

Charter Township of Clayton

Genesee County

**Annual Financial Statements
and
Independent Auditors' Report**

December 31, 2013

Table of Contents

<u>Section</u>		<u>Page</u>
1	List of Elected and Appointed Officials	1 – 1
2	Independent Auditors' Report	2 – 1
3	Managements' Discussion and Analysis	3 – 1
4	Basic Financial Statements	
	Government-wide Financial Statements	
	Statement of Net Position	4 – 1
	Statement of Activities	4 – 2
	Fund Financial Statements	
	Governmental Funds	
	Balance Sheet	4 – 3
	Reconciliation of Fund Balances of Governmental Funds to Net Position of Governmental Activities	4 – 4
	Statement of Revenues, Expenditures and Changes in Fund Balances	4 – 5
	Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	4 – 6
	Proprietary Funds	
	Statement of Net Position	4 – 7
	Statement of Revenues, Expenses and Changes in Fund Net Position	4 – 8
	Statement of Cash Flows	4 – 9
	Fiduciary Funds	
	Statement of Fiduciary Net Position	4 – 10
	Notes to Financial Statements	4 – 11

Section

Page

5 **Required Supplemental Information**

 Budgetary Comparison Schedule

 General Fund

 Police Fund

 Sanitation Fund

 Fire Fund

5 – 1

5 – 2

5 – 3

5 – 4

6 **Other Supplemental Information**

 Nonmajor Governmental Funds

 Combining Balance Sheet

 Combining Statement of Revenue, Expenditures and Changes in Fund Balance

6 – 1

6 – 2

**Charter Township of Clayton
List of Elected and Appointed Officials
December 31, 2013**

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



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

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, 2013, 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, 2013, 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.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the Required Supplemental Information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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 supplemental 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.

Other Supplemental Information

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
May 6, 2014

**Charter Township of Clayton
Management's Discussion and Analysis
Year Ended December 31, 2013**

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, 2013. 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, 2013.

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, 2013

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 2013	Business-type Activities 2013	Total 2013	Total 2012
	<u>2013</u>	<u>2013</u>	<u>2013</u>	<u>2012</u>
Assets	\$ 2,016,512	\$ 2,295,896	\$ 4,312,408	\$ 4,135,361
Capital assets	370,527	5,061,893	5,432,420	5,495,192
Total assets	<u>2,387,039</u>	<u>7,357,789</u>	<u>9,744,828</u>	<u>9,630,553</u>
Current liabilities	111,180	238,769	349,949	295,892
Long term liabilities	-	1,250,033	1,250,033	1,357,517
Total liabilities	<u>111,180</u>	<u>1,488,802</u>	<u>1,599,982</u>	<u>1,653,409</u>
Deferred inflows of resources	<u>537,704</u>	-	<u>537,704</u>	<u>540,598</u>
Total liabilities and deferred inflows of resources	<u>648,884</u>	<u>1,488,802</u>	<u>2,137,686</u>	<u>2,194,007</u>
Net position				
Net investment in capital assets	353,273	3,737,907	4,091,180	4,068,494
Restricted	70,763	-	70,763	370,506
Unrestricted	<u>1,314,119</u>	<u>2,131,080</u>	<u>3,445,199</u>	<u>2,997,546</u>
Total net position	<u>\$ 1,738,155</u>	<u>\$ 5,868,987</u>	<u>\$ 7,607,142</u>	<u>\$ 7,436,546</u>

The Charter Township of Clayton's net position of governmental activities is \$1,738,155 and \$5,868,987 for business-type activities; of these amounts \$1,337,300 (governmental) and \$2,131,080 (business-type) is unrestricted net position.

**Charter Township of Clayton
Management's Discussion and Analysis
Year Ended December 31, 2013**

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 2013</u>	<u>Total 2012</u>
Program revenue				
Charges for services	\$ 832,474	\$ 1,021,110	\$ 1,853,584	\$ 2,180,041
Operating grants and contributions	1,760	-	1,760	506
Capital grants and contributions	16,400	-	16,400	-
General revenue				
Property taxes	377,037	-	377,037	413,025
State-shared revenue	557,471	-	557,471	546,797
Unrestricted investment earnings	2,712	6,798	9,510	8,699
Other revenue	9,090	-	9,090	10,067
Total Revenue	<u>1,796,944</u>	<u>1,027,908</u>	<u>2,824,852</u>	<u>3,159,135</u>
Expenses				
Program expenses				
General government	378,882	-	378,882	425,311
Public safety	721,091	-	721,091	720,702
Public works	547,185	-	547,185	512,288
Community and economic development	3,157	-	3,157	4,197
Recreation and culture	40	-	40	-
Water and sewer	-	1,001,888	1,001,888	992,889
Other	2,013	-	2,013	-
Total expenses	<u>1,652,368</u>	<u>1,001,888</u>	<u>2,654,256</u>	<u>2,655,387</u>
Change in net position	<u>\$ 144,576</u>	<u>\$ 26,020</u>	<u>\$ 170,596</u>	<u>\$ 503,748</u>

**Charter Township of Clayton
Management's Discussion and Analysis
Year Ended December 31, 2013**

Governmental Activities

The Charter Township of Clayton's total governmental activity revenues were \$1,796,944. This was a \$215,890 decrease in revenues compared to the prior year.

Governmental activity expenditures of \$1,652,368 were recorded for the year.

At the end of 2013, the Township had \$5.43 million invested in a broad range of capital assets, including buildings, police equipment, and water and sewer lines.

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.

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.

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 2013 were roughly \$182,000.

**Charter Township of Clayton
Management's Discussion and Analysis
Year Ended December 31, 2013**

c) **Sanitation Fund**

Residents have approved a special assessment to pay for township wide garbage collection. The assessment collected in 2013 was approximately \$338,000.

d) **Fire Fund**

The Fire Fund is funded through a property tax levy. The taxes collected in 2013 were roughly \$150,000.

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 \$95,000 below budget.

Economic Factors and Next Year's Budgets and Rates

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, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,193,515	\$ 1,313,805	\$ 2,507,320
Investments	10,028	535,349	545,377
Receivables			
Taxes	274,021	-	274,021
Accounts	14,483	388,158	402,641
Special assessments	370,620	13,859	384,479
Due from other units of government	198,570	-	198,570
Internal balances	(44,725)	44,725	-
Capital assets not being depreciated	80,242	-	80,242
Capital assets, net of accumulated depreciation	290,285	5,061,893	5,352,178
Total assets	<u>2,387,039</u>	<u>7,357,789</u>	<u>9,744,828</u>
Liabilities			
Accounts payable	68,229	-	68,229
Accrued and other liabilities	24,695	9,179	33,874
Due to other units of government	1,002	155,637	156,639
Noncurrent liabilities			
Due within one year	17,254	73,953	91,207
Due in more than one year	-	1,250,033	1,250,033
Total liabilities	<u>111,180</u>	<u>1,488,802</u>	<u>1,599,982</u>
Deferred inflows of resources			
Property taxes	537,704	-	537,704
Total liabilities and deferred inflows of resources	<u>648,884</u>	<u>1,488,802</u>	<u>2,137,686</u>
Net position			
Net investment in capital assets	353,273	3,737,907	4,091,180
Restricted for:			
Police	12,789	-	12,789
Sanitation	35,922	-	35,922
Fire	3,931	-	3,931
Lighting district	6,461	-	6,461
CDBG	7,213	-	7,213
Building code costs	4,447	-	4,447
Unrestricted	1,314,119	2,131,080	3,445,199
Total net position	<u>\$ 1,738,155</u>	<u>\$ 5,868,987</u>	<u>\$ 7,607,142</u>

See Accompanying Notes to Financial Statements

Charter Township of Clayton
Statement of Activities
For the Year Ended December 31, 2013

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	\$ 378,882	\$ 175,906	\$ -	\$ -	\$ (202,976)	\$ -	\$ (202,976)
Public safety	721,091	285,600	-	16,400	(419,091)	-	(419,091)
Public works	547,185	370,968	-	-	(176,217)	-	(176,217)
Community and economic development	3,157	-	1,760	-	(1,397)	-	(1,397)
Recreation and culture	40	-	-	-	(40)	-	(40)
Interest on long-term debt	2,013	-	-	-	(2,013)	-	(2,013)
Total governmental activities	<u>1,652,368</u>	<u>832,474</u>	<u>1,760</u>	<u>16,400</u>	<u>(801,734)</u>	<u>-</u>	<u>(801,734)</u>
Business-type activities							
Water and sewer	<u>1,001,888</u>	<u>1,021,110</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,222</u>	<u>19,222</u>
Total primary government	<u>\$ 2,654,256</u>	<u>\$ 1,853,584</u>	<u>\$ 1,760</u>	<u>\$ 16,400</u>	<u>(801,734)</u>	<u>19,222</u>	<u>(782,512)</u>
General revenues							
Property taxes					377,037	-	377,037
State shared revenue					557,471	-	557,471
Unrestricted investment earnings					2,712	6,798	9,510
Gain on sale of capital assets					6,600	-	6,600
Miscellaneous					2,490	-	2,490
Total general revenues					<u>946,310</u>	<u>6,798</u>	<u>953,108</u>
Change in net position					144,576	26,020	170,596
Net position - beginning of year					<u>1,593,579</u>	<u>5,842,967</u>	<u>7,436,546</u>
Net position - end of year					<u>\$ 1,738,155</u>	<u>\$ 5,868,987</u>	<u>\$ 7,607,142</u>

See Accompanying Notes to Financial Statements

Charter Township of Clayton
Governmental Funds
Balance Sheet
December 31, 2013

	Special Revenue Funds				Nonmajor Governmental Funds	Total Governmental Funds
	General	Police	Sanitation	Fire		
Assets						
Cash and cash equivalents	\$ 872,396	\$ 80,070	\$ 167,379	\$ 54,929	\$ 18,741	\$ 1,193,515
Investments	10,028	-	-	-	-	10,028
Receivables						
Taxes	142,367	131,654	-	-	-	274,021
Accounts	-	14,483	-	-	-	14,483
Special assessments	-	-	239,209	108,074	23,337	370,620
Due from other units of government	198,570	-	-	-	-	198,570
Due from other funds	-	334	-	-	7,213	7,547
Total assets	\$ 1,223,361	\$ 226,541	\$ 406,588	\$ 163,003	\$ 49,291	\$ 2,068,784
Liabilities						
Accounts payable	\$ 25,255	\$ 7,980	\$ 25,906	\$ 6,661	\$ 2,427	\$ 68,229
Accrued and other liabilities	9,674	15,021	-	-	-	24,695
Due to other funds	52,272	-	-	-	-	52,272
Due to other units of government	1,002	-	-	-	-	1,002
Total liabilities	88,203	23,001	25,906	6,661	2,427	146,198
Deferred inflows of resources						
Property taxes	199,628	185,665	-	152,411	-	537,704
Special assessments	-	-	344,760	-	33,190	377,950
Ordinance Fee	-	5,086	-	-	-	5,086
Total deferred inflows of resources	199,628	190,751	344,760	152,411	33,190	920,740
Fund Balances						
Restricted for:						
Police	-	12,789	-	-	-	12,789
Sanitation	-	-	35,922	-	-	35,922
Fire	-	-	-	3,931	-	3,931
Lighting district	-	-	-	-	6,461	6,461
CDBG	-	-	-	-	7,213	7,213
Building code costs	4,447	-	-	-	-	4,447
Unassigned	931,083	-	-	-	-	931,083
Total fund balances	935,530	12,789	35,922	3,931	13,674	1,001,846
Total liabilities, deferred inflows of resources and fund balances	\$ 1,223,361	\$ 226,541	\$ 406,588	\$ 163,003	\$ 49,291	\$ 2,068,784

See Accompanying Notes to Financial Statements

Charter Township of Clayton
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Position of Governmental Activities
December 31, 2013

Total fund balances for governmental funds	\$ 1,001,846
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.	290,285
Capital assets not being depreciated used in governmental activities are not financial resources and therefore are not reported in the funds.	80,242
Certain receivables are not available to pay for current period expenditures and therefore are deferred inflows in the funds	383,036
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>(17,254)</u>
Net position of governmental activities	<u>\$ 1,738,155</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, 2013

	Special Revenue Funds				Nonmajor Governmental Funds	Total Governmental Funds
	General	Police	Sanitation	Fire		
Revenues						
Taxes	\$ 194,730	\$ 182,307	\$ -	\$ 149,494	\$ -	\$ 526,531
Special assessments	-	-	338,151	-	32,472	370,623
Licenses and permits	39,308	2,104	-	-	-	41,412
Federal grants	-	-	-	-	1,760	1,760
State revenue sharing	557,471	-	-	-	-	557,471
Other state grants	-	1,000	-	-	-	1,000
Charges for services	162,460	-	-	-	-	162,460
Fines and forfeitures	-	76,244	-	-	-	76,244
Interest income	2,712	-	-	-	-	2,712
Other revenue	7,340	13,970	-	-	-	21,310
Total revenues	<u>964,021</u>	<u>275,625</u>	<u>338,151</u>	<u>149,494</u>	<u>34,232</u>	<u>1,761,523</u>
Expenditures						
Current						
General government	393,790	-	-	-	-	393,790
Public safety	34,381	521,354	-	145,563	-	701,298
Public works	193,810	-	322,866	-	29,372	546,048
Community and economic development	3,111	-	-	-	46	3,157
Recreation and culture	40	-	-	-	-	40
Debt service						
Principal retirement	-	16,277	-	-	-	16,277
Interest and fiscal charges	-	2,013	-	-	-	2,013
Total expenditures	<u>625,132</u>	<u>539,644</u>	<u>322,866</u>	<u>145,563</u>	<u>29,418</u>	<u>1,662,623</u>
Excess (deficiency) of revenues over expenditures	<u>338,889</u>	<u>(264,019)</u>	<u>15,285</u>	<u>3,931</u>	<u>4,814</u>	<u>98,900</u>
Other financing sources (uses)						
Transfers in	-	258,000	-	-	-	258,000
Transfers out	(258,000)	-	-	-	-	(258,000)
Insurance recoveries	-	2,490	-	-	-	2,490
Sale of fixed assets	9,600	4,500	-	-	-	14,100
Total other financing sources and (uses)	<u>(248,400)</u>	<u>264,990</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,590</u>
Net change in fund balance	90,489	971	15,285	3,931	4,814	115,490
Fund balance - beginning of year	<u>845,041</u>	<u>11,818</u>	<u>20,637</u>	<u>-</u>	<u>8,860</u>	<u>886,356</u>
Fund balance - end of year	<u>\$ 935,530</u>	<u>\$ 12,789</u>	<u>\$ 35,922</u>	<u>\$ 3,931</u>	<u>\$ 13,674</u>	<u>\$ 1,001,846</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, 2013

Net change in fund balances - Total governmental funds \$ 115,490

Total change in net position reported for governmental activities in the statement of activities is 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.

Depreciation expense	(24,022)
Capital outlay	18,000
Donations of capital assets	16,400
Loss on disposal of capital assets	(3,000)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.

Special assessments	345
Other revenue	5,086

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.

Repayments of long-term debt	16,277
------------------------------	--------

Change in net position of governmental activities **\$ 144,576**

Charter Township of Clayton
Proprietary Funds
Statement of Net Position
December 31, 2013

	<u>Water and Sewer</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 1,313,805
Investments	535,349
Receivables	
Customers	388,158
Special assessments, current	1,818
Due from other funds	44,725
Total current assets	2,283,855
Noncurrent assets	
Special assessments receivable, deferred	12,041
Capital assets, net of accumulated depreciation	5,061,893
Total noncurrent assets	5,073,934
Total assets	7,357,789
Liabilities	
Current liabilities	
Accrued and other liabilities	9,179
Due to other units of government	155,637
Current portion of noncurrent liabilities	73,953
Total current liabilities	238,769
Noncurrent liabilities	
Long-term debt net of current portion	1,250,033
Total liabilities	1,488,802
Net position	
Net investment in capital assets	3,737,907
Unrestricted	2,131,080
Total net position	\$ 5,868,987

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, 2013

	Water and Sewer
Operating revenue	
Water usage fees	\$ 450,888
Sewer treatment fees	512,275
Interest penalty charges	57,947
Other revenue	694
Total operating revenue	1,021,804
Operating expenses	
Cost of water	413,886
Cost of sewage treatment	338,535
Other operation and maintenance	2,000
Hydrant expense	5,351
Pump station expense	56,398
Computer billing	5,102
Administration - salaries and fringe benefits	49,048
Capital outlay	600
Chargebacks	5,504
Depreciation	70,150
Total operating expenses	946,574
Operating income	75,230
Nonoperating revenue (expenses)	
Interest income	6,104
Interest expense	(55,314)
Total nonoperating revenue (expenses)	(49,210)
Change in net position	26,020
Net position - beginning of year	5,842,967
Net position - end of year	\$ 5,868,987

See Accompanying Notes to Financial Statements

Charter Township of Clayton
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2013

	Water and Sewer
Cash flows from operating activities	
Receipts from customers	\$ 1,031,196
Receipts from other funds	248,349
Payments to other funds	(44,725)
Payments to suppliers	(808,942)
Payments for interfund services used	(54,150)
	371,728
Net cash provided by operating activities	371,728
 Cash flows from capital and related financing activities	
Principal and interest paid on long-term debt	(124,495)
	(124,495)
 Cash flows from investing activities	
Proceeds from sales and maturities of investments	255,955
Interest received	6,104
	262,059
Net cash provided by investing activities	262,059
Net change in cash and cash equivalents	509,292
Cash and cash equivalents - beginning of year	804,513
Cash and cash equivalents - end of year	\$ 1,313,805
 Reconciliation of operating income to net cash provided (used) by operating activities	
Operating income	\$ 75,230
Adjustments to reconcile operating income to net cash from operating activities	
Depreciation and amortization expense	70,150
Changes in assets and liabilities	
Receivables (net)	9,392
Due from other funds	203,624
Accrued and other liabilities	(1,336)
Due to other units of government	14,668
	371,728
Net cash provided by operating activities	\$ 371,728

See Accompanying Notes to Financial Statements

Charter Township of Clayton
Fiduciary Funds
Statement of Fiduciary Net Position
December 31, 2013

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 701,637
Liabilities	
Refundable deposits, bonds, etc.	\$ 10,219
Due to other units of government	<u>691,418</u>
 Total liabilities	 <u>\$ 701,637</u>

See Accompanying Notes to Financial Statements

Charter Township of Clayton
Notes to Financial Statements
December 31, 2013

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. 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

Charter Township of Clayton
Notes to Financial Statements
December 31, 2013

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 generated through 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 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.

Charter Township of Clayton
Notes to Financial Statements
December 31, 2013

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 2013 tax is levied and collectible on December 1, 2013 and will be recognized as revenue in the year ended December 31, 2014, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2013 taxable valuation of the government totaled \$190.5 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 \$194,494 for operating expenses, \$182,088 for police service and \$149,384 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, 2013

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.

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.

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.

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.

Charter Township of Clayton
Notes to Financial Statements
December 31, 2013

Management has evaluated subsequent events through May 6, 2014 the date of the Independent Auditors' Report, which is the date the financial statements were available to be issued.

Comparative data

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

Adoption of New Accounting Standard

The Government Accounting Standards Board issued Statement 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, which the government adopted effective January 1, 2013. This statement modifies certain requirements for inclusion of component units in the financial reporting entity, and amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances, and clarifies the reporting of equity interests in legally separate organizations.

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.

The Government Accounting Standards Board has also issued *Statement 69, Government Combinations and Disposals of Government Operations, Statement 70, Nonexchange Financial Guarantees, and Statement 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*

Statement 69 provides detailed requirements for the accounting and disclosure of various types of government combinations, such as mergers, acquisitions, and transfers of operations. The guidance available previously was limited to nongovernmental entities, and therefore did not provide practical examples for situations common in government-specific combinations and disposals. The accounting and disclosure requirements for these events vary based on whether a significant payment is made, the continuation or termination of services, and the legal structure of the new or continuing entity. Statement 69 is effective for the year ending December 31, 2014.

Statement 70, addresses the accounting and disclosure of situations in which one government offers a financial guarantee on behalf of another government, not-for-profit organization, private entity, or individual without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). A government that extends a nonexchange financial guarantee will be required to recognize a liability when qualitative factors and/or historical data indicate that it is "more likely than not" that the government will be required to make a payment on the guarantee. It further requires governments to disclose any outstanding financial guarantees in the notes to the financial statements. Statement 70 is effective for the year ending December 31, 2014.

Statement 71, improves accounting and financial reporting by addressing an issue in Statement 68, *Accounting and Financial Reporting of Pensions*, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and non-

Charter Township of Clayton
Notes to Financial Statements
December 31, 2013

employer contributing entities. Statement 71 should be applied simultaneously with the provisions of Statement 68.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection on building construction renovation to ensure compliance with the building codes. The Township charges fees for these services. Beginning January 1, 2000, the law required that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the restricted fund balance generated is as follows:

Current year building permit revenue	\$ 38,828
Construction code expenses	<u>34,381</u>
 Restricted fund balance at December 31, 2013	 \$ <u><u>4,447</u></u>

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.

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

Charter Township of Clayton
Notes to Financial Statements
December 31, 2013

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	\$281,176	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, \$2,618,125 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, \$816,577 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.

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>\$ 12,041</u>	Water and sewer

NOTE 5 - DEFERRED INFLOWS OF RESOURCES

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

	Deferred Inflows
Primary government	
Property taxes	\$ 537,704
Special assessments	377,950
Ordinance fee	5,086
	<u>\$ 920,740</u>

Charter Township of Clayton
Notes to Financial Statements
December 31, 2013

NOTE 6 - CAPITAL ASSETS

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

	Balance January 1, 2013	Increases	Decreases	Balance December 31, 2013
Governmental activities				
Capital assets not being depreciated				
Land	\$ 63,842	\$ 16,400	\$ -	\$ 80,242
Capital assets being depreciated				
Buildings	399,242	-	-	399,242
Building improvements	183,130	18,000	-	201,130
Vehicles	200,801	-	68,859	131,942
Equipment	128,998	-	-	128,998
Land improvements	32,846	-	-	32,846
Public Infrastructure	56,827	-	-	56,827
Total capital assets being depreciated	<u>1,001,844</u>	<u>18,000</u>	<u>68,859</u>	<u>950,985</u>
Less accumulated depreciation for				
Buildings	242,877	3,849	-	246,726
Building improvements	159,218	3,092	-	162,310
Vehicles	143,504	14,568	65,859	92,213
Equipment	128,998	-	-	128,998
Land improvements	17,712	1,376	-	19,088
Public Infrastructure	10,228	1,137	-	11,365
Total accumulated depreciation	<u>702,537</u>	<u>24,022</u>	<u>65,859</u>	<u>660,700</u>
Net capital assets being depreciated	<u>299,307</u>	<u>(6,022)</u>	<u>3,000</u>	<u>290,285</u>
Governmental activities capital assets, net	<u>\$ 363,149</u>	<u>\$ 10,378</u>	<u>\$ 3,000</u>	<u>\$ 370,527</u>

	Balance January 1, 2013	Increases	Decreases	Balance December 31, 2013
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	1,011,517	52,712	-	1,064,229
Sewer system	173,974	17,438	-	191,412
Total accumulated depreciation	<u>1,185,491</u>	<u>70,150</u>	<u>-</u>	<u>1,255,641</u>
Net capital assets being depreciated	<u>5,132,043</u>	<u>(70,150)</u>	<u>-</u>	<u>5,061,893</u>
Business-type capital assets, net	<u>\$ 5,132,043</u>	<u>\$ (70,150)</u>	<u>\$ -</u>	<u>\$ 5,061,893</u>

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

Governmental activities		
General government		\$ 3,092
Public safety		19,793
Public services		1,137
Total governmental activities		<u>24,022</u>
Business-type activities		
Water		52,712
Sewer		17,438
Total business-type activities		<u>70,150</u>
Total primary government		<u>\$ 94,172</u>

Charter Township of Clayton
Notes to Financial Statements
December 31, 2013

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
CDBG	General Fund	\$ 7,213
Police Fund	General Fund	334
Water & Sewer Fund	General Fund	<u>44,725</u>
	Total	<u>\$ 52,272</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:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General Fund	Police Fund	<u>\$ 258,000</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.

NOTE 8 - CAPITAL LEASE

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

<u>Year Ending</u> <u>December 31,</u>		
2014	\$	18,289
	Less amount representing interest	<u>1,035</u>
	Present value of minimum lease payments	<u>\$ 17,254</u>
Asset		
Vehicles	\$	51,820
Less accumulated depreciation		<u>10,364</u>
Total	\$	<u>41,456</u>

NOTE 9 - LONG-TERM DEBT

The Township entered into a capital lease agreement for two police cars through October 2014. Significant details regarding the Township's obligation relating to this agreement are as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities					
Capital leases					
Two police cars	<u>\$ 33,531</u>	<u>\$ -</u>	<u>\$ 16,277</u>	<u>\$ 17,254</u>	<u>\$ 17,254</u>

Charter Township of Clayton
Notes to Financial Statements
December 31, 2013

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	\$ 1,393,167	\$ -	\$ 69,181	\$ 1,323,986	\$ 73,953

Total interest expense for the year was \$55,314, 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
2014	\$ 73,953	\$ 53,597	\$ 127,550
2015	78,723	50,543	129,266
2016	81,109	47,346	128,455
2017	85,880	44,006	129,886
2018	90,651	40,475	131,126
2019 - 2023	527,208	141,390	668,598
2024 - 2026	386,462	25,809	412,271
	<u>\$ 1,323,986</u>	<u>\$ 403,166</u>	<u>\$ 1,727,152</u>

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% at 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 \$1,727,152. During the current year, net revenues of the system were \$210,742 compared to the annual debt requirements of \$127,549.

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

Charter Township of Clayton
Notes to Financial Statements
December 31, 2013

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 \$489,834. The current year contribution was calculated based on covered payroll of \$350,645 resulting in an employer contribution of \$35,064 and employee contributions of \$2,850.

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,
 2013

Total assets	\$ 170,614
Total liabilities	27,649
Total net position	142,965
Total revenues	272,813
Total expenditures	254,577

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.

NOTE 14 - SUBSEQUENT EVENT

Subsequent to December 31, 2013, the Township paid \$85,000 for a litigation settlement claim.

Charter Township of Clayton
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under)
Revenues				Final Budget
Taxes				
Property taxes	\$ 198,565	\$ 207,165	\$ 194,730	\$ (12,435)
Licenses and permits	28,200	35,200	39,308	4,108
State revenue sharing	552,192	552,192	557,471	5,279
Charges for services	138,950	168,950	162,460	(6,490)
Interest income	2,700	2,700	2,712	12
Other revenue	700	700	7,340	6,640
Sale of fixed assets	5,000	5,000	9,600	4,600
Transfer in	-	6,144	-	(6,144)
Total revenues	<u>926,307</u>	<u>978,051</u>	<u>973,621</u>	<u>(4,430)</u>
Expenditures				
General government				
Township board	177,675	178,675	155,327	(23,348)
Supervisor	68,980	68,980	67,078	(1,902)
Clerk	65,628	65,628	62,137	(3,491)
Board of review	2,100	2,100	1,053	(1,047)
Treasurer	36,638	36,638	33,921	(2,717)
Elections	12,985	12,985	12,173	(812)
Buildings and grounds	43,580	62,080	55,108	(6,972)
Appeal board	1,100	1,100	651	(449)
Cemetery	5,200	7,200	6,342	(858)
Total general government	<u>413,886</u>	<u>435,386</u>	<u>393,790</u>	<u>(41,596)</u>
Public safety				
Building inspection department	28,445	35,445	34,381	(1,064)
Public works				
Department of public works	174,100	198,850	193,810	(5,040)
Community and economic development				
Planning	3,125	3,770	3,111	(659)
Recreation and culture				
Recreation and culture	100	100	40	(60)
Transfers out	306,651	304,500	258,000	(46,500)
Total expenditures	<u>926,307</u>	<u>978,051</u>	<u>883,132</u>	<u>(94,919)</u>
Excess of revenues over expenditures	-	-	90,489	90,489
Fund balance - beginning of year	845,041	845,041	845,041	-
Fund balance - end of year	<u>\$ 845,041</u>	<u>\$ 845,041</u>	<u>\$ 935,530</u>	<u>\$ 90,489</u>

See Accompanying Notes to Financial Statements

Charter Township of Clayton
Required Supplemental Information
Budgetary Comparison Schedule
Police Fund
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Taxes	\$ 186,078	\$ 186,587	\$ 182,307	\$ (4,280)
Licenses and permits	3,000	3,000	2,104	(896)
Other state grants	-	-	1,000	1,000
Fines and forfeitures	89,500	93,500	76,244	(17,256)
Other revenue	7,400	7,400	13,970	6,570
Sale of fixed assets	-	4,000	4,500	500
Insurance recoveries	-	-	2,490	2,490
Transfers in	288,109	304,500	258,000	(46,500)
Total revenues	<u>574,087</u>	<u>598,987</u>	<u>540,615</u>	<u>(58,372)</u>
Expenditures				
Current				
Public safety	557,810	582,710	521,354	(61,356)
Debt service				
Principal retirement	16,277	16,277	16,277	-
Interest and fiscal charges	2,013	2,013	2,013	-
Total expenditures	<u>576,100</u>	<u>601,000</u>	<u>539,644</u>	<u>(61,356)</u>
Excess (deficiency) of revenues over expenditures	(2,013)	(2,013)	971	2,984
Fund balance - beginning of year	<u>11,818</u>	<u>11,818</u>	<u>11,818</u>	<u>-</u>
Fund balance - end of year	<u>\$ 9,805</u>	<u>\$ 9,805</u>	<u>\$ 12,789</u>	<u>\$ 2,984</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, 2013

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Special assessments	\$ 344,370	\$ 344,370	\$ 338,151	\$ (6,219)
Expenditures				
Current				
Public works	344,370	344,370	322,866	(21,504)
Excess of revenues over expenditures	-	-	15,285	15,285
Fund balance - beginning of year	20,637	20,637	20,637	-
Fund balance - end of year	<u>\$ 20,637</u>	<u>\$ 20,637</u>	<u>\$ 35,922</u>	<u>\$ 15,285</u>

See Accompanying Notes to Financial Statements

Charter Township of Clayton
Required Supplemental Information
Budgetary Comparison Schedule
Fire Fund
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 152,742	\$ 152,742	\$ 149,494	\$ (3,248)
Expenditures				
Current				
Public safety	152,742	152,742	145,563	(7,179)
Excess of revenues over expenditures	-	-	3,931	3,931
Fund balance - beginning of year	-	-	-	-
Fund balance - end of year	\$ -	\$ -	\$ 3,931	\$ 3,931

See Accompanying Notes to Financial Statements

**Charter Township of Clayton
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2013**

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	<u>Lighting Districts</u>	<u>CDBG</u>	
Assets			
Cash and cash equivalents	\$ 18,741	\$ -	\$ 18,741
Receivables			
Special assessments	23,337	-	23,337
Due from other funds	<u>-</u>	<u>7,213</u>	<u>7,213</u>
Total assets	<u>\$ 42,078</u>	<u>\$ 7,213</u>	<u>\$ 49,291</u>
Liabilities			
Accounts payable	<u>\$ 2,427</u>	<u>\$ -</u>	<u>\$ 2,427</u>
Deferred inflows of resources			
Special assessments	<u>33,190</u>	<u>-</u>	<u>33,190</u>
Fund Balances			
Restricted	<u>6,461</u>	<u>7,213</u>	<u>13,674</u>
Total liabilities, deferred inflows or resources and fund balances	<u>\$ 42,078</u>	<u>\$ 7,213</u>	<u>\$ 49,291</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, 2013

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	<u>Lighting Districts</u>	<u>CDBG</u>	
Revenues			
Special assessments	\$ 32,472	\$ -	\$ 32,472
Federal grants	-	1,760	1,760
Total revenues	<u>32,472</u>	<u>1,760</u>	<u>34,232</u>
Expenditures			
Current			
Public works	29,372	-	29,372
Community and economic development	-	46	46
Total expenditures	<u>29,372</u>	<u>46</u>	<u>29,418</u>
Excess of revenues over expenditures	3,100	1,714	4,814
Fund balance - beginning of year	<u>3,361</u>	<u>5,499</u>	<u>8,860</u>
Fund balance - end of year	<u>\$ 6,461</u>	<u>\$ 7,213</u>	<u>\$ 13,674</u>

See Accompanying Notes to Financial Statements



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

May 6, 2014

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, 2013 and have issued our report dated May 6, 2014. 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.

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, 2013. 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. 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. The Township's most significant estimates in the financial statements are the useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service. We have evaluated management's estimates in these areas and the process used for making the accounting estimates, the risk of material misstatement, and the indication of possible bias and disclosure and uncertainty in the financial statements. We feel the estimates have been properly recorded and evaluated by management.

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.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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.

We discussed these matters with various personnel in the Township during the audit and with 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