

Watertown Charter Township,
Michigan

Year Ended
December 31,
2016

Financial
Statements

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WATERTOWN CHARTER TOWNSHIP, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

May 15, 2017

To the Board of Trustees of
Watertown Charter Township
Grand Ledge, Michigan**Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of *Watertown Charter Township, Michigan* (the "Township"), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 Township's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Watertown Charter Township as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township’s basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



MANAGEMENT'S DISCUSSION AND ANALYSIS

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

As the Township Board of Watertown Charter Township, Clinton County, Michigan, we offer readers of the Township's financial statements this narrative overview and analysis as an explanation of the financial activities of the Township for the fiscal year ended December 31, 2016.

Financial Highlights

· Total net position	\$14,525,735
· Change in total net position	508,105
· Fund balances, governmental funds	5,130,910
· Change in fund balances, governmental funds	(131,843)
· Unassigned fund balance, general fund	1,782,666
· Change in fund balance, general fund	(130,614)
· Installment debt outstanding	1,545,000
· Change in installment debt	(385,000)

Overview of the Financial Statements

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

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

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

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

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

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

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

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

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

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

The Township adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided herein to demonstrate compliance with those budgets.

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

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

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

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Watertown Charter Township, assets for all activities exceeded liabilities and deferred inflows of resources by \$14,525,735 at the close of the most recent fiscal year.

Of the Township's net position, \$4,524,515 (31 percent) reflects its investment in capital assets (e.g. infrastructure, land, buildings, equipment, and vehicles); less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

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

The government's net position for all activities increased by \$508,105 during the current fiscal year.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 6,771,214	\$ 6,939,681	\$ 5,729,054	\$ 5,506,749	\$12,500,268	\$12,446,430
Capital assets, net	237,207	239,157	5,240,750	4,833,206	5,477,957	5,072,363
Total assets	<u>7,008,421</u>	<u>7,178,838</u>	<u>10,969,804</u>	<u>10,339,955</u>	<u>17,978,225</u>	<u>17,518,793</u>
Other liabilities	61,859	70,963	479,698	166,320	541,557	237,283
Long-term debt	329,577	386,067	1,257,598	1,582,478	1,587,175	1,968,545
Total liabilities	<u>391,436</u>	<u>457,030</u>	<u>1,737,296</u>	<u>1,748,798</u>	<u>2,128,732</u>	<u>2,205,828</u>
Total deferred inflows of resources	<u>1,323,758</u>	<u>1,295,335</u>	-	-	<u>1,323,758</u>	<u>1,295,335</u>
Net position:						
Net Investment in capital assets	237,207	239,157	4,287,308	3,659,221	4,524,515	3,898,378
Restricted	436,026	435,850	1,272,964	1,437,843	1,708,990	1,873,693
Unrestricted	4,619,994	4,751,466	3,672,236	3,494,093	8,292,230	8,245,559
Total net position	<u>\$ 5,293,227</u>	<u>\$ 5,426,473</u>	<u>\$ 9,232,508</u>	<u>\$ 8,591,157</u>	<u>\$14,525,735</u>	<u>\$14,017,630</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program revenues -						
Charges for services	\$ 288,020	\$ 263,116	\$ 694,538	\$ 696,253	\$ 982,558	\$ 959,369
General revenues:						
Property taxes	1,285,096	1,252,744	-	-	1,285,096	1,252,744
Other	621,711	544,627	95,500	133,703	717,211	678,330
Total revenues	<u>2,194,827</u>	<u>2,060,487</u>	<u>1,329,301</u>	<u>829,956</u>	<u>3,524,128</u>	<u>2,890,443</u>
Expenses:						
Legislative	36,657	37,936	-	-	36,657	37,936
General government	1,042,039	1,007,810	-	-	1,042,039	1,007,810
Public safety and health	478,083	457,642	-	-	478,083	457,642
Public works	592,732	194,039	-	-	592,732	194,039
Community and economic development	115,605	109,412	-	-	115,605	109,412
Recreation and culture	9,790	8,872	-	-	9,790	8,872
Interest and fiscal charges	13,167	15,574	-	-	13,167	15,574
Sewage disposal	-	-	622,118	616,968	622,118	616,968
Water extension	-	-	105,832	113,415	105,832	113,415
Total expenses	<u>2,288,073</u>	<u>1,831,285</u>	<u>727,950</u>	<u>730,383</u>	<u>3,016,023</u>	<u>2,561,668</u>
Change in net position, before transfers	(93,246)	229,202	601,351	99,573	508,105	328,775
Transfers	(40,000)	(40,000)	40,000	40,000	-	-
Change in net position	<u>(133,246)</u>	<u>189,202</u>	<u>641,351</u>	<u>139,573</u>	<u>508,105</u>	<u>328,775</u>
Net position:						
Beginning of year	5,426,473	5,237,271	8,591,157	8,451,584	14,017,630	13,688,855
End of year	<u>\$ 5,293,227</u>	<u>\$ 5,426,473</u>	<u>\$ 9,232,508</u>	<u>\$ 8,591,157</u>	<u>\$ 14,525,735</u>	<u>\$ 14,017,630</u>

Governmental Activities. The net position of the governmental activities decreased by \$133,246. This is due to additional road projects, and the Township had reserved funds in 2015 to cover the projects in 2016. Additionally, the millage rates were reduced as a result of the Headlee Amendment.

Business-type Activities. The net position of the business-type activities increased by \$641,531. This is primarily due to the increase in sewer connections. Operating expenses were relatively stable compared to the prior year.

Financial Analysis of the Township's Funds

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

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

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

As of the end of 2016, the Township's governmental funds reported combined ending fund balances of \$5,130,910, a decrease of \$131,843 in comparison with the prior year. Approximately 35 percent of this total amount, or \$1,782,666, constitutes unassigned fund balance, which is an adequate amount to keep the Township operating in the case of unforeseen emergencies. The nonspendable portion of the fund balance, \$866, represents amounts prepaid for 2017 expenses in 2016. The restricted portion of the governmental fund balance, \$511,459, is special assessments payments received for future bond payments, and the fund balances from the Township improvement revolving fund and the cemetery improvement fund for special projects. The assigned amount of \$755,598 is for Township Hall improvements. The remainder of the fund balance, \$2,080,321, is committed and acts as the Township's savings account for specific needs and projects.

The general fund is the chief operating fund of the Township. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,782,666 while total fund balance was \$4,846,226. The fund balance of the Township's general fund decreased by a total \$130,614 during the current fiscal year. While the Township saw a decrease in fund balance due to the Headlee Amendment, the Township continues to be conservative as revenue sources continue to be uncertain. The support of the Township Board and lack of high turnover by department heads has assisted in supporting a conservative approach and operating with fiscal restraint.

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

Unrestricted net position of the sewer fund and water extension funds at the end of the year amounted to \$3,127,379 and \$544,857, respectively. The sewer fund had an increase for the year of \$592,957 and the water fund had an increase for the year of \$48,394, in total net position.

General Fund Budgetary Highlights

Differences between the original and final amended budgets were caused by construction costs being higher than anticipated. This led to increased building, electrical, mechanical, and plumbing inspection fees owed to inspectors. The Board also made several supplemental budgetary appropriations throughout the year which were not considered material.

Capital Asset and Debt Administration

Capital Assets. The Township's investment in capital assets for its governmental and business-type activities as of December 31, 2016, amounted to \$5,477,957 (net of accumulated depreciation). Capital assets balances for the current year and the previous year ended December 31 were as follows:

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 93,846	\$ 93,846	\$ 82,887	\$ 82,000	\$ 176,733	\$ 175,846
Construction in progress	-	-	-	197,322	-	197,322
Land improvements	85,286	87,870	-	-	85,286	87,870
Buildings and improvements	45,931	37,597	-	-	45,931	37,597
Equipment	12,144	19,844	-	-	12,144	19,844
Sewage disposal system	-	-	5,157,863	4,553,884	5,157,863	4,553,884
Total capital assets, net	\$ 237,207	\$ 239,157	\$ 5,240,750	\$ 4,833,206	\$ 5,477,957	\$ 5,072,363

The increase in the Township's investment in capital assets for the current fiscal year of \$405,594 resulted primarily from additions to the sewer disposal system. Additional information on capital assets can be found in the notes to the financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

Long-term Debt. At the end of the current fiscal year, the Township had total bonded debt outstanding of \$1,545,000. The entire debt is backed by the full faith and credit of the Township. Special assessment revenue is being collected to pay these bonds. Outstanding balances for the current year and the previous year ended December 31 were as follows:

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Special assessment bonds	\$ 290,000	\$ 350,000	\$ 1,015,000	\$ 1,280,000	\$ 1,305,000	\$ 1,630,000
Sewage disposal system bonds	-	-	240,000	300,000	240,000	300,000
Total bonded debt outstanding	\$ 290,000	\$ 350,000	\$ 1,255,000	\$ 1,580,000	\$ 1,545,000	\$ 1,930,000

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

Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the Township's budget for the 2017 fiscal year:

- The uncertainty of State revenue sharing.
- Department managers operating with a conservative and fiscally responsible budget approach.
- The condition of the local road system of the Township.
- The Board of Trustees has passed a conservative balanced budget for 2017.

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

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WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Net Position

December 31, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 3,690,519	\$ 818,204	\$ 4,508,723
Restricted cash and cash equivalents	23,074	490,138	513,212
Investments	1,738,917	1,720,974	3,459,891
Restricted investments	203,701	203,632	407,333
Receivables	1,074,017	1,284,933	2,358,950
Prepaid items	866	-	866
Assets held for resale	40,120	-	40,120
Investment in joint venture	-	1,211,173	1,211,173
Capital assets not being depreciated	93,846	82,887	176,733
Capital assets being depreciated, net	143,361	5,157,863	5,301,224
Total assets	7,008,421	10,969,804	17,978,225
Liabilities			
Accounts payable and accrued liabilities	61,859	479,698	541,557
Long-term debt:			
Due within one year	71,873	339,880	411,753
Due in more than one year	257,704	917,718	1,175,422
Total liabilities	391,436	1,737,296	2,128,732
Deferred inflows of resources			
Taxes levied but intended for subsequent periods	1,323,758	-	1,323,758
Net position			
Net investment in capital assets	237,207	4,287,308	4,524,515
Restricted for capital projects	284,684	-	284,684
Restricted for debt service	151,342	1,272,964	1,424,306
Unrestricted	4,619,994	3,672,236	8,292,230
Total net position	\$ 5,293,227	\$ 9,232,508	\$ 14,525,735

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

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2016

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenues
		Charges for Services	Capital Grants and Contributions	
Primary government				
Governmental activities:				
Legislative	\$ 36,657	\$ -	\$ -	\$ (36,657)
General government	1,042,039	45,018	-	(997,021)
Public safety and health	478,083	9,585	-	(468,498)
Public works	592,732	-	-	(592,732)
Community and economic development	115,605	227,586	-	111,981
Recreation and culture	9,790	5,831	-	(3,959)
Interest on long-term debt	13,167	-	-	(13,167)
Total governmental activities	2,288,073	288,020	-	(2,000,053)
Business-type activities:				
Sewage disposal	622,118	555,101	539,263	472,246
Water extension	105,832	139,437	-	33,605
Total business-type activities	727,950	694,538	539,263	505,851
Total primary government	\$ 3,016,023	\$ 982,558	\$ 539,263	\$ (1,494,202)

continued...

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Activities For the Year Ended December 31, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net position			
Net expenses	\$ (2,000,053)	\$ 505,851	\$ (1,494,202)
General revenues:			
Property taxes	1,285,096	-	1,285,096
Grants and contributions not restricted to specific programs	375,207	-	375,207
Other unrestricted revenues	200,690	48,372	249,062
Unrestricted investment earnings	45,814	66,061	111,875
Loss on investment in joint venture	-	(18,933)	(18,933)
Transfers - internal activities	(40,000)	40,000	-
Total general revenues and transfers	1,866,807	135,500	2,002,307
Change in net position	(133,246)	641,351	508,105
Net position, beginning of year	5,426,473	8,591,157	14,017,630
Net position, end of year	\$ 5,293,227	\$ 9,232,508	\$ 14,525,735

concluded.

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

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Balance Sheet

Governmental Funds

December 31, 2016

	General	Nonmajor Funds	Totals
Assets			
Cash and cash equivalents	\$ 3,451,093	\$ 239,426	\$ 3,690,519
Restricted cash and cash equivalents	23,074	-	23,074
Investments	1,693,659	45,258	1,738,917
Restricted investments	203,701	-	203,701
Accounts receivable	63,573	-	63,573
Taxes receivable	639,614	-	639,614
Special assessments receivable	241,408	-	241,408
Due from other governments	129,422	-	129,422
Prepaid items	866	-	866
Total assets	\$ 6,446,410	\$ 284,684	\$ 6,731,094
Liabilities			
Accounts payable	\$ 31,773	\$ -	\$ 31,773
Accrued wages	22,028	-	22,028
Other liabilities	1,750	-	1,750
Total liabilities	55,551	-	55,551
Deferred inflows of resources			
Taxes levied but intended for subsequent period	1,323,758	-	1,323,758
Unavailable special assessments receivable	220,875	-	220,875
Total deferred inflows of resources	1,544,633	-	1,544,633
Fund balances			
Nonspendable	866	-	866
Restricted	226,775	284,684	511,459
Committed	2,080,321	-	2,080,321
Assigned	755,598	-	755,598
Unassigned	1,782,666	-	1,782,666
Total fund balances	4,846,226	284,684	5,130,910
Total liabilities, deferred inflows of resources and fund balances	\$ 6,446,410	\$ 284,684	\$ 6,731,094

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

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
December 31, 2016

Fund balances - total governmental funds	\$ 5,130,910
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.	
Capital assets not being depreciated	93,846
Capital assets being depreciated, net	143,361
Assets held for resale	40,120
The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred inflows of resources in the governmental funds, and thus are not included in fund balance.	
Unavailable long-term special assessments receivable	220,875
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Bonds payable	(290,000)
Accrued interest on long-term debt	(6,308)
Compensated absences	(39,577)
Net position of governmental activities	<u>\$ 5,293,227</u>

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

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended December 31, 2016

	General	Nonmajor Funds	Totals
Revenues			
Taxes	\$ 1,285,096	\$ -	\$ 1,285,096
Special assessments	78,186	-	78,186
Licenses and permits	404,652	-	404,652
State revenue sharing	372,803	-	372,803
Charges for services	30,155	1,310	31,465
Interest	45,814	2,816	48,630
Rentals	12,795	-	12,795
Contributions and donations	2,404	-	2,404
Other	15,824	-	15,824
Total revenues	2,247,729	4,126	2,251,855
Expenditures			
Current:			
Legislative	36,657	-	36,657
General government	1,016,376	-	1,016,376
Public safety and health	294,526	-	294,526
Public works	581,362	-	581,362
Community and economic development	299,162	-	299,162
Recreation and culture	9,219	-	9,219
Capital outlay	31,788	355	32,143
Debt service:			
Principal	60,000	-	60,000
Interest	14,253	-	14,253
Total expenditures	2,343,343	355	2,343,698
Revenues over (under) expenditures	(95,614)	3,771	(91,843)
Other financing sources (uses)			
Transfers in	5,000	-	5,000
Transfers out	(40,000)	(5,000)	(45,000)
Total other financing uses	(35,000)	(5,000)	(40,000)
Net change in fund balances	(130,614)	(1,229)	(131,843)
Fund balances, beginning of year	4,976,840	285,913	5,262,753
Fund balances, end of year	\$ 4,846,226	\$ 284,684	\$ 5,130,910

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

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended December 31, 2016

Net change in fund balances - total governmental funds	\$ (131,843)
Amounts reported for <i>governmental activities</i> in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital assets purchased	23,146
Depreciation expense	(25,096)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.	
Net change in unavailable special assessments receivable	(57,028)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long term-liabilities in the statement of net position.	
Principal payments on long-term liabilities	60,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in accrued interest on long-term debt	1,085
Change in the accrual for compensated absences	(3,510)
Change in net position of governmental activities	<u>\$ (133,246)</u>

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

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenues				
Taxes	\$ 1,300,704	\$ 1,300,704	\$ 1,285,096	\$ (15,608)
Special assessments	69,053	69,053	78,186	9,133
Licenses and permits:				
Landfill	18,000	18,000	18,000	-
Planning, zoning and building	80,495	218,995	227,586	8,591
Franchise fees	83,000	83,000	159,066	76,066
State revenue sharing	384,000	384,000	372,803	(11,197)
Charges for services:				
Fire runs	5,000	5,000	9,585	4,585
Cemetery	10,200	10,200	12,118	1,918
Parks and recreation	1,500	1,500	836	(664)
Other	6,300	6,300	7,616	1,316
Interest	40,967	40,967	45,814	4,847
Rentals:				
Parks	5,000	5,000	4,995	(5)
Other	7,800	7,800	7,800	-
Contributions and donations -				
G.L.I.T.	1,800	1,800	2,404	604
Other	9,621	9,621	15,824	6,203
Total revenues	2,023,440	2,161,940	2,247,729	85,789
Expenditures				
Legislative -				
Township board	51,774	51,774	36,657	(15,117)
General government:				
Supervisor	32,334	32,334	28,529	(3,805)
Elections	40,700	40,700	16,932	(23,768)
Assessor	69,255	69,255	67,755	(1,500)
Attorney	30,000	30,000	4,293	(25,707)
Clerk	76,053	76,053	73,958	(2,095)
Board of review	1,865	1,865	979	(886)
Treasurer	83,354	83,354	81,117	(2,237)
General services administration	501,883	501,883	439,194	(62,689)
Buildings and grounds	177,392	177,392	143,121	(34,271)
Other property	136,862	136,862	122,274	(14,588)
Cemetery	13,020	13,020	9,431	(3,589)
Insurance	25,700	28,200	27,731	(469)
Refunds and rebates	25,060	25,060	1,062	(23,998)
Total general government	1,213,478	1,215,978	1,016,376	(199,602)

continued...

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Expenditures (continued)				
Public safety and health:				
Public safety and health	\$ 414,200	\$ 414,200	\$ 294,023	\$ (120,177)
Building inspection	806	806	503	(303)
Total public safety and health	<u>415,006</u>	<u>415,006</u>	<u>294,526</u>	<u>(120,480)</u>
Public works:				
Drains at large	40,000	40,000	22,883	(17,117)
Highways, streets, and bridges	200,354	548,354	534,622	(13,732)
Street lighting	25,481	25,481	23,857	(1,624)
Total public works	<u>265,835</u>	<u>613,835</u>	<u>581,362</u>	<u>(32,473)</u>
Community and economic development -				
Planning and zoning	<u>189,209</u>	<u>327,709</u>	<u>299,162</u>	<u>(28,547)</u>
Recreation and culture -				
Parks and recreation	<u>9,525</u>	<u>9,525</u>	<u>9,219</u>	<u>(306)</u>
Capital outlay	<u>82,000</u>	<u>82,000</u>	<u>31,788</u>	<u>(50,212)</u>
Debt service:				
Principal	60,000	60,000	60,000	-
Interest	14,253	14,253	14,253	-
Total debt service	<u>74,253</u>	<u>74,253</u>	<u>74,253</u>	<u>-</u>
Total expenditures	<u>2,301,080</u>	<u>2,790,080</u>	<u>2,343,343</u>	<u>(446,737)</u>
Revenues over (under) expenditures	<u>(277,640)</u>	<u>(628,140)</u>	<u>(95,614)</u>	<u>532,526</u>
Other financing sources (uses)				
Transfers in	250,000	250,000	5,000	(245,000)
Transfers out	<u>(40,000)</u>	<u>(40,000)</u>	<u>(40,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>210,000</u>	<u>210,000</u>	<u>(35,000)</u>	<u>(245,000)</u>
Net change in fund balance	(67,640)	(418,140)	(130,614)	287,526
Fund balance, beginning of year	<u>4,976,840</u>	<u>4,976,840</u>	<u>4,976,840</u>	<u>-</u>
Fund balance, end of year	<u>\$ 4,909,200</u>	<u>\$ 4,558,700</u>	<u>\$ 4,846,226</u>	<u>\$ 287,526</u>

concluded.

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

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Net Position

Proprietary Funds

December 31, 2016

	Sewage Disposal	Water Extension	Totals
Assets			
Current assets:			
Cash and cash equivalents	\$ 652,123	\$ 166,081	\$ 818,204
Restricted cash and cash equivalents	420,766	69,372	490,138
Investments	1,232,825	488,149	1,720,974
Restricted investments	161,181	42,451	203,632
Accounts receivable	7,116	-	7,116
Interest receivable	46,835	13,126	59,961
Current portion of special assessments receivable	177,340	68,585	245,925
Due from other governments	346,842	-	346,842
Total current assets	3,045,028	847,764	3,892,792
Noncurrent assets:			
Special assessments receivable, net of current portion	529,805	95,284	625,089
Investment in joint venture	1,211,173	-	1,211,173
Capital assets not being depreciated	82,887	-	82,887
Capital assets being depreciated, net	5,157,863	-	5,157,863
Total noncurrent assets	6,981,728	95,284	7,077,012
Total assets	10,026,756	943,048	10,969,804
Liabilities			
Current liabilities:			
Accounts payable	369,535	88,666	458,201
Accrued interest payable	16,128	5,369	21,497
Current portion of bonds payable	225,543	114,337	339,880
Total current liabilities	611,206	208,372	819,578
Long-term liabilities -			
Bonds payable, net of current portion	727,899	189,819	917,718
Total liabilities	1,339,105	398,191	1,737,296
Net position			
Net investment in capital assets	4,287,308	-	4,287,308
Restricted for debt service	1,272,964	-	1,272,964
Unrestricted	3,127,379	544,857	3,672,236
Total net position	\$ 8,687,651	\$ 544,857	\$ 9,232,508

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

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended December 31, 2016

	Sewage Disposal	Water Extension	Totals
Operating revenues			
User fee charges	\$ 412,161	\$ 91,037	\$ 503,198
Hook-up fees and permits	131,140	48,400	179,540
Developments	11,800	-	11,800
Total operating revenues	555,101	139,437	694,538
Operating expenses			
General administration	47,119	39	47,158
Sewage plant administration	348,864	-	348,864
Other operating costs	-	92,586	92,586
Depreciation	196,997	-	196,997
Total operating expenses	592,980	92,625	685,605
Operating income (loss)	(37,879)	46,812	8,933
Nonoperating revenues (expenses)			
Interest income	51,272	14,789	66,061
Interest expense	(29,138)	(13,207)	(42,345)
Loss on investment in joint venture	(18,933)	-	(18,933)
Other	48,372	-	48,372
Total nonoperating revenues (expenses)	51,573	1,582	53,155
Income before capital contributions and transfers	13,694	48,394	62,088
Capital contributions	539,263	-	539,263
Transfers in	40,000	-	40,000
Change in net position	592,957	48,394	641,351
Net position, beginning of year	8,094,694	496,463	8,591,157
Net position, end of year	\$ 8,687,651	\$ 544,857	\$ 9,232,508

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

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2016

	Sewage Disposal	Water Extension	Totals
Cash flows from operating activities			
Cash received from customers	\$ 212,058	\$ 139,437	\$ 351,495
Cash payments to suppliers for goods and services	(27,620)	(92,711)	(120,331)
Net cash provided by operating activities	<u>184,438</u>	<u>46,726</u>	<u>231,164</u>
Cash flows from noncapital financing activities			
Transfers in	<u>40,000</u>	<u>-</u>	<u>40,000</u>
Cash flows from capital and related financing activities			
Proceeds from capital contributions	539,263	-	539,263
Payments received on special assessments	194,388	75,763	270,151
Purchase of capital assets	(604,541)	-	(604,541)
Principal payments	(220,000)	(105,000)	(325,000)
Interest payments	(50,429)	(17,623)	(68,052)
Net cash used in capital and related financing activities	<u>(141,319)</u>	<u>(46,860)</u>	<u>(188,179)</u>
Cash flows from investing activities			
Purchase of investments	(638,377)	(295,968)	(934,345)
Interest received	108,518	18,087	126,605
Net cash provided by (used in) investing activities	<u>(529,859)</u>	<u>(277,881)</u>	<u>(807,740)</u>
Net change in cash and cash equivalents	(446,740)	(278,015)	(724,755)
Cash and cash equivalents, beginning of year	<u>1,519,629</u>	<u>513,468</u>	<u>2,033,097</u>
Cash and cash equivalents, end of year	<u>\$ 1,072,889</u>	<u>\$ 235,453</u>	<u>\$ 1,308,342</u>
Reconciliation to the Statement of Net Position			
Cash and cash equivalents	\$ 652,123	\$ 166,081	\$ 818,204
Restricted cash and cash equivalents	<u>420,766</u>	<u>69,372</u>	<u>490,138</u>
	<u>\$ 1,072,889</u>	<u>\$ 235,453</u>	<u>\$ 1,308,342</u>

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WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2016

	Sewage Disposal	Water Extension	Totals
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ (37,879)	\$ 46,812	\$ 8,933
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	196,997	-	196,997
Change in operating assets and liabilities:			
Accounts receivable	3,799	-	3,799
Due from other governments	(346,842)	-	(346,842)
Prepaid expenses	29,072	-	29,072
Accounts payable	339,291	(86)	339,205
Net cash provided by operating activities	<u>\$ 184,438</u>	<u>\$ 46,726</u>	<u>\$ 231,164</u>

concluded.

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

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Fiduciary Assets and Liabilities

Agency Fund
December 31, 2016

Assets

Cash and cash equivalents	\$ 794,339
Investments	<u>1,300,411</u>

Total assets

\$ 2,094,750

Liabilities

Current tax distributions and deposits payable	<u>\$ 2,094,750</u>
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The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Government-Wide and Fund Financial Statements

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

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

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

The Township reports the following major governmental fund -

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

The Township reports the following major proprietary funds:

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

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

Additionally, the Township reports the following fund types:

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the government's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

Assets, Liabilities, Deferred Inflows of Resources, and Equity

Deposits and Investments

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

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

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

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

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

Bankers' acceptances of United States banks.

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

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

Receivables and Payables

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

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items when purchased in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, equipment, vehicles, and the sewer system, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated acquisition cost as of the date of donation.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

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

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

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

	Years
Land improvements	15-40
Buildings and improvements	15-40
System infrastructure	34-40
Equipment	3-10
Vehicles	5-10

Compensated Absences

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

Long-term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

Deferred Inflows of Resources

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

Fund Equity

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance* is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Trustees (the government's highest level of decision-making authority). A motion by the Board of Trustees is required to establish, modify, or rescind a fund balance commitment. The Township reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Trustees will assign any fund balance amounts. *Unassigned fund balance* is the residual classification for the general fund.

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

Use of Estimates

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

2. BUDGETARY INFORMATION

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

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

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

3. EXCESS OF EXPENDITURES OVER BUDGET

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. For the year ended December 31, 2016, there were no expenditures in excess of appropriations.

4. DEPOSITS AND INVESTMENTS

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

Statement of Net Position

Cash and cash equivalents	\$ 4,508,723
Restricted cash and cash equivalents	513,212
Investments	3,459,891
Restricted investments	407,333

Statement of Fiduciary Net Position

Cash and cash equivalents	794,339
Investments	<u>1,300,411</u>

Total \$ 10,983,909

Following is a reconciliation of deposit and investment balances as of December 31, 2016:

Deposits and investments

Bank deposits:	
Checking and savings accounts	\$ 2,167,193
Money market accounts	483,823
Certificates of deposit	3,164,858
Investments	5,167,635
Cash on hand	<u>400</u>

Total \$ 10,983,909

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year end, \$2,997,837 of the Township's bank balance of \$5,811,371 was exposed to custodial credit risk because it was uninsured and uncollateralized.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

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

	Fair Value	Credit Rating	Maturity
Money market accounts	\$ 4,332,863	N/A	N/A
U.S. agencies:			
Federal Home Loan Mortgage Corporation	147,695	AA+ S&P	1-5 years
Federal Home Loan Bank	420,852	AA+ S&P	1-5 years
Federal National Mortgage Association	<u>266,225</u>	AA+ S&P	1-5 years
Total	<u>\$ 5,167,635</u>		

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

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

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

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

Fair Value. The Township categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. These levels are determined by the Township's investment manager, and are determined at the fund level based on a review of the investment's class, structure, and what kind of securities are held in the funds. The investment manager will request the information from the fund manager, if necessary.

The Township's recurring fair value measurements as of December 31, 2016 were related to its investments in government agency funds and money market accounts. These investments are valued using significant other observable inputs of the underlying securities and bonds (Level 2 inputs).

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

5. RECEIVABLES

Receivables are comprised of the following at year-end:

	General Fund / Governmental Activities	Amounts Not Expected to be Collected Within One Year
Accounts	\$ 63,573	\$ -
Taxes	639,614	-
Special assessments	241,408	163,848
Due from other governments	129,422	-
	<u>\$ 1,074,017</u>	<u>\$ 163,848</u>

	Sewage Disposal Enterprise Fund	Water Extension Enterprise Fund	Total Business-type Activities	Amounts Not Expected to be Collected Within One Year
Accounts	\$ 7,116	\$ -	\$ 7,116	\$ -
Interest	46,835	13,126	59,961	-
Special assessments	707,145	163,869	871,014	625,089
Due from other governments	346,842	-	346,842	-
	<u>\$ 1,107,938</u>	<u>\$ 176,995</u>	<u>\$ 1,284,933</u>	<u>\$ 625,089</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Payables are comprised of the following at year-end:

	General Fund	Government-Wide Statements	Total Governmental Activities
Accounts	\$ 31,773	\$ -	\$ 31,773
Accrued wages	22,028	-	22,028
Other liabilities	1,750	-	1,750
Accrued interest	-	6,308	6,308
	<u>\$ 55,551</u>	<u>\$ 6,308</u>	<u>\$ 61,859</u>

	Sewage Disposal Enterprise Fund	Water Extension Enterprise Fund	Total Business-type Activities
Accounts	\$ 369,535	\$ 88,666	\$ 458,201
Accrued interest	16,128	5,369	21,497
	<u>\$ 385,663</u>	<u>\$ 94,035</u>	<u>\$ 479,698</u>

7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

Interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. At December 31, 2016, there were no due to/due from other funds present.

For the year ended December 31, 2016, interfund transfers consisted of \$40,000 from the general fund to the sewage disposal enterprise fund for repayment of sewer debt. In addition, the capital projects cemetery improvement nonmajor governmental fund transferred \$5,000 to the general fund for cost reimbursement.

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

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

8. CAPITAL ASSETS

Primary government

Capital asset activity for the primary government for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Capital assets not being depreciated -					
Land	\$ 93,846	\$ -	\$ -	\$ -	\$ 93,846
Capital assets being depreciated:					
Land improvements	103,375	-	-	-	103,375
Buildings and improvements	180,842	-	-	10,850	191,692
Equipment	93,206	23,146	(12,805)	(10,850)	92,697
Vehicles	29,763	-	-	-	29,763
	<u>407,186</u>	<u>23,146</u>	<u>(12,805)</u>	<u>-</u>	<u>417,527</u>
Less accumulated depreciation for:					
Land improvements	(15,505)	(2,584)	-	-	(18,089)
Buildings and improvements	(143,245)	(2,516)	-	-	(145,761)
Equipment	(73,362)	(19,996)	12,805	-	(80,553)
Vehicles	(29,763)	-	-	-	(29,763)
	<u>(261,875)</u>	<u>(25,096)</u>	<u>12,805</u>	<u>-</u>	<u>(274,166)</u>
Total capital assets being depreciated, net	<u>145,311</u>	<u>(1,950)</u>	<u>-</u>	<u>-</u>	<u>143,361</u>
Governmental activities capital assets, net	<u>\$ 239,157</u>	<u>\$ (1,950)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 237,207</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Business-type Activities					
Capital assets not being depreciated -					
Land	\$ 82,000	\$ 887	\$ -	\$ -	\$ 82,887
Construction in progress	197,322	603,654	-	(800,976)	-
Total capital assets not being depreciated	279,322	604,541	-	(800,976)	82,887
Capital assets being depreciated -					
Sewage disposal system	7,877,913	-	-	800,976	8,678,889
Less accumulated depreciation for -					
Sewage disposal system	(3,324,029)	(196,997)	-	-	(3,521,026)
Total capital assets being depreciated, net	4,553,884	(196,997)	-	800,976	5,157,863
Business-type activities capital assets, net	\$ 4,833,206	\$ 407,544	\$ -	\$ -	\$ 5,240,750

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

Depreciation of governmental activities by function	
General government	\$ 24,525
Recreation and culture	571
	<u>\$ 25,096</u>
Depreciation of business-type activities by function	
Sewage disposal	<u>\$ 196,997</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

9. LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
\$345,000 special assessment bonds due in annual installments of \$5,000 to \$25,000 through August 1, 2021, interest at 5%	\$ 140,000	\$ -	\$ (25,000)	\$ 115,000	\$ 25,000
\$535,000 special assessment bonds due in annual installments of \$20,000 to \$40,000 through August 1, 2021, interest at 3.875%	210,000	-	(35,000)	175,000	35,000
Subtotal - installment debt	350,000	-	(60,000)	290,000	60,000
Compensated absences	36,067	34,063	(30,553)	39,577	11,873
Total	\$ 386,067	\$ 34,063	\$ (90,553)	\$ 329,577	\$ 71,873
Business-type Activities					
\$995,000 sewage disposal system bonds due in annual installments of \$50,000 to \$60,000 through March 1, 2020, interest at 5.1% to 7.5%	\$ 300,000	\$ -	\$ (60,000)	\$ 240,000	\$ 60,000
\$360,000 special assessment bonds due in annual installments of \$25,000 to \$30,000 through August 1, 2018, interest at 2.3% to 4.1%	85,000	-	(25,000)	60,000	30,000
\$990,000 special assessment bonds due in annual installments of \$70,000 to \$75,000 through August 1, 2018, interest at 2.6% to 4.6%	220,000	-	(70,000)	150,000	75,000

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
\$150,000 special assessment bonds due in annual installments of \$10,000 to \$15,000 through August 1, 2018, interest at 2.3% to 4.1%	\$ 40,000	\$ -	\$ (10,000)	\$ 30,000	\$ 15,000
\$2,010,000 special assessment bonds due in annual installments of \$85,000 to \$150,000 through August 1, 2021, interest at 3.875%	785,000	-	(135,000)	650,000	135,000
\$395,000 special assessment bonds due in annual installments of \$15,000 to \$30,000 through August 1, 2021, interest at 3.875%	150,000	-	(25,000)	125,000	25,000
Subtotal - installment debt	1,580,000	-	(325,000)	1,255,000	340,000
Unamortized bond discounts	(3,196)	-	1,067	(2,129)	(1,067)
Unamortized bond premiums	5,674	-	(947)	4,727	947
Total	\$ 1,582,478	\$ -	\$ (324,880)	\$ 1,257,598	\$ 339,880

For governmental activities, compensated absences are generally liquidated by the general fund.

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

Year Ended December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2017	\$ 60,000	\$ 12,531	\$ 340,000	\$ 52,652
2018	60,000	9,925	335,000	37,841
2019	60,000	7,319	215,000	23,075
2020	55,000	4,713	215,000	13,574
2021	55,000	2,356	150,000	5,808
	\$ 290,000	\$ 36,844	\$ 1,255,000	\$ 132,950

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

10. JOINT VENTURES

Southern Clinton Township Municipal Utilities Authority

The Southern Clinton Township Municipal Utilities Authority was created by contractual agreement between the Township, DeWitt Charter Township, Bath Charter Township, and the City of DeWitt to operate, maintain, administer and manage the sewage disposal system for the benefit of the contracting municipalities. Currently, the Township's ownership percentage in the joint venture is 16.202%. As of December 31, 2015, the date of the most recent audit report of the Authority, the Township's share of the Authority's net position was \$1,211,173. Separate financial statements for the Southern Clinton Township Municipal Utilities Authority are available at the office of the Authority at 3671 W. Herbison Road, DeWitt, MI 48820.

Looking Glass Regional Fire Authority

The Township created a joint fire department with Eagle Township to be known as the Looking Glass Regional Fire Authority. The Authority provides fire protection services to the entire geographical area comprising Eagle Township and the Charter Township of Watertown, and may contract with other municipalities to provide fire protection services. Currently, the Authority is funded primarily through contributions from Watertown Charter Township (63%) and Eagle Township (37%). During the year ended December 31, 2016, the Township contributed \$290,384 to the Authority. Separate financial statements for the Looking Glass Regional Fire Authority are available at the office of the Authority at 7720 W. Grand River Avenue, Grand Ledge, MI 48837.

11. RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government carried commercial insurance to cover all risks of losses during the year ended December 31, 2016. The Township has had no settled claims from these risks that exceeded its commercial coverage in any of the past three fiscal years.

12. PROPERTY TAXES

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

Assessed values as established annually by the government, and subject to acceptance by the Township, are equalized by the State at an estimated 50% of current market value. Real and personal property in the Township for the 2015 levy were assessed and equalized at \$263,723,853 (not including properties subject to Industrial Facilities Tax exemption), representing roughly 50% of estimated current market value. The government's general operating tax rate for the 2015 levy was 4.5272 mills.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

13. TAX ABATEMENTS

The Township received reduced property tax revenues during 2016 as a result of industrial facilities tax exemptions (IFT's).

The IFT's were entered into based upon the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption), PA 198 of 1974, as amended. IFT's provide a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assist in the building of new facilities, and to promote the establishment of high tech facilities. Properties qualifying for IFT status are taxed at 50% of the millage rate applicable to other real and personal property in the Township. The abatements amounted to \$3,997 in reduced Township tax revenues for 2016.

14. CONTINGENT LIABILITIES

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

15. PENSION PLAN

The Watertown Charter Township Group Pension Plan is a defined contribution pension plan established by the Township to provide retirement benefits to all participating full-time employees of the Township. The Township has an agreement with Michigan Employees Retirement System (MERS) to administer the Plan. Plan provisions and contribution requirements are established and may be amended by the Township Board. The Township is required to contribute from 8-10% of employee gross earnings. In addition, the Township matches non-union employee contributions up to 6%. Employee contributions are optional. Employee contributions vest immediately, whereas employer contributions vest at a rate of 20% per year. There are 14 participants in the plan.

For the year ended December 31, 2016, the Township's contribution to the Plan was \$79,926. Employee contributions were \$25,539.

16. STATE CONSTRUCTION CODE ACT COMPLIANCE

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

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

Revenue - building fee revenue	\$ 214,314
Expenditures	<u>(217,112)</u>
Current year loss	<u>\$ (2,798)</u>
Loss absorbed in 2001-2016	<u>\$ (162,831)</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

17. FUND BALANCES - GOVERNMENTAL FUNDS

The Township classifies fund balances primarily to the extent of which it is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is as follows:

	General Fund	Nonmajor Funds	Total
Nonspendable -			
Prepays	\$ 866	\$ -	\$ 866
Restricted for:			
Debt service	226,775	-	226,775
Township improvement	-	228,194	228,194
Cemetery improvement	-	56,490	56,490
Total restricted	<u>226,775</u>	<u>284,684</u>	<u>511,459</u>
Committed for:			
Parks	78,400	-	78,400
Other properties	51,300	-	51,300
Office building and grounds	292,338	-	292,338
Roads and bridges	770,886	-	770,886
Fire expenditures and capital improvements	642,397	-	642,397
Legal expenditures	245,000	-	245,000
Total committed	<u>2,080,321</u>	<u>-</u>	<u>2,080,321</u>
Assigned for -			
Township hall	<u>755,598</u>	<u>-</u>	<u>755,598</u>
Unassigned	<u>1,782,666</u>	<u>-</u>	<u>1,782,666</u>
Total fund balances, governmental funds	<u>\$ 4,846,226</u>	<u>\$ 284,684</u>	<u>\$ 5,130,910</u>

18. NET INVESTMENT IN CAPITAL ASSETS

The composition of the Township's net investment in capital assets as of year end was as follows:

	Governmental Activities	Business-type Activities
Capital assets, net	\$ 237,207	\$ 5,240,750
Less related bonds outstanding	<u>-</u>	<u>(953,442)</u>
Net investment in capital assets	<u>\$ 237,207</u>	<u>\$ 4,287,308</u>



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COMBINING FUND FINANCIAL STATEMENTS

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2016

	Capital Projects Township Improvement Revolving	Capital Projects Cemetery Improvement	Totals
Assets			
Cash and cash equivalents	\$ 207,038	\$ 32,388	\$ 239,426
Investments	21,156	24,102	45,258
Total assets	<u>\$ 228,194</u>	<u>\$ 56,490</u>	<u>\$ 284,684</u>
Fund balances			
Restricted	<u>\$ 228,194</u>	<u>\$ 56,490</u>	<u>\$ 284,684</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended December 31, 2016

	Capital Projects Township Improvement Revolving	Capital Projects Cemetery Improvement	Totals
Revenues			
Charges for services - cemetery	\$ -	\$ 1,310	\$ 1,310
Interest	2,615	201	2,816
Total revenues	2,615	1,511	4,126
Expenditures			
Capital outlay	-	355	355
Revenues over expenditures	2,615	1,156	3,771
Other financing uses			
Transfers out	-	(5,000)	(5,000)
Net changes in fund balances	2,615	(3,844)	(1,229)
Fund balances, beginning of year	225,579	60,334	285,913
Fund balances, end of year	\$ 228,194	\$ 56,490	\$ 284,684

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