

Watertown Charter Township,
Michigan

Year Ended
December 31,
2015

Financial
Statements

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WATERTOWN CHARTER TOWNSHIP, MICHIGAN

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INDEPENDENT AUDITORS' REPORT

May 13, 2016

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, 2015, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Watertown Charter Township as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Other Information

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



MANAGEMENT'S DISCUSSION AND ANALYSIS

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

As the Township Board of Watertown Charter Township, Clinton County, Michigan, we offer readers of the Township's financial statements this narrative overview and analysis as an explanation of the financial activities of the Township for the fiscal year ended December 31, 2015.

Financial Highlights

- The assets of the Township exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$14,017,630 (net position for all activities). Of this amount, \$8,245,559 (unrestricted net position for all activities) may be used to meet the government's ongoing obligations to citizens and creditors. The assets of the Township at the close of 2014 exceeded its liabilities and deferred inflows of resources by \$13,688,855 (net position for all activities) of that amount, \$9,698,591 was unrestricted net position.
- The government's total net position increased by \$328,775 in 2015.
- As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$5,262,753 which is an increase of \$200,110 over 2014. Approximately 36 percent of this total amount, or \$1,917,951 is available for spending at the government's discretion (unassigned fund balance) compared to \$2,165,825 at the end of 2014. Management continues to maintain a conservative fiscal approach in response to uncertain State of Michigan related legislation and inflation costs.

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

The Township's total bonded debt decreased by \$385,000 during the current fiscal year; from \$2,315,000 at the end of fiscal year 2014 to \$1,930,000 at the end of fiscal year 2015.

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.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

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

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

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

The Township maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, which is considered to be a major fund, and for the two nonmajor funds, the Township improvement revolving fund and the cemetery improvement fund, in the aggregate. The general fund is where the Township funds are held to cover budgeted 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. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

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

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

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

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.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

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 \$14,017,630 at the close of the most recent fiscal year.

Of the Township's net position, \$3,898,378 (28 percent) reflects its investment in capital assets (e.g. infrastructure, land, buildings, equipment, and vehicles); less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

In addition, the Township owns assets in a joint venture with Eagle Township known as the Looking Glass Regional Fire Authority. Currently the Authority is funded through payments from Watertown Charter Township (62 percent) and Eagle Township (38 percent). The Authority reported capital assets (net of depreciation) of \$1,265,171 as of December 31, 2014 for fixtures, building, equipment, and land. The 2015 report is not available at the time of this Township audit.

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

The government's net position for all activities increased by \$328,775 during the current fiscal year.

Governmental Activities. Governmental activities increased the Township's net position by \$189,202 during fiscal year 2015.

Business-type Activities. Business-type activities increased the Township's net position by \$139,573 during fiscal year 2015.

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 6,939,681	\$ 6,750,650	\$ 5,506,749	\$ 5,666,895	\$12,446,430	\$12,417,545
Capital assets, net	239,157	263,798	4,833,206	4,832,881	5,072,363	5,096,679
Total assets	7,178,838	7,014,448	10,339,955	10,499,776	17,518,793	17,514,224
Long-term liabilities	386,067	450,228	1,582,478	1,907,358	1,968,545	2,357,586
Other liabilities	70,963	68,009	166,320	140,834	237,283	208,843
Total liabilities	457,030	518,237	1,748,798	2,048,192	2,205,828	2,566,429
Total deferred inflows of resources	1,295,335	1,258,940	-	-	1,295,335	1,258,940
Net position:						
Net Investment in capital assets	239,157	263,798	3,659,221	3,438,353	3,898,378	3,702,151
Restricted	435,850	288,113	1,437,843	-	1,873,693	288,113
Unrestricted	4,751,466	4,685,360	3,494,093	5,013,231	8,245,559	9,698,591
Total net position	\$ 5,426,473	\$ 5,237,271	\$ 8,591,157	\$ 8,451,584	\$14,017,630	\$13,688,855

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Management's Discussion and Analysis

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Program revenues -						
Charges for services	\$ 263,116	\$ 177,502	\$ 696,253	\$ 599,186	\$ 959,369	\$ 776,688
General revenues:						
Property taxes	1,252,744	1,228,490	-	-	1,252,744	1,228,490
Other	544,627	570,976	133,703	56,061	678,330	627,037
Total revenues	2,060,487	1,976,968	829,956	655,247	2,890,443	2,632,215
Expenses:						
Legislative	37,936	40,421	-	-	37,936	40,421
General government	1,007,810	1,167,165	-	-	1,007,810	1,167,165
Public safety and health	457,642	357,774	-	-	457,642	357,774
Public works	194,039	354,432	-	-	194,039	354,432
Community and economic development	109,412	101,092	-	-	109,412	101,092
Recreation and culture	8,872	8,062	-	-	8,872	8,062
Interest and fiscal charges	15,574	17,967	-	-	15,574	17,967
Sewage disposal	-	-	616,968	628,501	616,968	628,501
Water extension	-	-	113,415	110,858	113,415	110,858
Total expenses	1,831,285	2,046,913	730,383	739,359	2,561,668	2,786,272
Change in net position, before transfers	229,202	(69,945)	99,573	(84,112)	328,775	(154,057)
Transfers	(40,000)	(40,000)	40,000	40,000	-	-
Change in net position	189,202	(109,945)	139,573	(44,112)	328,775	(154,057)
Net position:						
Beginning of year	5,237,271	5,347,216	8,451,584	8,495,696	13,688,855	13,842,912
End of year	\$ 5,426,473	\$ 5,237,271	\$ 8,591,157	\$ 8,451,584	\$ 14,017,630	\$ 13,688,855

Governmental Activities. The net position of the governmental activities increased by \$189,202. This is due to a slight increase in charges for services and in property tax revenues due to increases in Township residents and an overall decrease in expenses with the largest decrease in general government and public works due to conservative spending by the Township.

Business-type Activities. The net position of the business-type activities increased by \$139,573. This is primarily due to the increase in the charges for services due to increased rates. 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 2015, the Township's governmental funds reported combined ending fund balances of \$5,262,753, an increase of \$200,110 in comparison with the prior year. Approximately 36 percent of this total amount, or \$1,917,951, 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, \$14,243, are amounts prepaid for 2016 expenses in 2015. The restricted portion of the governmental fund balance, \$515,340, 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 is for Township Hall improvements. The remainder of the fund balance is committed and acts as the Township's savings account for specific needs and projects.

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 \$1,917,951 while total fund balance was \$4,976,840. The fund balance of the Township's general fund increased by a total \$202,310 during the current fiscal year. While the Township saw a modest increase in fund balance, the Township continues to be conservative as revenue sources continue to be uncertain. The support of the Township Board and lack of high turnover by department heads has assisted in supporting a conservative approach and operating with fiscal restraint.

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

Unrestricted net position of the sewer fund and water extension funds at the end of the year amounted to \$2,997,630 and \$496,463, respectively. The sewer fund had an increase for the year of \$112,136 and the water fund had an increase for the year of \$27,437, in total net position.

General Fund Budgetary Highlights

Differences between the original and final amended budgets were caused by two major expenses: The increase over anticipated construction in the Township led to increased building, electrical, mechanical, and plumbing inspections fees owed to inspectors. The Township experienced a 300% increase in drain assessments, due to drain work/repairs needed after the 100 year flood events. 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, 2015, amounted to \$5,072,363 (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	
	2015	2014	2015	2014	2015	2014
Land	\$ 93,846	\$ 93,846	\$ 82,000	\$ 82,000	\$ 175,846	\$ 175,846
Construction in progress	-	-	197,322	-	197,322	-
Land improvements	87,870	90,454	-	-	87,870	90,454
Buildings and improvements	37,597	44,288	-	-	37,597	44,288
Sewage disposal system	-	-	4,553,884	4,750,881	4,553,884	4,750,881
Equipment	19,844	35,210	-	-	19,844	35,210
Total capital assets, net	\$ 239,157	\$ 263,798	\$ 4,833,206	\$ 4,832,881	\$ 5,072,363	\$ 5,096,679

The decrease in the Township's investment in capital assets for the current fiscal year of \$24,316 resulted primarily from depreciation. 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 \$1,930,000. 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	
	2015	2014	2015	2014	2015	2014
Special assessment bonds	\$ 350,000	\$ 410,000	\$ 1,280,000	\$ 1,545,000	\$ 1,630,000	\$ 1,955,000
Sewage disposal system bonds	-	-	300,000	360,000	300,000	360,000
Total bonded debt outstanding	\$ 350,000	\$ 410,000	\$ 1,580,000	\$ 1,905,000	\$ 1,930,000	\$ 2,315,000

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 2016 fiscal year:

- The uncertainty of State revenue sharing.
- The uncertainty of the continuance of personal property tax as a revenue source.
- Department managers operating with a conservative and fiscally responsible budget approach.
- The condition of the local road system of the Township.
- The Board of Trustees has passed a conservative balanced budget for 2016.

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, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,395,016	\$ 566,783	\$ 1,961,799
Restricted cash and cash equivalents	147,820	78,777	226,597
Investments	4,201,204	1,735,648	5,936,852
Restricted investments	81,607	642,150	723,757
Receivables	1,059,671	1,224,213	2,283,884
Prepaid items	14,243	29,072	43,315
Assets held for resale	40,120	-	40,120
Investment in joint venture	-	1,230,106	1,230,106
Capital assets not being depreciated	93,846	279,322	373,168
Capital assets being depreciated, net	145,311	4,553,884	4,699,195
Total assets	7,178,838	10,339,955	17,518,793
Liabilities			
Accounts payable and accrued liabilities	70,963	166,320	237,283
Long-term liabilities:			
Due within one year	70,820	325,000	395,820
Due in more than one year	315,247	1,257,478	1,572,725
Total liabilities	457,030	1,748,798	2,205,828
Deferred inflows of resources			
Taxes levied but intended for subsequent periods	1,295,335	-	1,295,335
Net position			
Net investment in capital assets	239,157	3,659,221	3,898,378
Restricted for capital projects	285,913	-	285,913
Restricted for debt service	149,937	1,437,843	1,587,780
Unrestricted	4,751,466	3,494,093	8,245,559
Total net position	\$ 5,426,473	\$ 8,591,157	\$ 14,017,630

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

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2015

Functions / Programs	Expenses	Program Revenues	Net (Expense) Revenues
		Charges for Services	
Primary government			
Governmental activities:			
Legislative	\$ 37,936	\$ -	\$ (37,936)
General government	1,007,810	44,756	(963,054)
Public safety and health	457,642	9,290	(448,352)
Public works	194,039	-	(194,039)
Community and economic development	109,412	203,530	94,118
Recreation and culture	8,872	5,540	(3,332)
Interest on long-term debt	15,574	-	(15,574)
Total governmental activities	<u>1,831,285</u>	<u>263,116</u>	<u>(1,568,169)</u>
Business-type activities:			
Sewage disposal	616,968	570,123	(46,845)
Water extension	113,415	126,130	12,715
Total business-type activities	<u>730,383</u>	<u>696,253</u>	<u>(34,130)</u>
Total primary government	<u>\$ 2,561,668</u>	<u>\$ 959,369</u>	<u>\$ (1,602,299)</u>

continued...

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net position			
Net revenues (expenses)	\$ (1,568,169)	\$ (34,130)	\$ (1,602,299)
General revenues:			
Property taxes	1,252,744	-	1,252,744
Grants and contributions not restricted to specific programs	364,672	-	364,672
Other unrestricted revenues	141,208	26,243	167,451
Unrestricted investment earnings	38,747	86,278	125,025
Gain on investment in joint venture	-	21,182	21,182
Transfers - internal activities	(40,000)	40,000	-
Total general revenues and transfers	1,757,371	173,703	1,931,074
Change in net position	189,202	139,573	328,775
Net position, beginning of year	5,237,271	8,451,584	13,688,855
Net position, end of year	\$ 5,426,473	\$ 8,591,157	\$ 14,017,630

concluded.

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

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Balance Sheet

Governmental Funds

December 31, 2015

	General	Nonmajor Funds	Totals
Assets			
Cash and cash equivalents	\$ 1,384,625	\$ 10,391	\$ 1,395,016
Restricted cash and cash equivalents	147,820	-	147,820
Investments	3,925,682	275,522	4,201,204
Restricted investments	81,607	-	81,607
Accounts receivable	11,312	-	11,312
Taxes receivable	623,656	-	623,656
Special assessments receivable	299,062	-	299,062
Due from other governments	125,641	-	125,641
Prepaid items	14,243	-	14,243
Total assets	\$ 6,613,648	\$ 285,913	\$ 6,899,561
Liabilities			
Accounts payable	\$ 39,078	\$ -	\$ 39,078
Accrued wages	21,994	-	21,994
Other liabilities	2,497	-	2,497
Total liabilities	63,569	-	63,569
Deferred inflows of resources			
Taxes levied but intended for subsequent period	1,295,335	-	1,295,335
Special assessments	277,904	-	277,904
Total deferred inflows of resources	1,573,239	-	1,573,239
Fund balances			
Nonspendable	14,243	-	14,243
Restricted	229,427	285,913	515,340
Committed	2,239,621	-	2,239,621
Assigned	575,598	-	575,598
Unassigned	1,917,951	-	1,917,951
Total fund balances	4,976,840	285,913	5,262,753
Total liabilities, deferred inflows of resources and fund balances	\$ 6,613,648	\$ 285,913	\$ 6,899,561

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, 2015

Fund balances - total governmental funds	\$ 5,262,753
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	145,311
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	277,904
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	(350,000)
Accrued interest on long-term debt	(7,394)
Compensated absences	(36,067)
Net position of governmental activities	<u>\$ 5,426,473</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, 2015

	General	Nonmajor Funds	Totals
Revenues			
Taxes	\$ 1,252,744	\$ -	\$ 1,252,744
Special assessments	74,057	-	74,057
Licenses and permits	327,356	-	327,356
State revenue sharing	362,868	-	362,868
Charges for services	30,081	1,080	31,161
Interest	38,747	1,720	40,467
Rentals	11,960	-	11,960
Contributions and donations	1,804	-	1,804
Other	9,582	-	9,582
Total revenues	2,109,199	2,800	2,111,999
Expenditures			
Current:			
Legislative	37,936	-	37,936
General government	975,745	-	975,745
Public safety and health	284,982	-	284,982
Public works	194,039	-	194,039
Community and economic development	282,072	-	282,072
Recreation and culture	4,779	-	4,779
Capital outlay	15,677	-	15,677
Debt service:			
Principal	60,000	-	60,000
Interest	16,659	-	16,659
Total expenditures	1,871,889	-	1,871,889
Revenues over expenditures	237,310	2,800	240,110
Other financing sources (uses)			
Transfers in	5,000	-	5,000
Transfers out	(40,000)	(5,000)	(45,000)
Total other financing sources (uses)	(35,000)	(5,000)	(40,000)
Net change in fund balances	202,310	(2,200)	200,110
Fund balances, beginning of year	4,774,530	288,113	5,062,643
Fund balances, end of year	\$ 4,976,840	\$ 285,913	\$ 5,262,753

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, 2015

Net change in fund balances - total governmental funds	\$ 200,110
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.	
Depreciation expense	(24,641)
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	(51,512)
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	1,084
Change in the accrual for compensated absences	4,161
	<hr/>
Change in net position of governmental activities	<u>\$ 189,202</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, 2015

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenues				
Taxes	\$ 1,246,491	\$ 1,246,491	\$ 1,252,744	\$ 6,253
Special assessments	81,971	82,059	74,057	(8,002)
Licenses and permits:				
Landfill	18,000	18,000	18,000	-
Planning, zoning and building	72,985	189,985	203,530	13,545
Franchise fees	83,000	83,000	105,826	22,826
State revenue sharing	372,000	372,000	362,868	(9,132)
Charges for services:				
Fire runs	6,105	6,105	9,290	3,185
Cemetery	10,500	10,500	13,596	3,096
Parks and recreation	500	500	1,380	880
Other	6,300	6,300	5,815	(485)
Interest	47,040	47,040	38,747	(8,293)
Rentals:				
Parks	5,000	5,000	4,160	(840)
Other	7,800	7,800	7,800	-
Contributions and donations -				
G.L.I.T.	1,750	1,750	1,804	54
Other	305	2,755	9,582	6,827
Total revenues	1,959,747	2,079,285	2,109,199	29,914
Expenditures				
Legislative -				
Township board	50,430	50,430	37,936	(12,494)
General government:				
Supervisor	30,916	30,916	25,109	(5,807)
Elections	2,800	5,250	4,940	(310)
Assessor	67,670	67,670	65,167	(2,503)
Attorney	30,000	30,000	11,092	(18,908)
Clerk	71,974	71,974	70,630	(1,344)
Board of review	3,544	3,544	1,049	(2,495)
Treasurer	76,034	76,034	75,849	(185)
General services administration	443,821	443,821	427,906	(15,915)
Buildings and grounds	167,301	167,301	136,818	(30,483)
Other property	140,826	141,626	120,764	(20,862)
Cemetery	51,862	53,362	11,135	(42,227)
Insurance	22,750	24,380	24,296	(84)
Refunds and rebates	40,060	40,060	990	(39,070)
Total general government	1,149,558	1,155,938	975,745	(180,193)

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, 2015

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Expenditures (continued)				
Public safety and health:				
Public safety and health	\$ 354,100	\$ 386,100	\$ 284,847	\$ (101,253)
Building inspection	375	375	135	(240)
Total public safety and health	<u>354,475</u>	<u>386,475</u>	<u>284,982</u>	<u>(101,493)</u>
Public works:				
Drains at large	20,500	79,700	78,236	(1,464)
Highways, streets, and bridges	200,266	200,354	89,496	(110,858)
Street lighting	26,496	26,956	26,307	(649)
Total public works	<u>247,262</u>	<u>307,010</u>	<u>194,039</u>	<u>(112,971)</u>
Community and economic development -				
Planning and zoning	<u>180,690</u>	<u>297,690</u>	<u>282,072</u>	<u>(15,618)</u>
Recreation and culture -				
Parks and recreation	<u>9,425</u>	<u>9,425</u>	<u>4,779</u>	<u>(4,646)</u>
Capital outlay	<u>75,000</u>	<u>75,000</u>	<u>15,677</u>	<u>(59,323)</u>
Debt service:				
Principal	60,000	60,000	60,000	-
Interest	16,659	16,659	16,659	-
Total debt service	<u>76,659</u>	<u>76,659</u>	<u>76,659</u>	<u>-</u>
Total expenditures	<u>2,143,499</u>	<u>2,358,627</u>	<u>1,871,889</u>	<u>(486,738)</u>
Revenues over (under) expenditures	<u>(183,752)</u>	<u>(279,342)</u>	<u>237,310</u>	<u>516,652</u>
Other financing sources (uses)				
Transfers in	55,000	55,000	5,000	(50,000)
Transfers out	<u>(40,000)</u>	<u>(40,000)</u>	<u>(40,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>15,000</u>	<u>15,000</u>	<u>(35,000)</u>	<u>(50,000)</u>
Net change in fund balance	(168,752)	(264,342)	202,310	466,652
Fund balance, beginning of year	<u>4,774,530</u>	<u>4,774,530</u>	<u>4,774,530</u>	<u>-</u>
Fund balance, end of year	<u>\$ 4,605,778</u>	<u>\$ 4,510,188</u>	<u>\$ 4,976,840</u>	<u>\$ 466,652</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, 2015

	Sewage Disposal	Water Extension	Totals
Assets			
Current assets:			
Cash and cash equivalents	\$ 473,906	\$ 92,877	\$ 566,783
Restricted cash and cash equivalents	60,186	18,591	78,777
Investments	1,228,166	507,482	1,735,648
Restricted investments	513,000	129,150	642,150
Accounts receivable	10,915	-	10,915
Interest receivable	55,709	16,424	72,133
Current portion of special assessments receivable	178,068	65,204	243,272
Prepaid items	29,072	-	29,072
Total current assets	2,549,022	829,728	3,378,750
Noncurrent assets:			
Special assessments receivable, net of current portion	723,465	174,428	897,893
Investment in joint venture	1,230,106	-	1,230,106
Capital assets not being depreciated	279,322	-	279,322
Capital assets being depreciated, net	4,553,884	-	4,553,884
Total noncurrent assets	6,786,777	174,428	6,961,205
Total assets	9,335,799	1,004,156	10,339,955
Liabilities			
Current liabilities:			
Accounts payable	30,244	88,752	118,996
Accrued interest payable	36,876	10,448	47,324
Current portion of bonds payable	220,000	105,000	325,000
Total current liabilities	287,120	204,200	491,320
Long-term liabilities -			
Bonds payable, net of current portion	953,985	303,493	1,257,478
Total liabilities	1,241,105	507,693	1,748,798
Net position			
Net investment in capital assets	3,659,221	-	3,659,221
Restricted for debt service	1,437,843	-	1,437,843
Unrestricted	2,997,630	496,463	3,494,093
Total net position	\$ 8,094,694	\$ 496,463	\$ 8,591,157

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, 2015

	Sewage Disposal	Water Extension	Totals
Operating revenues			
User fee charges	\$ 399,263	\$ 90,710	\$ 489,973
Hook-up fees and permits	60,860	35,420	96,280
Developments	110,000	-	110,000
Total operating revenues	570,123	126,130	696,253
Operating expenses			
General administration	36,922	62	36,984
Sewage plant administration	329,651	-	329,651
Other operating costs	-	92,931	92,931
Depreciation	196,997	-	196,997
Total operating expenses	563,570	92,993	656,563
Operating income	6,553	33,137	39,690
Nonoperating revenues (expenses)			
Interest income	71,556	14,722	86,278
Interest expense	(53,398)	(20,422)	(73,820)
Gain on investment in joint venture	21,182	-	21,182
Other	26,243	-	26,243
Total nonoperating revenues (expenses)	65,583	(5,700)	59,883
Income before transfers	72,136	27,437	99,573
Transfers in	40,000	-	40,000
Change in net position	112,136	27,437	139,573
Net position, beginning of year	7,982,558	469,026	8,451,584
Net position, end of year	\$ 8,094,694	\$ 496,463	\$ 8,591,157

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, 2015

	Sewage Disposal	Water Extension	Totals
Cash flows from operating activities			
Cash received from customers	\$ 568,472	\$ 126,130	\$ 694,602
Cash payments to suppliers for goods and services	(340,430)	(87,002)	(427,432)
Net cash provided by operating activities	<u>228,042</u>	<u>39,128</u>	<u>267,170</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			
Payments received on special assessments	182,626	80,723	263,349
Purchase of capital assets	(197,322)	-	(197,322)
Principal payments	(220,000)	(105,000)	(325,000)
Interest payments	<u>(59,973)</u>	<u>(21,976)</u>	<u>(81,949)</u>
Net cash used in capital and related financing activities	<u>(294,669)</u>	<u>(46,253)</u>	<u>(340,922)</u>
Cash flows from investing activities			
Purchase of investments	252,636	29,067	281,703
Interest received	<u>90,662</u>	<u>19,013</u>	<u>109,675</u>
Net cash provided by investing activities	<u>343,298</u>	<u>48,080</u>	<u>391,378</u>
Net change in cash and cash equivalents	316,671	40,955	357,626
Cash and cash equivalents, beginning of year	<u>217,421</u>	<u>70,513</u>	<u>287,934</u>
Cash and cash equivalents, end of year	<u>\$ 534,092</u>	<u>\$ 111,468</u>	<u>\$ 645,560</u>
Reconciliation to the Statement of Net Position			
Cash and cash equivalents	\$ 473,906	\$ 92,877	\$ 566,783
Restricted cash and cash equivalents	<u>60,186</u>	<u>18,591</u>	<u>78,777</u>
	<u>\$ 534,092</u>	<u>\$ 111,468</u>	<u>\$ 645,560</u>

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WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2015

	Sewage Disposal	Water Extension	Totals
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 6,553	\$ 33,137	\$ 39,690
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	(1,651)	-	(1,651)
Prepaid expenses	(1,601)	-	(1,601)
Accounts payable	27,744	5,991	33,735
Net cash provided by operating activities	<u>\$ 228,042</u>	<u>\$ 39,128</u>	<u>\$ 267,170</u>

concluded.

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

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Fiduciary Net Position

Agency Fund
December 31, 2015

Assets	
Cash and cash equivalents	\$ 932,545
Investments	<u>500,160</u>
Total assets	<u>\$ 1,432,705</u>
Liabilities	
Current tax distributions and deposits payable	<u>\$ 1,432,705</u>

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

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

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

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

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

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

Compensated Absences

It is the government’s policy to permit eligible employees to accumulate earned but unused vacation and sick pay benefits. Union employees are allowed to accumulate an unlimited amount of sick leave and non-union employees are allowed to accumulate 480 hours of sick leave, which is paid only upon illness while in the employ of the Township or at a rate of 50% upon termination of employment. Union employees are allowed to accumulate five days of vacation time and non-union employees are allowed to accumulate 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, 2015, 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	\$ 1,961,799
Restricted cash and cash equivalents	226,597
Investments	5,936,852
Restricted investments	723,757

Statement of Fiduciary Net Position

Cash and cash equivalents	932,545
Investments	<u>500,160</u>

Total \$ 10,281,710

Following is a reconciliation of deposit and investment balances as of December 31, 2015:

Deposits and investments

Bank deposits:	
Checking and savings accounts	\$ 2,443,129
Certificates of deposit	3,645,811
Investments	4,192,370
Cash on hand	<u>400</u>

Total \$ 10,281,710

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, \$2,604,476 of the Township's bank balance of \$6,126,179 was exposed to custodial credit risk because it was uninsured and uncollateralized.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

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

	Carrying Amount	Credit Rating	Maturity
Money market funds:			
First Merit	\$ 820,952	n/a	n/a
Huntington	241,663	n/a	n/a
Flagstar	50,726	n/a	n/a
MI Class	1,880,397	AAAm S&P	n/a
U.S. agencies:			
Federal Home Loan Mortgage	399,232	AA+ S&P	1-5 years
Federal Home Loan Bank	300,000	AA+ S&P	1-5 years
Federal Farm Credit Bank	499,400	AA+ S&P	1-5 years
Total	\$ 4,192,370		

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

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

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

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

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

5. RECEIVABLES

Receivables are comprised of the following at year-end:

	General Fund / Governmental Activities	Amounts Not Expected to be Collected Within One Year
Accounts	\$ 11,312	\$ -
Taxes	623,656	-
Special assessments	299,062	227,143
Due from other governments	125,641	-
	<u>\$ 1,059,671</u>	<u>\$ 227,143</u>

	Sewage Disposal Enterprise Fund	Water Extension Enterprise Fund	Total Business-type Activities	Amounts Not Expected to be Collected Within One Year
Accounts	\$ 10,915	\$ -	\$ 10,915	\$ -
Interest	55,709	16,424	72,133	-
Special assessments	901,533	239,632	1,141,165	897,893
	<u>\$ 968,157</u>	<u>\$ 256,056</u>	<u>\$ 1,224,213</u>	<u>\$ 897,893</u>

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Payables are comprised of the following at year-end:

	General Fund	Government-Wide Statements	Total Governmental Activities
Accounts	\$ 39,078	\$ -	\$ 39,078
Accrued wages	21,994	-	21,994
Other liabilities	2,497	-	2,497
Accrued interest	-	7,394	7,394
	<u>\$ 63,569</u>	<u>\$ 7,394</u>	<u>\$ 70,963</u>

	Sewage Disposal Enterprise Fund	Water Extension Enterprise Fund	Total Business-type Activities
Accounts	\$ 30,244	\$ 88,752	\$ 118,996
Accrued interest	36,876	10,448	47,324
	<u>\$ 67,120</u>	<u>\$ 99,200</u>	<u>\$ 166,320</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

Interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. At December 31, 2015, there were no due to/due from other funds present.

For the year ended December 31, 2015, 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.

8. CAPITAL ASSETS

Primary government

Capital asset activity for the primary government for the year ended December 31, 2015, was as follows:

	Beginning Balance	Additions	Disposals	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	-	-	180,842
Equipment	93,206	-	-	93,206
Vehicles	29,763	-	-	29,763
	<u>407,186</u>	<u>-</u>	<u>-</u>	<u>407,186</u>
Less accumulated depreciation for:				
Land improvements	(12,921)	(2,584)	-	(15,505)
Buildings and improvements	(136,554)	(6,691)	-	(143,245)
Equipment	(57,996)	(15,366)	-	(73,362)
Vehicles	(29,763)	-	-	(29,763)
	<u>(237,234)</u>	<u>(24,641)</u>	<u>-</u>	<u>(261,875)</u>
Total capital assets being depreciated, net	<u>169,952</u>	<u>(24,641)</u>	<u>-</u>	<u>145,311</u>
Governmental activities capital assets, net	<u>\$ 263,798</u>	<u>\$ (24,641)</u>	<u>\$ -</u>	<u>\$ 239,157</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

	Beginning Balance	Additions	Disposals	Ending Balance
Business-type Activities				
Capital assets not being depreciated -				
Land	\$ 82,000	\$ -	\$ -	\$ 82,000
Construction in progress	-	197,322	-	197,322
	<u>82,000</u>	<u>197,322</u>	<u>-</u>	<u>279,322</u>
Capital assets being depreciated -				
Sewage disposal system	7,877,913	-	-	7,877,913
Less accumulated depreciation for -				
Sewage disposal system	<u>(3,127,032)</u>	<u>(196,997)</u>	<u>-</u>	<u>(3,324,029)</u>
Total capital assets being depreciated, net	<u>4,750,881</u>	<u>(196,997)</u>	<u>-</u>	<u>4,553,884</u>
Business-type activities capital assets, net	<u>\$ 4,832,881</u>	<u>\$ 325</u>	<u>\$ -</u>	<u>\$ 4,833,206</u>

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

Depreciation of governmental activities by function	
General government	\$ 20,548
Recreation and culture	<u>4,093</u>
	<u>\$ 24,641</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, 2015, 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%	\$ 165,000	\$ -	\$ (25,000)	\$ 140,000	\$ 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%	245,000	-	(35,000)	210,000	35,000
Compensated absences	40,228	30,024	(34,185)	36,067	10,820
Total	\$ 450,228	\$ 30,024	\$ (94,185)	\$ 386,067	\$ 70,820
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%	\$ 360,000	\$ -	\$ (60,000)	\$ 300,000	\$ 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%	110,000	-	(25,000)	85,000	25,000
\$990,000 special assessment bonds due in annual installments of \$70,000 to \$75,000 through August 1, 2018, interest at 2.6% to 4.6%	290,000	-	(70,000)	220,000	70,000

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
\$150,000 special assessment bonds due in annual installments of \$10,000 to \$15,000 through August 1, 2018, interest at 2.3% to 4.1%	\$ 50,000	\$ -	\$ (10,000)	\$ 40,000	\$ 10,000
\$2,010,000 special assessment bonds due in annual installments of \$85,000 to \$150,000 through August 1, 2021, interest at 3.875%	920,000	-	(135,000)	785,000	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%	175,000	-	(25,000)	150,000	25,000
Unamortized bond discounts	(4,263)	-	1,067	(3,196)	-
Unamortized bond premiums	6,621	-	(947)	5,674	-
Total	\$ 1,907,358	\$ -	\$ (324,880)	\$ 1,582,478	\$ 325,000

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

Year Ended December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 60,000	\$ 15,138	\$ 325,000	\$ 66,702
2017	60,000	12,531	340,000	52,652
2018	60,000	9,925	335,000	37,841
2019	60,000	7,319	215,000	23,075
2020	55,000	4,713	215,000	13,574
2021	55,000	2,356	150,000	5,808
	\$ 350,000	\$ 51,982	\$ 1,580,000	\$ 199,652

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, 2014 the date of the most recent audit report of the Authority, the Township's share of the Authority's net position was \$1,230,106. 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 (62%) and Eagle Township (38%). During the year ended December 31, 2015, the Township contributed \$281,413 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, 2015. 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 2014 levy were assessed and equalized at \$248,331,708 (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 2014 levy was 4.5277 mills.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

13. CONTINGENT LIABILITIES

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

14. PENSION PLAN

The Watertown Charter Township Group Pension Plan is a defined contribution pension plan established by the Township to provide retirement benefits to all participating full-time employees of the Township. During 2015, the Township entered into 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, 2015, the Township's contribution to the Plan was \$60,401. Employee contributions were \$23,107.

15. STATE CONSTRUCTION CODE ACT COMPLIANCE

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

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

Revenue - building fee revenue	\$ 192,955
Expenditures	<u>(202,366)</u>
Current year loss	<u>\$ (9,411)</u>
Loss absorbed in 2001-2015	<u>\$ (160,033)</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes To Financial Statements

16. FUND BALANCES - GOVERNMENTAL FUNDS

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Township classifies fund balances based primarily on the extent to 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	\$ 14,243	\$ -	\$ 14,243
Restricted for:			
Debt service	229,427	-	229,427
Township improvement	-	225,579	225,579
Cemetery improvement	-	60,334	60,334
Total restricted	<u>229,427</u>	<u>285,913</u>	<u>515,340</u>
Committed for:			
Parks	48,400	-	48,400
Other properties	51,300	-	51,300
Office building and grounds	262,338	-	262,338
Roads and bridges	1,105,186	-	1,105,186
Fire expenditures and capital improvements	542,397	-	542,397
Legal expenditures	230,000	-	230,000
Total committed	<u>2,239,621</u>	<u>-</u>	<u>2,239,621</u>
Assigned for -			
Township hall	<u>575,598</u>	<u>-</u>	<u>575,598</u>
Unassigned	<u>1,917,951</u>	<u>-</u>	<u>1,917,951</u>
Total fund balances, governmental funds	<u>\$ 4,976,840</u>	<u>\$ 285,913</u>	<u>\$ 5,262,753</u>

17. 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	\$ 239,157	\$ 4,833,206
Less related bonds outstanding	<u>-</u>	<u>(1,173,985)</u>
Net investment in capital assets	<u>\$ 239,157</u>	<u>\$ 3,659,221</u>



WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Combining Balance Sheet

Nonmajor Governmental Funds

December 31, 2015

	Capital Projects Township Improvement Revolving	Capital Projects Cemetery Improvement	Totals
Assets			
Cash and cash equivalents	\$ 4,545	\$ 5,846	\$ 10,391
Investments	221,034	54,488	275,522
Total assets	<u>\$ 225,579</u>	<u>\$ 60,334</u>	<u>\$ 285,913</u>
Fund balances			
Restricted	<u>\$ 225,579</u>	<u>\$ 60,334</u>	<u>\$ 285,913</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended December 31, 2015

	Capital Projects Township Improvement Revolving	Capital Projects Cemetery Improvement	Totals
Revenues			
Charges for services - cemetery	\$ -	\$ 1,080	\$ 1,080
Interest and rentals	1,586	134	1,720
Total revenues	1,586	1,214	2,800
Other financing uses			
Transfers out	-	(5,000)	(5,000)
Net changes in fund balances	1,586	(3,786)	(2,200)
Fund balances, beginning of year	223,993	64,120	288,113
Fund balances, end of year	\$ 225,579	\$ 60,334	\$ 285,913