

**Township of Scio
Washtenaw County, Michigan**

**Financial Report
with Supplemental Information
March 31, 2012**

Township of Scio

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Independent Auditor's Report

To the Board of Trustees
Township of Scio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Township of Scio (the "Township") as of and for the year ended March 31, 2012, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Scio's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Township of Scio as of March 31, 2012 and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the budgetary comparison schedules 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management 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.

To the Board of Trustees
Township of Scio

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

During the year, the Township implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, as discussed in Note 12. As a result of this required implementation, the Budget Stabilization Fund has been consolidated with the General Fund. Also, the Public Safety and Improvement Fund has been reclassified from a special revenue fund to a capital projects fund. In addition, fund balance classifications in the governmental fund financial statements have been changed to reflect the five new classifications under GASB No. 54.

Plante & Moran, PLLC

July 23, 2012

Township of Scio

Management's Discussion and Analysis

Our discussion and analysis of the Township of Scio's (the "Township") financial performance provides an overview of the financial activities for the fiscal year ended March 31, 2012. Please read it in conjunction with the Township's financial statements.

Financial Highlights

The following are the most significant financial highlights for the year ended March 31, 2012:

- The Township property tax collection remains the largest single revenue source for the general operations of the Township. The collection was relatively flat for the previous three years because of the tax formula used to determine taxable value. Since state equalized values have generally reduced to a point where they equal the taxable value, the economic downturn impacted the 2012 fiscal year with a decline in actual tax collections.
- The fire special assessment district (SAD) funded the fire department budget for the first time in fiscal year 2010. The voter-approved SAD levy is a maximum of 0.9 mills on the taxable value of real property in the district that excludes the Village of Dexter. It is collected annually with the December tax bills. This collection is not subject to state rollback requirements and is not captured by the Township Downtown Development Authority. The first collection occurred following the vote with the December 2008 taxes. The monies represent deferred revenue and are committed to the fiscal year budget that starts following collection. Revenue is segregated in the Fire Department Fund and expended only on fire service costs.
- On the sheriff side of public safety, the Township has seen substantial increases in expenditures for sheriff services by increasing the number of deputies assigned to the Township and the total number of deployment hours.
- State-shared revenue, the Township's second largest revenue source, was over \$442,000 more in fiscal year ended 2012 than in 2011. As the Township receives only the constitutional allocation of state revenue sharing, this revenue source is relatively stable.
- Because of the economic downturn, development fee revenue remains a significantly reduced percentage of the budget. Collection of these fees varies widely based upon economic activities external to the Township. These fees were never a "profit center" since the fees are a pass-through that meets costs of review and engineering inspection services on construction through consultants to the Township. Building inspection services are handled through Washtenaw County.
- The Jackson Boulevard Phase III project was opened to traffic in late 2009 and was mostly completed by the end of the fiscal year. Final landscaping was installed in fall 2011. Because of the economy, Phase IV of the improvement project is on hold indefinitely.

Township of Scio

Management's Discussion and Analysis (Continued)

- The revamped billing method for water and sewer service continues to be monitored closely to assure that annual cost and revenue are in line. In this fiscal year, the Water Fund approximately broke even while the Sewer Fund expenditures exceeded revenue.
- The Township is working with its water supplier, the City of Ann Arbor, to perform contractual improvement obligations to the West High water pumping station. Design and cost estimates are being prepared. Construction of this significant project has not yet been scheduled.
- This is the first year that the Township is required to report on the Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. As a result, the Budget Stabilization Fund has been consolidated with the General Fund. Also, the Public Safety and Improvement Fund has been reclassified from a special revenue fund to a capital projects fund. In addition, fund balance classifications in the governmental fund financial statements have been changed to reflect five new classifications under GASB No. 54.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities show the status of the Township as a whole. This is a long-term view and uses the accrual basis of accounting to measure the cost of providing services during the current year, thus showing whether the Township has funded the full cost of providing its government services.

The financial statements present a clear short-term view; they tell how the Township's resources were spent during the year, as well as how much is available going into the new budget year. Fund financial statements report the Township's operations in greater detail than the government-wide financial statements by providing information about the Township's most significant activities. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those operations outside of everyday government.

It is important that the reader note that this report represents a snapshot of the financial position of the Township as of the close of business on March 31, 2012. The largest financial resource, property tax collection, is seasonal. It is collected late in the budget year and only during the fourth quarter (December to February). The revenue generated from property tax collection is in the fourth quarter revenue stream and not available for the first three quarters. As such, it becomes reflected in fund balance. Sufficient cash balance must be in reserve to meet the expenditures for the entire year. The fire SAD collection is shown as deferred revenue with expenditures to be budgeted in the fiscal year starting on April 1, 2012.

Township of Scio

Management's Discussion and Analysis (Continued)

The Township as a Whole

The following table shows, in a condensed format, the net assets as of the end of the fiscal year compared to the prior year (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current assets	\$ 12,045	\$ 10,767	\$ 23,086	\$ 23,957	\$ 35,131	\$ 34,724
Noncurrent assets	9,111	9,072	26,075	25,676	35,186	34,748
Total assets	21,156	19,839	49,161	49,633	70,317	69,472
Liabilities						
Current liabilities	1,388	1,425	1,131	905	2,519	2,330
Long-term liabilities	574	628	2,062	2,166	2,636	2,794
Total liabilities	1,962	2,053	3,193	3,071	5,155	5,124
Net Assets						
Invested in capital assets -						
Net of related debt	8,686	8,533	23,964	23,435	32,650	31,968
Restricted	3,223	1,835	22,004	23,127	25,227	24,962
Unrestricted	7,285	7,418	-	-	7,285	7,418
Total net assets	\$ 19,194	\$ 17,786	\$ 45,968	\$ 46,562	\$ 65,162	\$ 64,348

A significant portion of the assets represents fixed capital improvements. The equity in Township capital assets, such as sewer and water lines, is not readily transferable to cash. The unrestricted net assets are more liquid in nature and are available to finance day-to-day operations. They were \$7,285,000 and \$7,418,000 as of March 31, 2012 and 2011, respectively. The current level of unrestricted net assets for governmental activities is approximately 38 percent of total governmental activities net assets. The reader should note throughout the statements that certain amounts remain restricted for specific items and legally can only be expended on those items such as land preservation, boulevard landscape maintenance, tree activities, special assessment purposes, sewer and water operations, Metro Act funds, and capital projects.

Township of Scio

Management's Discussion and Analysis (Continued)

The following table shows the changes in the net assets during the fiscal year as compared to the prior year (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenue						
Program revenue:						
Charges for services	\$ 1,146	\$ 1,223	\$ 3,895	\$ 3,851	\$ 5,041	\$ 5,074
Operating grants and contributions	-	5	-	-	-	5
Capital grants and contributions	87	384	176	63	263	447
General revenue:						
Property taxes	2,150	2,162	-	-	2,150	2,162
State-shared revenue	1,341	878	-	-	1,341	878
Unrestricted investment earnings	24	69	95	196	119	265
Franchise fees	246	240	-	-	246	240
Miscellaneous	58	45	-	-	58	45
Proceeds from sale of capital assets	-	-	-	-	-	-
Total revenue	5,052	5,006	4,166	4,110	9,218	9,116
Program Expenses						
General government	1,456	1,877	-	-	1,456	1,877
Public safety	2,060	1,982	-	-	2,060	1,982
Public works	92	92	-	-	92	92
Interest on long-term debt	35	39	-	-	35	39
Water	-	-	2,354	2,231	2,354	2,231
Sewer	-	-	2,406	2,402	2,406	2,402
Total program expenses	3,643	3,990	4,760	4,633	8,403	8,623
Change in Net Assets	\$ 1,409	\$ 1,016	\$ (594)	\$ (523)	\$ 815	\$ 493

Governmental Activities

For the third year in a row, total expenditures on general government activities decreased compared to the previous year. This reduction was due to lack of capital improvement spending, a tightened budget, and a close monitoring of the overall budget expenditures.

Business-type Activities

The Township's largest business-type activities consist of the Water and Sewer Fund. All assets, liabilities, revenue, and expenses are restricted strictly for those operations. The Township provides water and sewage services to property owners within a defined district in the Township. The water supply and sewerage processing is through contract with the City of Ann Arbor (the "City"). The Township is reviewing other outstanding system improvements required under outstanding contracts with the City, including a major updating of the West High pumping station.

Township of Scio

Management's Discussion and Analysis (Continued)

The Township's operational responsibility for sewer and water is limited to the service lines and pumping facilities located within the borders of the Township. The utilities department continues to implement an adopted capital improvement program. Over the past six years, the department implemented an extensive in-flow and infiltration (I&I) program on the sanitary sewer system that has led to a lesser problem with wet weather flooding. Additional water and sewer infrastructure upgrades were completed as part of the Jackson Road Phase III boulevard project with part of the construction costs contributed from the Township DDA.

The Loch Alpine Sewer Authority also provides public utility service in the Township, but it is a separate entity from the Township and is subject to a separate audit.

Township Funds

The analysis of the Township's major funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds. The Township board of trustees creates accounting funds to segregate monies, manage money for specific purposes, as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds include the General Fund, Fire Fund, Sewer Fund, Water Fund, Open Space Land Preservation Fund, and Capital Projects Fund.

The General Fund revenue is not restricted or dedicated to specific uses. The General Fund pays for most of the Township's governmental services. The most significant expenditures are police, which incurred expenses of approximately \$1,257,000 in fiscal year 2012, up from \$1,216,000 in 2011, an increase of 3 percent. All public safety expenditures except for the fire department have been funded entirely by the General Fund. The dedicated fire special assessment has funded the fire department since 2010.

The Open Space Land Preservation Fund was created to account for taxes approved by the voters in 2004 to be used for the permanent preservation of farmland, open space, wildlife, etc. and to provide new parks and recreational opportunities. Cooperative ventures with Washtenaw County, the City of Ann Arbor, and the State of Michigan have provided additional opportunities for acquisition of either land or rights to develop land. This millage was approved for a limited time and expires in 2014.

The Scio Downtown Development Authority (DDA) remains a major player in the physical development of the Township. Jackson Road improvements have been funded by the DDA through the capture of 50 percent of the property tax increment funds in their district since 1986. Thus, the DDA captures 50 percent of the new taxes that would be available for unrestricted general operations of the Township from their district - the major growth area of the Township. However, the DDA also captures taxes from other jurisdictions that can be used for DDA purposes. The DDA has incurred most of the Township's outstanding debt for improvements to Jackson Road, as discussed below. The debt will be repaid through the collection of future tax increments.

Township of Scio

Management's Discussion and Analysis (Continued)

The Fire Fund accounts for monies collected under the fire special assessment district millage. These funds are required to be used only for the provision of fire services to the community.

Budgetary Highlights

Over the course of the year, the Township amended the budget in a legally permissible manner to reflect changing events. There were minimal amendments made in the Township's General Fund budget. Of the amendments made, the significant one that was primarily responsible for the General Fund surplus in this fiscal year was for the increase in state-shared revenue due to the increase in population based on the 2010 census.

Capital Asset and Debt Administration

At the end of fiscal year 2012, the Township had approximately \$35.2 million invested in a broad range of capital assets, including buildings, fire equipment, and water and sewer lines (not including the Jackson Road improvements). Capital assets are not liquid and cannot be easily transferred to cash equivalents.

The Township's Downtown Development Authority has a debt obligation at the end of the audit year of approximately \$17.7 million. The proceeds from these debt issuances financed the development of the Jackson Road corridor. The DDA amended its financing plan in fall 2006 to extend its life and fund Phase III of Jackson Road. A bond issue of \$3.47 million was sold in February 2012, refunding the remaining debt from the 2002 issue. A bond issue of \$9.7 million was sold in December 2006. An additional \$3.3 million of debt was issued in 2008. Per the adopted DDA financing plan, all bond payments will be met by the DDA through the capture of tax increment revenue. The Washtenaw County Road Commission has full jurisdiction over the road, retains the asset, and is responsible for the project and contract administration of funds from Township, State, and federal sources. The numbers in this audit represent contributions from the DDA and the Township sewer funds. The total final costs, including acquisition, design, and construction through Phase III, will be approximately \$23 million, with over \$16 million paid by the Township local sources. The proposed Phase IV construction (Dino Drive to Parker Road) has been planned since 1986; however, the uncertainty over the current state of the economy means that the start of this final phase will be placed on hold for the foreseeable future.

Economic Factors and Next Year's Budgets and Rates

The recent national economic downturn caused a decline in property values that has resulted in lower property tax collections for the Township. Millage rates are capped by state laws. When these factors are combined, they lead to lower tax collections.

Township of Scio

Management's Discussion and Analysis (Continued)

Most readers are familiar with fiscal planning that occurs on a calendar year basis. However, when analyzing various funding cycles that apply to the statements in this report, you need to consider the varying fiscal years of the State of Michigan (October 1 to September 30), Washtenaw County (January 1 to December 31), and Scio Township (April 1 to March 31). The timing of the revenue stream can confuse the average resident. It can also present funding problems for the Township.

Contacting Township Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Township of Scio

Statement of Net Assets March 31, 2012

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 11,191,420	\$ 22,510,097	\$ 33,701,517	\$ 6,562,077
Receivables:				
Property taxes receivable	60,668	-	60,668	-
Customer receivables - Net	147,544	561,833	709,377	-
Accrued interest receivable	2,118	-	2,118	-
Other receivables	15,950	-	15,950	-
Due from other governmental units	421,086	13,278	434,364	-
Special assessments receivable	201,853	-	201,853	-
Due from component units (Note 6)	4,811	-	4,811	-
Due from primary government (Note 6)	-	-	-	176,917
Prepaid expenses and other assets	-	83	83	-
Capital assets - Net (Note 5):				
Nondepreciated	6,050,620	3,122,797	9,173,417	16,010,711
Depreciated	3,060,701	22,952,342	26,013,043	14,053,210
Total assets	21,156,771	49,160,430	70,317,201	36,802,915
Liabilities				
Accounts payable	45,519	438,043	483,562	190,839
Due to other governmental units	-	434,046	434,046	1,838,266
Due to component units (Note 6)	176,917	-	176,917	-
Due to primary government (Note 6)	-	-	-	4,811
Accrued liabilities and other	52,603	123,234	175,837	247,271
Deferred revenue	925,240	-	925,240	-
Noncurrent liabilities:				
Current portion of long-term debt (Note 7):				
Compensated absences	137,911	-	137,911	-
Current portion of long-term debt	50,000	135,000	185,000	1,065,000
Due in more than one year:				
Net other postemployment benefits obligation (Note 11)	198,658	86,480	285,138	-
Long-term debt - Net of current portion	375,000	1,975,749	2,350,749	16,585,000
Total liabilities	1,961,848	3,192,552	5,154,400	19,931,187
Net Assets				
Invested in capital assets - Net of related debt	8,686,321	23,964,390	32,650,711	12,413,921
Restricted for:				
Water operations	-	6,705,908	6,705,908	-
Sewer operations	-	15,297,580	15,297,580	-
Metro act	101,378	-	101,378	-
Land preservation	1,138,192	-	1,138,192	-
Public safety	1,084,508	-	1,084,508	-
Public improvement	687,787	-	687,787	-
Tree mitigation	11,056	-	11,056	-
Road improvement	136,488	-	136,488	-
Bridge maintenance	20,039	-	20,039	-
Capital projects	43,906	-	43,906	-
Unrestricted	7,285,248	-	7,285,248	4,457,807
Total net assets	\$ 19,194,923	\$ 45,967,878	\$ 65,162,801	\$ 16,871,728

The Notes to Financial Statements are an
Integral Part of this Statement.

Township of Scio

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,456,152	\$ 161,509	\$ -	\$ 87,360
Public safety	2,059,749	957,173	-	-
Public works	91,641	26,852	-	-
Interest on long-term debt	34,824	-	-	-
Total governmental activities	3,642,366	1,145,534	-	87,360
Business-type activities:				
Water	2,354,143	2,241,877	-	49,312
Sewer	2,406,250	1,652,620	-	126,967
Total business-type activities	4,760,393	3,894,497	-	176,279
Total primary government	<u>\$ 8,402,759</u>	<u>\$ 5,040,031</u>	<u>\$ -</u>	<u>\$ 263,639</u>
Component units:				
Downtown Development Authority	\$ 1,673,321	\$ -	\$ -	\$ -
Economic Development Corporation	2,709	-	4,350	-
Total component units	<u>\$ 1,676,030</u>	<u>\$ -</u>	<u>\$ 4,350</u>	<u>\$ -</u>
General revenue:				
Property taxes				
State-shared revenue				
Investment income				
Cable franchise fees				
Other miscellaneous income				
Total general revenue				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended March 31, 2012

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (1,207,283)	\$ -	\$ (1,207,283)	\$ -
(1,102,576)	-	(1,102,576)	-
(64,789)	-	(64,789)	-
(34,824)	-	(34,824)	-
(2,409,472)	-	(2,409,472)	-
-	(62,954)	(62,954)	-
-	(626,663)	(626,663)	-
-	(689,617)	(689,617)	-
(2,409,472)	(689,617)	(3,099,089)	-
-	-	-	(1,673,321)
-	-	-	1,641
-	-	-	(1,671,680)
2,149,892	-	2,149,892	2,103,583
1,340,923	-	1,340,923	-
23,433	95,365	118,798	20,552
245,789	-	245,789	-
58,113	-	58,113	-
3,818,150	95,365	3,913,515	2,124,135
1,408,678	(594,252)	814,426	452,455
17,786,245	46,562,130	64,348,375	16,419,273
\$ 19,194,923	\$ 45,967,878	\$ 65,162,801	\$ 16,871,728

Township of Scio

Governmental Funds Balance Sheet March 31, 2012

	General Fund	Open Space Land Preservation Fund	Fire Department Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total
Assets						
Cash and investments (Note 3)	\$ 6,241,720	\$ 1,106,843	\$ 2,003,138	\$ 40,823	\$ 1,798,896	\$ 11,191,420
Receivables - Net:						
Taxes	46,109	14,469	90	-	-	60,668
Special assessments	-	-	-	180,000	21,853	201,853
Customers	147,544	-	-	-	-	147,544
Interest	2,118	-	-	-	-	2,118
Other receivables	15,800	150	-	-	-	15,950
Due from other governmental units	352,724	26,877	40,582	-	903	421,086
Due from component units (Note 6)	4,705	106	-	-	-	4,811
Total assets	\$ 6,810,720	\$ 1,148,445	\$ 2,043,810	\$ 220,823	\$ 1,821,652	\$ 12,045,450
Liabilities and Fund Balances (Deficit)						
Liabilities						
Accounts payable	\$ 31,851	\$ 3,923	\$ 8,945	\$ -	\$ 800	\$ 45,519
Due to component units (Note 6)	-	-	-	176,917	-	176,917
Accrued liabilities and other	11,229	6,330	25,117	-	-	42,676
Deferred revenue (Note 4)	136,861	13,764	925,240	180,000	21,853	1,277,718
Total liabilities	179,941	24,017	959,302	356,917	22,653	1,542,830
Fund Balances (Deficit)						
Restricted:						
Land preservation	-	1,124,428	-	-	-	1,124,428
Public safety	-	-	1,084,508	-	-	1,084,508
Metro act	-	-	-	-	101,378	101,378
Public improvement	-	-	-	-	687,787	687,787
Tree mitigation	-	-	-	-	11,056	11,056
Road improvements	-	-	-	-	114,635	114,635
Bridge maintenance	-	-	-	-	20,039	20,039
Committed:						
Other postemployment benefits obligation	855,706	-	-	-	-	855,706
Capital projects	-	-	-	-	864,104	864,104
Unassigned	5,775,073	-	-	(136,094)	-	5,638,979
Total fund balances (deficit)	6,630,779	1,124,428	1,084,508	(136,094)	1,798,999	10,502,620
Total liabilities and fund balances (deficit)	\$ 6,810,720	\$ 1,148,445	\$ 2,043,810	\$ 220,823	\$ 1,821,652	\$ 12,045,450

Township of Scio

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets March 31, 2012

Fund Balance Reported in Governmental Funds	\$ 10,502,620
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	9,111,321
Grants and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds	352,478
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(425,000)
Accrued interest is not due and payable in the current period and is not reported in the funds	(9,927)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(137,911)
Net other postemployment benefit obligations are not reported as fund liabilities	(198,658)
Net Assets of Governmental Activities	<u>\$ 19,194,923</u>

Township of Scio

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended March 31, 2012

	General Fund	Open Space Land Preservation Fund	Fire Department Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total
Revenue						
Property taxes	\$ 1,125,226	\$ 575,509	\$ -	\$ -	\$ -	\$ 1,700,735
Federal grants	-	87,360	-	-	-	87,360
State-shared revenue and grants	1,319,421	-	-	-	-	1,319,421
Locally raised	858,915	-	3,000	-	-	861,915
Investment income	2,435	2,439	4,899	10,524	3,136	23,433
Rental income	33,002	-	22,250	-	-	55,252
Other revenue:						
Special assessments	-	-	931,923	30,000	26,852	988,775
Other miscellaneous income	33,004	-	2,325	-	11,635	46,964
Total revenue	3,372,003	665,308	964,397	40,524	41,623	5,083,855
Expenditures - Current						
General government	1,236,345	-	-	-	12,711	1,249,056
Public safety	1,355,546	-	649,484	-	221	2,005,251
Public works	38,034	-	-	-	-	38,034
Capital outlay	4,450	273,625	-	-	-	278,075
Debt service	-	-	-	10,500	75,450	85,950
Total expenditures	2,634,375	273,625	649,484	10,500	88,382	3,656,366
Excess of Revenue Over (Under) Expenditures	737,628	391,683	314,913	30,024	(46,759)	1,427,489
Other Financing Sources (Uses)						
Transfers in (Note 6)	-	-	-	-	75,450	75,450
Transfers out (Note 6)	(75,450)	-	-	-	-	(75,450)
Total other financing (uses) sources	(75,450)	-	-	-	75,450	-
Net Change in Fund Balances	662,178	391,683	314,913	30,024	28,691	1,427,489
Fund Balances (Deficit) - Beginning of year, as restated (Note 12)	5,968,601	732,745	769,595	(166,118)	1,770,308	9,075,131
Fund Balances (Deficit) - End of year	\$ 6,630,779	\$ 1,124,428	\$ 1,084,508	\$ (136,094)	\$ 1,798,999	\$10,502,620

Township of Scio

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities Year Ended March 31, 2012

Net Change in Fund Balances - Total Governmental Funds	\$ 1,427,489
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, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	232,879
Depreciation expense	(193,572)
Revenue is recorded in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds	19,042
Special assessment revenue is recorded in the statement of activities when the assessment is set; it is not reported in the funds until collected or collectible within 60 days of year end	(51,853)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	50,000
Change in accrued interest payable and other	1,126
Increase in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources and therefore are not reported in the fund statements until they come due for payment	(7,968)
Change in net other postemployment benefits	<u>(68,465)</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,408,678</u>

Township of Scio

Proprietary Funds Statement of Net Assets March 31, 2012

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Assets			
Current assets:			
Cash and investments (Note 3)	\$ 7,146,417	\$ 15,363,680	\$ 22,510,097
Receivables:			
Customer receivables - Net	270,094	291,739	561,833
Due from other governmental units	-	13,278	13,278
Prepaid expenses and other assets	-	83	83
Total current assets	7,416,511	15,668,780	23,085,291
Noncurrent assets - Capital assets (Note 5):			
Assets not subject to depreciation	1,138,242	1,984,555	3,122,797
Assets subject to depreciation	11,851,745	11,100,597	22,952,342
Total assets	20,406,498	28,753,932	49,160,430
Liabilities			
Current liabilities:			
Accounts payable	307,215	130,828	438,043
Due to other governmental units	340,737	93,309	434,046
Accrued liabilities and other	19,411	103,823	123,234
Current portion of long-term debt	135,000	-	135,000
Total current liabilities	802,363	327,960	1,130,323
Noncurrent liabilities:			
Net other postemployment benefit obligation	43,240	43,240	86,480
Long-term debt - Net of current portion	1,975,749	-	1,975,749
Total liabilities	2,821,352	371,200	3,192,552
Net Assets			
Invested in capital assets - Net of related debt	10,879,238	13,085,152	23,964,390
Restricted for water operations	6,705,908	-	6,705,908
Restricted for sewer operations	-	15,297,580	15,297,580
Total net assets	<u>\$ 17,585,146</u>	<u>\$ 28,382,732</u>	<u>\$ 45,967,878</u>

Township of Scio

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2012

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating Revenue			
Sale of water	\$ 2,212,740	\$ 1,598,584	\$ 3,811,324
Other	29,137	54,036	83,173
Total operating revenue	2,241,877	1,652,620	3,894,497
Operating Expenses			
Cost of water	1,447,954	-	1,447,954
Cost of sewage treatment	-	1,463,622	1,463,622
Operation and maintenance	68,578	120,145	188,723
General and administrative	435,466	447,890	883,356
Depreciation and amortization	347,751	374,593	722,344
Total operating expenses	2,299,749	2,406,250	4,705,999
Operating Loss	(57,872)	(753,630)	(811,502)
Nonoperating Revenue (Expenses)			
Investment income	31,573	63,792	95,365
Interest expense	(54,394)	-	(54,394)
Loss - Before contributions	(80,693)	(689,838)	(770,531)
Capital Contributions			
Connection fees	47,312	105,187	152,499
Lines donated by developers	2,000	21,780	23,780
Total capital contributions	49,312	126,967	176,279
Change in Net Assets	(31,381)	(562,871)	(594,252)
Net Assets - Beginning of year	17,616,527	28,945,603	46,562,130
Net Assets - End of year	\$ 17,585,146	\$ 28,382,732	\$ 45,967,878

Township of Scio

Proprietary Funds Statement of Cash Flows Year Ended March 31, 2012

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 2,265,500	\$ 1,656,945	\$ 3,922,445
Payments to suppliers	(1,480,329)	(1,792,376)	(3,272,705)
Payments to employees	(389,804)	(271,745)	(661,549)
Other receipts (payments)	24,177	(13,278)	10,899
Net cash provided by (used in) operating activities	419,544	(420,454)	(910)
Cash Flows from Capital and Related Financing Activities			
Collection of connection fees	47,312	105,187	152,499
Tap fees collected on behalf of the City of Ann Arbor	142,790	65,384	208,174
Purchase of capital assets	(987,320)	(110,815)	(1,098,135)
Principal paid on capital debt	(135,000)	-	(135,000)
Repayment of interest	(54,394)	-	(54,394)
Net cash (used in) provided by capital and related financing activities	(986,612)	59,756	(926,856)
Cash Flows from Investing Activities			
Interest received on investments	31,573	63,792	95,365
Purchase of investment securities	(730,000)	(830,047)	(1,560,047)
Proceeds from sale and maturities of investment securities	702,352	2,556,377	3,258,729
Net cash provided by investing activities	3,925	1,790,122	1,794,047
Net (Decrease) Increase in Cash and Cash Equivalents	(563,143)	1,429,424	866,281
Cash and Cash Equivalents - Beginning of year	1,173,323	1,019,630	2,192,953
Cash and Cash Equivalents - End of year	\$ 610,180	\$ 2,449,054	\$ 3,059,234
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 7,146,417	\$ 15,363,680	\$ 22,510,097
Less amounts classified as investments	(6,536,237)	(12,914,626)	(19,450,863)
Total cash and cash equivalents	\$ 610,180	\$ 2,449,054	\$ 3,059,234
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (57,872)	\$ (753,630)	\$ (811,502)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation and amortization	347,751	374,593	722,344
Changes in assets and liabilities:			
Receivables	47,800	(8,953)	38,847
Prepaid and other assets	552	(83)	469
Accounts payable	169,704	(57,891)	111,813
Accrued and other liabilities	(88,391)	25,510	(62,881)
Net cash provided by (used in) operating activities	\$ 419,544	\$ (420,454)	\$ (910)

Noncash Investing, Capital, and Financing Activities - During the year ended March 31, 2011, the water and sewer funds received \$2,000 and \$21,780, respectively, of lines donated by developers. These lines were recorded as capital assets.

Township of Scio

Fiduciary Funds Statement of Assets and Liabilities March 31, 2012

	Current Tax Collection	Trust and Agency	Total
Assets - Cash and investments (Note 3)	<u>\$ 215,205</u>	<u>\$ 165,286</u>	<u>\$ 380,491</u>
Liabilities - Accrued liabilities and other	<u>\$ 215,205</u>	<u>\$ 165,286</u>	<u>\$ 380,491</u>

Township of Scio

Component Units Statement of Net Assets March 31, 2012

	Downtown Development Authority	Economic Development Corporation	Total
Assets			
Cash and investments	\$ 6,548,994	\$ 13,083	\$ 6,562,077
Due from primary government	176,917	-	176,917
Capital assets	30,063,921	-	30,063,921
Total assets	36,789,832	13,083	36,802,915
Liabilities			
Accounts payable	190,839	-	190,839
Due to other governmental units	1,838,266	-	1,838,266
Due to primary government	4,811	-	4,811
Accrued liabilities and other	247,271	-	247,271
Long-term debt:			
Due within one year	1,065,000	-	1,065,000
Due in more than one year	16,585,000	-	16,585,000
Total liabilities	19,931,187	-	19,931,187
Net Assets			
Invested in capital assets - Net of related debt	12,413,921	-	12,413,921
Unrestricted	4,444,724	13,083	4,457,807
Total net assets	\$ 16,858,645	\$ 13,083	\$ 16,871,728

Township of Scio

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Downtown Development Authority - Public works	\$ 1,673,321	\$ -	\$ -	\$ -
Economic Development Corporation - Public works	2,709	-	4,350	-
Total component units	<u>\$ 1,676,030</u>	<u>\$ -</u>	<u>\$ 4,350</u>	<u>\$ -</u>
General Revenue				
Property taxes				
Interest				
Total general revenue				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

**Component Units
Statement of Activities
Year Ended March 31, 2012**

Net (Expense) Revenue and Changes in Net Assets		
Downtown Development Authority	Economic Development Corporation	Total
\$ (1,673,321)	\$ -	\$ (1,673,321)
-	1,641	1,641
(1,673,321)	1,641	(1,671,680)
2,103,583	-	2,103,583
20,544	8	20,552
2,124,127	8	2,124,135
450,806	1,649	452,455
16,407,839	11,434	16,419,273
\$ 16,858,645	\$ 13,083	\$ 16,871,728

Township of Scio

Notes to Financial Statements March 31, 2012

Note I - Summary of Significant Accounting Policies

The accounting policies of the Township of Scio (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township of Scio.

Reporting Entity

The Township of Scio is governed by an elected seven-member board of trustees. The accompanying financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the Township's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Township (see discussion below for description).

Blended Component Units - The Building Authority was created to provide for the financing of renovations to the Township Hall. The Building Authority's governing body, which consists of three individuals, was created during the fiscal year ended March 31, 1999. Building Authority operations consist of the issuance and repayment of debt and the construction of facilities. Although it is legally separate from the Township, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the Township's public buildings.

Discretely Presented Component Units

Downtown Development Authority - The Downtown Development Authority (the "Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the Township's board. In addition, the Authority's budget is subject to approval by the Township's board. Interim internal financial statements are prepared monthly and available at the Township Hall. The report may be obtained by writing to the Township at 827 North Zeeb Road, Ann Arbor, MI 48103.

Economic Development Corporation - The Economic Development Corporation (the "Corporation") was created to provide a means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, construction, improving, or expanding within the Township so as to provide needed services and facilities of such enterprises to the residents of the Township. The Corporation's governing body, which consists of 10 individuals, is selected by the Township board. Interim internal financial statements are prepared monthly and available at the Township Hall. The report may be obtained by writing to the Township at 827 North Zeeb Road, Ann Arbor, MI 48103.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note I - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Open Space Land Preservation Fund - The Open Space Land Preservation Fund accounts for monies collected to be used for permanent preservation of farmland, open space, wildlife, etc. and to provide new parks and recreational opportunities.

Fire Fund - The Fire Fund is used to account for monies collected and expended for fire protection services.

Capital Projects Fund - The Capital Projects Fund is used to account for the monies collected and expended for capital improvements.

The Township reports the following major proprietary funds:

Water Fund - The Water Fund accounts for activities of the water distribution.

Sewer Fund - The Sewer Fund accounts for activities of the sewage collection system.

Additionally, the Township reports the following fund type:

Agency Funds - The agency funds account for assets held by the Township in a trustee capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

When an expense is incurred for purposes for which both restricted and unrestricted net assets or fund balance are available, the Township's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the Township's policy to spend funds in this order: committed, assigned, and unassigned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are due on February 14 with the final collection date of the last day of February before they are added to the county tax roll.

The Township's 2011 tax is levied and collectible on December 1, 2011 and is recognized as revenue in the year ended March 31, 2012, when the proceeds of the levy are budgeted and available for the financing of operations.

Note I - Summary of Significant Accounting Policies (Continued)

The 2011 taxable valuation of the Township totaled \$1.29 billion (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 0.9518 mills for operating purposes and 0.4942 mills for land preservation. After DDA capture, the resulting amounts are approximately \$1,125,000 for operating and approximately \$576,000 for open space land preservation. These amounts are recognized in the respective General Fund and Open Space Preservation Fund financial statements as tax revenue.

In addition, the Township assesses .9000 mills for fire protection under Public Act 33 of 1951. The assessment is collectible on December 1 and deferred until the beginning of the next fiscal year. As of March 31, 2012, \$925,240 is deferred. This is reported in the Fire Fund.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund is generally allocated to each fund based on the relative participation in the pool.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

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

Restricted Assets - Restricted assets are made up of cash or investments resulting from unspent bond proceeds which are legally restricted for capital projects.

Capital Assets - Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are recorded by the Township as appropriate based on cost and useful life. 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.

Note I - Summary of Significant Accounting Policies (Continued)

Infrastructure, intangibles, buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Utility system	50 years
Sewer meters	25 years
Buildings	20 to 50 years
Land improvements	10 to 25 years
Machinery and equipment	5 to 25 years
Vehicles	5 years
Fire vehicles	20 years
Road rights and infrastructure	25 years

Compensated Absences (Vacation and Sick Leave) - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. No liability for these amounts is reported in governmental funds as there were no employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Pension and Other Postemployment Benefit Costs - The Township offers both pension and retiree healthcare benefits to retirees. The Township receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, pension and OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the Township reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

Note I - Summary of Significant Accounting Policies (Continued)

Fund Equity - In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications - nonspendable, restricted, committed, assigned, and unassigned. The Township implemented GASB Statement No. 54 during the year.

In the fund financial statements, governmental funds report the following components of fund balance:

- Nonspendable - Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- Restricted - Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- Committed - Amounts that have been formally set aside by the board of trustees for use for specific purposes. Commitments are made and can be rescinded only via resolution of the board of trustees.
- Assigned - Intent to spend resources on specific purposes expressed by the board of trustees
- Unassigned - Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Township does not collect construction code fees as allowed by the State's Construction Code Act. Accordingly, no separate reporting of this activity has been reflected in the financial statements.

Fund Deficits - As of March 31, 2012, the Capital Projects Fund has a fund deficit of \$136,094 resulting from the loan payable to the Downtown Development Authority for the Baker Road construction costs. This deficit will be resolved by the collection of special assessment revenue over the next seven years.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated seven banks for the deposit of its funds. The investment policy adopted by the Township board of trustees in accordance with Public Act 196 of 1947 has authorized investment in bonds and securities of the United States government and bank accounts, commercial paper, certificates of deposit, mutual funds, and repurchase agreements.

The Township's cash and investments are subject to three types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$9,121,338 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized; the component units had \$3,829,401 of bank deposits that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Township of Scio

Notes to Financial Statements March 31, 2012

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity (Days)
Commercial paper - Prudential PLC	\$ 3,986,360	168
Commercial paper - Suncorp Metway Ltd	1,996,840	107
Commercial paper - General Electric Cap Corp	998,050	205
Commercial paper - Standard Chartered Bank	640,934	110
U.S. government or agency bonds	10,012,692	356

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Pooled investment	\$ 637,955	AAAm	S&P
Commercial paper - Prudential PLC	3,986,360	A1/P1	S&P
Commercial paper - Suncorp Metway Ltd	1,996,840	A1/P1	S&P
Commercial paper - General Electric Cap Corp	998,050	A1/P1	S&P
Commercial paper - Standard Chartered Bank	640,934	A1/P1	S&P
U.S. government or agency bonds	10,012,692	AAA	S&P
Money markets	5,667,601	Unrated	N/A

Township of Scio

Notes to Financial Statements March 31, 2012

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Governmental Funds	
	Unavailable	Unearned
Delinquent property taxes	\$ 56,214	\$ -
Special assessments	201,853	925,240
State-shared revenue	94,411	-
Total	<u>\$ 352,478</u>	<u>\$ 925,240</u>

Note 5 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance April 1, 2011	Additions	Disposals	Balance March 31, 2012
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 822,764	\$ -	\$ -	\$ 822,764
Land preservation - Land and easement	4,881,712	225,217	-	5,106,929
Drain rights and infrastructure	120,927	-	-	120,927
Subtotal	5,825,403	225,217	-	6,050,620
Capital assets being depreciated:				
Building and improvements	2,454,591	-	-	2,454,591
Equipment	940,442	7,662	(4,495)	943,609
Vehicles	1,256,525	-	-	1,256,525
Land improvements	154,237	-	-	154,237
Subtotal	4,805,795	7,662	(4,495)	4,808,962
Accumulated depreciation:				
Buildings	730,835	88,230	-	819,065
Equipment	293,246	31,049	(4,495)	319,800
Fire vehicles	435,728	61,871	-	497,599
Land improvements	99,375	12,422	-	111,797
Subtotal	1,559,184	193,572	(4,495)	1,748,261
Net capital assets being depreciated	3,246,611	(185,910)	-	3,060,701
Net capital assets	<u>\$ 9,072,014</u>	<u>\$ 39,307</u>	<u>\$ -</u>	<u>\$ 9,111,321</u>

Township of Scio

Notes to Financial Statements March 31, 2012

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance April 1, 2011	Reclassifications	Additions	Disposals	Balance March 31, 2012
Capital assets not being depreciated:					
Land	\$ 1,984,555	\$ -	\$ -	\$ -	\$ 1,984,555
Construction in progress	678,657	(538,229)	997,814	-	1,138,242
Subtotal	2,663,212	(538,229)	997,814	-	3,122,797
Capital assets being depreciated:					
Utility system	31,791,051	538,229	71,135	-	32,400,415
Buildings	761,586	-	-	-	761,586
Machinery and equipment	455,696	-	54,815	(78,235)	432,276
Vehicles	74,022	-	-	-	74,022
Sewer meters	7,118	-	-	-	7,118
Subtotal	33,089,473	538,229	125,950	(78,235)	33,675,417
Accumulated depreciation:					
Utility system	9,244,512	-	676,550	-	9,921,062
Buildings	443,866	-	19,278	-	463,144
Machinery and equipment	347,422	-	18,564	(76,386)	289,600
Vehicles	34,270	-	7,952	-	42,222
Sewer meters	7,047	-	-	-	7,047
Subtotal	10,077,117	-	722,344	(76,386)	10,723,075
Net capital assets being depreciated	23,012,356	538,229	(596,394)	(1,849)	22,952,342
Net capital assets	\$ 25,675,568	\$ -	\$ 401,420	\$ (1,849)	\$ 26,075,139
Component Units	Balance April 1, 2011	Reclassifications	Additions	Disposals	Balance March 31, 2012
Capital assets not being depreciated - Road rights and infrastructure	\$ 16,399,375	\$ (388,664)	\$ -	\$ -	\$ 16,010,711
Capital assets being depreciated - Road rights and infrastructure	21,537,760	388,664	-	-	21,926,424
Accumulated depreciation - Road rights and infrastructure	6,996,157	-	877,057	-	7,873,214
Net capital assets being depreciated	14,541,603	388,664	(877,057)	-	14,053,210
Net capital assets	\$ 30,940,978	\$ -	\$ (877,057)	\$ -	\$ 30,063,921

Township of Scio

Notes to Financial Statements March 31, 2012

Note 5 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 75,975
Public safety	117,299
Public works	<u>298</u>
Total governmental activities	<u>\$ 193,572</u>

Business-type activities:

Water	\$ 347,751
Sewer	<u>374,593</u>
Total business-type activities	<u>\$ 722,344</u>

Component unit activities - Public works	<u>\$ 877,057</u>
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Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Primary Government and Component Units		
Component Unit - Downtown Development Authority	Primary government - Capital Projects Fund	\$ 176,917
Primary government - General Fund	Component Unit - Downtown Development Authority	4,705
Primary government - Open Space Land Preservation Fund	Component Unit - Downtown Development Authority	106

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

Township of Scio

Notes to Financial Statements March 31, 2012

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Other nonmajor governmental funds	\$ 75,450

The transfers from the General Fund to other governmental funds are related to debt service.

Note 7 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. Installment purchase agreements are also general obligations of the government.

Long-term debt activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
1999 General Obligation Limited Tax Bonds:							
Amount of issue: \$900,000	5.50% -	\$50,000 -					
Maturing through May 2017	5.65%	\$75,000	\$ 475,000	\$ -	\$ 50,000	\$ 425,000	\$ 50,000
Accumulated compensated absences			129,943	7,968	-	137,911	137,911
Total governmental activities			\$ 604,943	\$ 7,968	\$ 50,000	\$ 562,911	\$ 187,911
Business-type Activities							
General obligation bonds - 2008 DWRF Bonds:							
Amount of issue: \$2,490,749							
Maturing through October 2028	2.5%	\$5,749 - \$170,000	\$ 2,240,749	\$ -	\$ 130,000	\$ 2,110,749	\$ 135,000

Township of Scio

Notes to Financial Statements March 31, 2012

Note 7 - Long-term Debt (Continued)

Component Unit Activities	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2002 General Obligation Limited Tax Bonds:							
Amount of issue: \$7,000,000	4.40%	\$450,000 -					
Maturing through April 2018	4.60%	\$700,000	\$ 4,400,000	\$ -	\$ 4,400,000	\$ -	\$ -
2006 General Obligation Limited Tax Bonds:							
Amount of issue: \$9,700,000							
Maturing through November 2025	4.00%	\$300,000 - \$1,000,000	9,100,000	-	300,000	8,800,000	300,000
2007 Downtown Development and Refunding Bonds:							
Amount of issue: \$4,745,000							
Maturing through May 2014	4.00%	\$705,000 - \$715,000	2,935,000	-	805,000	2,130,000	715,000
2008 Downtown Development and Refunding Bonds:							
Amount of issue: \$3,250,000							
Maturing through November 2028	4.00% - 5.00%	\$50,000 - \$400,000	3,250,000	-	-	3,250,000	50,000
2012 Downtown Development and Refunding Bonds:							
Amount of issue: \$3,250,000							
Maturing through November 2028	2.00% - 4.00%	\$475,000 - \$685,000	-	3,470,000	-	3,470,000	-
Total component unit activities			\$ 19,685,000	\$ 3,470,000	\$ 5,505,000	\$ 17,650,000	\$ 1,065,000

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending March 31	Governmental Activities			Business-type Activities			Component Unit Activities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 50,000	\$ 22,451	\$ 72,451	\$ 135,000	\$ 52,769	\$ 187,769	\$ 1,065,000	\$ 634,746	\$ 1,699,746
2014	75,000	18,994	93,994	135,000	49,394	184,394	1,660,000	617,550	2,277,550
2015	75,000	14,812	89,812	140,000	46,019	186,019	1,680,000	561,500	2,241,500
2016	75,000	10,594	85,594	145,000	42,519	187,519	1,165,000	517,000	1,682,000
2017	75,000	6,357	81,357	145,000	38,894	183,894	1,205,000	481,300	1,686,300
2018-2022	75,000	2,119	77,119	790,000	137,719	927,719	5,275,000	1,789,300	7,064,300
2023-2027	-	-	-	575,000	40,844	615,844	4,850,000	761,000	5,611,000
2028-2030	-	-	-	45,749	1,287	47,036	750,000	57,500	807,500
Total	\$ 425,000	\$ 75,327	\$ 500,327	\$ 2,110,749	\$ 409,445	\$ 2,520,194	\$ 17,650,000	\$ 5,419,896	\$ 23,069,896

Note 7 - Long-term Debt (Continued)

Advance and Current Refundings - During the year, the Township's Downtown Development Authority issued \$3,470,000 in general obligation bonds with an average interest rate ranging from 2.0 percent to 4.0 percent. The proceeds of these bonds were used to advance refund \$3,500,000 of outstanding general obligation bonds with an average interest rate ranging from 4.4 percent to 4.6 percent. The net proceeds of \$3,591,282 (after payment of \$34,700 in underwriting fees, insurance, and other issuance costs) plus an additional \$54,151 of the Prior Debt Retirement Fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed. The advance refunding reduced total debt service payments over the next seven years by \$257,602, which represents an economic gain of \$244,017.

In prior years, the Township defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At March 31, 2012, \$5,600,000 of bonds outstanding are considered defeased.

Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for property loss, torts, errors and omissions, and medical benefit claims from the Accident Fund for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9 - Defined Benefit Pension Plan

Plan Description - The Township participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all full- and part-time firefighters of the Township and all full-time employees, except the elected officials other than the current treasurer. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplemental information for the system. The report may be obtained by writing to the system at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy - The obligation to contribute to and maintain the MERS for the full- and part-time firefighters was established by negotiation with the Township's collective bargaining units and arbitration rulings under Michigan Public Act 312 of 1969.

Note 9 - Defined Benefit Pension Plan (Continued)

Under the bargaining agreement with the firefighters, the Township is required to contribute a fixed 8 percent of gross wages through April 30, 2012, after which the percent contribution may change. The balance of funding required beyond the Township's 8 percent will be contributed by the full- and part-time firefighters of the Township.

For all full-time employees that elected to join MERS, the Township is required to contribute a fixed 8 percent of gross wages. The balance of funding required beyond the Township's 8 percent will be contributed by the full-time employees of the Township.

Annual Pension Cost - For the year ended March 31, 2012, the Township's annual pension cost was approximately \$90,000 and was equal to the Township's required and actual contribution. The Township's participation in the plan commenced for the firefighters during the 2005 fiscal year. The other Township employees followed during the 2008 fiscal year. The annual required contribution was determined as part of an actuarial valuation performed by MERS as of December 31, 2010 using the entry age normal actuarial method and was revised for the full-time employees entering into the defined benefit plan during the 2008 fiscal year, subject to the fixed contribution noted above. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent attributable to inflation, (c) additional salary increases of 0 percent to 8.4 percent per year, attributable to seniority/merit, and (d) the assumption that benefits will increase 4.5 percent per year annually after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period.

The unfunded actuarial liability is being amortized as a level percent of payroll on an open basis. The remaining amortization period is 28 years.

Three-year trend information as of March 31 follows:

	Fiscal Year Ended March 31		
	2010	2011	2012
Annual pension cost (APC)	\$ 88,208	\$ 91,202	\$ 89,603
Percentage of APC contributed	100 %	100 %	100 %

Township of Scio

Notes to Financial Statements March 31, 2012

Note 9 - Defined Benefit Pension Plan (Continued)

Financial information from the most recent actuarial valuations is as follows:

	Actuarial Valuation as of December 31		
	2008	2009	2010
Actuarial value of assets	\$ 935,259	\$ 1,149,103	\$ 1,369,871
Actuarial accrued liability (AAL) (entry age)	1,506,556	1,537,420	1,681,599
Unfunded AAL (UAAL)*	571,297	388,317	311,728
Funded ratio	62.1 %	74.7 %	81.5 %
Covered payroll	1,121,009	1,113,744	1,034,441
UAAL as a percentage of covered payroll	51.0 %	34.9 %	30.1 %

* The unfunded AAL (UAAL) is the financial responsibility of the employees, assuming the Township remits the 8 percent contribution noted above.

Note 10 - Defined Contribution Pension Plan

The Township offers pension benefits to its elected officials through a defined contribution plan. Firefighters and other full-time employees participated in this plan in the past, but have since transferred to the defined benefit plan as disclosed in Note 9.

In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate 90 days from the date of employment. As established by the board of trustees, the Township contributes 8 percent of an employee's approved pension earnings. Employee contributions are not required. In accordance with these requirements, the Township contributed approximately \$12,100 during the current year. The Township's contributions for each employee are fully vested upon entering service.

Note 11 - Other Postemployment Benefits

Plan Description - The Township provides retiree healthcare benefits to eligible employees. This is an agent multiple employer defined benefit plan administered by the Township. The benefits are provided under collective bargaining agreements as approved by the board. The Township provides a monthly stipend to be used to supplement the insurance cost for postemployment healthcare benefits. At the governmental fund level, the expense is recognized by the Township as the payments to the employees are made. During the year, this amounted to \$11,390.

Funding Policy - The collective bargaining agreements do not require a contribution from employees. The Township has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis).

Township of Scio

Notes to Financial Statements March 31, 2012

Note 11 - Other Postemployment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation - The Township's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC). For the year ended March 31, 2012, the Township has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Township's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Township's net OPEB obligation to the Retiree Health Plan:

Annual required contribution (recommended)	\$ 109,260
Interest on the prior year's net OPEB obligation	1,864
Amounts contributed - Payments of current premiums	<u>(11,390)</u>
Increase in net OPEB obligation	99,734
OPEB obligation - Beginning of year	<u>185,404</u>
OPEB obligation - End of year	<u>\$ 285,138</u>

The Township's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
3/31/10	3/31/09	\$ 93,063	16.4	\$ 77,758
3/31/11	3/31/10	122,132	12.5	185,404
3/31/12	3/31/11	109,260	10.4	285,138

The funding progress of the plan is as follows:

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
3/31/09	\$ -	\$ 839,225	\$ 839,225	-	\$ 1,402,156	59.9
3/31/10	-	908,496	908,496	-	1,445,090	62.9
3/31/11	-	855,706	855,706	-	1,409,534	60.7

Note 11 - Other Postemployment Benefits (Continued)

Actuarial Methods and Assumptions - Valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented above, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in accrued liabilities and the value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement Age for Active Employees - Based on historical average retirement age for the covered group, active plan members were assumed to retire at age 65.

Marital Status - Marital status of members is irrelevant as the plan does not cover spouses or other dependents.

Mortality - Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2002 United States Life Tables for males and females were used.

Turnover - Nongroup-specific age-based turnover data from GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating the periods of the present value of total benefits to be paid.

Healthcare Costs and Inflation - The Township provides a stipend to its retirees to supplement the insurance costs for the retiree's healthcare premiums. The Township's policy requires the stipend be adjusted annually with the lesser of the Consumer Price Index or the percentage of change in the Scio Township General Fund fiscal year-end revenue as determined by comparing the difference between the current and prior fiscal year-end audits. A rate of 2 percent annually was used to project future increases based on recent changes to the CPI.

Township of Scio

Notes to Financial Statements March 31, 2012

Note 11 - Other Postemployment Benefits (Continued)

Health Insurance Premiums - Fiscal year 2012 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

In the March 31, 2011 valuation, the entry age actuarial cost method was used. The assumptions included a 1.00 percent investment rate of return and an inflation rate of 2.00 percent. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at March 31, 2011 was 28 years.

Note 12 - Accounting and Reporting Change

During the year, the Township adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. In order to conform the classifications of the funds to the appropriate fund types under these new definitions, beginning fund balance was restated as follows:

	<u>General Fund</u>	<u>Budget Stabilization Fund</u>
Fund balance - March 31, 2011 - As previously reported	\$ 5,876,163	\$ 92,438
Reclassifications under GASB No. 54	<u>92,438</u>	<u>(92,438)</u>
Fund balance - March 31, 2011 - As restated	<u>\$ 5,968,601</u>	<u>\$ -</u>

Note 13 - Upcoming Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement 14 and Statement 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement also clarifies the reporting of equity interests in legally separate organizations. The Township is currently evaluating the impact this standard will have on the financial statements when adopted during the Township's 2013-2014 fiscal year.

Note 13 - Upcoming Accounting Pronouncements (Continued)

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB statements and interpretations, APB opinions, and accounting research bulletins of the AICPA Committee on Accounting Procedure. The Township is currently evaluating the impact this standard will have on the financial statements when adopted during the Township's 2012-2013 fiscal year.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the Township's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

In June 2012, GASB Statement No. 67, *Financial Reporting for Pension Plans*, was issued by the Governmental Accounting Standards Board. This new standard, which replaces the requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and No. 50, *Pension Disclosures*, establishes standards for financial reporting that outline the basic framework for separately issued pension plan financial reports and specifies the required approach to measuring the liability of employer(s) and certain nonemployer contributing entities, about which information is required to be disclosed. GASB Statement No. 67 is required to be adopted for years beginning after June 15, 2013. For Scio Township, this standard will be adopted for the year ending March 31, 2015.

In June 2012, the 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 March 31, 2016.

Required Supplemental Information

Township of Scio

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2012

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 1,090,000	\$ 1,090,000	\$ 1,125,226	\$ 35,226
State-shared revenue and grants	800,000	1,250,000	1,319,421	69,421
Locally raised	828,690	845,245	858,915	13,670
Investment income	5,000	5,000	2,396	(2,604)
Rental income	33,000	33,000	33,002	2
Other revenue	23,000	112,572	125,481	12,909
Total revenue	2,779,690	3,335,817	3,464,441	128,624
Expenditures - Current				
General government:				
General government	706,474	692,460	587,867	104,593
Assessing	483,335	472,450	417,841	54,609
Elections	34,105	34,850	26,391	8,459
Boards and commissions	282,780	233,490	204,246	29,244
Total general government	1,506,694	1,433,250	1,236,345	196,905
Health and safety	1,430,650	1,401,250	1,355,546	45,704
Building and grounds	55,200	55,150	38,034	17,116
Capital outlay	25,000	25,000	4,450	20,550
Total expenditures	3,017,544	2,914,650	2,634,375	280,275
Excess of Revenue (Under) Over Expenditures	(237,854)	421,167	830,066	408,899
Other Financing Uses - Transfers out	(75,450)	(75,450)	(75,450)	-
Net Change in Fund Balance	(313,304)	345,717	754,616	408,899
Fund Balance - Beginning of year	5,876,163	5,876,163	5,876,163	-
Fund Balance - End of year	<u>\$ 5,562,859</u>	<u>\$ 6,221,880</u>	<u>\$ 6,630,779</u>	<u>\$ 408,899</u>

Township of Scio

Required Supplemental Information Budgetary Comparison Schedule Open Space Land Preservation Fund Year Ended March 31, 2012

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 541,150	\$ 550,150	\$ 575,509	\$ 25,359
Federal grants	200,000	87,000	87,360	360
Investment income	250	2,000	2,439	439
Total revenue	<u>741,400</u>	<u>639,150</u>	<u>665,308</u>	<u>26,158</u>
Expenditures - Capital outlay	<u>725,000</u>	<u>296,400</u>	<u>273,625</u>	<u>22,775</u>
Net Change in Fund Balance	16,400	342,750	391,683	48,933
Fund Balance - Beginning of year	<u>732,745</u>	<u>732,745</u>	<u>732,745</u>	<u>-</u>
Fund Balance - End of year	<u><u>\$ 749,145</u></u>	<u><u>\$ 1,075,495</u></u>	<u><u>\$ 1,124,428</u></u>	<u><u>\$ 48,933</u></u>

Township of Scio

Required Supplemental Information Budgetary Comparison Schedule Fire Department Fund Year Ended March 31, 2012

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Locally raised	\$ 1,500	\$ 3,000	\$ 3,000	\$ -
Investment income	500	3,000	4,899	1,899
Rental income	22,250	22,250	22,250	-
Other revenue:				
Special assessments	930,000	934,000	931,923	(2,077)
Other miscellaneous income	2,000	2,325	2,325	-
Total revenue	956,250	964,575	964,397	(178)
Expenditures - Current				
Public safety	994,620	694,250	649,484	44,766
Capital outlay	5,000	-	-	-
Total expenditures	999,620	694,250	649,484	44,766
Net Change in Fund Balance	(43,370)	270,325	314,913	44,588
Fund Balance - Beginning of year	769,595	769,595	769,595	-
Fund Balance - End of year	<u>\$ 726,225</u>	<u>\$ 1,039,920</u>	<u>\$ 1,084,508</u>	<u>\$ 44,588</u>

Township of Scio

Note to Budgetary Comparison Schedule - General Fund Year Ended March 31, 2012

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all special revenue funds, except that operating transfers and debt proceeds have been included in the revenue and expenditures categories, rather than as other financing sources (uses). The Township adopts each fund's budget individually, so budgeted amounts in the General Fund include only General Fund activity, not including the Budget Stabilization Fund, which was consolidated with the General Fund for reporting purposes as a result of GASB No. 54. As a result, the revenue and expenditures of the Budget Stabilization Fund are not included in the General Fund budget.

The annual budget is prepared by the Township's department heads and finance department. It is approved by the Township budget committee and adopted by the Township board; subsequent amendments are approved by the Township board.

Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at March 31, 2012 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

A reconciliation of the budgetary comparison schedules to the fund-based statement of changes in fund balance is as follows:

	<u>Total Revenue</u>	<u>Total Expenditures</u>
General Fund		
Amounts per operating statement	\$ 3,372,003	\$ 2,634,375
Operating transfers from other funds recorded as revenue	92,477	-
Budget Stabilization Fund activity	<u>(39)</u>	<u>-</u>
Amounts per budget statement	<u>\$ 3,464,441</u>	<u>\$ 2,634,375</u>

Excess of Expenditures Over Appropriations in Budgeted Funds - The Township had no expenditures in excess of budgeted amounts.

Other Supplemental Information

Township of Scio

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds March 31, 2012

	Special Revenue Funds		Debt Service Funds	Capital Projects Funds			Total Nonmajor Governmental Funds
	Public Improvement Fund	Tree Mitigation Fund	Building Authority Fund	Township			
				Public Safety and Improvement Fund	Road Improvement Revolving Fund	East Delhi Bridge Maintenance Fund	
Assets							
Cash and investments	\$ 789,965	\$ 11,056	\$ -	\$ 864,104	\$ 114,080	\$ 19,691	\$ 1,798,896
Receivables:							
Special assessments receivable	-	-	-	-	21,853	-	21,853
Due from other governmental units	-	-	-	-	555	348	903
Total assets	<u>\$ 789,965</u>	<u>\$ 11,056</u>	<u>\$ -</u>	<u>\$ 864,104</u>	<u>\$ 136,488</u>	<u>\$ 20,039</u>	<u>\$ 1,821,652</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 800	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 800
Deferred revenue	-	-	-	-	21,853	-	21,853
Total liabilities	800	-	-	-	21,853	-	22,653
Fund Balances							
Restricted:							
Metro act	101,378	-	-	-	-	-	101,378
Public improvement	687,787	-	-	-	-	-	687,787
Tree mitigation	-	11,056	-	-	-	-	11,056
Road improvements	-	-	-	-	114,635	-	114,635
Bridge maintenance	-	-	-	-	-	20,039	20,039
Committed - Capital projects	-	-	-	864,104	-	-	864,104
Total fund balances	<u>789,165</u>	<u>11,056</u>	<u>-</u>	<u>864,104</u>	<u>114,635</u>	<u>20,039</u>	<u>1,798,999</u>
Total liabilities and fund balances	<u>\$ 789,965</u>	<u>\$ 11,056</u>	<u>\$ -</u>	<u>\$ 864,104</u>	<u>\$ 136,488</u>	<u>\$ 20,039</u>	<u>\$ 1,821,652</u>

Township of Scio

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended March 31, 2012

	Special Revenue Funds		Debt Service	Capital Projects Funds			Total Nonmajor Governmental Funds
	Public Improvement Fund	Tree Mitigation Fund	Building Authority Fund	Township			
				Public Safety and Improvement Fund	Road Improvement Revolving Fund	East Delhi Bridge Maintenance Fund	
Revenue							
Investment income	\$ 163	\$ 31	\$ -	\$ 404	\$ 2,487	\$ 51	\$ 3,136
Other revenue:							
Special assessments	-	-	-	-	21,853	4,999	26,852
Other miscellaneous income	11,635	-	-	-	-	-	11,635
Total revenue	11,798	31	-	404	24,340	5,050	41,623
Expenditures - Current							
General government	12,557	-	-	-	119	35	12,711
Public safety	-	-	-	221	-	-	221
Debt service	-	-	75,450	-	-	-	75,450
Total expenditures	12,557	-	75,450	221	119	35	88,382
Excess of Revenue (Under) Over Expenditures	(759)	31	(75,450)	183	24,221	5,015	(46,759)
Other Financing Sources - Transfers in	-	-	75,450	-	-	-	75,450
Net Change in Fund Balances	(759)	31	-	183	24,221	5,015	28,691
Fund Balances - Beginning of year	789,924	11,025	-	863,921	90,414	15,024	1,770,308
Fund Balances - End of year	<u>\$ 789,165</u>	<u>\$ 11,056</u>	<u>\$ -</u>	<u>\$ 864,104</u>	<u>\$ 114,635</u>	<u>\$ 20,039</u>	<u>\$ 1,798,999</u>

**Township of Scio
Washtenaw County, Michigan**

**Report to the Township Board of Trustees
March 31, 2012**

July 23, 2012

To the Board of Trustees
Township of Scio

Dear Board Members:

We have audited the financial statements of Scio Township (the "Township") as of and for the year ended March 31, 2012 and have issued our report thereon dated July 23, 2012. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Communications Required Under SAS 114

Section II - Other Recommendations

Section III - Legislative and Informational Items

Section I includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the board of trustees of the Township of Scio.

Section II presents recommendations related to internal control and procedures noted during our current year audit. These comments are offered in the interest of helping the Township in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operational or administrative efficiency and effectiveness.

Section III contains updated legislative and informational items that we believe will be of interest to you.

We would like to take this opportunity to thank the Township's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report is intended solely for the use of the board of trustees and management of the Township and is not intended to be and should not be used by anyone other than these specified parties.

To the Board of Trustees
Township of Scio

July 23, 2012

We welcome any questions you may have regarding the following communications and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Michael J. Swartz". The signature is fluid and cursive, with a large loop at the end.

Michael J. Swartz

A handwritten signature in black ink, appearing to read "Brian J. Camiller". The signature is fluid and cursive, with a large loop at the end.

Brian J. Camiller

Section I - Communications Required Under SAS 114

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated December 2, 2010, our responsibility, as described by professional standards, is to express an opinion 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. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on May 24, 2012.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township are described in Note 1 to the financial statements.

As described in Note 12, the Township changed accounting policies related to GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used.

We noted no transactions entered into by the Township during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements are the assumptions used by the Township in calculating the liability related to other postemployment benefits (i.e., retiree health care). Management's estimates and assumptions are based on historical data relating to healthcare premiums and actuarial techniques. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements or adjustments identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has recorded all auditor proposed adjustments, thus correcting all such misstatements.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 23, 2012.

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 Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

To the Board of Trustees
Township of Scio

July 23, 2012

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, business conditions affecting the Township, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as the Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Section II - Other Recommendations

During our audit, we noted areas where we believe there are opportunities for the Township to further strengthen internal control or to increase operating efficiencies. Our observations on those areas are presented for your consideration below.

Changes to Township Chart of Accounts

We suggest making the following changes to the Township's chart of accounts:

DDA Fund - Since the implementation of GASB No. 34 several years ago, the DDA fund has been presented in the financial statements using the full accrual method of accounting, but recorded internally by the Township on the modified basis of accounting in two separate funds, funds 394 and 494. At the end of the year, several adjustments are made to combine funds 394 and 494 and record both on full accrual. We suggest combining funds 394 and 494 into one single DDA Fund and recording the activity using the full accrual basis of accounting, similar to how the water and sewer funds are recorded.

GASB No. 34 Fund - Before GASB No. 34 was implemented, governmental accounting standards required the use of two "account groups" for the tracking of long-term debt and capital assets. The Township has maintained this account structure post-GASB No. 34 (funds 901 and 950) and made modifications at the end of the year to record the other necessary full-accrual activity. We suggest combining these into one single GASB No. 34 fund.

Previously Communicated Items

The following items and suggestions have previously been communicated to you during past audits. We continue to suggest these items for improvement to the Township's operations and internal controls:

- Review and approval of manual journal entries - In a smaller accounting environment where staffing is limited, it becomes very important for management to provide enough oversight over the accounting function. We continue to note that there is no review or authorization process in place for entries made by the CFO. Even though the Township board of trustees receives and reviews budget to actual statements each month, we suggest that one of the elected officials review manual journal entries periodically throughout the year as an additional aspect of internal control.
- Designated banking institutions - We are aware that the Township's investment policy does not require the board's approval before utilizing a financial institution. We suggest that the Township amend the current investment policy and include a list of banking institutions in which the Township is allowed to do business.

Section III - Legislative and Informational Items

Impact of Census Results on State-shared Revenue

The 2010 census data was released on March 22, 2011. Census results indicated an overall decline in population for the state of Michigan of 0.6 percent. The impact of the census on local units of government will vary widely, based mostly upon whether or not a local unit was receiving statutory revenue-sharing payments prior to the change to EVIP. For the Township, the impact of the census was an increase of 3,120 residents (23 percent), which resulted in a retroactive increase of \$141,000 in August 2011. For the State's fiscal year beginning in October 2012, the projected constitutional revenue sharing for Scio Township is over \$1.2 million, a significant increase over the amount received annually based on the 2000 census figures. We would expect this revenue to continue to grow along with the State's economy (as sales tax collections increase).

Going forward, the Township is no longer eligible to receive any statutory revenue sharing (or its replacement, the EVIP). However, the good news is that the State is no longer able to reduce your revenue sharing to balance its budget.

State Initiatives Impacting Local Units of Government

As you know, Governor Snyder began his tenure with several significant initiatives, and he is moving his agenda forward at a quick pace. He is focused on initiatives to improve the transparency and efficiency of local units - cities, townships, villages, and counties. More specifically, his current local government initiatives include:

- **Replace “Statutory Revenue Sharing” with the EVIP Program** - This program is not available to Scio Township because the statutory revenue sharing had already been eliminated by the State. For other communities that still receive EVIP, they are required to demonstrate best practices in the following areas:
 - *Transparency* - Provide more accessible financial information to citizens (a citizens guide and a performance dashboard)
 - *Service sharing* - Plan for consolidation or collaboration with other units of government. It is also worth noting that for fiscal year 2013, the State is setting aside \$25 million (of which \$10 million is specifically for public safety) out of the \$210 million of EVIP funds to be used for the competitive grant assistance program. Our understanding is that these grants would be available to all communities, including those not receiving EVIP.
 - *Employee benefits* - Plan for slimmed-down pension and healthcare benefits

- **Healthcare Limitations** - PA 152 of 2011, the *Publicly Funded Health Insurance Contribution Act*, was signed into law by the governor in late September 2011. This new law requires all public employers to place hard caps on the amounts they contribute toward health care with an option to elect an 80 percent contribution cap rather than a hard cap. There is also an option for a “local unit” to opt out entirely. It is our understanding that Scio Township has elected to opt out.
- **Potential Elimination of Personal Property Taxes** - There has been much talk regarding elimination of personal property tax. The current bills before the legislature would:
 - Eliminate personal property taxes for any taxpayer with less than \$40,000 of personal property
 - Phase out “qualified manufacturing” industrial personal property by exempting any new additions after December 31, 2015

The reasoning from the legislature is that the \$40,000 exemption will eliminate up to 75 percent of the physical bills that need to be processed but would not dramatically impact the tax dollars generated at the local unit level. The most critical component of the legislation that remains in question is what the replacement revenue plan will be. Many reports indicate the replacement revenue is supposed to come from expiring tax credits and the plan is to start appropriating these funds in 2016, which is obviously several years out. The Township’s personal property tax currently brings in approximately \$137,000 combined between the General Fund and the Open Space Land Preservation Fund. The Downtown Development Authority captures approximately \$588,000 from the personal property tax.

- **Retro-pay Prohibition** - Public Act 54 of 2011, which was signed by the governor on June 7, prohibits retroactive pay on an expired contract and calls for employees working under an expired agreement to bear the cost of any increased healthcare costs until a new contract is in effect. During that period, the public employer is authorized to make payroll deductions necessary to pay the increased cost of maintaining those benefits.
- **Amendments to Act 312, Police and Fire Arbitration** - Public Act 312 prohibits public police and fire department employees from the right to strike. Whenever contracts are not resolved, the employees or employer may initiate binding arbitration in lieu of striking. The arbitrator’s decision is final and binding upon the parties involved. In July 2011, Public Act 116 of 2011 was signed into law and contains the following provisions:
 - A stronger consideration of a community’s ability to pay
 - Internal salary and benefit comparisons
 - Reducing the timeframe of the process to no more than 180 days

- **Significantly Strengthening the Powers of Emergency Managers through Public Act 4 - P.A. 4 of 2011** significantly strengthens the power of the state treasurer to intervene in local units of government that are experiencing severe fiscal distress. While there are currently petitions to overturn the legislation, the governor appears to be intent on instituting legal authority to oversee local units of government that are not able to sustain themselves financially.
- **Clarification of the Requirements for Deficit Elimination Plans** - The State has recently issued numbered letter 2012-1, which clarifies the requirements for deficit elimination plans. The key takeaways from this new policy are:
 - o Local units should no longer wait for a request from the State to submit deficit elimination plans. The State will not be issuing such a letter; instead, the plans are now due on or before the filing of your financial statement. This affects Scio Township as the Capital Projects Fund has a deficit of \$136,094 due to unavailable revenue related to special assessments that will be collected in future years.
 - o The letter defines a fund deficit for governmental funds as “unrestricted fund balance” (total fund balance, less nonspendable balances, less restricted balances).
 - o The letter defines fund deficit for proprietary funds (and component units) as negative unrestricted net assets (or negative total net assets) and a negative working capital (current assets less current liabilities).