formal EFT policy. As technology continues to evolve, more vendors and customers are requiring electronic financial activity. This is a growing area where gaps in internal control can take place as the old procedures do not typically include computer controls.

We recommend the Township adopt an EFT policy, which should include which transactions are allowed to be electronically disbursed and from which bank accounts. This process should also include the creation of any additional electronic transactions that may be added in the future. Implementing an EFT policy should document the creation and approval of transactions which occur on a regular basis and prevent unauthorized electronic transactions from occurring in the future.