



Stephenson, Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA
Robert J. Morand, CPA

CHARTER TOWNSHIP OF OSCODA
OSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2014

I_N_D_E_X

AUDITORS' REPORT

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 12
<u>BASIC FINANCIAL STATEMENTS</u>	
<u>GOVERNMENT-WIDE FINANCIAL STATEMENTS</u>	
STATEMENT OF NET POSITION	13
STATEMENT OF ACTIVITIES	14 - 15
<u>FUND FINANCIAL STATEMENTS</u>	
BALANCE SHEET - GOVERNMENTAL FUNDS	16
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES	17
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	18
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	19
STATEMENT OF NET POSITION - PROPRIETARY FUNDS	20
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS	21
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS	22
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - FIDUCIARY FUNDS	23
NOTES TO FINANCIAL STATEMENTS	24 - 47
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND	48
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - PROPERTY OPERATION AND MAINTENANCE FUND - SPECIAL REVENUE FUND	49
<u>OTHER INFORMATION</u>	
COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS	50
COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - OTHER GOVERNMENTAL FUNDS	51
COMBINING STATEMENT OF NET POSITION - OTHER ENTERPRISE FUNDS	52
COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION - OTHER ENTERPRISE FUNDS	53

I_N_D_E_X

COMBINING STATEMENT OF CASH FLOWS - OTHER ENTERPRISE FUNDS	54
BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY - COMPONENT UNIT - GOVERNMENTAL FUND	55
DOWNTOWN DEVELOPMENT AUTHORITY - COMPONENT UNIT - RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET POSITION	56
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - DOWNTOWN DEVELOPMENT AUTHORITY - COMPONENT UNIT - GOVERNMENTAL FUND	57
DOWNTOWN DEVELOPMENT AUTHORITY - COMPONENT UNIT - RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES	58



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA
Robert J. Morand, CPA

May 8, 2015

Independent Auditors' Report

Members of the Township Board
Charter Township of Oscoda
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Charter Township of Oscoda, Iosco County, Michigan, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the index.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Charter Township of Oscoda, Iosco County, Michigan, as of December 31, 2014, 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

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 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.

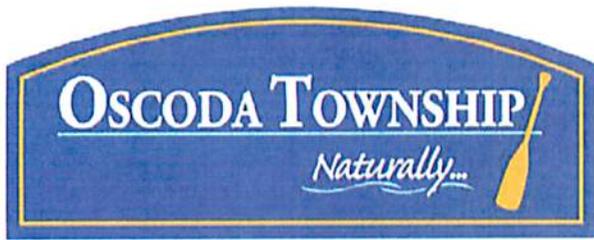
Members of the Township Board
Charter Township of Oscoda
May 8, 2015
Page 2

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Oscoda's basic financial statements. The combining nonmajor and Charter Township of Oscoda Downtown Development Authority - component unit fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor and Charter Township of Oscoda Downtown Development Authority - component unit fund 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor and Charter Township of Oscoda Downtown Development Authority - component unit fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Stephenson, Grubb & Co., P.C.



Charter Township of Oscoda
110 South State Street
Oscoda, Michigan 48750
Office of Supervisor: (989)739-3211
Office of Clerk: (989)739-4971
Office of Treasurer: (989)739-7471
Office of Superintendent: (989)739-8299
Fax: (989)739-0034

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Charter Township of Oscoda's (the Township) financial performance provides an overview of the Township's financial activities for the year ended December 31, 2014. The intent of this discussion and analysis is to look at the Township's financial performance as a whole. The discussion focuses on the Township's primary government and, unless otherwise noted, the component unit reported separately from the primary government is not included.

Financial Highlights

- The Township's assets exceeded its liabilities by \$27,244,158.
- The Township's total net position decreased by \$210,684.
- The Township's governmental funds reported a combined ending fund balance of \$4,939,126 this year, a decrease of \$72,895. Of this amount, \$1,069,215 is available for spending (*unassigned fund balance*) on behalf of its citizens. The Township General Fund 2014 year end *fund balance* is \$1,548,479.

Overview of the Financial Statements

The financial statements are organized so the reader can understand the Township as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The Township's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements, and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *statement of net position* and the *statement of activities* display information about the Township as a whole. These statements include the financial activities of the primary government and its component unit except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the Township that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for services.

The statement of net position presents the financial condition of the governmental and business-type activities of the Township at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Township's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.

Program revenues include charges paid by the recipient for the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Township with certain limited exceptions. The comparisons of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the Township.

With this report, all capital assets and infrastructure are listed for the Charter Township of Oscoda. These assets are comprised of buildings, furniture and fixtures, radios/electronic equipment, computer systems, vehicles, land, and infrastructure (water and sewer lines) owned by the Township. These assets total about \$29 million. Township management and staff performed a department-by-department inventory and evaluation of assets and categorized a depreciation schedule for assets not fully depreciated.

In addition, within this report, 2014 property taxes that will be received in the future are listed as *taxes receivable* and as *deferred inflow of resources*.

The Township's component unit is the Charter Township of Oscoda Downtown Development Authority. This component unit is described in the *Notes to the Financial Statements*. The component unit is legally separate from the Township and may buy, sell, lease, and mortgage property in their own name, and can sue or be sued in their own name.

The Charter Township of Oscoda Downtown Development Authority's net position totaled \$554,689.

Fund Financial Statements

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: *Governmental*, *Proprietary* and *Fiduciary*.

Governmental Funds:

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds:

- General Fund - This fund accounts for all financial transactions not accounted for in another fund, including the general operating expenditures of the Township. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue.
- Property Operation and Maintenance Fund - This fund represents the primary maintenance budget for Township owned or leased facilities on the former Wurtsmith Air Force Base. Revenues include the sales, leases and land contracts of base property as well as other miscellaneous income including grants as they might become available.

The General Fund fund balance decreased by \$74,125 primarily due to special assessment revenue being recorded in the new Road Improvement Fund in the current year, in addition to expenditures exceeding revenues and other financing sources in the current year. Also, capital outlay decreased by \$442,206 which was offset by a decrease in loan proceeds of \$292,954 and contributions from local units of \$101,331.

The Property Operation and Maintenance Fund fund balance increased by \$48,794 primarily due to revenues and other financing sources exceeding expenditures and other financing uses in the current year.

The Other Governmental Funds fund balance decreased by \$47,564 primarily due to expenses and other financing uses exceeding revenues and other financing sources.

Proprietary Funds:

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

The Township's enterprise funds may be used to account for any activity for which a fee is charged to external users (citizens) for goods and services. The following are the Township's major enterprise funds:

- Sewage Disposal System Fund - This fund accounts for the revenues and expenditures required to operate the Township's sanitary sewer system including the lagoon facility at the former Wurtsmith Air Force Base and all related appurtenances such as mains and pump stations. Revenues required to operate the system are derived primarily from user fees.
- Water Fund - This fund is maintained to account for operations of the public water system. Revenue and expenditure line items reflect maintenance and operation of the water system in Oscoda as well as the Township's financial participation in the Huron Shore Regional Utility Authority. Like the Sewer Fund, revenues are derived primarily from user fees.
- Old Orchard Park Fund - This fund was created when the Township acquired leasehold interest in the Old Orchard Park property from Consumers Energy and began operating the campground. The fund normally generates a net positive cash flow which is available to support governmental functions through inter budgetary transfers.

The Sewage Disposal System Fund net position increased by \$86,386 primarily due to an increase in State revenues of \$52,574 and continued revenues in excess of expenditures in the current year.

The Water Fund net position increased by \$45,935 primarily due to revenues exceeding expenses in the current year.

The Old Orchard Park Fund net position increased by \$28,462 primarily due to revenues exceeding expenses and transfers out in the current year.

The Other Enterprise Funds net position decreased by \$16,198 primarily due to expenses exceeding revenues and operating transfers in by \$24,036 in the Health and Community Center Fund, offset by revenues exceeding expenses by \$7,838 in the Van Etten Campground Fund.

Fiduciary Funds:

Fiduciary fund reporting focuses on net position and changes in net position. The Township's agency funds account for assets held by the Township for political subdivisions in which the Township acts as fiscal agent for taxes, state-levied shared revenues, and fines and forfeitures collected and distributed to other political subdivisions.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided on the Township *government-wide* and *fund* financial statements.

Charter Township of Oscoda Downtown Development Authority related financial data is included throughout the notes to financial statements.

Other Information:

In addition to the basic financial statements and accompanying notes, this report also presents combining and individual fund statements and schedules.

Government-Wide Financial Analysis

Summary of Net Position :

The following summarizes the net position of the Charter Township of Oscoda at December 31, 2014 and 2013:

Net Position Summary

	Governmental Activities	Business -Type Activities	December 31, 2014	December 31, 2013
Current Assets	\$ 6,573,162	\$ 2,231,961	\$ 8,805,123	\$ 8,391,455
Restricted Assets	0	249,001	249,001	245,427
Capital Assets – net	10,188,094	7,775,560	17,963,654	18,512,357
Other Noncurrent Assets	35,877	4,143,582	4,179,459	4,217,458
Total Assets	16,797,133	14,400,104	31,197,237	31,366,697
Deferred Outflows of Resources	0	23,627	23,627	26,050
Current Liabilities	165,988	354,726	520,714	284,805
Long-Term Liabilities	384,712	1,659,072	2,043,784	2,246,063
Total Liabilities	550,700	2,013,798	2,564,498	2,530,868
Deferred Inflows of Resources	1,412,208	0	1,412,208	1,407,037
Net Position				
Net Investment in				
Capital Assets	9,921,421	6,210,187	16,131,608	16,544,453
Restricted	3,447,288	249,001	3,696,289	3,401,253
Unrestricted	1,465,516	5,950,745	7,416,261	7,509,136
Total Net Position	\$ 14,834,225	\$ 12,409,933	\$ 27,244,158	\$ 27,454,842

Summary of Changes in Net Position :

Generally speaking, the Township's net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. The Charter Township of Oscoda, through its governing body, i.e., Township Board of Trustees, has taken a sensible approach regarding capital asset acquisition and amortization of the incurred debt. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Township or through external restrictions imposed by creditors, grantors or laws/regulations of other governments.

The Township Board of Trustees has prudently set aside funds to offset potential personnel and/or administrative liabilities. It is the Township's practice, in general, to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

	Governmental Activities	Business -Type Activities	Total December 31, 2014	Total December 31, 2013
Program Revenues:				
Charges for Services	\$ 480,157	\$ 2,330,606	\$ 2,810,763	\$ 2,752,567
Operating Grants and Contributions	187,787	52,574	240,361	239,782
Capital Grants and Contributions	21,000	0	21,000	282,496
Total Program Revenues	688,944	2,383,180	3,072,124	3,274,845

Summary of Changes in Net Position (continued):

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total December 31, 2014</u>	<u>Total December 31, 2013</u>
General Revenues:				
Property Taxes	\$ 1,343,773	\$ 0	\$ 1,343,773	\$ 1,370,502
State Revenue Sharing	548,270	0	548,270	540,839
Rent Income	456,773	18,513	475,286	477,114
Insurance Recoveries	20,989	0	20,989	0
Gain (Loss) on Disposal of Capital Assets	(7,019)	100	(6,919)	(54,668)
Investment Earnings and Miscellaneous	46,624	6,399	53,023	112,364
Total General Revenues	<u>2,409,410</u>	<u>25,012</u>	<u>2,434,422</u>	<u>2,446,151</u>
Total Revenues	<u>3,098,354</u>	<u>2,408,192</u>	<u>5,506,546</u>	<u>5,720,996</u>
Program Expenses:				
General Government	1,043,075	0	1,043,075	1,046,713
Public Safety	1,313,947	0	1,313,947	1,268,309
Public Works	239,607	0	239,607	159,804
Community and Economic Development	554,587	0	554,587	662,930
Recreation and Cultural	476,092	0	476,092	416,138
Interest and Fees on Long-Term Debt	6,570	0	6,570	4,815
Sewage Disposal System	0	561,611	561,611	536,776
Water Services	0	848,321	848,321	850,971
Old Orchard Park	0	541,997	541,997	511,890
Community Center	0	125,510	125,510	122,672
Van Etten Campground	0	5,913	5,913	1,106
Total Program Expenses	<u>3,633,878</u>	<u>2,083,352</u>	<u>5,717,230</u>	<u>5,582,124</u>
Increase (Decrease) in Net Position Before Transfers	(535,524)	324,840	(210,684)	138,872
Transfers	<u>180,255</u>	<u>(180,255)</u>	<u>0</u>	<u>0</u>
Change in Net Position	(355,269)	144,585	(210,684)	138,872
Beginning Net Position	<u>15,189,494</u>	<u>12,265,348</u>	<u>27,454,842</u>	<u>27,315,970</u>
Ending Net Position	<u>\$ 14,834,225</u>	<u>\$ 12,409,933</u>	<u>\$ 27,244,158</u>	<u>\$ 27,454,842</u>

Governmental Activities

The *Statement of Activities* illustrates, by department, the expense incurred and revenue received.

Total governmental activities reveal revenues of \$688,944 from *Charges for Services, Operating Grants and Contributions and Capital Grants and Contributions*. The *Charges for Services* are fees mainly associated with the collection of property taxes, fine and forfeitures, and licenses & permits. While revenue collected is substantial, operating expenses totaled \$3,633,878 for these same activities. The largest expenses were incurred by Public Safety (\$1,313,947), General Government (\$1,043,075), and Community and Economic Development (\$554,587).

Business-Type Activities

The Township's main *Business-Type activities* are the Sewage Disposal System, Water Services, and Old Orchard Park. The Township Park has long proven itself to be a *net* revenue generator and for 2014 it netted \$200,962 before transfers

Business-Type Activities (continued)

out. The positive operating result of the fund creates an opportunity to offset cash shortfalls in other budgetary funds. This opportunity is especially important during times of fiscal strain.

Both the Sewer and Water funds continue to be afflicted by stagnant, or in some cases reduced, revenues. Connection fees have dropped off precipitously in both funds as compared to several years ago due to lack of new construction. At the same time, capital improvement and replacement needs increase as existing infrastructure ages and does not always correlate well with available revenues. From an expenditure standpoint, on the other hand, both funds benefited significantly from a professional fee cost reduction due to hiring of a new contract operator. With this comes implementation of a regional concept and a reduced staffing level, a new operational approach that will require evaluation over time.

The Water Fund remains in a reasonable financial position given the magnitude of recent investments in the municipal water system. However, capital spending is projected to remain limited in the near future. The Sewer Fund, on the other hand, wherein significant capital needs are forecast, has less initial cash on hand to meet anticipated funding needs. Nor has the fund demonstrated capability to generate substantial surplus revenue on a year-to-year basis. Therefore, assessment of rates will likely take place in conjunction with implementing the system improvement work plan as discussed below.

Financial Analysis of Township Funds

As noted earlier in this report, the Township uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of its daily operations.

Governmental Funds

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds: 1) General fund – accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state and federal distributions, grants and other intergovernmental revenue, and 2) Property Operation and Maintenance Fund – This fund represents the primary maintenance budget for Township owned or leased facilities on the former Wurtsmith Air Force Base. Revenues include the sales, leases and land contracts of base property as well as other miscellaneous income, including grants as they might become available.

The other governmental funds of the Township account for grants and other resources whose use is restricted for a particular purpose; the accumulation of resources for, and the payment of debt.

This year's Township audit shows 15 funds. These funds are maintained by the Township Treasurer as separate units in the General Ledger.

Significant Fund Activity

In terms of fund performance, 2014 operations resulted in the General Fund balance being decreased modestly by \$74,125. For comparative purposes, the *increase* from 2012 to 2013 was \$38,418. This contrast results in large part from a significant decrease in Property Tax and Special Assessment revenue in 2014 as compared to 2013. Also, there was a significant contribution from local units received in 2013 for a capital outlay project; creating a one-time positive revenue impact. All told, the fund balance decrease indicates continuing need for fiscal restraint and diligence in containing expenditures, particularly those of an operational and recurring nature. While the economy may be recovering in a generalized sense, Township operational revenue sources appear to be lagging.

Significant Fund Activity (continued)

Noteworthy General Fund expenditures in 2014 were relatively modest by historical standards. These included replacement of two Police Department patrol vehicles (which weren't delivered until early 2015), installation of digital in car camera systems in patrol vehicles with significant grant funding assistance, replacement of windows in the Township Hall building to improve energy efficiency and purchase of tire changing and balancing machines to enhance in-house vehicle maintenance capability and efficiency. Installment purchase payments also continued to be made on the recently purchased Pierce Saber pumper fire truck. Significant in this regard is the passage of a millage proposal to support Fire Department equipment replacement needs over the next five years. Funding from the millage levy will allow for critical replacement of older equipment and vehicles with more modern and reliable choices.

In considering other governmental fund activities, the Old Orchard Capital Improvement Fund expenditures supported purchase of materials for construction of two yurts. Yurts are fabric covered cylindrical structures that create a unique interior space configuration. They have proven attractive for rental purposes in other parks. Near complete assembly and construction of one yurt was accomplished in 2014 by OOP staff. This work will be completed in early 2015 along with construction of the second yurt. These structures will supplement the existing rental cabins in offering a unique outdoor experience.

A dedicated Road Improvement Fund was created in 2014 with the express purpose of accounting for revenues and expenses relating to road improvement projects. The revenue for the fund comes in large part from a General Fund contribution. However, special assessment and other revenues pertaining to roads will be tracked in the fund also. A significant benefit will be the segregation and focus of accounting information relating to only road improvements. This will also allow for year-to-year accumulation of any unexpended monies. One expenditure from the fund in 2014 involved purchase of ground asphalt "RAP" and application of it by contract as an alternative to new asphalt construction. This improvement represents a pilot project of sorts and will be evaluated in the future as to merit of continuing the practice. In reference to the Property Operation and Maintenance Fund, one particular funding priority is of note. That would be contracting for expansion and improvement of the Veterans Administration Clinic at the Aune Medical Center in conjunction with a lease extension. The Township entered into an agreement for construction management services to facilitate implementation of the project. When complete, the improvements will result in enhanced health care services for veterans and increased lease revenue for the Township.

Enterprise Funds

The Township's enterprise funds provide the same type of information found in the government-wide financial statements. Commonly, departments such as the Old Orchard Park, water and sewer services comprise these funds. GASB 34 places such funds under the caption of *Proprietary Funds* under the appropriate statements, i.e., *Statement of Net Position*, *Statement of Cash Flows*, etc.

Significant Fund Activity

Old Orchard Park operating results in 2014 remained positive but declined modestly on a year-to-year basis; revenues increased but not to the extent that expenditures did. Given support the Old Orchard operation provides to the General Fund, sustaining generation of operating income is an important budget stabilization factor; to with, the transfer to the General Fund was increased as compared to 2013.

Activity in the Water and Sewer Funds during 2014 continues to reflect, for the most part, two different stages of capital improvement implementation. In the Water Fund, substantial capital improvements were implemented using existing cash reserves in past years. Accordingly, capital spending has been scaled back substantially. Nonetheless, in FY 2014 an investment was made in water loss control in keeping with Township goals and objectives. A leak detection survey was undertaken by a private contractor throughout the municipal water system. This resulted in identification of several system leaks that have been addressed; one of significance on the former base property that required procurement of needed contractor services. A water system audit, which involves record review instead of fieldwork, was also commissioned under contract but will not be completed until 2015.

Significant Fund Activity (continued)

On the sanitary sewer front, capital expenditures remain modest in anticipation of implementing a major wastewater system upgrade. Planning for the improvement project was undertaken primarily through an S2 planning grant with this process being concluded in 2014. Preparation of such a work plan is a precondition to acquiring low interest loan financing through the Michigan Department of Environmental Quality State Revolving Fund (SRF) Program.

The now approved work plan details various potential improvements including enhanced lagoon aeration, dredging of sludge from lagoon cells, improvement of the lagoon influent structure and additional piping to enhance distribution of effluent in the discharge beds. All of these project components are intended to achieve compliance with groundwater discharge permit requirements. Construction needs to be concluded by September, 2016 based on the current compliance schedule. In addition to compliance requirements, consideration has been given to other important system enhancements that can be most economically addressed as part of a larger project. Most notable of these is installation of riprap stone on the perimeter of the lagoons to provide stabilization and maintenance benefits. The bottom line remains that substantial capital needs are associated with the sanitary sewer treatment and collection systems. Accordingly, strategies to finance these improvements are being developed inclusive of, but not limited to, the SRF revolving loan program. Having said that, the Township did undertake some modest capital improvements involving the sanitary sewer system in 2014. Most important was demolition of the mechanical wastewater treatment plant on McNichol Street. This facility was taken out of service over 10 years ago. The project was contracted in 2013 but delayed in implementation due to a change in contractors. The vast majority of the work was accomplished in 2014 with a small residual scheduled for completion in spring of 2015. Also, a lift station control panel failed resulting in an unscheduled and substantial expenditure.

In reference to other enterprise funds, operating loss for the community center increased on a year-to-year basis. Although the revenue/expenditure gap had narrowed in recent years in the Health and Community Center Fund, the numbers show a reversal of at least short term duration. The Township executed a multi – year lease with the State of Michigan for the Van Etten Lake campground in 2013. The VEL campground appears to be generating positive operating income, albeit of a modest nature. Evaluation as to the merit of maintaining this leasehold arrangement will include significant focus on these numbers over time. The underlying intent is to achieve economies of scale through integration with Old Orchard Park operations while maintaining recreational opportunities and creating net income to support other community needs.

Budgetary Highlights

The Township's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund.

During the fiscal year ended December 31, 2014 the Township Board amended the budget to take into account events occurring during the year. These budget amendments fall into two categories:

- Changes made to reflect increases or decreases in anticipated expenditures
- Changes made to reflect increases or decreases in anticipated revenues

General Fund

The General Fund actual revenue was \$2,504,564. That amount is below both the original budget estimate of \$2,517,100, and the final amended budget estimate of \$2,524,650. The variance between the original and amended budget was mainly the result of an increase in federal grants for a new USDA grant for the purchase of new digital police car cameras, which was offset by a decrease in state grants. The variance between the actual revenue and the final amended budget was mainly the result of the Township budgeting for additional Special Assessments that are now being recorded in the Road Improvement Fund.

General Fund (continued)

The actual expenditures of the General Fund were \$2,805,169, which is below both the original budget estimate of \$3,066,345, and the final amended budget estimate of \$3,095,735. The variance between the original and amended budget was mainly the result of an increase in debt service for the current loan principal and interest payments. The variance between the actual expenditures and the final amended budget was due to reduced spending in various functions of the Fund.

The General Fund had total revenues of \$2,504,564 and total expenditures of \$2,805,169 with an ending fund balance of \$1,548,479.

Operating transfers in of \$241,795 include revenues from Old Orchard Park, building rent and principal and interest on land contracts from the Property Operation and Maintenance Fund, and transfers from the Water Fund.

Capital Asset and Debt Administration

Capital Assets

Capital assets are defined by the Township as assets with an initial individual cost of more than \$7,500 and an estimated useful life in excess of one year. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated FMV (fair market value) at the date of donation.

The Township's infrastructure consists of water and sewer lines. Improvements are capitalized, i.e., depreciated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Capital Assets – Governmental Activities beginning balance was \$14,614,777 with an ending balance of \$14,456,618. Governmental Activities Total Capital Assets – Net of Depreciation was \$10,188,094. Current year activity included the purchase of a new pickup truck with a plow for approximately \$29,000, 5 new digital police car cameras for \$28,250, purchase and replacement of nine windows at the township hall for approximately \$16,000, two yurts including deck platforms for approximately \$32,600, and a tire changer/balancer for approximately \$6,000. Current year disposals included the donation of buildings and land costing approximately \$12,773 to Iosco County, the sale of a building and land costing \$58,200, one parcel of land costing approximately \$9,100, and the sale of two vehicles costing approximately \$190,700.

Capital Assets - Business Type Activities beginning balance was \$14,297,440 with an ending balance of \$14,361,406. Business-Type Activities Total Capital Assets – Net of Depreciation was \$7,775,560. Current year activity included construction in progress for engineering fees on the Wastewater Improvement project for approximately \$63,900. There were no current year disposals. An expanded and detailed presentation may be seen in Note 4 of the notes to financial statements.

Long-Term Debt

The Long-Term debt of the Charter Township of Oscoda, as noted on the financial statements contained herein, is comprised of debt related to direct business transactions by the Township Board of Trustees.

At year's end, long-term debt (due in more than one year) amounted to \$1,835,775. Such debt includes *Bonds Payable*, *Contracts Payable*, *Installment Purchases Payable*, as well as *Compensated Absences*. That is, accumulated vested vacation benefits payable and contingent liability for the accumulated sick leave benefits of its employees.

Economic Factors

It was stated in this narrative last year that taxable values “appear poised to reverse direction”. While this statement remains valid in theory, it unfortunately has not translated into a positive trend in terms of tax revenue. Tax revenues in fiscal year 2014 decreased by approximately \$40,720 compared to the preceding year. The previous years’ decrease was \$7,145 for comparative purposes. State shared revenues increased modestly but not enough to bridge the gap. At the same time, expenses continue to increase; incrementally in general and substantially in some specific instances. This includes a delayed “unwinding” of increased employee benefit costs relating to the recession of several years past. This scenario has the net effect of signaling a continuing need for prudence in oversight of Township finances. In short, it appears that a financial equilibrium or status quo has not yet arrived. This then makes construction of a sustainable financial model more challenging than normal.

On the other hand, despite the fiscal contraction and duress of past years, the Township continues to maintain a relatively positive fiscal position. This has taken place through development and implementation of deliberate budget reconciliation strategies. Such strategies require establishment of priorities and difficult decisions; that said, these initiatives have borne fruit over time. An important tipping point may have now arrived wherein continuing economic recovery will stave off the need for any additional reconciliation measures. Available evidence, anecdotal and otherwise, indicates that to be the case. In that instance more focus can be placed on investment for the future and long-term sustainability. Regardless, it remains critical to find ways to continue making investments in progress on behalf of the community.

Component Unit

Complete financial statements for the Charter Township of Oscoda Downtown Development Authority are included in this audit report.

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 should be addressed to the Charter Township of Oscoda Superintendent, 110 S. State Street, Oscoda, Michigan, 48750.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF NET POSITION
December 31, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority
Assets				
Cash and Cash Equivalents (Note 2)	\$ 3,200,674	\$ 1,784,282	\$ 4,984,956	\$ 71,033
Investments (Note 2)	1,678,737	258,382	1,937,119	0
Receivables:				
Property Taxes	1,412,208	0	1,412,208	0
Delinquent Taxes	5,596	0	5,596	0
Special Assessments	12,176	0	12,176	0
Accounts, Net	28,130	157,338	185,468	462
Land Contracts	10,722	0	10,722	0
Due from Local Units	31,525	5,170	36,695	0
Due from Component Unit (Note 3)	2,816	0	2,816	0
Due from State	115,574	3,037	118,611	0
Due from Federal Government	21,000	0	21,000	0
Internal Balances	3,013	(3,013)	0	0
Prepaid Expenses	50,991	21,275	72,266	0
Inventory	0	5,490	5,490	0
Restricted Assets:				
Cash and Cash Equivalents (Note 2)	0	175,394	175,394	0
Investments (Note 2)	0	73,607	73,607	0
Noncurrent Assets:				
Land Contracts Receivable	19,700	0	19,700	0
Special Assessment Receivable	16,177	0	16,177	0
Investment in Huron Shore Regional Utility Authority (Note 1)	0	4,143,582	4,143,582	0
Capital Assets Not Being Depreciated (Note 4)	5,105,798	86,851	5,192,649	21,928
Capital Assets, Net of Accumulated Depreciation (Note 4)	5,082,296	7,688,709	12,771,005	465,628
Total Assets	<u>16,797,133</u>	<u>14,400,104</u>	<u>31,197,237</u>	<u>559,051</u>
Deferred Outflows of Resources				
Deferred Charge on Refunding	<u>0</u>	<u>23,627</u>	<u>23,627</u>	<u>0</u>
Liabilities				
Accounts Payable	77,553	269,124	346,677	1,546
Due to Local Units	5,720	0	5,720	0
Due to State	3,501	14,553	18,054	0
Accrued Interest Payable	4,383	8,255	12,638	0
Deposits Payable	5,043	4,347	9,390	0
Accrued Liabilities	66,759	7,161	73,920	0
Due to Primary Government (Note 3)	0	0	0	2,816
Unearned Revenue	3,029	51,286	54,315	0
Long Term Liabilities: (Note 6)				
Due Within One Year	26,909	181,100	208,009	0
Due In More Than One Year	357,803	1,477,972	1,835,775	0
Total Liabilities	<u>550,700</u>	<u>2,013,798</u>	<u>2,564,498</u>	<u>4,362</u>
Deferred Inflows of Resources				
Property Taxes Levied for 2015	<u>1,412,208</u>	<u>0</u>	<u>1,412,208</u>	<u>0</u>
Net Position				
Net Investment in Capital Assets	9,921,421	6,210,187	16,131,608	487,556
Restricted For:				
Library Activities	159,949	0	159,949	0
Road Improvement	20,408	0	20,408	0
Property Operation and Maintenance	2,688,600	0	2,688,600	0
Capital Projects	344,950	0	344,950	0
Debt Service	0	77,667	77,667	0
Capital Improvements	0	171,334	171,334	0
Economic Development	7,666	0	7,666	67,133
Forest Roads	27,115	0	27,115	0
Cemetery	198,600	0	198,600	0
Unrestricted	<u>1,465,516</u>	<u>5,950,745</u>	<u>7,416,261</u>	<u>0</u>
Total Net Position	<u>\$ 14,834,225</u>	<u>\$ 12,409,933</u>	<u>\$ 27,244,158</u>	<u>\$ 554,689</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014

Function/Program	Net (Expense) Revenue and Changes in Net Position							Component Unit Downtown Development Authority
	Program Revenues				Primary Government			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental Activities:								
General Government	\$ 1,043,075	\$ 135,290	\$ 1,326	\$ 0	\$ (906,459)	\$ 0	\$ (906,459)	
Public Safety	1,313,947	281,683	55,753	21,000	(955,511)	0	(955,511)	
Public Works	239,607	27,066	23,631	0	(188,910)	0	(188,910)	
Community and Economic Development	554,587	13,180	8,133	0	(533,274)	0	(533,274)	
Recreation and Cultural	476,092	22,938	98,944	0	(354,210)	0	(354,210)	
Interest and Fees on Long-Term Debt	<u>6,570</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(6,570)</u>	<u>0</u>	<u>(6,570)</u>	
Total Governmental Activities	<u>3,633,878</u>	<u>480,157</u>	<u>187,787</u>	<u>21,000</u>	<u>(2,944,934)</u>	<u>0</u>	<u>(2,944,934)</u>	
Business-Type Activities:								
Sewer Services	561,611	593,310	52,574	0	0	84,273	84,273	
Water Services	848,321	948,417	0	0	0	100,096	100,096	
Old Orchard Park	541,997	725,100	0	0	0	183,103	183,103	
Community Center	125,510	50,050	0	0	0	(75,460)	(75,460)	
Van Etten Campground	<u>5,913</u>	<u>13,729</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,816</u>	<u>7,816</u>	
Total Business-Type Activities	<u>2,083,352</u>	<u>2,330,606</u>	<u>52,574</u>	<u>0</u>	<u>0</u>	<u>299,828</u>	<u>299,828</u>	
Total Primary Government	<u>\$ 5,717,230</u>	<u>\$ 2,810,763</u>	<u>\$ 240,361</u>	<u>\$ 21,000</u>	<u>(2,944,934)</u>	<u>299,828</u>	<u>(2,645,106)</u>	
Component Unit								
Downtown Development Authority	<u>\$ 44,016</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>				<u>\$ (44,016)</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014

<u>Function/Program</u>	Net (Expense) Revenue and Changes in Net Position							
	Program Revenues			Primary Government			Component Unit	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>	<u>Downtown Development Authority</u>
General Revenue:								
Property Taxes Levied For:								
General Operating					\$ 1,316,514	\$ 0	\$ 1,316,514	\$ 60,202
Senior Center					27,259	0	27,259	0
State Revenue Sharing					548,270	0	548,270	0
Interest and Investment Earnings					17,328	4,348	21,676	68
Rent Income					456,773	18,513	475,286	0
Insurance Recoveries					20,989	0	20,989	0
Gain (Loss) on Disposal of								
Capital Assets					(7,019)	100	(6,919)	0
Other					29,296	2,051	31,347	6,540
Transfers					<u>180,255</u>	<u>(180,255)</u>	<u>0</u>	<u>0</u>
Total General Revenue and Transfers					<u>2,589,665</u>	<u>(155,243)</u>	<u>2,434,422</u>	<u>66,810</u>
Change in Net Position					(355,269)	144,585	(210,684)	22,794
Net Position - Beginning					<u>15,189,494</u>	<u>12,265,348</u>	<u>27,454,842</u>	<u>531,895</u>
Net Position - Ending					<u>\$ 14,834,225</u>	<u>\$ 12,409,933</u>	<u>\$ 27,244,158</u>	<u>\$ 554,689</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2014

		Special Revenue Fund		
		Property Operation and Maintenance Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>	<u>General Fund</u>	<u>Property Operation and Maintenance Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and Cash Equivalents (Note 2)	\$ 1,401,924	\$ 1,232,014	\$ 566,736	\$ 3,200,674
Investments (Note 2)	85,675	1,407,495	185,567	1,678,737
Receivables:				
Property Taxes	1,412,208	0	0	1,412,208
Delinquent Taxes	5,596	0	0	5,596
Special Assessments	10,193	0	18,160	28,353
Accounts, Net	3,496	21,830	2,804	28,130
Land Contracts	0	30,422	0	30,422
Due from Local Units	18,364	0	10,913	29,277
Due from Component Unit (Note 3)	2,816	0	0	2,816
Due from State	115,574	0	0	115,574
Due from Federal Government	21,000	0	0	21,000
Due from Other Units of Government	0	0	2,248	2,248
Due from Other Funds (Note 3)	29,010	10,423	3,328	42,761
Prepaid Expenses	38,754	10,506	1,731	50,991
Total Assets	<u>\$ 3,144,610</u>	<u>\$ 2,712,690</u>	<u>\$ 791,487</u>	<u>\$ 6,648,787</u>
<u>Liabilities</u>				
Accounts Payable	\$ 59,087	\$ 17,221	\$ 1,245	\$ 77,553
Due to Other Funds (Note 3)	10,738	0	29,010	39,748
Due to State	3,501	0	0	3,501
Due to Other Units of Government	5,720	0	0	5,720
Deposits Payable	5,043	0	0	5,043
Accrued Liabilities	60,375	3,840	2,544	66,759
Unearned Revenue (Note 5)	0	3,029	0	3,029
Total Liabilities	<u>144,464</u>	<u>24,090</u>	<u>32,799</u>	<u>201,353</u>
<u>Deferred Inflows of Resources</u>				
Property Taxes Levied for 2015	1,412,208	0	0	1,412,208
Unavailable Revenue - Property Taxes	5,596	0	0	5,596
Unavailable Revenue - Land Contracts	0	30,422	0	30,422
Unavailable Revenue - STING Grant	13,866	0	0	13,866
Unavailable Revenue - Special Assessments	5,747	0	15,306	21,053
Unavailable Revenue - Timber Payment	0	0	10,913	10,913
Unavailable Revenue - Payment in Lieu of Tax	14,250	0	0	14,250
Total Deferred Inflows of Resources	<u>1,451,667</u>	<u>30,422</u>	<u>26,219</u>	<u>1,508,308</u>
<u>Fund Equity</u>				
Fund Balances:				
Nonspendable:				
Prepaid Expenses	38,754	10,506	1,731	50,991
Restricted For:				
Capital Projects	0	0	344,950	344,950
Property Operations and Maintenance	0	2,647,672	0	2,647,672
Library Activities	0	0	158,218	158,218
Cemetery	0	0	198,600	198,600
Road Improvement	0	0	5,102	5,102
Economic Development	0	0	7,666	7,666
Forest Roads	0	0	16,202	16,202
Committed To:				
Assigned To:				
2015 Budgeted Expenditures	440,510	0	0	440,510
Unassigned	1,069,215	0	0	1,069,215
Total Fund Equity	<u>1,548,479</u>	<u>2,658,178</u>	<u>732,469</u>	<u>4,939,126</u>
Total Liabilities, Deferred Inflows of Resources and Fund Equity	<u>\$ 3,144,610</u>	<u>\$ 2,712,690</u>	<u>\$ 791,487</u>	<u>\$ 6,648,787</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Losco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
December 31, 2014

Total Governmental Fund Balances		\$ 4,939,126
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:		
Capital Asset Cost	\$ 14,456,618	
Accumulated Depreciation	<u>(4,268,524)</u>	
		10,188,094
Other assets are not available to pay for current period expenditures and, therefore, are unavailable revenue in the governmental funds:		
Personal Property Taxes	5,596	
Land Contracts Receivable	30,422	
Special Assessments Receivable	21,053	
Grants Receivable	13,866	
Due From Local Units	<u>25,163</u>	
		96,100
Accrued Interest on Long-Term Liabilities		(4,383)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:		
Installment Purchases Payable	(266,673)	
Compensated Absences Payable	<u>(118,039)</u>	
Total Long-Term Liabilities		<u>(384,712)</u>
Total Net Position - Governmental Activities		<u>\$ 14,834,225</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014

	<u>General Fund</u>	<u>Special Revenue Fund Property Operation and Maintenance Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenue				
Property Taxes	\$ 1,408,244	\$ 0	\$ 0	\$ 1,408,244
Property Taxes - Senior Center	27,259	0	0	27,259
Federal Grants and Revenue	37,827	0	11,637	49,464
State Grants and Revenue	608,549	0	0	608,549
Contributions from Local Units	0	0	96,271	96,271
Charges for Services	331,829	0	3,675	335,504
Fines and Forfeits	9,437	0	0	9,437
Interest and Rentals	38,855	432,725	2,521	474,101
Special Assessments	7,459	0	5,102	12,561
Other Revenue	35,105	10,201	6,350	51,656
Total Revenue	<u>2,504,564</u>	<u>442,926</u>	<u>125,556</u>	<u>3,073,046</u>
Expenditures				
Current:				
General Government:				
Legislative	20,895	0	0	20,895
Chief Executive	169,329	0	0	169,329
Financial and Tax Administration	424,184	0	0	424,184
Other General Government	388,301	0	550	388,851
Public Safety	1,219,480	0	0	1,219,480
Public Works	90,068	0	79,652	169,720
Community and Economic Development	68,981	354,852	0	423,833
Recreation and Cultural	315,229	0	107,080	422,309
Capital Outlay	75,419	2,286	61,676	139,381
Debt Service:				
Principal	26,281	0	0	26,281
Interest and Fiscal Charges	7,002	0	0	7,002
Total Expenditures	<u>2,805,169</u>	<u>357,138</u>	<u>248,958</u>	<u>3,411,265</u>
Excess of Revenue Over (Under)				
Expenditures	<u>(300,605)</u>	<u>85,788</u>	<u>(123,402)</u>	<u>(338,219)</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	22,181	41,899	0	64,080
Insurance Recoveries	15,842	5,147	0	20,989
Operating Transfers In	241,795	0	75,838	317,633
Operating Transfers Out	(53,338)	(84,040)	0	(137,378)
Total Other Financing Sources (Uses)	<u>226,480</u>	<u>(36,994)</u>	<u>75,838</u>	<u>265,324</u>
Net Change in Fund Balances	(74,125)	48,794	(47,564)	(72,895)
Fund Balances - Beginning of Year	<u>1,622,604</u>	<u>2,609,384</u>	<u>780,033</u>	<u>5,012,021</u>
Fund Balances - End of Year	<u>\$ 1,548,479</u>	<u>\$ 2,658,178</u>	<u>\$ 732,469</u>	<u>\$ 4,939,126</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Osco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014

Total Net Change in Fund Balances - Governmental Funds	\$	(72,895)
Amounts reported for governmental activities in the statement of activities are different because:		
Receivables not currently available are reported as revenue when collected or when currently available in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements:		
Personal Property Taxes	\$	140
Land Contracts Receivable		(10,201)
State Grants Receivable		(2,024)
Special Assessments		(39,394)
Due from Local Units		<u>14,250</u>
Net difference		(37,229)
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 as depreciation expense.		
Capital Outlay		112,700
Current Year Depreciation Expense		(306,980)
Gain (Loss) on Disposal of Capital Assets		<u>(71,099)</u>
Net difference		(265,379)
Principal repayments on long-term debt are reported as expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The amount of repayments reported as expenditures in the governmental funds consist of:		
Installment Purchase Agreements Payable		26,281
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 the governmental funds:		
Net Change in Accrued Interest		432
Net Change in Accrued Compensated Absences		<u>(6,479)</u>
		<u>(6,047)</u>
Change in Net Position of Governmental Activities	\$	<u><u>(355,269)</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2014

	Enterprise Funds				Total
	Major Funds		Old Orchard Park Fund	Other Enterprise Funds	
	Sewage Disposal System Fund	Water Fund			
Assets					
Current Assets:					
Cash and Cash Equivalents (Note 2)	\$ 613,842	\$ 781,595	\$ 298,706	\$ 90,139	\$ 1,784,282
Investments (Note 2)	206,566	42,954	4,318	4,544	258,382
Receivables:					
Accounts, Net	63,754	93,398	186	0	157,338
Due from Local Units	1,060	4,110	0	0	5,170
Due from State	3,037	0	0	0	3,037
Due from Other Funds (Note 3)	1,487	21,373	385	100	23,345
Prepaid Expenses (Note 1)	6,076	4,309	6,208	4,682	21,275
Inventory (Note 1)	0	0	5,490	0	5,490
Restricted Assets:					
Cash and Cash Equivalents (Note 2)	123,981	51,413	0	0	175,394
Investments (Note 2)	14,692	58,915	0	0	73,607
Total Current Assets	<u>1,034,495</u>	<u>1,058,067</u>	<u>315,293</u>	<u>99,465</u>	<u>2,507,320</u>
Noncurrent Assets:					
Investment in Huron Shore Regional Utility Authority (Note 1)	0	4,143,582	0	0	4,143,582
Capital Assets Not Being Depreciated (Note 4)	67,916	18,935	0	0	86,851
Capital Assets, Net of Accumulated Depreciation (Note 4)	<u>2,479,872</u>	<u>4,368,979</u>	<u>158,562</u>	<u>681,296</u>	<u>7,688,709</u>
Total Noncurrent Assets	<u>2,547,788</u>	<u>8,531,496</u>	<u>158,562</u>	<u>681,296</u>	<u>11,919,142</u>
Total Assets	<u>3,582,283</u>	<u>9,589,563</u>	<u>473,855</u>	<u>780,761</u>	<u>14,426,462</u>
Deferred Outflows of Resources					
Deferred Charge on Refunding	<u>23,627</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>23,627</u>
Liabilities					
Current Liabilities:					
Accounts Payable	123,591	132,838	3,402	9,293	269,124
Due to Other Funds (Note 3)	19,886	0	0	6,472	26,358
Due to State	0	0	14,553	0	14,553
Accrued Interest Payable	7,654	601	0	0	8,255
Deposits Payable	0	0	3,276	1,071	4,347
Accrued Liabilities	1,620	706	2,834	2,001	7,161
Unearned Revenue	0	0	50,451	835	51,286
Current Portion of Long-Term Liabilities (Note 6)	<u>117,000</u>	<u>64,100</u>	<u>0</u>	<u>0</u>	<u>181,100</u>
Total Current Liabilities	269,751	198,245	74,516	19,672	562,184
Long-Term Liabilities:					
Due in More Than One Year (Note 6)	<u>1,472,744</u>	<u>1,487</u>	<u>3,741</u>	<u>0</u>	<u>1,477,972</u>
Total Liabilities	<u>1,742,495</u>	<u>199,732</u>	<u>78,257</u>	<u>19,672</u>	<u>2,040,156</u>
Net Position					
Net Investment In Capital Assets	982,415	4,387,914	158,562	681,296	6,210,187
Restricted For:					
Debt Service	52,125	25,542	0	0	77,667
Capital Improvements	86,548	84,786	0	0	171,334
Unrestricted	<u>742,327</u>	<u>4,891,589</u>	<u>237,036</u>	<u>79,793</u>	<u>5,950,745</u>
Total Net Position	<u>\$ 1,863,415</u>	<u>\$ 9,389,831</u>	<u>\$ 395,598</u>	<u>\$ 761,089</u>	<u>\$ 12,409,933</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended December 31, 2014

	Enterprise Funds				Total
	Major Funds		Old Orchard Park Fund	Other Enterprise Funds	
	Sewage Disposal System Fund	Water Fund			
Operating Revenue					
Charges For Services	\$ 574,951	\$ 922,074	\$ 0	\$ 1,582	\$ 1,498,607
User Fees	0	0	589,155	62,197	651,352
Store Sales	0	0	140,447	0	140,447
Tap Fees	8,000	7,065	0	0	15,065
Penalties	10,359	19,278	0	0	29,637
Rentals	0	0	12,572	1,439	14,011
Other Revenue	0	880	461	333	1,674
Total Operating Revenue	<u>593,310</u>	<u>949,297</u>	<u>742,635</u>	<u>65,551</u>	<u>2,350,793</u>
Operating Expenses					
Salaries and Wages	11,744	18,542	218,887	35,618	284,791
Payroll Taxes and Employee Benefits	1,282	1,957	58,096	3,025	64,360
Depreciation and Amortization	112,421	182,451	22,126	32,715	349,713
Gasoline and Oil	1,158	532	12,791	0	14,481
Insurance and Bonds	5,907	4,191	5,907	1,511	17,516
Licenses and Permits	0	0	3,718	110	3,828
Office and Operating Supplies	6,843	8,903	86,108	7,837	109,691
Printing and Advertising	1,644	660	2,970	246	5,520
Professional Fees and Services	287,407	291,285	4,703	3,476	586,871
Rent	0	0	2,674	0	2,674
Repair and Maintenance	12,288	20,937	32,238	4,632	70,095
Telephone	801	323	5,757	2,135	9,016
Utilities	72,239	310,213	76,089	39,656	498,197
Other	81	3,218	9,933	462	13,694
Total Operating Expenses	<u>513,815</u>	<u>843,212</u>	<u>541,997</u>	<u>131,423</u>	<u>2,030,447</u>
Operating Income (Loss)	<u>79,495</u>	<u>106,085</u>	<u>200,638</u>	<u>(65,872)</u>	<u>320,346</u>
Nonoperating Revenue (Expenses)					
State Grants and Revenue	52,574	0	0	0	52,574
Interest and Investment Earnings	2,113	1,814	324	97	4,348
Contributions	0	0	0	377	377
Interest and Fees Expense	(47,796)	(5,109)	0	0	(52,905)
Gain (Loss) on Disposal of Capital Assets	0	0	0	100	100
Total Nonoperating Revenue (Expenses)	<u>6,891</u>	<u>(3,295)</u>	<u>324</u>	<u>574</u>	<u>4,494</u>
Income (Loss) Before Operating Transfers	86,386	102,790	200,962	(65,298)	324,840
Operating Transfers In	0	0	0	49,100	49,100
Operating Transfers Out	0	(56,855)	(172,500)	0	(229,355)
Change in Net Position	86,386	45,935	28,462	(16,198)	144,585
Net Position - Beginning of Year	<u>1,777,029</u>	<u>9,343,896</u>	<u>367,136</u>	<u>777,287</u>	<u>12,265,348</u>
Net Position - End of Year	<u>\$ 1,863,415</u>	<u>\$ 9,389,831</u>	<u>\$ 395,598</u>	<u>\$ 761,089</u>	<u>\$ 12,409,933</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2014

	Enterprise Funds				
	Major Funds				Total
	Sewage Disposal System Fund	Water Fund	Old Orchard Park Fund	Other Enterprise Funds	
<u>Cash Flows From Operating Activities</u>					
Receipts From Customers	\$ 597,735	\$ 956,876	\$ 749,795	\$ 65,856	\$ 2,370,262
Payments to Suppliers for Goods and Services	(270,795)	(511,007)	(247,208)	(59,579)	(1,088,589)
Payments to Employees for Services	(12,590)	(20,494)	(272,960)	(38,446)	(344,490)
Net Cash Provided (Used) by Operating Activities	<u>314,350</u>	<u>425,375</u>	<u>229,627</u>	<u>(32,169)</u>	<u>937,183</u>
<u>Cash Flows From Non-Capital Financing Activities</u>					
State Grants Received	49,537	0	0	0	49,537
Cash Received from (Paid to) Other Funds	19,886	(76,741)	(172,885)	55,472	(174,268)
Local Contributions Received	0	0	0	377	377
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>69,423</u>	<u>(76,741)</u>	<u>(172,885)</u>	<u>55,849</u>	<u>(124,354)</u>
<u>Cash Flows From Capital and Related Financing Activities</u>					
Proceeds from Sale of Capital Assets	0	0	0	100	100
Acquisition and Construction of Capital Assets	(63,966)	0	0	0	(63,966)
Principal Paid on Long-Term Debt	(112,000)	(64,100)	0	0	(176,100)
Interest and Fees Paid on Long-Term Debt	(48,335)	(5,794)	0	0	(54,129)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(224,301)</u>	<u>(69,894)</u>	<u>0</u>	<u>100</u>	<u>(294,095)</u>
<u>Cash Flows From Investing Activities</u>					
Interest on Investments	2,113	1,814	324	97	4,348
Purchase of Investment Securities	(1,193)	(826)	(40)	(42)	(2,101)
Net Cash Provided (Used) by Investing Activities	<u>920</u>	<u>988</u>	<u>284</u>	<u>55</u>	<u>2,247</u>
Net Increase (Decrease) in Cash and Cash Equivalents	160,392	279,728	57,026	23,835	520,981
Cash and Cash Equivalents at Beginning of Year (Note 1)	<u>577,431</u>	<u>553,280</u>	<u>241,680</u>	<u>66,304</u>	<u>1,438,695</u>
Cash and Cash Equivalents at End of Year (Note 1)	<u>\$ 737,823</u>	<u>\$ 833,008</u>	<u>\$ 298,706</u>	<u>\$ 90,139</u>	<u>\$ 1,959,676</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>					
Operating Income (Loss)	\$ 79,495	\$ 106,085	\$ 200,638	\$ (65,872)	\$ 320,346
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation and Amortization Expense	112,421	182,451	22,126	32,715	349,713
Change in Assets and Liabilities:					
Accounts Receivable, Net	4,123	8,208	(186)	305	12,450
Inventory	0	0	(817)	0	(817)
Due from Local Units	302	(629)	0	0	(327)
Prepaid Expenses	(169)	(119)	1,278	(3,171)	(2,181)
Accounts Payable and Accrued Liabilities	118,150	129,323	4,584	3,854	255,911
Due to State	0	0	(7,906)	0	(7,906)
Unearned Revenue	0	0	7,346	0	7,346
Accrued Compensated Absences	28	56	2,564	0	2,648
Net Cash Provided (Used) by Operating Activities	<u>\$ 314,350</u>	<u>\$ 425,375</u>	<u>\$ 229,627</u>	<u>\$ (32,169)</u>	<u>\$ 937,183</u>

Supplemental Disclosures:

Noncash Capital and Related Financing Activities

The Water Fund recorded noncash activity in the form of a decrease in contracts payable and investment in Huron Shore Regional Utility Authority of \$9,025. This was the result of a decrease in the Charter Township of Oscoda's actual water usage percentage in the current year's joint venture membership gallon usage calculation.

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 FIDUCIARY FUNDS
December 31, 2014

	<u>Trust and Agency Fund</u>	<u>Tax Account</u>	<u>Total</u>
<u>Assets</u>			
Cash and Cash Equivalents (Note 2)	\$ <u>37,327</u>	\$ <u>1,144,513</u>	\$ <u>1,181,840</u>
 <u>Liabilities</u>			
Due to Local Units	\$ 1,035	\$ 1,144,513	\$ 1,145,548
Due to Others	<u>36,292</u>	<u>0</u>	<u>36,292</u>
Total Liabilities	<u>\$ 37,327</u>	<u>\$ 1,144,513</u>	<u>\$ 1,181,840</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Charter Township of Oscoda (Township) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The following is a summary of the significant accounting policies:

A. Description of Township Operations and Fund Types

The Charter Township of Oscoda was organized in 1970 under the Charter Township Act of 1947 and covers an area of approximately 120 square miles. The Charter Township operates under an elected Board (seven members) and provides services to its residents in many areas including law enforcement, fire protection, library, and water and sewer services.

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the Township are not misleading. The primary government of the Township consists of all funds, departments, boards, and agencies that are not legally separate from the Township.

Component units are legally separate organizations for which the Township is financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

In addition, the primary government is also financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

1. Discretely Presented Component Unit

The component unit column on the combined financial statements includes the financial data of the Township's component unit. This is reported in a separate column to emphasize that it is legally separate from the Township.

a. Governmental Activity and Fund Type Component Unit:

Charter Township of Oscoda Downtown Development Authority - The governing body of the Downtown Development Authority is appointed by the Township Board. The Authority was established to halt property value deterioration and to increase property tax valuation where possible in the business district of the Township, to eliminate the causes of that deterioration and to promote economic growth. Financial statements for the Downtown Development Authority are presented as part of other supplementary information and are not audited separately.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Joint Ventures

The Township has entered into several joint ventures with various municipalities described as follows:

Oscoda-AuSable Township Senior Center Building Authority

The Building Authority was established to provide for the acquisition and construction of certain public buildings, parking lots or structures, recreational facilities and the necessary sites therefore. Complete financial statements can be obtained from the AuSable Township Clerk's office, located at 311 Fifth Street, Oscoda, Michigan 48750.

Huron Shore Regional Utility Authority

The Huron Shore Regional Utility Authority was established as a joint venture between the City of Tawas City, City of East Tawas, Charter Township of Oscoda, Charter Township of AuSable, Township of Alabaster, Township of Baldwin, all municipalities in Iosco County, and the Township of Greenbush in Alcona County. The Authority was established to acquire, own, improve, enlarge, extend and operate water supply and distribution systems and sewage disposal systems. The initial contract amount plus any adjustment for the Charter Township of Oscoda's share of the contracts is recorded as Investment in Huron Shore Regional Utility Authority in the Water Fund of the Township because title to the water and sewer systems belongs to the Authority.

The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991 in the amount of \$7,930,000. These bonds were paid off in 2011. The assets of the joint water supply system are the property of the Huron Shore Regional Utility Authority and, therefore, are not presented in these financial statements.

In 1995, the Township entered into a joint water and sewer system agreement for the purpose of constructing additions, extensions, improvements and related appurtenances to the Huron Shore Regional Utility Authority Water and Sewer System No. 1, with the Charter Township of AuSable, City of Tawas City and the Township of Baldwin. The most current estimate of the Township's share is 51.28% of the total bond issue of \$1,300,000 or \$666,640. Each entity's percentage of payback will be based on actual gallon usage to be adjusted on an annual basis. The assets of the joint water supply system are the property of the Huron Shore Regional Utility Authority and, therefore, are not presented in these financial statements. The members of this joint venture have pledged their full faith and credit for the payment and are obligated to make such payments from their water funds, including ad-valorem taxes, if necessary. Currently, the Charter Township of Oscoda is making payments through charges for services. Each municipality makes an annual operation and maintenance contribution based on their proportionate share of the adopted annual budget. The Charter Township of Oscoda's contribution for the year ended December 31, 2014 was \$307,014. The current value of the Charter Township of Oscoda's investment in the Huron Shore Regional Utility Authority is \$4,143,582. Complete financial statements can be obtained from the Huron Shore Regional Utility Authority's office.

Oscoda-Wurtsmith Airport Authority

The Oscoda-Wurtsmith Airport Authority functions as a jointly governed organization between the County of Iosco, County of Alcona, Charter Township of Oscoda, Charter Township of AuSable and the Township of Greenbush. The Airport Authority was established to provide for planning, promoting, acquiring, constructing, improving, enlarging, extending, owning, maintaining and operating the landing, navigational and building facilities necessary thereto, at the former Wurtsmith Air Force Base, for the purpose of providing a Community Airport. The Charter Township of Oscoda has no financial obligation to the Airport Authority. Complete financial statements can be obtained from the Airport Authority Manager's office at 3961 East Airport Drive, Oscoda, Michigan 48750.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation

The Township's basic financial statements consist of government-wide financial statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government and its component units, except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the Township that are governmental and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for support.

The statement of net position presents the financial condition of the governmental and business-type activities of the Township at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Township's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Township, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the Township.

Fund Financial Statements

During the year, the Township segregates transactions related to certain Township functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type, and are excluded from the government-wide financial statements.

E. Fund Accounting

The Township uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Township functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds:

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

General Fund - This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state and federal distributions, grants and other intergovernmental revenue.

Property Operation and Maintenance Fund - This fund represents the primary maintenance budget for Township owned or leased facilities on the former Wurtsmith Air Force Base. Revenues include the sales, leases and land contracts for base property as well as other miscellaneous income including grants as they might become available.

The other governmental funds of the Township account for grants and other resources whose use is restricted for a particular purpose; the accumulation of resources for, and the payment of debt.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

The Township's enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the Township's major enterprise funds:

Sewage Disposal System Fund - This fund accounts for the revenues and expenditures required to operate the Township's sanitary sewer system including the new lagoon facility at the former Wurtsmith Air Force Base and all related appurtenances such as mains and pump stations. Revenues required to operate the system are derived primarily from user fees.

Water Fund - This fund is maintained to account for operations of the public water system. Revenue and expenditure line items reflect maintenance and operation of the water system in Oscoda as well as the Township's financial participation in the Huron Shore Regional Utility Authority. Like the Sewer Fund, revenues are derived primarily from user fees.

Old Orchard Park Fund - This fund was created when the Township acquired a leasehold interest in the Old Orchard Park property from Consumers Energy and began operating the campground. The fund normally generates a net positive cash flow which is available to support governmental functions through interbudgetary transfers.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The Township's agency funds account for assets held by the Township for political subdivisions in which the Township acts as fiscal agent for others. The Township uses these funds to account for payroll tax withholdings and the eventual payment of the liability, and property tax collections.

F. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the Township are included on the statement of net position.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Measurement Focus (Continued)

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in revenue, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows reflects how the Township finances and meets the cash flow needs of its enterprise activities.

G. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide, proprietary and fiduciary funds financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of unavailable revenue as deferred inflows of resources, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Township, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the Township receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from sales taxes is recognized in the period in which the sales are made. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Township must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Township on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: sales taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including sales tax), interest, grants and rent.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Basis of Accounting (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial 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 (revenue) until that time.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

H. Cash and Cash Equivalents

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Township are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value, except for repurchase agreements and certificates of deposit which are reported at cost which approximates fair value. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

I. Receivables

Receivables generally consist of accounts (fees), taxes, special assessments, interest, land contracts, and charges for sewer and water services due from various customers. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectability.

Of the \$30,422 balance for land contracts receivable, \$19,700 will not be collected in the next fiscal year. Of the \$28,353 balance for special assessments receivable, \$16,177 will not be collected in the next fiscal year. Therefore, \$19,700 of land contracts receivable and \$16,177 of special assessments receivable is also considered to be long-term.

The allowance for doubtful accounts at December 31, 2014 was \$0 for the primary government and the component unit.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Interfund Receivables and Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "due from/to other funds". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net position. The only interfund balances which remain on the government-wide statement of net position are those between governmental and business-type activities. These amounts are reflected as Internal Balances.

K. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

L. Deferred Charges

Contract discounts are deferred and amortized over the term of the contract using the straight-line method since the results are not significantly different from the effective interest method.

M. Inventory

Inventory is recorded in the Old Orchard Park Fund at the lower of cost or market, with cost determined on a first-in, first-out basis. All purchases for materials are reflected in expenses when paid in the other funds.

N. Enterprise Fund Restricted Assets

Restricted Assets are those assets required to meet the covenants and conditions of bond indentures and other contract agreements.

O. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column of the government-wide statement of net position and in the respective funds.

Capital assets are defined by the government as assets with an initial individual cost of more than \$7,500, or \$5,000 if purchased with federal funds, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The Township's infrastructure consists of water and sewer lines. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Capital Assets (Continued)

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

<u>Descriptions</u>	<u>Estimated Lives</u>
Land Improvements	15 - 40 years
Buildings and Improvements	10 - 40 years
Water and Sewer Lines	5 - 50 years
Machinery & Equipment	5 - 20 years
Vehicles	5 - 15 years

P. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise fund are reported on the enterprise fund statement. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

Q. Compensated Absences

The Township reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation and sick leave benefits are accrued as a liability using the vesting method. An accrual for earned vacation and sick leave is made based on accumulated vacation and sick leave and the employee wage rates at year end taking into consideration limits specified in the Township's termination policy. The Township records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The Township records a liability for sick leave earned at varying rates depending on the Township's policy.

The entire compensated absences liability is reported on the government-wide financial statements. On the governmental fund financial statements, the current portion of unpaid compensated absences is recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts, if any, are recorded in the account "Accrued Compensated Absences Payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported in the governmental fund financial statements. For enterprise funds, the entire amount of compensated absences is reported as a fund liability.

R. Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The Township reports three categories of net position as follows:

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 and increased by balances of deferred outflows of resources related to those assets.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Net Position (Continued)

Restricted net position - net position is considered restricted if their 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 bonds. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position - consists of all other net position that does not meet the definition of the above two components and is available for general use by the Township.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, management applies restricted net position first, unless a determination is made to use unrestricted net position. The Township's policy concerning which to apply first varies with the intended use and legal requirements. Management typically makes this decision on a transactional basis at the incurrence of the expenditure.

S. Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form—pre-paid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolution of the Township Board—the Township's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Township Board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance. This classification reflects the amounts constrained by the Township's "intent" to be used for specific purposes, but are neither restricted nor committed. The Township Board or personnel authorized by the Township Board, the Township Treasurer, or Township Superintendent have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use externally restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the Township, these revenues are charges for services for water, sewer, community center, campground and park usage. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

U. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

V. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended December 31, 2014.

W. Budgets and Budgetary Accounting

The Charter Township of Oscoda normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to December 1, the Township Clerk submits to the Township Board a proposed operating budget for the fiscal year commencing the following January 1. This operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the governmental center to obtain taxpayer comments.
3. Prior to January 1, the budget is legally enacted through passage of an ordinance.
4. All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, and as amended by the Township Board throughout the operating year.

The Township adopts budgets for the General Fund and Special Revenue Funds.

The budgets of the Township are prepared on the same basis of accounting as the financial statement presentation. The budgets were adopted at the activity level.

The legal level of control is at the activity level for the General Fund and Special Revenue Funds.

Revisions that alter the total expenditures of any fund or total department expenditures must be approved by the Township Board. The financial statements include budgetary amounts as amended.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

X. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Y. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

Z. Recently Issued Accounting Standards

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Township is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending December 31, 2015.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Unit</u>
Cash and Cash Equivalents	\$ 3,200,674	\$ 1,784,282	\$ 1,181,840	\$ 6,166,796	\$ 71,033
Investments	1,678,737	258,382	0	1,937,119	0
Restricted Cash and Cash Equivalents	0	175,394	0	175,394	0
Restricted Investments	<u>0</u>	<u>73,607</u>	<u>0</u>	<u>73,607</u>	<u>0</u>
Total	<u>\$ 4,879,411</u>	<u>\$ 2,291,665</u>	<u>\$ 1,181,840</u>	<u>\$ 8,352,916</u>	<u>\$ 71,033</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

The breakdown between deposits and investments is as follows:

	Primary Government	Component Unit
Bank Deposits (Checking and Savings Accounts and Certificates of Deposit)	\$ 8,250,015	\$ 71,033
Investments in Financial Institution Pooled Funds	99,406	0
Petty Cash and Cash on Hand	3,495	0
Total	\$ 8,352,916	\$ 71,033

As of December 31, 2014, the Township had the following investments.

Investment Type	Fair Value	Specific Identification Maturities
Primary Government: Investment Pools	\$ 99,406	Daily

Interest Rate Risk

In accordance with its investment policy, the Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Township's known cash requirements.

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a local government unit in Michigan. The Township's MBIA Asset Management Group investment pool is rated AAAM by Standard & Poors.

Custodial Credit Risk - Deposits - Primary Government

In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of December 31, 2014, \$6,482,140 of the Township's bank balance of \$7,982,140 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Deposits - Component Unit

In the case of deposits, this is the risk that in the event of a bank failure, the component unit's deposits may not be returned to it. As of December 31, 2014, \$0 of the Downtown Development Authority's bank balance of \$71,033 was exposed to custodial credit risk.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk – Investments

For an investment, this 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.

The Township will minimize custodial credit risk, by; limiting investments to the types of securities approved in the Township's investment policy which is in accordance with State law, and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Township will do business.

Foreign Currency Risk

The Township's investment policy does not address foreign currency risk.

Investments

The Township Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Township to deposit and invest in the following:

- λ Accounts of federally insured banks, credit unions and savings and loan associations
- λ Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- λ United States government or federal agency obligation repurchase agreements
- λ Banker's acceptances of United States banks
- Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Township's deposits and investments are in accordance with statutory authority.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of December 31, 2014 were as follows:

<u>Due to</u>	<u>Due from</u>				Total
	General Fund	Sewage Disposal System Fund	Non-major Governmental Funds	Non-major Enterprise Funds	
General Fund	\$ 0	\$ 0	\$ 29,010	\$ 0	\$ 29,010
Property Operation and Maintenance Fund	6,000	0	0	4,423	10,423
Non-major Governmental Funds	1,664	0	0	1,664	3,328
Sewage Disposal System Fund	1,487	0	0	0	1,487
Water Fund	1,487	19,886	0	0	21,373
Old Orchard Park Fund	0	0	0	385	385
Non-major Enterprise Funds	100	0	0	0	100
	<u>\$ 10,738</u>	<u>\$ 19,886</u>	<u>\$ 29,010</u>	<u>\$ 6,472</u>	<u>\$ 66,106</u>
<u>Due to Primary Government</u>		<u>Due from Component Unit</u>			
Downtown Development Authority	<u>\$ 2,816</u>	General Fund		<u>\$ 2,816</u>	

These balances result from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payments between funds are made.

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the primary government for the fiscal year ended December 31, 2014, was as follows:

	Balance 01/01/14	Additions	Deletions	Balance 12/31/14
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 5,127,703	\$ 0	\$ (21,905)	\$ 5,105,798
Capital Assets Being Depreciated:				
Land Improvements	1,836,446	0	0	1,836,446
Buildings and Improvements	5,415,447	49,116	(58,223)	5,406,340
Machinery and Equipment	677,971	34,574	0	712,545
Vehicles	1,557,210	29,010	(190,731)	1,395,489
Subtotal	<u>9,487,074</u>	<u>112,700</u>	<u>(248,954)</u>	<u>9,350,820</u>
Less Accumulated Depreciation for:				
Land Improvements	(506,588)	(57,356)	0	(563,944)
Buildings and Improvements	(2,038,423)	(147,065)	9,029	(2,176,459)
Machinery and Equipment	(567,740)	(35,735)	0	(603,475)
Vehicles	(1,048,553)	(66,824)	190,731	(924,646)
Subtotal	<u>(4,161,304)</u>	<u>(306,980)</u>	<u>199,760</u>	<u>(4,268,524)</u>
Capital Assets Being Depreciated	<u>5,325,770</u>	<u>(194,280)</u>	<u>(49,194)</u>	<u>5,082,296</u>
Governmental Activities Total	<u>\$ 10,453,473</u>	<u>\$ (194,280)</u>	<u>\$ (71,099)</u>	<u>\$ 10,188,094</u>
Capital Assets - Net of Depreciation				

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Balance 01/01/14	Additions	Deletions	Balance 12/31/14
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 22,885	\$ 0	\$ 0	\$ 22,885
Construction in Progress	<u>0</u>	<u>63,966</u>	<u>0</u>	<u>63,966</u>
Subtotal	<u>22,885</u>	<u>63,966</u>	<u>0</u>	<u>86,851</u>
Capital Assets Being Depreciated:				
Land Improvements	173,785	0	0	173,785
Buildings and Improvements	1,218,597	0	0	1,218,597
Machinery and Equipment	477,470	0	0	477,470
Infrastructure	<u>12,404,703</u>	<u>0</u>	<u>0</u>	<u>12,404,703</u>
Subtotal	<u>14,274,555</u>	<u>0</u>	<u>0</u>	<u>14,274,555</u>
Less Accumulated Depreciation for:				
Land Improvements	(64,288)	(8,689)	0	(72,977)
Buildings and Improvements	(355,650)	(46,367)	0	(402,017)
Machinery and Equipment	(395,257)	(26,847)	0	(422,104)
Infrastructure	<u>(5,423,361)</u>	<u>(265,387)</u>	<u>0</u>	<u>(5,688,748)</u>
Subtotal	<u>(6,238,556)</u>	<u>(347,290)</u>	<u>0</u>	<u>(6,585,846)</u>
Capital Assets Being Depreciated	<u>8,035,999</u>	<u>(347,290)</u>	<u>0</u>	<u>7,688,709</u>
Business-Type Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 8,058,884</u>	<u>\$ (283,324)</u>	<u>\$ 0</u>	<u>\$ 7,775,560</u>

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

<u>Governmental Activities</u>	
General Government	\$ 34,525
Public Safety	68,775
Public Works	27,644
Community and Economic Development	127,358
Recreation and Cultural	<u>48,678</u>
Total Governmental Activities	<u>\$ 306,980</u>
<u>Business-Type Activities</u>	
Sewer	\$ 109,998
Water	182,451
Old Orchard Park	22,126
Community Center	<u>32,715</u>
Total Business-Type Activities	<u>\$ 347,290</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Capital asset activity of the Downtown Development Authority for the current year is as follows:

	Balance 01/01/14	Additions	Deletions	Balance 12/31/14
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ <u>21,928</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>21,928</u>
Capital Assets Being Depreciated				
Land Improvements	520,733	0	0	520,733
Less Accumulated Depreciation for:				
Land Improvements	<u>(29,068)</u>	<u>(26,037)</u>	<u>0</u>	<u>(55,105)</u>
Capital Assets Being Depreciated	<u>491,665</u>	<u>(26,037)</u>	<u>0</u>	<u>465,628</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	\$ <u>513,593</u>	\$ <u>(26,037)</u>	\$ <u>0</u>	\$ <u>487,556</u>

Depreciation expense was charged to programs of the Downtown Development Authority as follows:

<u>Governmental Activities</u>	
Community and Economic Development	\$ <u>26,037</u>

NOTE 5 - UNEARNED REVENUE

Governmental and Proprietary funds unearned revenue recognition is in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned revenue are as follows:

<u>Major Governmental Funds:</u>	
Property Operation and Maintenance Fund - Rent	\$ 3,029
<u>Major Business-Type Activity Funds:</u>	
Old Orchard Park Fund - User Fees	50,451
Non-Major Enterprise Funds - User Fees	<u>835</u>
Total	\$ <u>54,315</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 6 - LONG-TERM LIABILITIES

Primary Government:

A. Bonds Payable

	<u>Governmental</u>	<u>Business-Type</u>
--	---------------------	----------------------

General Obligation Bonds Payable:

\$2,024,000 Series 2011 Limited Tax General Obligation Sewage Disposal System Refunding Bonds, dated September 28, 2011 for the purpose of advance refunding the \$2,270,000 Sewage Disposal System Contract. The bonds bear interest at 2.89% and are due in bi-annual installments through 2024.

	\$ 0	\$ 1,589,000
--	------	--------------

B. Contracts Payable

Joint water and sewer system agreement for the purpose of constructing additions, extensions, improvements and related appurtenances to the Huron Shore Regional Utility Authority Water Sewer System No. 1, with the Charter Township of AuSable, the Township of Baldwin, and the City of Tawas City bonds dated November 1, 1995, due in annual installments through May 1, 2015, and bearing interest at 5.625%. The most current estimate of the Township's share is 51.28% of the total bond issue of \$1,300,000 or \$666,640.

	0	64,100
--	---	--------

C. Installment Purchases Payable

	<u>Governmental</u>	<u>Business-Type</u>
--	---------------------	----------------------

On April 24, 2013, the Township entered into an installment purchase agreement with Pierce Manufacturing, Inc. in the amount of \$292,954 for the purchase of a new fire truck, which was subsequently assigned to Chemical Bank immediately following the purchase. The truck has been recorded as a capital asset at its purchase price. This note is repayable in 10 annual installments ranging from \$26,281 to \$32,506 including interest at the rate of 2.39% on the unpaid balance.

	266,673	0
--	---------	---

Total Primary Government

	\$ 266,673	\$ 1,653,100
--	------------	--------------

D. Compensated Absences Payable

The Township has an accrued liability for accumulated vested vacation and sick leave benefits of its employees. As of December 31, 2014, the accumulated vested vacation and sick leave benefits of the employees of various Township departments were as follows:

CHARTER TOWNSHIP OF OSCODA
Osco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

D. Compensated Absences Payable (Continued)

	Current Liability	Long-Term Liability	Total Balance
	<u>12/31/14</u>	<u>12/31/14</u>	<u>12/31/14</u>
<u>Accrued Employee Benefits Payable</u>			
<u>Primary Government</u>			
Governmental Activities	\$ 0	\$ 118,039	\$ 118,039
Business-Type Activities	<u>0</u>	<u>5,972</u>	<u>5,972</u>
	<u>\$ 0</u>	<u>\$ 124,011</u>	<u>\$ 124,011</u>

The employment policies for accumulation of vacation and sick leave benefits vary based on union membership and employee group.

E. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the Township for the year ended December 31, 2014:

	Balance <u>01/01/14</u>	Issues or <u>Additions</u>	Payments or <u>Expenditures</u>	Balance <u>12/31/14</u>	Due Within <u>One Year</u>
<u>Governmental Activities</u>					
Primary Government:					
Installment Purchases Payable	\$ 292,954	\$ 0	\$ (26,281)	\$ 266,673	\$ 26,909
Compensated Absences	<u>111,560</u>	<u>6,479</u> *	<u>0</u>	<u>118,039</u>	<u>0</u>
Total Primary Government	<u>\$ 404,514</u>	<u>\$ 6,479</u>	<u>\$ (26,281)</u>	<u>\$ 384,712</u>	<u>\$ 26,909</u>
	<u>Balance 01/01/14</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance 12/31/14</u>	<u>Due Within One Year</u>
<u>Business-Type Activities</u>					
Primary Government:					
Bonds Payable	\$ 1,701,000	\$ 0	\$ (112,000)	\$ 1,589,000	\$ 117,000
Contracts Payable	137,225	0	(73,125)	64,100	64,100
Compensated Absences	<u>3,324</u>	<u>2,648</u> *	<u>0</u>	<u>5,972</u>	<u>0</u>
Total Primary Government	<u>\$ 1,841,549</u>	<u>\$ 2,648</u>	<u>\$ (185,125)</u>	<u>\$ 1,659,072</u>	<u>\$ 181,100</u>

*Represents net of additions and retirements for the year.

The interest expense on long-term obligations for the year was \$59,475.

Compensated absences for the governmental funds are generally liquidated by the General fund.

CHARTER TOWNSHIP OF OSCODA
Osco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

The annual aggregate maturities for all debt outstanding (excluding compensated absences) as of December 31, 2014 are as follows:

Primary Government

Bonds Payable	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2015	\$ 0	\$ 0	\$ 117,000	\$ 45,070	\$ 162,070
2016	0	0	125,000	41,630	166,630
2017	0	0	135,000	37,946	172,946
2018	0	0	145,000	33,972	178,972
2019	0	0	154,000	29,709	183,709
2020 - 2024	<u>0</u>	<u>0</u>	<u>913,000</u>	<u>75,400</u>	<u>988,400</u>
Total	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,589,000</u>	<u>\$ 263,727</u>	<u>\$ 1,852,727</u>

Contracts Payable	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2015	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 64,100</u>	<u>\$ 1,803</u>	<u>\$ 65,903</u>

Installment Purchases Payable	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2015	\$ 26,909	\$ 6,373	\$ 0	\$ 0	\$ 33,282
2016	27,552	5,730	0	0	33,282
2017	28,211	5,072	0	0	33,283
2018	28,885	4,398	0	0	33,283
2019	29,575	3,707	0	0	33,282
2020 - 2023	<u>125,541</u>	<u>7,590</u>	<u>0</u>	<u>0</u>	<u>133,131</u>
Total	<u>\$ 266,673</u>	<u>\$ 32,870</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 299,543</u>

NOTE 7 - PROPERTY TAXES

Property taxes include amounts levied against all real property and tangible personal property located in the Township. Properties are assessed as of December 1 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls. For the December 1, 2013 levy, which is considered to be revenue for the 2014 fiscal year, the taxable value for properties located within the Township was \$281,767,871. The 2013 tax rates are currently 4.6908 mills for operating and .0989 for seniors.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 8 - OPERATING TRANSFERS

During the year ended December 31, 2014, the following transfers were made:

<u>Transfer to</u>	<u>Transfer from</u>				<u>Total</u>
	<u>General Fund</u>	<u>Property Operation and Maintenance Fund</u>	<u>Water Fund</u>	<u>Old Orchard Park Fund</u>	
General Fund	\$ 0	\$ 34,940	\$ 56,855	\$ 150,000	\$ 241,795
Non-major Governmental Funds	53,338	0	0	22,500	75,838
Non-major Enterprise Funds	<u>0</u>	<u>49,100</u>	<u>0</u>	<u>0</u>	<u>49,100</u>
	<u>\$ 53,338</u>	<u>\$ 84,040</u>	<u>\$ 56,855</u>	<u>\$ 172,500</u>	<u>\$ 366,733</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 9 - RETIREMENT SYSTEM - MERS OPERATED

Defined Benefit Plan

Plan Description

The Township's defined benefit pension plan, covering its police union employees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The plan is affiliated with the Municipal Employees Retirement System (MERS) of Michigan, an agent multiple-employer, state-wide, public employee pension created under Public Act 135 of 1945, and now operating under Public Act 220 of 1996, and the MERS Plan Document as revised. Any municipality within the State may elect to become a participating member of MERS or elect to terminate participation by a majority vote of the municipality's governing body. Changes in benefit coverage are available to bargaining units after approval by a majority of the municipality's governing body. The MERS of Michigan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MERS of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

Funding Policy

The Township is required to contribute at an actuarially determined rate. The current rate is 23.24% of the covered payroll for all employees. The contribution requirements of the plan members is 5.00% of their annual compensation. If a member leaves the employment of the Township, or dies, without a retirement allowance or other benefit payable on his/her account, the member's accumulated contributions (with interest) are refunded with spousal consent to the member, if living, or to the member's surviving spouse or beneficiary. The contribution requirements are established and may be amended by the MERS Retirement Board.

CHARTER TOWNSHIP OF OSCODA
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 9 - RETIREMENT SYSTEM - MERS OPERATED (CONTINUED)

Annual Pension Cost

For the year ended December 31, 2014, the Township's annual pension cost of \$120,712 was equal to the Township's required and actual contributions. The required contribution was determined as part of the December 31, 2012 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases of 4.5% per year compounded annually, and (c) additional projected salary increases of 0% to 13.0% per year, depending on age, attributable to merit, longevity and promotions. Both (a) and (b) include an inflation component. The actuarial value of the plan assets was determined using techniques that spread the effect of short-term volatility in the market value of investments over a ten-year period. The plans unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2013 was 25 years.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
December 31, 2012	\$ 85,058	100 %	\$ 0
December 31, 2013	\$ 90,864	100 %	\$ 0
December 31, 2014	\$ 120,712	100 %	\$ 0

Funded Status and Funding Progress

As of December 31, 2013, the most recent actuarial valuation date, the plan was 69% funded. The actuarial accrued liability for benefits was \$3,753,826, and the actuarial value of assets was \$2,589,177, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,164,649. The covered payroll (annual payroll of active employees covered by the plan) was \$486,798, and the ratio of the UAAL to the covered payroll was 239%.

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a) / c)</u>
12/31/11	\$ 2,537,331	\$ 3,453,170	\$ 915,839	73 %	\$ 498,454	184 %
12/31/12	\$ 2,550,937	\$ 3,596,366	\$ 1,045,429	71 %	\$ 442,857	236 %
12/31/13	\$ 2,589,177	\$ 3,753,826	\$ 1,164,649	69 %	\$ 486,798	239 %

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 10 - RETIREMENT PLAN

The Township has adopted a defined contribution pension plan covering all full-time employees administered by Security Benefits. Eligibility to become a participant is limited to those employees who, on the effective date or on any anniversary date, are not on leave of absence and have attained age twenty-one.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

Contributions made by the Township vest immediately. The Township is required to contribute an amount equal to 10% of the employee's base pay.

During the year, the Township's required and actual contributions amounted to \$61,800, which was 10% of its current-year covered payroll.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township.

NOTE 11 - DEFERRED COMPENSATION PLAN

The Township offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC) Section 457. The assets of the plans are held in trust, in a custodial account as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the Township for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Township's financial statements.

NOTE 12 - UNEMPLOYMENT COMPENSATION

The Township is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Township must reimburse the Employment Agency for all benefits charged against the Township. Accrued unemployment compensation was \$18,054 as of December 31, 2014.

NOTE 13 - LEASE COMMITMENTS

The Township has entered into a lease agreement with Consumers Energy for the rental of Old Orchard Park Campground and boating access facilities. The lease is for a period of 20 years at an amount not to exceed \$5,000 per year based on expenses the lessor has incurred in administering the terms of the lease. In addition, the Township shall pay all taxes, assessments and other public charges levied on the leased premises during each year that the lease is in effect. The Township must also contribute \$20,000 per year to a capital improvement account until a maximum balance of \$100,000 is achieved. The Annual Capital Contribution and Capital Fund Cap shall be adjusted on each 5 year anniversary date of this lease to reflect the change in the Consumer Price Index. Upon termination of this lease, any balance remaining in this capital account becomes the property of Consumers Energy.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 13 - LEASE COMMITMENTS (CONTINUED)

The Township has entered into a lease agreement with the State of Michigan Department of Natural Resources for the rental of Van Etten Lake State Forest Campground and Public Boating Access Site. The lease is for a period of five years ending May 31, 2018. In lieu of rent, the Township shall be responsible for all costs associated with the operation and maintenance of the leased premises during each year that the lease is in effect.

NOTE 14 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries, as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefits claims, general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Township is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, the Township's attorney believes there is some financial exposure. However, these proceedings, either singularly or in the aggregate will not have a materially adverse effect on the accompanying financial statements of the Township. However, the amount of any damages cannot be reasonably determined at this time.

NOTE 15 - CONTINGENCIES

The Township participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended December 31, 2014, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the Township expects such amounts, if any, to be immaterial.

In July 2010, the Township was issued a discharge permit by the Michigan Department of Environmental Quality (MDEQ) for the Oscoda Township Wastewater Treatment Lagoon System that was modified significantly from the original permit. These modifications would require a substantial investment to upgrade the existing Wastewater Treatment Lagoon System, with an estimated cost between \$1.1 - \$1.4 million depending on construction bids. The Township filed a work plan for the improvements with MDEQ, which they have approved. The Township is also considering additional improvements to the lagoon and wastewater collection system, largely independent of the amended permit, which could result in additional investments approaching \$1 million.

The Township's approved work plan is as follows:

- The Charter Township of Oscoda will prepare and submit an SRF Project Plan to the MDEQ presenting the proposed wastewater treatment facility improvements by no later than September 1, 2013. The plan was submitted by the Township and the Township is currently waiting on approval of the plan from MDEQ.
- Upon MDEQ review and written approval of the SRF Project Plan, the Charter Township of Oscoda will commence preparation of engineering plans and specifications detailing the proposed wastewater treatment facility improvements with submittal to the MDEQ for Part 41 permit review by no later than August 1, 2014. The Township is currently in the process and has commenced the preparation of engineering plans and specifications detailing the proposed wastewater treatment facility improvements. In addition, the Township has entered into an Engineering commitment (Note 16) as of December 31, 2014.
- Concurrent with developing engineering plans and specifications that detail the proposed wastewater treatment facility improvements, the Charter Township of Oscoda will investigate funding opportunities including an SRF loan, issuance of debt or other viable alternatives as determined by the Township.

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 15 - CONTINGENCIES (CONTINUED)

- Upon securing adequate and acceptable funding and receiving the required Part 41 construction permit approval issued by the Saginaw/Bay District Office, MDEQ for the project engineering plans and specifications, the Charter Township of Oscoda will complete construction of the wastewater treatment facility improvements by no later than September 17, 2016.

Township officials are now working with a consulting firm on obtaining financial assistance through the State of Michigan's SRF grant program for infrastructure evaluation and treatment facility improvement planning efforts.

NOTE 16 - COMMITMENTS

The Township has contractual commitments in the amount of \$135,780 outstanding at December 31, 2014.

Construction contracts

As of December 31, 2014, the Township had the following construction contracts in progress:

<u>Project</u>	<u>Total Contract</u>	<u>Remaining Construction Commitment at December 31, 2014</u>	<u>Contract Payable at December 31, 2014</u>
Wastewater Treatment Lagoon System Improvements - Engineering Fees	\$ <u>135,780</u>	\$ <u>71,814</u>	\$ <u>0</u>

In addition, the Township entered into a construction management contract with J.E. Johnson Development to provide project management services for the proposed expansion to the Veterans Affairs Outpatient Clinic at 7% of the total construction contract amount.

REQUIRED SUPPLEMENTARY INFORMATION

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 GENERAL FUND

For the Year Ended December 31, 2014

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Property Taxes	\$ 1,417,500	\$ 1,416,200	\$ 1,408,244	\$ (7,956)
Property Taxes - Senior Center	28,000	28,000	27,259	(741)
Federal Grants and Revenue	25,000	41,000	37,827	(3,173)
State Grants and Revenue	615,500	587,675	608,549	20,874
Charges for Services	319,225	320,025	331,829	11,804
Fines and Forfeits	3,000	12,000	9,437	(2,563)
Interest and Rentals	36,950	36,700	38,855	2,155
Special Assessments	55,725	50,000	7,459	(42,541)
Other Revenue	16,200	33,050	35,105	2,055
Total Revenue	2,517,100	2,524,650	2,504,564	(20,086)
<u>Expenditures</u>				
Current:				
General Government:				
Legislative	20,585	22,285	20,895	1,390
Chief Executive	180,105	177,205	169,329	7,876
Financial and Tax Administration	449,570	448,045	424,184	23,861
Other General Government	463,400	447,275	388,301	58,974
Public Safety	1,208,895	1,311,120	1,219,480	91,640
Public Works	170,000	105,000	90,068	14,932
Community and Economic Development	87,655	78,610	68,981	9,629
Recreation and Cultural	273,935	317,185	315,229	1,956
Capital Outlay	212,200	155,700	75,419	80,281
Debt Service:				
Principal	0	26,300	26,281	19
Interest and Fiscal Charges	0	7,010	7,002	8
Total Expenditures	3,066,345	3,095,735	2,805,169	290,566
Excess of Revenue Over (Under) Expenditures	(549,245)	(571,085)	(300,605)	270,480
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	2,000	17,000	22,181	5,181
Insurance Recoveries	0	13,000	15,842	2,842
Operating Transfers In	241,795	241,795	241,795	0
Operating Transfers Out	(28,500)	(82,275)	(53,338)	28,937
Total Other Financing Sources (Uses)	215,295	189,520	226,480	36,960
Net Change in Fund Balances	(333,950)	(381,565)	(74,125)	307,440
Fund Balances - Beginning of Year	1,622,604	1,622,604	1,622,604	0
Fund Balances - End of Year	\$ 1,288,654	\$ 1,241,039	\$ 1,548,479	\$ 307,440

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 PROPERTY OPERATION AND MAINTENANCE FUND - SPECIAL REVENUE FUND
For the Year Ended December 31, 2014

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Interest and Rentals	\$ 438,765	\$ 422,000	\$ 432,725	\$ 10,725
Other Revenue	<u>0</u>	<u>12,000</u>	<u>10,201</u>	<u>(1,799)</u>
Total Revenue	<u>438,765</u>	<u>434,000</u>	<u>442,926</u>	<u>8,926</u>
<u>Expenditures</u>				
Current:				
Community and Economic Development	349,145	378,345	354,852	23,493
Capital Outlay	<u>71,000</u>	<u>5,000</u>	<u>2,286</u>	<u>2,714</u>
Total Expenditures	<u>420,145</u>	<u>383,345</u>	<u>357,138</u>	<u>26,207</u>
Excess of Revenue Over (Under) Expenditures	<u>18,620</u>	<u>50,655</u>	<u>85,788</u>	<u>35,133</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	0	8,200	41,899	33,699
Insurance Recoveries	0	0	5,147	5,147
Operating Transfers Out	<u>(84,040)</u>	<u>(84,040)</u>	<u>(84,040)</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>(84,040)</u>	<u>(75,840)</u>	<u>(36,994)</u>	<u>38,846</u>
Net Change in Fund Balances	(65,420)	(25,185)	48,794	73,979
Fund Balances - Beginning of Year	<u>2,609,384</u>	<u>2,609,384</u>	<u>2,609,384</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 2,543,964</u>	<u>\$ 2,584,199</u>	<u>\$ 2,658,178</u>	<u>\$ 73,979</u>

OTHER INFORMATION

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
December 31, 2014

	Special Revenue Funds						Total Other Governmental Funds
	Forest Reserve Fund	Old Orchard Park Improvement Fund	Public Improvement Fund	CDBG Renaissance Fund	Road Improvement Fund	Library Fund	
Assets							
Cash and Cash Equivalents	\$ 6,336	\$ 214,379	\$ 240,916	\$ 7,185	\$ 0	\$ 97,920	\$ 566,736
Investments	9,866	9,349	107,916	481	0	57,955	185,567
Receivables:							
Special Assessments	0	0	0	0	18,160	0	18,160
Accounts, Net	0	0	0	0	0	2,804	2,804
Due from Local Units	10,913	0	0	0	0	0	10,913
Due from Other Units of Government	0	0	0	0	2,248	0	2,248
Due from Other Funds	0	0	0	0	0	3,328	3,328
Prepaid Expenses	0	0	0	0	0	1,731	1,731
Total Assets	\$ 27,115	\$ 223,728	\$ 348,832	\$ 7,666	\$ 20,408	\$ 163,738	\$ 791,487
Liabilities							
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,245	\$ 1,245
Due to Other Funds	0	0	29,010	0	0	0	29,010
Accrued Liabilities	0	0	0	0	0	2,544	2,544
Total Liabilities	0	0	29,010	0	0	3,789	32,799
Deferred Inflows of Resources							
Unavailable Revenue - Timber Payment	10,913	0	0	0	0	0	10,913
Unavailable Revenue - Special Assessments	0	0	0	0	15,306	0	15,306
Total Deferred Inflows of Resources	10,913	0	0	0	15,306	0	26,219
Fund Equity							
Fund Balances:							
Nonspendable:							
Prepaid Expenses	0	0	0	0	0	1,731	1,731
Restricted For:							
Capital Projects	0	223,728	121,222	0	0	0	344,950
Library Activities	0	0	0	0	0	158,218	158,218
Cemetery	0	0	198,600	0	0	0	198,600
Road Improvement	0	0	0	0	5,102	0	5,102
Economic Development	0	0	0	7,666	0	0	7,666
Forest Roads	16,202	0	0	0	0	0	16,202
Committed To:							
Total Fund Equity	16,202	223,728	319,822	7,666	5,102	159,949	732,469
Total Liabilities, Deferred Inflows of Resources and Fund Equity	\$ 27,115	\$ 223,728	\$ 348,832	\$ 7,666	\$ 20,408	\$ 163,738	\$ 791,487

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
OTHER GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014

	Special Revenue Funds						Total Other Governmental Funds
	Forest Reserve Fund	Old Orchard Park Improvement Fund	Public Improvement Fund	CDBG Renaissance Fund	Road Improvement Fund	Library Fund	
Revenue							
Federal Grants and Revenue	\$ 11,637	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 11,637
Contributions from Local Units	0	0	0	0	0	96,271	96,271
Charges for Services	0	0	3,675	0	0	0	3,675
Interest and Rentals	128	303	1,352	11	0	727	2,521
Special Assessments	0	0	0	0	5,102	0	5,102
Other Revenue	0	0	0	0	0	6,350	6,350
Total Revenue	11,765	303	5,027	11	5,102	103,348	125,556
Expenditures							
Current:							
General Government:							
Other General Government	0	0	550	0	0	0	550
Public Works	26,314	0	0	0	53,338	0	79,652
Recreation and Cultural	0	0	0	0	0	107,080	107,080
Capital Outlay	0	32,666	29,010	0	0	0	61,676
Total Expenditures	26,314	32,666	29,560	0	53,338	107,080	248,958
Excess of Revenue Over (Under) Expenditures	(14,549)	(32,363)	(24,533)	11	(48,236)	(3,732)	(123,402)
Other Financing Sources							
Operating Transfers In	0	22,500	0	0	53,338	0	75,838
Net Change in Fund Balances	(14,549)	(9,863)	(24,533)	11	5,102	(3,732)	(47,564)
Fund Balances - Beginning of Year	30,751	233,591	344,355	7,655	0	163,681	780,033
Fund Balances - End of Year	\$ 16,202	\$ 223,728	\$ 319,822	\$ 7,666	\$ 5,102	\$ 159,949	\$ 732,469

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

COMBINING STATEMENT OF NET POSITION
 OTHER ENTERPRISE FUNDS
December 31, 2014

	<u>Health and Community Center Fund</u>	<u>Van Etten Campground Fund</u>	<u>Total</u>
<u>Assets</u>			
Cash and Cash Equivalents	\$ 72,176	\$ 17,963	\$ 90,139
Investments	4,544	0	4,544
Due from Other Funds	100	0	100
Prepaid Expenses	1,552	3,130	4,682
Noncurrent Assets:			
Capital Assets, Net of Accumulated Depreciation	<u>681,296</u>	<u>0</u>	<u>681,296</u>
Total Assets	<u>759,668</u>	<u>21,093</u>	<u>780,761</u>
<u>Liabilities</u>			
Current Liabilities:			
Accounts Payable	9,286	7	9,293
Due to Other Funds	4,808	1,664	6,472
Deposits Payable	1,071	0	1,071
Accrued Liabilities	2,001	0	2,001
Unearned Revenue	<u>835</u>	<u>0</u>	<u>835</u>
Total Liabilities	<u>18,001</u>	<u>1,671</u>	<u>19,672</u>
<u>Net Position</u>			
Net Investment In Capital Assets	681,296	0	681,296
Unrestricted	<u>60,371</u>	<u>19,422</u>	<u>79,793</u>
Total Net Position	<u>\$ 741,667</u>	<u>\$ 19,422</u>	<u>\$ 761,089</u>

CHARTER TOWNSHIP OF OSCODA
Osco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
 OTHER ENTERPRISE FUNDS
For the Year Ended December 31, 2014

	Health and Community Center Fund	Van Etten Campground Fund	Total
<u>Operating Revenue</u>			
Charges For Services	\$ 1,582	\$ 0	\$ 1,582
User Fees	48,468	13,729	62,197
Rentals	1,439	0	1,439
Other Revenue	325	8	333
Total Operating Revenue	51,814	13,737	65,551
<u>Operating Expenses</u>			
Salaries and Wages	33,964	1,654	35,618
Payroll Taxes and Employee Benefits	2,899	126	3,025
Depreciation and Amortization	32,715	0	32,715
Insurance and Bonds	1,511	0	1,511
Licenses and Permits	0	110	110
Office and Operating Supplies	5,436	2,401	7,837
Printing and Advertising	105	141	246
Professional Fees and Services	3,476	0	3,476
Repair and Maintenance	4,359	273	4,632
Telephone	2,135	0	2,135
Utilities	38,448	1,208	39,656
Other	462	0	462
Total Operating Expenses	125,510	5,913	131,423
Operating Income (Loss)	(73,696)	7,824	(65,872)
<u>Nonoperating Revenue</u>			
Interest and Investment Earnings	83	14	97
Contributions	377	0	377
Gain (Loss) on Disposal of Capital Assets	100	0	100
Total Nonoperating Revenue	560	14	574
Income (Loss) Before Operating Transfers	(73,136)	7,838	(65,298)
Operating Transfers In	49,100	0	49,100
Change in Net Position	(24,036)	7,838	(16,198)
Net Position - Beginning of Year	765,703	11,584	777,287
Net Position - End of Year	\$ 741,667	\$ 19,422	\$ 761,089

CHARTER TOWNSHIP OF OSCODA
Osco County, Michigan

COMBINING STATEMENT OF CASH FLOWS
 OTHER ENTERPRISE FUNDS
For the Year Ended December 31, 2014

	<u>Health and Community Center Fund</u>	<u>Van Etten Campground Fund</u>	<u>Total</u>
<u>Cash Flows From Operating Activities</u>			
Receipts from Customers	\$ 52,055	\$ 13,801	\$ 65,856
Payments to Suppliers for Goods and Services	(52,316)	(7,263)	(59,579)
Payments to Employees for Services	<u>(36,666)</u>	<u>(1,780)</u>	<u>(38,446)</u>
Net Cash Provided (Used) by Operating Activities	<u>(36,927)</u>	<u>4,758</u>	<u>(32,169)</u>
<u>Cash Flows From Non-Capital Financing Activities</u>			
Cash Received from (Paid to) Other Funds	53,808	1,664	55,472
Local Contributions Received	<u>377</u>	<u>0</u>	<u>377</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>54,185</u>	<u>1,664</u>	<u>55,849</u>
<u>Cash Flows From Capital and Related Financing Activities</u>			
Proceeds from Sale of Capital Assets	<u>100</u>	<u>0</u>	<u>100</u>
<u>Cash Flows From Investing Activities</u>			
Interest on Investments	83	14	97
Purchase of Investment Securities	<u>(42)</u>	<u>0</u>	<u>(42)</u>
Net Cash Provided (Used) by Investing Activities	<u>41</u>	<u>14</u>	<u>55</u>
Net Increase (Decrease) in Cash and Cash Equivalents	17,399	6,436	23,835
Cash and Cash Equivalents at Beginning of Year	<u>54,777</u>	<u>11,527</u>	<u>66,304</u>
Cash and Cash Equivalents at End of Year	<u>\$ 72,176</u>	<u>\$ 17,963</u>	<u>\$ 90,139</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>			
Operating Income (Loss)	\$ (73,696)	\$ 7,824	\$ (65,872)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	32,715	0	32,715
Change in Assets and Liabilities:			
Accounts Receivable, Net	241	64	305
Prepaid Expenses	(41)	(3,130)	(3,171)
Accounts Payable and Accrued Liabilities	<u>3,854</u>	<u>0</u>	<u>3,854</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (36,927)</u>	<u>\$ 4,758</u>	<u>\$ (32,169)</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

BALANCE SHEET
DOWNTOWN DEVELOPMENT AUTHORITY - COMPONENT UNIT
GOVERNMENTAL FUND
December 31, 2014

	<u>Special Revenue Fund</u> <u>Downtown Development Authority</u>
<u>Assets</u>	
Cash and Cash Equivalents	\$ 71,033
Receivables:	
Accounts, Net	<u>462</u>
Total Assets	<u>\$ 71,495</u>
<u>Liabilities</u>	
Accounts Payable	\$ 1,546
Due to Primary Government	<u>2,816</u>
Total Liabilities	4,362
<u>Fund Equity</u>	
Fund Balance:	
Restricted For:	
Economic Development	<u>67,133</u>
Total Liabilities and Fund Equity	<u>\$ 71,495</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

DOWNTOWN DEVELOPMENT AUTHORITY - COMPONENT UNIT -
RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET POSITION
December 31, 2014

Total Governmental Fund Balance		\$	67,133
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:			
Capital Asset Cost	\$	542,661	
Accumulated Depreciation		<u>(55,105)</u>	
			<u>487,556</u>
Total Net Position - Governmental Activities		\$	<u>554,689</u>

CHARTER TOWNSHIP OF OSCODA
losco County, Michigan

STATEMENT OF REVENUE,
EXPENDITURES AND CHANGES IN FUND BALANCE -
DOWNTOWN DEVELOPMENT AUTHORITY - COMPONENT UNIT - GOVERNMENTAL FUND
December 31, 2014

	Special Revenue Fund
	<u>Downtown Development Authority</u>
<u>Revenue</u>	
Property Taxes	\$ 60,202
Interest and Rentals	68
Other Revenue	<u>6,540</u>
Total Revenue	<u>66,810</u>
<u>Expenditures</u>	
Current:	
Community and Economic Development	14,302
Capital Outlay	<u>3,677</u>
Total Expenditures	<u>17,979</u>
Excess of Revenue Over (Under) Expenditures	48,831
Fund Balance - Beginning of Year	<u>18,302</u>
Fund Balance - End of Year	<u>\$ 67,133</u>

CHARTER TOWNSHIP OF OSCODA
Iosco County, Michigan

DOWNTOWN DEVELOPMENT AUTHORITY - COMPONENT UNIT -
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCE OF THE
GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014

Total Net Change in Fund Balance - Governmental Fund	\$	48,831
Amounts reported for governmental activities 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 as depreciation expense.		
Current Year Depreciation Expense		<u>(26,037)</u>
Change in Net Position of Governmental Activities	\$	<u><u>22,794</u></u>



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA
Robert J. Morand, CPA

May 8, 2015

Management and the Township Board
Charter Township of Oscoda
Iosco County, Michigan

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Charter Township of Oscoda for the year ended December 31, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, 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 January 19, 2015. Professional standards also require that we communicate to you the following information related to our audit. The appendices to this letter set forth those communications as follows:

I Communication with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel of the Township during the audit and met with management on May 8, 2015. We would also be pleased to meet with you to discuss these matters at your convenience.

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

Very truly yours,

Stephenson, Gracik & Co., P.C.

APPENDIX I COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 19, 2015, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the management's discussion and analysis and budgetary comparison information which supplements the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

We have been engaged to report on the combining nonmajor fund financial statements and Charter Township of Oscoda Downtown Development Authority – component unit fund financial statements, which accompany the financial statements but are not RSI. Our responsibility for this supplementary information, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope and Timing of the Audit

We performed the audit as outlined in our engagement letter related to planning matters dated January 19, 2015.

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 Oscoda are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2014. We noted no transactions entered into by the government unit 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 estimate affecting the Charter Township of Oscoda's financial statements was management's estimate of the Township's investment in the Huron Shore Regional Utility Authority and the related contracts payable to the Authority which are based on the Township's annual water usage compared to the total usage of the Authority as a whole. The investment value and bond debt liability fluctuates annually based on the above percentage calculation of annual water usage. We evaluated the key factors and assumptions used to develop the investment and the related contracts payable liability in determining that it is reasonable in relation to the financial statements taken as a whole.

**APPENDIX I
COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

- Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosure affecting the financial statements was the disclosure of a contingency in Note 15 to the Financial Statements.

In the current year, the Township has a contingency disclosed. This contingency relates to the needed capital improvements per the approved work plan that was necessary in order to obtain a Michigan Department of Environmental Quality groundwater discharge permit. The Township has negotiated with the Michigan Department of Environmental Quality on the timeline of the completion of the needed capital improvements pending the attaining of a viable funding source and the timeline has been approved.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. A summary of audit differences, both adjusted and unadjusted was provided to management on May 8, 2015. Management has determined the effects of the unadjusted audit differences are immaterial, both individually and in the aggregate to the financial statements as a whole, and material misstatements provided to management on May 8, 2015 were corrected by management.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 May 8, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Charter Township of Oscoda's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

**APPENDIX I
COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

Other Matters

We applied certain limited procedures to management's discussion and analysis and budgetary comparison information, which are required supplementary information (RSI) that supplement 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 responses 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.

We were engaged to report on the combining nonmajor fund financial statements and Charter Township of Oscoda Downtown Development Authority – component unit fund financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

APPENDIX II MANAGEMENT COMMENTS

In planning and performing our audit of the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Charter Township of Oscoda as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Charter Township of Oscoda's internal control over financial reporting (internal control) as a basis for designing 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 Charter Township of Oscoda's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter Township of Oscoda'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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in internal control to be material weaknesses:

FINANCIAL STATEMENT PREPARATION CONTROLS

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the Charter Township of Oscoda's financial statements. However, if at any point in the audit we as auditors are part of the Charter Township of Oscoda's control system for producing reliable financial statements, auditing standards indicate that the Charter Township of Oscoda has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. The effect of this material weakness is that reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles (GAAP) and the Township would not be in a position to detect the errors or omissions. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

View of Responsible Officials:

The Charter Township of Oscoda has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Township to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

APPENDIX II MANAGEMENT COMMENTS

TIMELY BANK RECONCILIATIONS

The Accounting Procedures Manual for Local Units of Government in Michigan requires that bank reconciliations are prepared timely. During our audit procedures related to cash, we determined that at times during the year, bank reconciliations were not prepared for several months after month end. Timely bank reconciliations are a key internal control to assist in the prevention and detection of employee misappropriation of assets. The effect of this material weakness is that the Township is at an increased risk of misappropriation of assets without timely detection by management. We recommend that the Township's bank reconciliations for all accounts are prepared within six weeks of month end and reviewed by an individual other than the one preparing the bank reconciliation immediately following preparation. This review should be documented through the initialing of the bank reconciliation by the reviewer.

View of Responsible Officials:

Effective immediately, bank reconciliations and their review will be performed within six weeks of month end.

INTERNAL CONTROLS AT OLD ORCHARD PARK AND HEALTH AND COMMUNITY CENTER

Internal controls are designed to safeguard assets and assist in the detection of losses from employee dishonesty or error. During our 2014 audit, we conducted a thorough examination of the internal controls in place at the Old Orchard Park registration office and the Health and Community Center Office. Several weaknesses were identified during the process. The effect of these weaknesses is that the Township is at an increased risk of misappropriation of assets without prevention or detection. We provided management with a detailed list of our recommendations in a separate communication. We recommend that management and the Township Board carefully review our recommendations and determine which recommendations will be implemented and if a formal policy is warranted.

View of Responsible Officials:

Township Management will carefully consider all recommendations made and determine if a formal policy is warranted.

The Charter Township of Oscoda's responses to the findings in our audit are described above. We did not audit the Township's responses and, accordingly, we express no opinion on them.

During our audit, we also became aware of the following deficiency in internal control other than significant deficiencies or material weaknesses, and other matters that is an opportunity for strengthening internal controls and operating efficiency.

TIMELY DISTRIBUTION OF TAX COLLECTIONS FOR OTHER UNITS

Local units that have collected tax revenues for another taxing unit must distribute the collection in accordance with the General Property Tax Act, PA 206 of 1893, as amended. For units with an SEV of \$15,000,000 or more the Act requires a distribution within 10 business days after the 1st and 15th day of each month or enter into an agreement with other tax assessing units to establish an alternative schedule for delivering tax collections. It also requires that within 10 business days after the last day of February, ninety percent of the tax collections on hand as of the last day of February are disbursed to the proper entity. During our audit procedures related to taxes, we observed this requirement was not followed and no formal arrangement has been entered into with the other tax assessing units.

We recommend that the Township distribute tax collected for other units in accordance with the above requirements to ensure compliance with the General Property Tax Act, PA 206 of 1893.

**APPENDIX II
MANAGEMENT COMMENTS**

STATUS OF PRIOR YEAR COMMENTS:

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Financial Statement Preparation Controls		X		
Segregation of Duties	X			
Capital Asset Subsidiary Ledger	X			