

*Charter Township of Texas
Kalamazoo County, Michigan*

FINANCIAL STATEMENTS

Year ended December 31, 2013

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Charter Township of Texas, Michigan

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Texas, Michigan, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements, as listed in the 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.

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

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

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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Texas, Michigan, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting changes

As described in Note 13 to the financial statements, the Township adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Texas, Michigan's financial statements as a whole. The combining nonmajor governmental funds and the component unit financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Siegfried Crandall P.C.

June 23, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Charter Township of Texas' (the Township) financial performance provides a narrative overview of the Township's financial activities for the fiscal year ended December 31, 2013. Please read it in conjunction with the Township's financial statements.

FINANCIAL HIGHLIGHTS

- The Township's total net position increased by \$1,388,511 as a result of this year's activities.
- Of the \$19,324,713 total net position reported, \$5,992,974 is unrestricted, or available to be used at the Board's discretion.
- The General Fund's unassigned fund balance at the end of the fiscal year was \$2,005,600 which represents 116 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the financial statements

The Township's annual report is comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township government, reporting the Township's operations in more detail than the government-wide financial statements.
 - Governmental funds statements explain how government services, like public safety and public works, were financed in the short-term, as well as what remains for future spending.
 - Proprietary funds statements offer short-term and long-term financial information about the activities the government operates like a business.
 - Fiduciary funds statements provide information about the financial relationships in which the Township acts solely as an agent for the benefit of others to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by sections of required supplementary information and other supplementary information that further explain and support the information in the financial statements.

A comparative analysis of the basic financial statements for 2013 and 2012 is also presented.

Government-wide financial statements

The government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Township's assets and liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide statements report the Township's net position and how it has changed. Net position (the difference between the Township's assets and liabilities and deferred inflows of resources) is one way to measure the Township's financial health, or position.

- Over time, increases or decreases in the Township's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township, you need to consider additional nonfinancial factors, such as changes in the Township's property tax base and the condition of the Township's capital assets.

The government-wide financial statements of the Township are divided into two categories:

- *Governmental activities* - Most of the Township's basic services are included here, such as public safety, public works, debt service, and general government. Property taxes and state revenue finance most of these activities.
- *Component unit* - The Township includes one other entity in its report - the Downtown Development Authority. Although legally separate, this "component unit" is important because the Township is financially accountable for the Authority.

Fund financial statements

The fund financial statements provide more detailed information about the Township's most significant funds - not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The Township Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain other revenues.

The Township has three types of funds:

- *Governmental funds*. Most of the Township's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flows in and out, and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship between them.
- *Proprietary funds*. Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds statements, like the government-wide statements, provide both long-term and short-term financial information.
- *Fiduciary funds*. These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the Township. The Township is responsible for ensuring that the assets reported in the fiduciary funds are used for their intended purposes. The Township's fiduciary balances are reported in a separate Statement of Fiduciary Assets and Liabilities. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Net position

Total net position at the end of the fiscal year was \$19,324,713. Of this total, \$12,974,105 is invested in capital assets, \$357,634 is restricted for various purposes, and \$5,992,974 is unrestricted.

Condensed financial information
Net position

	<i>Governmental activities</i>	
	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 8,156,829	\$ 7,666,872
Capital assets	<u>12,974,105</u>	<u>12,184,415</u>
Total assets	<u>21,130,934</u>	<u>19,851,287</u>
Current and other liabilities	445,540	499,315
Long-term debt	<u>-</u>	<u>217,266</u>
Total liabilities	<u>445,540</u>	<u>716,581</u>
Deferred inflows of resources	<u>1,360,861</u>	<u>1,198,504</u>
Net position:		
Net investment in capital assets	12,974,105	11,967,149
Restricted	357,634	749,539
Unrestricted	<u>5,992,974</u>	<u>5,219,514</u>
Total net position	<u>\$ 19,324,713</u>	<u>\$ 17,936,202</u>

Changes in net position

The Township's total revenues were \$4,331,609. During the 2013 fiscal year, 23 percent of the Township's revenues came from property taxes, 28 percent came from charges for services, and 25 percent came from state shared revenue.

The total cost of the Township's programs and services totaled \$2,943,098. Approximately 40 percent of the Township's costs relates to public safety costs, 30 percent to general governmental activities, and 21 percent to public works.

*Condensed financial information
Changes in net position*

	<i>Governmental activities</i>	
	<u>2013</u>	<u>2012</u>
Program revenues:		
Charges for services	\$ 1,228,096	\$ 1,144,765
Operating grants and contributions	9,453	25,350
Capital grants and contributions	862,978	599,589
General revenues:		
Property taxes	980,838	966,452
State shared revenue	1,092,568	1,071,645
Franchise fees	120,340	117,270
Investment return	27,765	30,723
Miscellaneous	9,571	3,548
	<u>4,331,609</u>	<u>3,959,342</u>
Expenses:		
General government	882,160	972,283
Public safety	1,186,228	1,062,171
Public works	629,959	629,089
Community and economic development	181,570	132,365
Recreation and culture	56,124	40,862
Interest	7,057	15,781
	<u>2,943,098</u>	<u>2,852,551</u>
Changes in net position	<u>\$ 1,388,511</u>	<u>\$ 1,106,791</u>
Net position, end of year	<u>\$ 19,324,713</u>	<u>\$ 17,936,202</u>

Governmental activities

The \$1,388,511 increase in net position for 2013 is \$281,720 more than the \$1,106,791 increase in 2012. Revenues increased by \$372,267, primarily due to a one-time contribution for park land for development totaling \$523,265. Expenses increased by \$90,547 compared to 2012, as the Township planned across the board increases in public safety and public works operating costs, as well as community and economic development increases.

The total cost of governmental activities this year was \$2,943,098. After subtracting the direct charges to those who directly benefited from the programs (\$1,228,096) and operating and capital grants (\$872,431), the "public benefit" portion covered by taxes, state revenue sharing, and other general revenues was \$842,571.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

Governmental funds

The Township's governmental funds reported combined ending fund balances of \$5,908,422 at the end of 2013, representing a \$383,110 increase from the previous year.

The General Fund is the primary operating fund of the Township. Fund balance increased by \$219,341 during the year after transfers to the Fire Improvement and Road Maintenance Funds to subsidize current year activity. The total fund balance was \$3,355,547 at year end.

The Road Enhancement Fund experienced an increase in fund balance of \$39,706 during the current year as a result of General Fund transfers in excess of net expenditures.

The Fire Improvement Fund experienced an increase of \$51,343 during the current year as a result of General Fund transfers in excess of net expenditures.

The Sewer and Water Fund's \$393,302 increase in fund balance was primarily attributable to a residual equity transfer from nonmajor funds, which was offset by a transfer to the Lakes Sewer Debt Fund to cover the fund's annual debt service requirements and resulted in an ending fund balance of \$2,037,611.

Proprietary fund

The Building Inspections Fund experienced a \$67,932 increase in net position and a \$77,686 net increase in cash. Higher levels of construction in the Township, reflecting improved economic conditions, as well as contracted intergovernmental services contributed to the fund's increased revenue. The fund's net position was \$246,595 at year end.

General Fund budgetary highlights

The Township did not amend its overall budget but did amend budgets among functions during the current fiscal year. Revenues were \$368,492 greater than anticipated, primarily because of other revenue being \$307,901 higher than anticipated due to unanticipated donations of \$304,000. Expenditures were \$78,874 higher than the amounts appropriated as the Township incurred higher than anticipated expenditures for capital outlay. These variances resulted in a \$289,618 positive budget variance, with a \$219,341 increase in fund balance compared to an anticipated \$70,277 decrease in fund balance.

Capital assets and debt administration

Capital assets

The Township's investment in capital assets for its governmental activities as of December 31, 2013, amounts to \$12,974,105 (net of accumulated depreciation). This investment includes buildings and improvements, fire equipment and vehicles, and sewer, water, and road infrastructure. The \$790,460 increase in the Township's investment in capital assets for the current fiscal year reflects \$1,313,507 in capital asset additions, net of disposals, less \$523,817 depreciation for the year.

Major capital asset events during the current fiscal year included \$646,208 expended for the completion of the land and land improvements project and \$441,982 in road improvements.

More detailed information about the Township's capital assets is presented in Note 6 of the notes to the basic financial statements.

Debt

After 2013 principal payments totaling \$210,000, the Township had no long-term bonds outstanding at the end of the fiscal year. Other reported noncurrent liabilities consisted of a liability for compensated absences of \$16,960.

More detailed information about the Township's long-term liabilities is presented in Note 10 of the notes to the basic financial statements.

Economic factors and next year's budgets and rates

Revenues for road enhancements and fire improvements, which were approved in 2010, and levies recognized in 2013, will help the Township to maintain its road infrastructure and provide essential public safety services during 2014 and subsequent years.

General economic conditions have impacted the rate of property tax revenue increases in the Township. The Township anticipates a slight increase in state shared revenues to offset the decrease in tax revenues. The Township has significant accumulated resources and expects to provide all ongoing services at current levels.

Contacting the Township's financial management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Linda Kerr, Township Clerk
Charter Township of Texas
7110 West Q Avenue
Kalamazoo, MI 49009

Phone: (269) 375-1591

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

December 31, 2013

	<u>Primary government</u>	
	<u>Governmental activities</u>	<u>Component unit</u>
ASSETS		
Current assets:		
Cash	\$ 6,896,034	\$ 50,189
Receivables, net	896,705	12,671
Prepaid expenses	38,582	-
	<u>7,831,321</u>	<u>62,860</u>
Noncurrent assets:		
Receivables, net	205,809	-
Advance to component unit	119,699	-
Capital assets not being depreciated	599,287	122,329
Capital assets, net of depreciation	12,374,818	139,053
	<u>13,299,613</u>	<u>261,382</u>
Total noncurrent assets		
	<u>21,130,934</u>	<u>324,242</u>
LIABILITIES		
Current liabilities:		
Payables	185,451	2,347
Unearned assessment revenue	243,129	-
	<u>428,580</u>	<u>2,347</u>
Total current liabilities		
Noncurrent liabilities - compensated absences		
Compensated absences	16,960	-
Advance from primary government	-	119,699
	<u>16,960</u>	<u>119,699</u>
Total noncurrent liabilities		
Total liabilities	<u>445,540</u>	<u>122,046</u>
DEFERRED INFLOWS OF RESOURCES		
Property tax revenues levied for the subsequent year	637,555	12,671
Assessments levied for the subsequent year	723,126	-
	<u>1,360,681</u>	<u>12,671</u>
Total deferred inflows of resources		
NET POSITION		
Net investment in capital assets	12,974,105	141,683
Restricted for:		
Public safety	239,793	-
Public works	117,841	47,842
Unrestricted	5,992,974	-
	<u>\$ 19,324,713</u>	<u>\$ 189,525</u>
Total net position		

Charter Township of Texas

BALANCE SHEET - governmental funds

December 31, 2013

	<u>General</u>	<u>Road Enhancement</u>	<u>Fire Improvement</u>
ASSETS			
Cash	\$ 3,453,997	\$ 330,049	\$ 504,989
Receivables	472,858	137,299	143,153
Advance to component unit	119,699	-	-
Prepaid items	34,563	-	4,019
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 4,081,117</u>	<u>\$ 467,348</u>	<u>\$ 652,161</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Payables	\$ 81,684	\$ 8,950	\$ 26,036
Unearned special assessments	-	-	-
	<hr/>	<hr/>	<hr/>
Total liabilities	<u>81,684</u>	<u>8,950</u>	<u>26,036</u>
Deferred inflows of resources:			
Property tax revenues levied for the subsequent year	637,555	-	-
Assessments levied for the subsequent year	-	361,860	361,266
Unavailable special assessments	-	-	-
Unavailable interest revenue	6,331	-	-
	<hr/>	<hr/>	<hr/>
Total deferred inflows of resources	<u>643,886</u>	<u>361,860</u>	<u>361,266</u>
Fund balances:			
Nonspendable for:			
Prepaid items	34,563	-	4,019
Long-term advance to component unit	119,699	-	-
Restricted for:			
Road maintenance	-	-	-
Street lighting	-	-	-
Private lake maintenance	-	-	-
Assigned for:			
Employee benefits	65,667	-	-
Road maintenance	-	96,538	-
Fire protection	283,021	-	260,840
Parks and recreation	154,580	-	-
Sewer and water improvements	474,019	-	-
Building improvements	218,398	-	-
Unassigned	2,005,600	-	-
	<hr/>	<hr/>	<hr/>
Total fund balances	<u>3,355,547</u>	<u>96,538</u>	<u>264,859</u>
	<hr/>	<hr/>	<hr/>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,081,117</u>	<u>\$ 467,348</u>	<u>\$ 652,161</u>

<i>Sewer and Water</i>	<i>Nonmajor funds</i>	<i>Total governmental funds</i>
\$ 2,053,070	\$ 302,553	\$ 6,644,658
235,652	113,552	1,102,514
-	-	119,699
-	-	38,582
<u>\$ 2,288,722</u>	<u>\$ 416,105</u>	<u>\$ 7,905,453</u>
\$ 42,549	\$ 19,109	\$ 178,328
-	243,129	243,129
<u>42,549</u>	<u>262,238</u>	<u>421,457</u>
-	-	637,555
-	-	723,126
205,809	-	205,809
<u>2,753</u>	-	<u>9,084</u>
<u>208,562</u>	<u>-</u>	<u>1,575,574</u>
-	-	38,582
-	-	119,699
-	6,967	6,967
-	57,667	57,667
-	53,207	53,207
-	-	65,667
-	-	96,538
-	-	543,861
-	36,026	190,606
2,037,611	-	2,511,630
-	-	218,398
-	-	2,005,600
<u>2,037,611</u>	<u>153,867</u>	<u>5,908,422</u>
<u>\$ 2,288,722</u>	<u>\$ 416,105</u>	<u>\$ 7,905,453</u>

See notes to financial statements

Reconciliation of the balance sheet with the statement of net position:

Total fund balance - total governmental funds (page 13)	\$ 5,908,422
Amounts reported for <i>governmental activities</i> in the statement of net position (page 11) are different because:	
Special assessments and interest receivable are not available to pay for the current period's expenditures and, therefore, are deferred in the funds.	214,893
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the funds.	12,967,303
Net position of the Building Inspections Fund that has been combined with those of <i>governmental activities</i> .	246,595
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(12,500)</u>
Net position of <i>governmental activities</i>	<u>\$ 19,324,713</u>

Charter Township of Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - governmental funds

Year ended December 31, 2013

	<u>General</u>	<u>Road Enhancement</u>	<u>Fire Improvement</u>
REVENUES			
Taxes	\$ 868,771	\$ -	\$ 350,065
Licenses and permits	120,589	-	-
State grants	1,102,021	-	-
Charges for services	96,378	-	-
Fines and forfeitures	1,328	-	-
Interest and rentals	20,513	8	12
Other	318,901	361,680	4,580
	<u>2,528,501</u>	<u>361,688</u>	<u>354,657</u>
Total revenues			
EXPENDITURES			
General government	857,221	-	-
Public safety	213,120	-	652,430
Public works	33,153	441,982	-
Community and economic development	181,280	-	-
Recreation and culture	15,410	-	-
Capital outlay	432,565	-	107,295
Debt service:			
Principal	-	-	-
Interest	-	-	-
	<u>1,732,749</u>	<u>441,982</u>	<u>759,725</u>
Total expenditures			
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>795,752</u>	<u>(80,294)</u>	<u>(405,068)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	120,000	456,411
Transfers out	(576,411)	-	-
	<u>(576,411)</u>	<u>120,000</u>	<u>456,411</u>
Net other financing sources (uses)			
NET CHANGES IN FUND BALANCES	219,341	39,706	51,343
FUND BALANCES - BEGINNING	<u>3,136,206</u>	<u>56,832</u>	<u>213,516</u>
FUND BALANCES - ENDING	<u>\$ 3,355,547</u>	<u>\$ 96,538</u>	<u>\$ 264,859</u>

<u>Sewer and Water</u>	<u>Nonmajor funds</u>	<u>Total governmental funds</u>
\$ -	\$ -	\$ 1,218,836
-	-	120,589
-	-	1,102,021
64,262	136,218	296,858
-	-	1,328
25,467	2,533	48,533
<u>48,689</u>	<u>370,268</u>	<u>1,104,118</u>
<u>138,418</u>	<u>509,019</u>	<u>3,892,283</u>
-	-	857,221
-	-	865,550
117,223	204,312	796,670
-	-	181,280
-	-	15,410
-	38,982	578,842
-	210,000	210,000
-	4,200	4,200
<u>-</u>	<u>4,200</u>	<u>4,200</u>
<u>117,223</u>	<u>457,494</u>	<u>3,509,173</u>
<u>21,195</u>	<u>51,525</u>	<u>383,110</u>
471,647	99,540	1,147,598
<u>(99,540)</u>	<u>(471,647)</u>	<u>(1,147,598)</u>
<u>372,107</u>	<u>(372,107)</u>	<u>-</u>
393,302	(320,582)	383,110
<u>1,644,309</u>	<u>474,449</u>	<u>5,525,312</u>
<u>\$ 2,037,611</u>	<u>\$ 153,867</u>	<u>\$ 5,908,422</u>

See notes to financial statements

Charter Township of Texas

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds (Continued)**

Year ended December 31, 2013

Reconciliation of the statement of revenues, expenditures, and changes in fund balances to the statement of activities:

Net change in fund balance - total governmental funds (page 15)	\$ 383,110
Amounts reported for <i>governmental activities</i> in the statement of activities (page 12) are different because:	
Capital assets:	
Assets acquired	1,313,507
Provision for depreciation	(523,047)
Long-term debt:	
Principal payments	210,000
Amortization of bond premium	7,266
Changes in deferred inflows of resources	
Net decrease in unavailable special assessments	(42,718)
Net decrease in unavailable interest revenue	(4,916)
Changes in other assets/liabilities:	
Net decrease in accrued interest expense	1,400
Net increase in compensated absences	(12,500)
Net decrease in other assets	(11,523)
Change in net position of the Building Inspections Fund has been combined with those of the <i>governmental activities</i>	<u>67,932</u>
Change in net position of <i>governmental activities</i>	<u>\$ 1,388,511</u>

See notes to financial statements

STATEMENT OF NET POSITION - proprietary fund

December 31, 2013

	<i>Building Inspections</i>
ASSETS	
Cash	\$ 251,376
Capital assets, net of \$23,328 accumulated depreciation	<u>6,802</u>
Total assets	<u>258,178</u>
LIABILITIES	
Payables	7,123
Compensated absences	<u>4,460</u>
Total liabilities	<u>11,583</u>
NET POSITION	
Net investment in capital assets	6,802
Unrestricted	<u>239,793</u>
Total net position	<u><u>\$ 246,595</u></u>

The assets, liabilities, and net position of the Building Inspections Fund have been combined with those of *governmental activities*.

Charter Township of Texas

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN FUND NET POSITION - *proprietary fund*

Year ended December 31, 2013

	<i>Building Inspections</i>
OPERATING REVENUES	
Charges for services - licenses and permits	\$ 265,886
OPERATING EXPENSES	
Salaries and fringe benefits	165,173
Other	34,159
Depreciation	770
Total operating expenses	<u>200,102</u>
OPERATING INCOME	65,784
NONOPERATING REVENUES	
Interest revenue	<u>2,148</u>
CHANGE IN NET POSITION	67,932
NET POSITION - BEGINNING	<u>178,663</u>
NET POSITION - ENDING	<u><u>\$ 246,595</u></u>

The revenues and expenses of the Building Inspections Fund have been combined with those of *governmental activities*.

See notes to financial statements

STATEMENT OF CASH FLOWS - proprietary fund

Year ended December 31, 2013

	<u>Building Inspections</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 265,886
Payments to employees	(123,630)
Payments to suppliers	<u>(66,718)</u>
Net cash provided by operating activities	<u>75,538</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned	<u>2,148</u>
NET INCREASE IN CASH	77,686
CASH - BEGINNING	<u>173,690</u>
CASH - ENDING	<u><u>\$ 251,376</u></u>
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 65,784
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	770
Increase in accounts payable	300
Increase in accrued payroll	4,224
Increase in compensated absences	<u>4,460</u>
Net cash provided by operating activities	<u><u>\$ 75,538</u></u>

Charter Township of Texas

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - Agency Fund

December 31, 2013

ASSETS

Cash \$ 6,614,434

LIABILITIES

Customer deposits \$ 54,229

Due to other governmental units 6,560,205

Total liabilities \$ 6,614,434

See notes to financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Charter Township of Texas, Michigan (the Township), conform to accounting principles generally accepted in the United States of America (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the more significant accounting policies.

Reporting entity:

The accompanying financial statements present the Township, located in Kalamazoo County, and its component unit, an entity for which the Township is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Township.

Discretely presented component unit - Downtown Development Authority:

The component unit's governing body is appointed by the Township Board and its budgets must be approved by the Township Board. Separate financial statements for the component unit have not been issued as management believes that these financial statements, including disclosures, contain complete information so as to constitute a fair presentation of the component unit.

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 Township. The effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, the proprietary fund, and the fiduciary fund, even though the latter is excluded from 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 the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds 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 if they are collected within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the Township generally considers revenues to be available if they are expected to be 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, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement focus, basis of accounting, and financial statement presentation (continued):

State grants, licenses and permits, and charges for services are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal year is considered to be susceptible to accrual as revenues of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Road Enhancement Fund accounts for financial resources used for road improvement projects. Revenues are primarily derived from special assessments.

The Fire Improvement Fund accounts for financial resources used for the operational and capital costs of the Township's public safety functions. Revenues are primarily derived from property taxes.

The Sewer and Water Fund accounts for financial resources used for the expansion and repairs and maintenance of sewer and water lines located in the Township. Revenues are primarily derived from connection fees.

The Township reports one proprietary fund, its Building Inspections Fund, which accounts for operations (1) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Township reports one fiduciary fund, its Agency Fund, which accounts for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary 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.

Assets, liabilities, deferred inflows, and net position or equity:

Bank deposits - 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. Pooled investment income is proportionately allocated to all funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, liabilities, deferred inflows, and net position or equity (continued):

Receivables - In general, outstanding balances between funds are reported as “due to/from other funds.” No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

Prepaid items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items 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 government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 (\$10,000 for infrastructure assets) 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 market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets retroactively.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15 - 60 years
Equipment	3 - 5 years
Vehicles	3 - 20 years
Sewer and water systems	50 years

Compensated absences - It is the Township’s policy to permit employees to accumulate earned but unused sick pay benefits. Vested compensated absences are accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Unearned revenue - Unearned revenue represents resources related to operating assessments which have not yet been earned.

Deferred inflows of resources- The statement of net position and the governmental funds balance sheet include a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position that applies to a future period. The related revenues will not be recognized until a future event occurs. The Township has three items that are included in this category: property taxes, special assessments, and interest revenues. Property tax revenue, which is levied to finance the following period's budget, is deferred and recognized as an inflow of resources in the period that it was intended to finance. Special assessment and interest revenues, which are not recognized until available (collected not later than 60 days after the end of the Township's fiscal year) are deferred and recognized as an inflow of resources in the period that they become available.

Net position - Net position represents the difference between assets, less liabilities and deferred inflows of resources. The Township reports three categories of net position, as follows: (1) *Net investment in capital assets* consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets; (2) *Restricted net position* is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations, such as federal or state laws or buyers of the Township’s debt. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets; (3) *Unrestricted net position* consists of all other net position that does not meet the definition of the above components and is available for general use by the Township.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, liabilities, deferred inflows, and net position or equity (continued):

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 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 and regulations of other governments. The Township Board retains the authority to assign fund balances as to purpose. Unassigned fund balances are amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted or assigned to those purposes. When the Township incurs an expenditure for purposes for which various fund balance classifications can be used, it is the Township’s policy to use the restricted fund balance first, followed by assigned fund balance, and, finally, unassigned fund balance.

Property tax revenue recognition - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14 (with the final collection date of February 28), at which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and, accordingly, the total levy is recognized as revenue in the subsequent year.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year.

Excess of expenditures over appropriations - The following schedule sets forth budget variances:

<u>Fund</u>	<u>Function</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance</u>
Primary government:				
General	Capital outlay	\$ 250,000	\$ 432,565	\$ (182,565)
Fire Improvement	Public safety	643,640	652,430	(8,790)
	Capital outlay	105,000	107,295	(2,295)
Street Lighting	Public works	115,000	116,639	(1,639)
Component unit (DDA):				
Operating	Public works	23,798	28,973	(5,175)
Operating	Capital outlay	-	119,699	(119,699)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH

The Township and component unit's cash were reported in the basic financial statements as follows:

	<u>Governmental activities</u>	<u>Fiduciary activity</u>	<u>Component unit</u>	<u>Total</u>
Deposits	\$ 6,896,034	\$ 6,614,434	\$ 50,189	\$ 13,560,657

Deposits - Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Township's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Township will not be able to recover its deposits. The Township's investment policy does not specifically address custodial credit risk for deposits. As of December 31, 2013, \$9,390,231 of the Township's bank balance of \$12,176,270 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE 4 - RECEIVABLES

Receivables as of December 31, 2013, for the Township's individual major and nonmajor governmental funds, in the aggregate, were as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Interest</u>	<u>Property taxes</u>	<u>Special assess- ments</u>	<u>Inter- govern- mental</u>	<u>Totals</u>
Governmental:						
General	\$ 30,977	\$ 6,484	\$ 251,363	\$ -	\$ 184,034	\$ 472,858
Road Enhancement	-	-	-	137,299	-	137,299
Fire Improvement	-	-	143,153	-	-	143,153
Sewer and Water	-	4,848	-	230,804	-	235,652
Nonmajor	<u>19,056</u>	<u>-</u>	<u>-</u>	<u>94,496</u>	<u>-</u>	<u>113,552</u>
Total governmental funds	<u>\$ 50,033</u>	<u>\$ 11,332</u>	<u>\$ 394,516</u>	<u>\$ 462,599</u>	<u>\$ 184,034</u>	<u>\$ 1,102,514</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 205,809</u>	<u>\$ -</u>	<u>\$ 205,809</u>
Component unit - DDA	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,671</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,671</u>

NOTE 5 - PROPERTY TAXES

The 2012 taxable valuation of the Township approximated \$702,100,000, on which ad valorem taxes levied consisted of 0.8853 mills for operating purposes and 0.5000 mills for fire operations, raising approximately \$622,000 and \$350,000, respectively. These amounts are recognized in the respective fund financial statements as deferred inflows of resources, based upon the period for which the proceeds are budgeted and will be made available for the financing of operations.

The 2013 taxable valuation of the Township approximated \$724,070,000, on which ad valorem taxes levied consisted of 0.8853 mills for operating purposes and 0.5000 mills for fire operations, raising approximately \$640,000 and \$361,000, respectively. These amounts are recognized in the respective fund financial statements as deferred tax revenue, based upon the period for which the proceeds are budgeted and will be made available for the financing of operations.

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 341,379	\$ 218,926	\$ -	\$ 560,305
Construction in progress	-	38,982	-	38,982
Total capital assets not being depreciated	<u>341,379</u>	<u>257,908</u>	<u>-</u>	<u>599,287</u>
Capital assets being depreciated:				
Buildings	1,702,150	89,656	-	1,791,806
Improvements	401,379	388,300	-	789,679
Furniture and equipment	980,898	67,557	-	1,048,455
Vehicles	993,342	-	-	993,342
Infrastructure	12,957,335	510,086	-	13,467,421
Subtotal	<u>17,035,104</u>	<u>1,055,599</u>	<u>-</u>	<u>18,090,703</u>
Less accumulated depreciation for:				
Buildings	(226,394)	(42,812)	-	(269,206)
Improvements	(192,798)	(25,294)	-	(218,092)
Furniture and equipment	(627,988)	(66,475)	-	(694,463)
Vehicles	(686,233)	(50,858)	-	(737,091)
Infrastructure	(3,458,655)	(338,378)	-	(3,797,033)
Subtotal	<u>(5,192,068)</u>	<u>(523,817)</u>	<u>-</u>	<u>(5,715,885)</u>
Total capital assets being depreciated, net	<u>11,843,036</u>	<u>531,782</u>	<u>-</u>	<u>12,374,818</u>
Governmental activities capital assets, net	<u>\$ 12,184,415</u>	<u>\$ 789,690</u>	<u>\$ -</u>	<u>\$ 12,974,105</u>
Component unit:				
Capital assets not being depreciated - land	\$ -	\$ 122,329	\$ -	\$ 122,329
Capital assets being depreciated - land improvements	163,964	-	-	163,964
Less accumulated depreciation	<u>(18,363)</u>	<u>(6,548)</u>	<u>-</u>	<u>(24,911)</u>
Total capital assets being depreciated, net	<u>145,601</u>	<u>(6,548)</u>	<u>-</u>	<u>139,053</u>
Component unit capital assets, net	<u>\$ 145,601</u>	<u>\$ 115,781</u>	<u>\$ -</u>	<u>\$ 261,382</u>

NOTE 6 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions of the Township as follows:

Governmental activities:	
General government	\$ 39,166
Public safety	102,646
Public works	343,375
Community and economic development	290
Recreation and culture	<u>38,340</u>
 Total governmental activities	 <u>\$ 523,817</u>

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A summary of interfund transfers for the year ended December 31, 2013, is as follows:

<u>Fund</u>	<u>Transfers in</u>	<u>Fund</u>	<u>Transfers out</u>
Road Enhancement	\$ 120,000	General	<u>\$ 576,411</u>
Fire Improvement	<u>456,411</u>		
	<u>576,411</u>		
Nonmajor funds	<u>99,540</u>	Sewer and Water	<u>99,540</u>
Sewer and Water	<u>471,647</u>	Nonmajor funds	<u>471,647</u>
	<u>\$ 1,147,598</u>		<u>\$ 1,147,598</u>

The transfers to the Road Enhancement Fund and Fire Improvement Fund represent support to cover expenditures that could not be covered by current tax revenues.

The transfer to the nonmajor fund from the Sewer and Water Fund represents support to cover current debt service requirements.

The transfer to the Sewer and Water Fund from the nonmajor funds represents residual equity from debt service funds that have satisfied their debt obligations.

NOTE 8 - ADVANCE TO COMPONENT UNIT

During the year ended December 31, 2013, the primary government advanced \$119,699 to the component unit. The advance will be paid back over 15 years at an interest rate of 1.5% per annum. The first five years are interest only payments, followed by a ten year period of principal and interest payments until the advance is fully repaid.

NOTE 9 - PAYABLES

Payables as of December 31, 2013, for the Township’s individual major funds and nonmajor governmental funds, in the aggregate, were as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Payroll</u>	<u>Inter-govern- mental</u>	<u>Customer deposits</u>	<u>Totals</u>
Governmental:					
General	\$ 26,015	\$ 13,895	\$ -	\$ 41,774	\$ 81,684
Road Enhancement	8,950	-	-	-	8,950
Fire Improvement	3,412	22,624	-	-	26,036
Sewer and Water	9,867	-	32,682	-	42,549
Nonmajor	19,109	-	-	-	19,109
Total governmental funds	<u>\$ 67,353</u>	<u>\$ 36,519</u>	<u>\$ 32,682</u>	<u>\$ 41,774</u>	<u>\$ 178,328</u>
Proprietary:					
Building Inspection Fund	<u>\$ 590</u>	<u>\$ 6,533</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,123</u>

NOTE 10 - NONCURRENT LIABILITIES

Long-term debt activity for the year ended December 31, 2013, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Governmental activities:					
2004 Refunding bonds	\$ 210,000	\$ -	\$ (210,000)	\$ -	\$ -
Unamortized premium	7,266	-	(7,266)	-	-
Total bonds	217,266	-	(217,266)	-	-
Compensated absences	-	21,650	(4,690)	16,960	-
Totals	<u>\$ 434,532</u>	<u>\$ 21,650</u>	<u>\$ (439,222)</u>	<u>\$ 16,960</u>	<u>\$ -</u>

NOTE 11 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers’ compensation). The risks of loss arising from general liability of up to \$4,000,000, building contents and property, and workers’ compensation coverage are managed through purchased commercial insurance.

NOTE 12 - DEFINED CONTRIBUTION PENSION PLAN

The Township provides pension benefits for all elected officials, full-time and certain part-time employees, who are eligible to participate after ninety days of employment, and for fire fighters who are eligible to participate after completing a probationary period. All pension benefits are offered through a non contributory defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. The Township contributes 10% of each qualified employee's total earnings to the plan. The Township's contributions are fully vested immediately. The Township made the required contributions of \$75,938 for the year ended December 31, 2013. The Township is not a trustee of the plan, nor is the Township responsible for investment management of plan assets.

NOTE 13 - RECENT ACCOUNTING PRONOUNCEMENT

Effective January 1, 2013, the Township adopted the provisions of the following accounting pronouncement that did not result in restatement or reclassification of opening net position or fund balances.

Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

NOTE 14 - PENDING ACCOUNTING PRONOUNCEMENT

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for periods beginning after June 15, 2014. This Statement generally carries forward the requirements of Statement No. 27 for employer accounting and financial reporting for defined contribution plans. In this Statement, the definition of defined contribution pensions, as well as the accounting requirements for such pensions, includes provisions to accommodate circumstances in which the timing of payments into individual accounts does not coincide with the period of employee service to which defined contributions pertain (as when a nonvested employee accumulates credits for which the employer delays payment into the employee's account until vesting provisions have been satisfied). This Statement also establishes requirements to address accounting for forfeitures. The Statement also enhances accountability and transparency through revised note disclosures. The Township is currently evaluating the impact this standard will have on the financial statements when adopted during the fiscal year beginning January 1, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

Charter Township of Texas

BUDGETARY COMPARISON SCHEDULE - General Fund

Year ended December 31, 2013

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES				
Taxes	\$ 863,329	\$ 863,329	\$ 868,771	\$ 5,442
Licenses and permits	105,360	105,360	120,589	15,229
State grants	1,091,520	1,091,520	1,102,021	10,501
Charges for services	76,300	76,300	96,378	20,078
Fines and forfeitures	1,000	1,000	1,328	328
Interest and rentals	11,500	11,500	20,513	9,013
Other	11,000	11,000	318,901	307,901
	<u>2,160,009</u>	<u>2,160,009</u>	<u>2,528,501</u>	<u>368,492</u>
EXPENDITURES				
General government:				
Legislative - township board	26,900	26,900	25,820	1,080
Supervisor	72,950	72,950	71,389	1,561
Election	18,800	18,800	11,436	7,364
Assessor	62,290	71,000	66,313	4,687
Clerk	131,750	163,000	162,715	285
Board of review	4,150	4,150	2,780	1,370
Treasurer	122,525	122,525	120,937	1,588
Hall and grounds	40,650	40,650	33,532	7,118
Cemetery	23,000	23,000	17,482	5,518
Other	401,610	381,189	344,817	36,372
	<u>904,625</u>	<u>924,164</u>	<u>857,221</u>	<u>66,943</u>
Public safety - police	<u>214,550</u>	<u>214,550</u>	<u>213,120</u>	<u>1,430</u>
Public works:				
Street lights	5,500	5,500	2,452	3,048
Drains	350	350	-	350
Sanitation and refuse collection	28,400	32,200	30,701	1,499
	<u>34,250</u>	<u>38,050</u>	<u>33,153</u>	<u>4,897</u>
Community and economic development - planning and zoning	<u>136,450</u>	<u>195,111</u>	<u>181,280</u>	<u>13,831</u>

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended December 31, 2013

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
EXPENDITURES (Continued)				
Recreation and culture - parks and recreation	\$ 32,000	\$ 32,000	\$ 15,410	\$ 16,590
Capital outlay	332,000	250,000	432,565	(182,565)
Total expenditures	<u>1,653,875</u>	<u>1,653,875</u>	<u>1,732,749</u>	<u>(78,874)</u>
EXCESS OF REVENUES OVER EXPENDITURES	506,134	506,134	795,752	289,618
OTHER FINANCING USES				
Transfers out	<u>(576,411)</u>	<u>(576,411)</u>	<u>(576,411)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	(70,277)	(70,277)	219,341	289,618
FUND BALANCES - BEGINNING	<u>3,075,812</u>	<u>3,075,812</u>	<u>3,136,206</u>	<u>60,394</u>
FUND BALANCES - ENDING	<u>\$ 3,005,535</u>	<u>\$ 3,005,535</u>	<u>\$ 3,355,547</u>	<u>\$ 350,012</u>

BUDGETARY COMPARISON SCHEDULE - Road Enhancement Fund

Year ended December 31, 2013

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<i>Variance with final budget positive (negative)</i>
REVENUES				
Interest	\$ -	\$ -	\$ 8	\$ 8
Other	<u>362,280</u>	<u>362,280</u>	<u>361,680</u>	<u>(600)</u>
Total revenues	362,280	362,280	361,688	(592)
EXPENDITURES				
Public works - road maintenance	<u>481,280</u>	<u>481,280</u>	<u>441,982</u>	<u>39,298</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES				
	(119,000)	(119,000)	(80,294)	38,706
OTHER FINANCING SOURCES				
Transfers in	<u>120,000</u>	<u>120,000</u>	<u>120,000</u>	<u>-</u>
NET CHANGES IN FUND BALANCES				
	1,000	1,000	39,706	38,706
FUND BALANCES - BEGINNING				
	<u>56,832</u>	<u>56,832</u>	<u>56,832</u>	<u>-</u>
FUND BALANCES - ENDING				
	<u>\$ 57,832</u>	<u>\$ 57,832</u>	<u>\$ 96,538</u>	<u>\$ 38,706</u>

Charter Township of Texas

BUDGETARY COMPARISON SCHEDULE - Fire Improvement Fund

Year ended December 31, 2013

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<i>Variance with final budget positive (negative)</i>
REVENUES				
Taxes	\$ 346,000	\$ 346,000	\$ 350,065	\$ 4,065
Interest	-	-	12	12
Other	<u>2,500</u>	<u>2,500</u>	<u>4,580</u>	<u>2,080</u>
Total revenues	<u>348,500</u>	<u>348,500</u>	<u>354,657</u>	<u>6,157</u>
EXPENDITURES				
Public safety - fire protection	643,640	643,640	652,430	(8,790)
Capital outlay	<u>105,000</u>	<u>105,000</u>	<u>107,295</u>	<u>(2,295)</u>
Total expenditures	<u>748,640</u>	<u>748,640</u>	<u>759,725</u>	<u>(11,085)</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(400,140)	(400,140)	(405,068)	(4,928)
OTHER FINANCING SOURCES				
Transfers in	<u>456,411</u>	<u>456,411</u>	<u>456,411</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	56,271	56,271	51,343	(4,928)
FUND BALANCES - BEGINNING	<u>213,516</u>	<u>213,516</u>	<u>213,516</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 269,787</u>	<u>\$ 269,787</u>	<u>\$ 264,859</u>	<u>\$ (4,928)</u>

SUPPLEMENTARY INFORMATION

	<i>Special revenue funds</i>				<i>Capital project fund</i>	<i>Debt service funds</i>				<i>Totals</i>
	<i>Road Improvement</i>	<i>Street Lighting</i>	<i>Eagle Lake</i>	<i>Crooked Lake</i>	<i>Michigan DNR Grant</i>	<i>Q Avenue Debt</i>	<i>Rudgate 1, 2, & 3 Debt</i>	<i>Lakes Sewer Debt</i>	<i>Pretty Lake Debt</i>	
ASSETS										
Cash	\$ 8,667	\$ 142,908	\$ 58,807	\$ 51,559	\$ 40,612	\$ -	\$ -	\$ -	\$ -	\$ 302,553
Receivables	1,360	37,688	41,555	32,949	-	-	-	-	-	113,552
Total assets	<u>\$ 10,027</u>	<u>\$ 180,596</u>	<u>\$ 100,362</u>	<u>\$ 84,508</u>	<u>\$ 40,612</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 416,105</u>
LIABILITIES AND FUND BALANCES										
Liabilities:										
Payables	\$ -	\$ 8,635	\$ 5,888	\$ -	\$ 4,586	\$ -	\$ -	\$ -	\$ -	\$ 19,109
Unearned special assessments	3,060	114,294	74,900	50,875	-	-	-	-	-	243,129
Total liabilities	<u>3,060</u>	<u>122,929</u>	<u>80,788</u>	<u>50,875</u>	<u>4,586</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>262,238</u>
Fund balances:										
Restricted for:										
Road maintenance	6,967	-	-	-	-	-	-	-	-	6,967
Street lighting	-	57,667	-	-	-	-	-	-	-	57,667
Private lake maintenance	-	-	19,574	33,633	-	-	-	-	-	53,207
Assigned for - parks and recreation	-	-	-	-	36,026	-	-	-	-	36,026
Total fund balances	<u>6,967</u>	<u>57,667</u>	<u>19,574</u>	<u>33,633</u>	<u>36,026</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>153,867</u>
Total liabilities and fund balances	<u>\$ 10,027</u>	<u>\$ 180,596</u>	<u>\$ 100,362</u>	<u>\$ 84,508</u>	<u>\$ 40,612</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 416,105</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - nonmajor governmental funds

Year ended December 31, 2013

	<i>Special revenue funds</i>				<i>Capital project fund</i>	<i>Debt service funds</i>			<i>Totals</i>	
	<i>Road Improvement</i>	<i>Street Lighting</i>	<i>Eagle Lake</i>	<i>Crooked Lake</i>	<i>Michigan DNR Grant</i>	<i>Q Avenue Debt</i>	<i>Rudgate 1, 2, & 3 Debt</i>	<i>Lakes Sewer Debt</i>		<i>Pretty Lake Debt</i>
REVENUES										
Charges for services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 131,388	\$ -	\$ 4,830	\$ -	\$ 136,218
Interest	1	5	2	1	8	2,281	-	235	-	2,533
Other	3,060	114,321	68,200	51,425	75,000	45,522	-	12,740	-	370,268
Total revenues	3,061	114,326	68,202	51,426	75,008	179,191	-	17,805	-	509,019
EXPENDITURES										
Public works	2,300	116,639	59,455	24,658	-	400	-	860	-	204,312
Capital outlay	-	-	-	-	38,982	-	-	-	-	38,982
Debt service:										
Principal	-	-	-	-	-	73,393	-	136,607	-	210,000
Interest	-	-	-	-	-	1,260	-	2,940	-	4,200
Total expenditures	2,300	116,639	59,455	24,658	38,982	75,053	-	140,407	-	457,494
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	761	(2,313)	8,747	26,768	36,026	104,138	-	(122,602)	-	51,525
OTHER FINANCING SOURCES (USES)										
Transfers in	-	-	-	-	-	-	-	99,540	-	99,540
Transfers out	-	-	-	-	-	(405,268)	(47,717)	-	(18,662)	(471,647)
Net other financing sources (uses)	-	-	-	-	-	(405,268)	(47,717)	99,540	(18,662)	(372,107)
NET CHANGES IN FUND BALANCES	761	(2,313)	8,747	26,768	36,026	(301,130)	(47,717)	(23,062)	(18,662)	(320,582)
FUND BALANCES - BEGINNING	6,206	59,980	10,827	6,865	-	301,130	47,717	23,062	18,662	474,449
FUND BALANCES - ENDING	\$ 6,967	\$ 57,667	\$ 19,574	\$ 33,633	\$ 36,026	\$ -	\$ -	\$ -	\$ -	\$ 153,867

Charter Township of Texas

BALANCE SHEET - component unit

December 31, 2013

ASSETS

Cash	\$	50,189
Receivables		<u>12,671</u>
Total assets	\$	<u><u>62,860</u></u>

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES,
AND FUND BALANCES**

Liabilities - accounts payable	\$	2,347
Deferred inflows of resources - property tax revenues levied for the subsequent year		12,671
Fund balance - restricted for capital improvements		<u>47,842</u>
Total liabilities, deferred inflows of resources, and fund balances	\$	<u><u>62,860</u></u>

Reconciliation of the balance sheet with the statement of net position:

Fund balance	\$	47,842
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Amounts reported for the *component unit* in the statement of net position (page 11) are different because:

Capital assets used are not financial resources and, therefore, are not reported in the fund. 261,382

Long-term advance from primary government is not reported in the fund. (119,699)

Net position of the *component unit* \$ 189,525

Charter Township of Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE - *component unit*

Year ended December 31, 2013

REVENUES

Taxes	\$	22,077
Charges for services		6,251
Interest income		<u>1</u>
Total revenues		<u>28,329</u>

EXPENDITURES

Public works		28,973
Capital outlay		<u>119,699</u>
Total expenditures		<u>148,672</u>

DEFICIENCY OF REVENUES OVER EXPENDITURES (120,343)

OTHER FINANCING SOURCES

Proceeds from advance from primary government		<u>119,699</u>
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NET CHANGE IN FUND BALANCE (644)

FUND BALANCE - BEGINNING 48,486

FUND BALANCE - ENDING \$ 47,842

Reconciliation of the statement of revenues, expenditures, and changes in fund balances to the statement of activities:

Net change in fund balance \$ (644)

Amounts reported for the *component unit* in the statement of activities (page 12) are different because:

Capital assets:		
Additions		122,329
Provision for depreciation		(6,548)
Increase in advance from primary government		<u>(119,699)</u>
Change in net position of <i>component unit</i>	\$	<u><u>(4,562)</u></u>

Charter Township of Texas

BUDGETARY COMPARISON SCHEDULE - component unit

Year ended December 31, 2013

	<i>Original budget</i>	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
REVENUES				
Property taxes	\$ 26,374	\$ 26,374	\$ 22,077	\$ (4,297)
Charges for services	-	-	6,251	6,251
Interest	-	-	1	1
	<u>26,374</u>	<u>26,374</u>	<u>28,329</u>	<u>1,955</u>
Total revenues				
EXPENDITURES				
Public works	23,798	23,798	28,973	(5,175)
Capital outlay	-	-	119,699	(119,699)
	<u>23,798</u>	<u>23,798</u>	<u>148,672</u>	<u>(124,874)</u>
Total expenditures				
DEFICIENCY OF REVENUES OVER EXPENDITURES	2,576	2,576	(120,343)	(122,919)
OTHER FINANCING SOURCES				
Proceeds from advance from primary government	-	-	119,699	119,699
NET CHANGES IN FUND BALANCES	2,576	2,576	(644)	(3,220)
FUND BALANCES - BEGINNING	<u>48,486</u>	<u>48,486</u>	<u>48,486</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 51,062</u>	<u>\$ 51,062</u>	<u>\$ 47,842</u>	<u>\$ (3,220)</u>

June 23, 2014

To the Board of Trustees
Charter Township of Texas

We have audited the financial statements of the governmental activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Texas for the year ended December 31, 2013. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 22, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Charter Township of Texas are described in Note 1 to the financial statements. Except as disclosed in Note 13 to the financial statements, no new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2013. We noted no transactions entered into by the Charter Township of Texas during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the value of land capital assets donated by a corporation is based on an analysis of assessed values from Township tax records for that parcel to determine value of property. We evaluated the key factors and assumptions used to develop the capital asset donations in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Township's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 23, 2014.

Other Issues

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

Other Matters

We applied certain limited procedures to management's discussion and analysis and the budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Texas as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Charter Township of Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we have identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Township's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in the Township of Texas' internal control to be a material weakness.

Material audit adjustments and financial statement preparation:

Criteria: All governmental units in Michigan are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the Township Board. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e. maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related notes to the financial statements (i.e. external financial reporting).

Condition: We identified and proposed several material audit adjustments that management reviewed and approved. Adjustments were recorded to:

- Adjust receivable accruals
- Adjust payable accruals
- Correct property tax revenues, receivables, and deferred inflow balances
- Convert the fund-based data necessary to prepare the government-wide financial statements.

As is the case with many small and medium-sized governmental units, the Township has historically relied on its independent external auditor to assist with the preparation of the financial statements, the related notes, and the management's discussion and analysis as part of its external financial reporting process. Accordingly, the Township's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditor, who cannot, by definition, be considered part of the Township's internal controls. Having the auditor draft the annual financial statements is allowable under current auditing standards and ethical guidelines and may be the most efficient and effective method for preparation of the Township's financial statements. However, when an entity (on its own) lacks the ability to produce financial statements that conform to GAAP, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses. This is a repeat finding.

Cause: This condition was caused by the Township's decision to outsource the preparation of its annual financial statements to the external auditor rather than incur the costs of obtaining the necessary training and expertise required for the Township to perform this task internally because outsourcing the task is considered more cost effective.

Effect: The Township's accounting records were initially misstated by amounts material to the financial statements. In addition, the Township lacks complete internal controls over the preparation of its financial statements in accordance with GAAP, and, instead, relies, at least in part, on assistance from its external auditor for assistance with this task.

Auditor's Recommendation: We recommend that the Township Board evaluate the cost versus benefit of improving its internal controls over the preparation of its financial statements in accordance with GAAP and determine if it is in the best interest of the Township to outsource this task to its external auditor.

Management Response: The Township Board has made an evaluation of the respective costs and benefits of improving its internal controls over the preparation of its financial statements in accordance with GAAP and determined that it is in the best interest of the Township to outsource this task to the external auditor. The Board will review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

We did not audit the Charter Township of Texas' response to the internal control finding described above and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the Board of Trustees of the Charter Township of Texas and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Siegfried Crandall P.C.