

**Township of Scio  
Washtenaw County, Michigan**

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**Financial Report  
with Supplemental Information  
March 31, 2013**

# Township of Scio

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# Township of Scio

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## Independent Auditor's Report

To the Board of Trustees

Township of Scio

### **Report on the Financial Statements**

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, 2013, and the related notes to the financial statements, which collectively comprise the Township of Scio's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the 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, 2013 and the respective changes in its financial position, and, where applicable, cash flows, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees  
Township of Scio

**Required Supplemental Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the major fund budgetary comparison schedules on pages 3-9 and pages 45-47, respectively, 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.

**Other Information**

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 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 basic financial statements.

The other supplemental information, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information, as identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Plante & Morse, PLLC*

July 25, 2013

# 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, 2013. 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, 2013:

- 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 four years because of the tax formula used to determine taxable value.
- 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 expenditures for sheriff services remain consistent for the third year after several years of significant increases related to 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, decreased approximately \$143,000 in fiscal year ended 2013 compared to 2012. As the Township receives only the constitutional allocation of state revenue sharing, this revenue source is relatively stable. The decrease related to an over \$140,000 census adjustment that was received by the Township in fiscal year 2012.
- 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 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 and Sewer Fund expenditures exceeded revenue.

# **Township of Scio**

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## **Management's Discussion and Analysis (Continued)**

- 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.
- In the current fiscal year, the 2012 Special Assessment Bonds Construction Fund was created to account for the special assessments on Park Road. This fund has been classified as a nonmajor Capital Projects Fund and is included in the other supplemental information.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net position 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, 2013. 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.

# Township of Scio

## Management's Discussion and Analysis (Continued)

### The Township as a Whole

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

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Assets</b>						
Current assets	\$ 12,886	\$ 12,045	\$ 22,958	\$ 23,086	\$ 35,844	\$ 35,131
Noncurrent assets	9,549	9,111	25,592	26,075	35,141	35,186
Total assets	22,435	21,156	48,550	49,161	70,985	70,317
<b>Liabilities</b>						
Current liabilities	1,344	1,388	1,054	1,131	2,398	2,519
Long-term liabilities	746	574	1,957	2,062	2,703	2,636
Total liabilities	2,090	1,962	3,011	3,193	5,101	5,155
<b>Net Position</b>						
Net investment in capital assets	8,984	8,686	23,616	23,964	32,600	32,650
Restricted	3,749	3,223	21,923	22,004	25,672	25,227
Unrestricted	7,612	7,285	-	-	7,612	7,285
Total net position	<u>\$ 20,345</u>	<u>\$ 19,194</u>	<u>\$ 45,539</u>	<u>\$ 45,968</u>	<u>\$ 65,884</u>	<u>\$ 65,162</u>

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 position is more liquid in nature and is available to finance day-to-day operations. They were \$7,612,000 and \$7,285,000 as of March 31, 2013 and 2012, respectively. The current level of unrestricted net position for governmental activities is approximately 37 percent of total governmental activities net position. 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 position during the fiscal year as compared to the prior year (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 1,215	\$ 1,146	\$ 4,292	\$ 3,895	\$ 5,507	\$ 5,041
Capital grants and contributions	-	87	230	176	230	263
General revenue:						
Property taxes	2,161	2,150	-	-	2,161	2,150
State-shared revenue	1,198	1,341	-	-	1,198	1,341
Unrestricted investment earnings	41	24	90	95	131	119
Franchise fees	265	246	-	-	265	246
Miscellaneous	396	58	-	-	396	58
<b>Total revenue</b>	<b>5,276</b>	<b>5,052</b>	<b>4,612</b>	<b>4,166</b>	<b>9,888</b>	<b>9,218</b>
<b>Program Expenses</b>						
General government	1,821	1,456	-	-	1,821	1,456
Public safety	2,152	2,060	-	-	2,152	2,060
Public works	117	92	-	-	117	92
Interest on long-term debt	35	35	-	-	35	35
Water	-	-	2,721	2,354	2,721	2,354
Sewer	-	-	2,320	2,406	2,320	2,406
<b>Total program expenses</b>	<b>4,125</b>	<b>3,643</b>	<b>5,041</b>	<b>4,760</b>	<b>9,166</b>	<b>8,403</b>
<b>Change in Net Position</b>	<b>\$ 1,151</b>	<b>\$ 1,409</b>	<b>\$ (429)</b>	<b>\$ (594)</b>	<b>\$ 722</b>	<b>\$ 815</b>

### Governmental Activities

Total expenditures related to general government activities compared to the previous year related to an increase in capital improvement spending which had decreased in recent years.

### 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**

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## **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 seven 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.

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 \$1,256,000 in fiscal year 2013, similarly to \$1,257,000 in 2012. 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**

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## **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.

### **Capital Asset and Debt Administration**

At the end of fiscal year 2013, the Township had approximately \$35.1 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 \$16.1 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**

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## **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's 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 Position March 31, 2013

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments	\$ 11,724,048	\$ 22,303,608	\$ 34,027,656	\$ 6,075,485
Receivables:				
Property taxes receivable	68,475	-	68,475	-
Customer receivables - Net	140,880	651,499	792,379	-
Accrued interest receivable	2,250	-	2,250	-
Other receivables	15,800	-	15,800	-
Due from other governmental units	616,326	2,847	619,173	-
Special assessments receivable	318,184	-	318,184	-
Due from component units	311	-	311	-
Due from primary government	-	-	-	106,417
Capital assets - Net:				
Nondepreciated	6,661,034	2,487,999	9,149,033	16,010,711
Depreciated	2,887,791	23,103,684	25,991,475	13,176,153
<b>Total assets</b>	<b>22,435,099</b>	<b>48,549,637</b>	<b>70,984,736</b>	<b>35,368,766</b>
<b>Liabilities</b>				
Accounts payable	110,201	231,405	341,606	85,586
Due to other governmental units	-	581,583	581,583	1,662,781
Due to component units	106,417	-	106,417	-
Due to primary government	-	-	-	311
Accrued liabilities and other	32,761	105,862	138,623	229,521
Deferred revenue	921,605	-	921,605	-
Noncurrent liabilities:				
Due within one year:				
Compensated absences	88,326	-	88,326	-
Current portion of long-term debt	85,000	135,000	220,000	1,160,000
Due in more than one year:				
Net other postemployment benefits obligation	265,931	116,360	382,291	-
Long-term debt - Net of current portion	480,000	1,840,749	2,320,749	14,925,000
<b>Total liabilities</b>	<b>2,090,241</b>	<b>3,010,959</b>	<b>5,101,200</b>	<b>18,063,199</b>
<b>Net Position</b>				
Net investment in capital assets	8,983,825	23,615,934	32,599,759	13,101,864
Restricted for:				
Debt service	188,503	-	188,503	-
Water operations	-	6,640,382	6,640,382	-
Sewer operations	-	15,282,362	15,282,362	-
Metro act	113,555	-	113,555	-
Land preservation	1,251,654	-	1,251,654	-
Public safety	1,306,218	-	1,306,218	-
Public improvement	671,408	-	671,408	-
Tree mitigation	11,097	-	11,097	-
Road improvement	137,892	-	137,892	-
Bridge maintenance	25,114	-	25,114	-
Capital projects	43,908	-	43,908	-
Unrestricted	7,611,684	-	7,611,684	4,203,703
<b>Total net position</b>	<b>\$ 20,344,858</b>	<b>\$ 45,538,678</b>	<b>\$ 65,883,536</b>	<b>\$ 17,305,567</b>

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	\$ 1,821,669	\$ 156,555	\$ -	\$ -
Public safety	2,152,214	952,421	-	-
Public works	117,230	105,592	-	-
Interest on long-term debt	34,770	-	-	-
Total governmental activities	4,125,883	1,214,568	-	-
Business-type activities:				
Water	2,721,659	2,553,754	-	61,443
Sewer	2,319,751	1,739,212	-	168,063
Total business-type activities	5,041,410	4,292,966	-	229,506
Total primary government	<u>\$ 9,167,293</u>	<u>\$ 5,507,534</u>	<u>\$ -</u>	<u>\$ 229,506</u>
Component units:				
Downtown Development Authority	\$ 1,562,360	\$ -	\$ -	\$ -
Economic Development Corporation	12,352	101	8,800	-
Total component units	<u>\$ 1,574,712</u>	<u>\$ 101</u>	<u>\$ 8,800</u>	<u>\$ -</u>

General revenue:

Property taxes  
 State-shared revenue  
 Investment income  
 Cable franchise fees  
 Other miscellaneous income

Total general revenue

**Change in Net Position**

**Net Position** - Beginning of year

**Net Position** - End of year

**Statement of Activities**  
**Year Ended March 31, 2013**

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (1,665,114)	\$ -	\$ (1,665,114)	\$ -
(1,199,793)	-	(1,199,793)	-
(11,638)	-	(11,638)	-
(34,770)	-	(34,770)	-
(2,911,315)	-	(2,911,315)	-
-	(106,462)	(106,462)	-
-	(412,476)	(412,476)	-
-	(518,938)	(518,938)	-
(2,911,315)	(518,938)	(3,430,253)	-
-	-	-	(1,562,360)
-	-	-	(3,451)
-	-	-	(1,565,811)
2,160,699	-	2,160,699	1,976,611
1,198,190	-	1,198,190	-
41,254	89,738	130,992	23,039
264,742	-	264,742	-
396,365	-	396,365	-
4,061,250	89,738	4,150,988	1,999,650
1,149,935	(429,200)	720,735	433,839
19,194,923	45,967,878	65,162,801	16,871,728
<b>\$ 20,344,858</b>	<b>\$ 45,538,678</b>	<b>\$ 65,883,536</b>	<b>\$ 17,305,567</b>

# Township of Scio

## Governmental Funds Balance Sheet March 31, 2013

	General Fund	Open Space Land Preservation Fund	Fire Department Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total
<b>Assets</b>						
Cash and investments (Note 3)	\$ 6,530,742	\$ 1,065,897	\$ 2,225,907	\$ 325	\$ 1,901,177	\$ 11,724,048
Receivables - Net:						
Taxes	51,825	16,560	90	-	-	68,475
Special assessments	-	-	-	150,000	168,184	318,184
Customers	140,880	-	-	-	-	140,880
Interest	2,250	-	-	-	-	2,250
Other receivables	15,800	-	-	-	-	15,800
Due from other governmental units	340,810	236,479	36,500	-	2,537	616,326
Due from component units (Note 6)	205	106	-	-	-	311
<b>Total assets</b>	<b>\$ 7,082,512</b>	<b>\$ 1,319,042</b>	<b>\$ 2,262,497</b>	<b>\$ 150,325</b>	<b>\$ 2,071,898</b>	<b>\$ 12,886,274</b>
<b>Liabilities and Fund Balances (Deficit)</b>						
<b>Liabilities</b>						
Accounts payable	\$ 31,427	\$ 4,878	\$ 15,903	\$ -	\$ 57,993	\$ 110,201
Due to component units (Note 6)	-	-	-	106,417	-	106,417
Accrued liabilities and other	2,699	2,510	18,770	-	-	23,979
Deferred revenue (Note 4)	141,919	227,514	921,606	150,000	168,184	1,609,223
<b>Total liabilities</b>	<b>176,045</b>	<b>234,902</b>	<b>956,279</b>	<b>256,417</b>	<b>226,177</b>	<b>1,849,820</b>
<b>Fund Balances (Deficit)</b>						
Restricted:						
Land preservation	-	1,024,140	-	-	-	1,024,140
Public safety	-	-	1,306,218	-	-	1,306,218
Metro act	-	-	-	-	113,555	113,555
Public improvement	-	-	-	-	671,408	671,408
Tree mitigation	-	-	-	-	11,097	11,097
Debt service	-	-	-	-	20,319	20,319
Road improvements	-	-	-	-	137,892	137,892
Bridge maintenance	-	-	-	-	25,114	25,114
Committed:						
Other postemployment benefits obligation	906,493	-	-	-	-	906,493
Capital projects	-	-	-	-	866,336	866,336
Assigned:						
Subsequent year's budget	10,915	-	-	-	-	10,915
Land preservation	-	60,000	-	-	-	60,000
Unassigned	5,989,059	-	-	(106,092)	-	5,882,967
<b>Total fund balances (deficit)</b>	<b>6,906,467</b>	<b>1,084,140</b>	<b>1,306,218</b>	<b>(106,092)</b>	<b>1,845,721</b>	<b>11,036,454</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 7,082,512</b>	<b>\$ 1,319,042</b>	<b>\$ 2,262,497</b>	<b>\$ 150,325</b>	<b>\$ 2,071,898</b>	<b>\$ 12,886,274</b>

# Township of Scio

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## Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position March 31, 2013

<b>Fund Balance Reported in Governmental Funds</b>	\$ 11,036,454
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	9,548,825
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	687,617
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(565,000)
Accrued interest is not due and payable in the current period and is not reported in the funds	(8,781)
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	(88,326)
Net other postemployment benefit obligations are not reported as fund liabilities	<u>(265,931)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 20,344,858</u></b>

# Township of Scio

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended March 31, 2013

	General Fund	Open Space Land Preservation Fund	Fire Department Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total
<b>Revenue</b>						
Property taxes	\$ 1,135,391	\$ 577,714	\$ -	\$ -	\$ -	\$ 1,713,105
State-shared revenue and grants	1,196,261	-	-	-	-	1,196,261
Locally raised	868,891	-	334	-	-	869,225
Investment income	16,751	1,353	6,576	9,002	7,572	41,254
Rental income	31,494	-	22,250	-	-	53,744
Other revenue:						
Special assessments	-	-	929,837	30,000	75,592	1,035,429
Other miscellaneous income	12,497	-	4,694	-	12,177	29,368
<b>Total revenue</b>	<b>3,261,285</b>	<b>579,067</b>	<b>963,691</b>	<b>39,002</b>	<b>95,341</b>	<b>4,938,386</b>
<b>Expenditures - Current</b>						
General government	1,400,446	-	-	-	18,348	1,418,794
Public safety	1,368,862	-	741,981	-	219	2,111,062
Public works	40,417	-	-	-	252,484	292,901
Capital outlay	8,815	679,355	-	-	-	688,170
Debt service	-	-	-	9,000	72,725	81,725
<b>Total expenditures</b>	<b>2,818,540</b>	<b>679,355</b>	<b>741,981</b>	<b>9,000</b>	<b>343,776</b>	<b>4,592,652</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>442,745</b>	<b>(100,288)</b>	<b>221,710</b>	<b>30,002</b>	<b>(248,435)</b>	<b>345,734</b>
<b>Other Financing Sources (Uses)</b>						
Face value of debt issue	-	-	-	-	188,100	188,100
Transfers in (Note 6)	-	60,000	-	-	107,057	167,057
Transfers out (Note 6)	(167,057)	-	-	-	-	(167,057)
<b>Total other financing (uses) sources</b>	<b>(167,057)</b>	<b>60,000</b>	<b>-</b>	<b>-</b>	<b>295,157</b>	<b>188,100</b>
<b>Net Change in Fund Balances</b>	<b>275,688</b>	<b>(40,288)</b>	<b>221,710</b>	<b>30,002</b>	<b>46,722</b>	<b>533,834</b>
<b>Fund Balances (Deficit) - Beginning of year</b>	<b>6,630,779</b>	<b>1,124,428</b>	<b>1,084,508</b>	<b>(136,094)</b>	<b>1,798,999</b>	<b>10,502,620</b>
<b>Fund Balances (Deficit) - End of year</b>	<b>\$ 6,906,467</b>	<b>\$ 1,084,140</b>	<b>\$ 1,306,218</b>	<b>\$ (106,092)</b>	<b>\$ 1,845,721</b>	<b>\$11,036,454</b>



# Township of Scio

## Proprietary Funds Statement of Net Position March 31, 2013

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 756,128	\$ 2,955,186	\$ 3,711,314
Investments	6,129,031	12,463,263	18,592,294
Receivables:			
Customer receivables - Net	361,400	290,099	651,499
Due from other governmental units	2,847	-	2,847
Total current assets	7,249,406	15,708,548	22,957,954
Noncurrent assets - Capital assets	12,836,188	12,755,495	25,591,683
Total assets	20,085,594	28,464,043	48,549,637
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	111,202	120,203	231,405
Due to other governmental units	424,577	157,006	581,583
Accrued liabilities and other	15,065	90,797	105,862
Current portion of long-term debt	135,000	-	135,000
Total current liabilities	685,844	368,006	1,053,850
Noncurrent liabilities:			
Net other postemployment benefits obligation	58,180	58,180	116,360
Long-term debt	1,840,749	-	1,840,749
Total noncurrent liabilities	1,898,929	58,180	1,957,109
Total liabilities	2,584,773	426,186	3,010,959
<b>Net Position</b>			
Net investment in capital assets	10,860,439	12,755,495	23,615,934
Restricted:			
Restricted for water operations	6,640,382	-	6,640,382
Restricted for sewer operations	-	15,282,362	15,282,362
Total net position	<u>\$ 17,500,821</u>	<u>\$ 28,037,857</u>	45,538,678
<b>Net Position of Business-type Activities</b>			<u><b>\$ 45,538,678</b></u>

# Township of Scio

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended March 31, 2013

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Operating Revenue</b>			
Sale of water	\$ 2,529,145	\$ 1,701,849	\$ 4,230,994
Other	24,609	37,363	61,972
Total operating revenue	2,553,754	1,739,212	4,292,966
<b>Operating Expenses</b>			
Cost of water	1,801,421	-	1,801,421
Cost of sewage treatment	-	1,396,578	1,396,578
Operation and maintenance	95,766	97,819	193,585
General and administrative	409,269	447,886	857,155
Depreciation	364,122	377,468	741,590
Total operating expenses	2,670,578	2,319,751	4,990,329
<b>Operating Loss</b>	(116,824)	(580,539)	(697,363)
<b>Nonoperating Revenue (Expenses)</b>			
Investment income	22,137	67,601	89,738
Interest expense	(51,081)	-	(51,081)
Total nonoperating revenue (expenses)	(28,944)	67,601	38,657
<b>Loss - Before contributions</b>	(145,768)	(512,938)	(658,706)
<b>Capital Contributions - Other capital contributions</b>	61,443	168,063	229,506
<b>Change in Net Position</b>	(84,325)	(344,875)	(429,200)
<b>Net Position - Beginning of year</b>	17,585,146	28,382,732	45,967,878
<b>Net Position - End of year</b>	<b>\$ 17,500,821</b>	<b>\$ 28,037,857</b>	<b>\$ 45,538,678</b>

# Township of Scio

## Proprietary Funds Statement of Cash Flows Year Ended March 31, 2013

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 2,462,448	\$ 1,740,852	\$ 4,203,300
Payments to suppliers	(2,196,432)	(1,651,742)	(3,848,174)
Payments to employees	(295,443)	(299,169)	(594,612)
Other (payments) receipts	(2,847)	13,278	10,431
Net cash used in operating activities	(32,274)	(196,781)	(229,055)
<b>Cash Flows from Capital and Related Financing Activities</b>			
Collection of connection fees	61,443	168,063	229,506
Tap fees collected on behalf of the City of Ann Arbor	83,840	63,697	147,537
Purchase of capital assets	(210,323)	(47,811)	(258,134)
Principal paid on capital debt	(135,000)	-	(135,000)
Repayment of interest	(51,081)	-	(51,081)
Net cash (used in) provided by capital and related financing activities	(251,121)	183,949	(67,172)
<b>Cash Flows from Investing Activities</b>			
Interest received on investments	22,137	67,601	89,738
Purchase of investment securities	(2,496,516)	(4,495,847)	(6,992,363)
Proceeds from sale and maturities of investment securities	2,903,722	4,947,210	7,850,932
Net cash provided by investing activities	429,343	518,964	948,307
<b>Net Increase in Cash and Cash Equivalents</b>	145,948	506,132	652,080
<b>Cash and Cash Equivalents - Beginning of year</b>	610,180	2,449,054	3,059,234
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 756,128</b>	<b>\$ 2,955,186</b>	<b>\$ 3,711,314</b>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>			
Cash and investments	\$ 6,885,159	\$ 15,418,449	\$ 22,303,608
Less amounts classified as investments	(6,129,031)	(12,463,263)	(18,592,294)
Total cash and cash equivalents	<b>\$ 756,128</b>	<b>\$ 2,955,186</b>	<b>\$ 3,711,314</b>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>			
Operating loss	\$ (116,824)	\$ (580,539)	\$ (697,363)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation and amortization	364,122	377,468	741,590
Changes in assets and liabilities:			
Receivables	(94,153)	14,918	(79,235)
Prepaid and other assets	-	83	83
Accounts payable	(196,013)	(13,625)	(209,638)
Accrued and other liabilities	10,594	4,914	15,508
Net cash used in operating activities	<b>\$ (32,274)</b>	<b>\$ (196,781)</b>	<b>\$ (229,055)</b>

**Noncash Investing, Capital, and Financing Activities** - During the year ended March 31, 2013, there were no noncash transactions entered into by the Township.

# Township of Scio

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## Fiduciary Funds Statement of Assets and Liabilities March 31, 2013

	Current Tax Collection	Trust and Agency	Total
<b>Assets</b> - Cash and investments (Note 3)	<u>\$ 372,862</u>	<u>\$ 194,316</u>	<u>\$ 567,178</u>
<b>Liabilities</b> - Accrued liabilities and other	<u>\$ 372,862</u>	<u>\$ 194,316</u>	<u>\$ 567,178</u>

# Township of Scio

## Component Units Statement of Net Position March 31, 2013

	Downtown Development Authority	Economic Development Corporation	Total
<b>Assets</b>			
Cash and investments	\$ 6,065,848	\$ 9,637	\$ 6,075,485
Due from primary government	106,417	-	106,417
Capital assets	29,186,864	-	29,186,864
Total assets	35,359,129	9,637	35,368,766
<b>Liabilities</b>			
Accounts payable	85,586	-	85,586
Due to other governmental units	1,662,781	-	1,662,781
Due to primary government	311	-	311
Accrued liabilities and other:			
Accrued interest payable	229,521	-	229,521
Due within one year -			
Current portion of long-term debt	1,160,000	-	1,160,000
Due in more than one year -			
Long-term debt	14,925,000	-	14,925,000
Total liabilities	18,063,199	-	18,063,199
<b>Net Position</b>			
Net investment in capital assets	13,101,864	-	13,101,864
Unrestricted	4,194,066	9,637	4,203,703
Total net position	<b>\$ 17,295,930</b>	<b>\$ 9,637</b>	<b>\$ 17,305,567</b>

# Township of Scio

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Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Downtown Development Authority - Public works	\$ 1,562,360	\$ -	\$ -	\$ -
Economic Development Corporation - Public works	12,352	101	8,800	-
Total component units	<u>\$ 1,574,712</u>	<u>\$ 101</u>	<u>\$ 8,800</u>	<u>\$ -</u>

General revenue:

Property taxes

Investment income

Total general revenue

**Change in Net Position**

**Net Position** - Beginning of year

**Net Position** - End of year

**Component Units  
Statement of Activities  
Year Ended March 31, 2013**

Net (Expense) Revenue and Changes in Net Assets		
Downtown Development Authority	Economic Development Corporation	Total
\$ (1,562,360)	\$ -	\$ (1,562,360)
<u>-</u>	<u>(3,451)</u>	<u>(3,451)</u>
(1,562,360)	(3,451)	(1,565,811)
1,976,611	-	1,976,611
<u>23,034</u>	<u>5</u>	<u>23,039</u>
<u>1,999,645</u>	<u>5</u>	<u>1,999,650</u>
437,285	(3,446)	433,839
<u>16,858,645</u>	<u>13,083</u>	<u>16,871,728</u>
<b><u>\$ 17,295,930</u></b>	<b><u>\$ 9,637</u></b>	<b><u>\$ 17,305,567</u></b>

### 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 position 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)**

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 position or fund balance are available, the Township's policy is to first apply restricted resources, except in the Fire Department Fund which spends unrestricted resources first. 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 2012 tax is levied and collectible on December 1, 2012 and is recognized as revenue in the year ended March 31, 2013 when the proceeds of the levy are budgeted and available for the financing of operations.

### Note 1 - Summary of Significant Accounting Policies (Continued)

The 2012 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 \$1,135,000 for operating and approximately \$578,000 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, 2013, \$921,606 is deferred. This is reported in the Fire Fund.

#### Assets, Liabilities, and Net Position 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.

**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 position. 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)

**Net Position** - In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to incorporate 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 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. This statement impacted the format and reporting of the balance sheet. The Township implemented GASB No. 63 during the year.

Net positions are comprised of three categories: (1) invested in capital assets - net of related debt, (2) restricted, and (3) unrestricted. Each component of net position is reported separately on the statement of net position.

- i. *Net Investment in Capital Assets* - This category consists of capital assets (including restricted capital assets), net of accumulated depreciation and reduced by any outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, and improvements of those assets.
- ii. *Restricted* - This category equals the restricted cash of the Township and consists of net assets restricted in their use by (1) external groups such as grantors, creditors, or laws and regulations of other governments or (2) law through constitutional provisions or enabling legislation.
- iii. *Unrestricted* - This category includes all of the remaining net assets that do not meet the definition of the other two categories.

**Fund Equity** - 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

### Note 1 - Summary of Significant Accounting Policies (Continued)

- 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, 2013, the Capital Projects Fund has a fund deficit of \$106,092 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 six 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.

# Township of Scio

## Notes to Financial Statements March 31, 2013

### Note 3 - Deposits and Investments (Continued)

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 \$10,479,886 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized; the component units had \$5,298,625 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.

**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 - Met Life	\$ 999,640	66
Commercial paper - General Electric Cap Corp	3,498,045	91
Commercial paper - Union Bank	999,030	145
U.S. government or agency bonds	2,507,838	503

**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	\$ 638,859	AAAm	S&P
Commercial paper - Met Life	999,640	A1/P1	S&P
Commercial paper - General Electric Cap Corp	3,498,045	A1/P1	S&P
Commercial paper - Union Bank	999,030	A1/P1	S&P
U.S. government or agency bonds	2,507,838	AAA	S&P
Money markets	14,451,179	Unrated	N/A

# Township of Scio

## Notes to Financial Statements March 31, 2013

### 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	\$ 65,788	\$ -
Special assessments	318,184	921,605
Grant revenue	211,164	-
State-shared revenue	92,482	-
Total	<u>\$ 687,618</u>	<u>\$ 921,605</u>

### Note 5 - Capital Assets

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

	Balance April 1, 2012	Additions	Disposals	Balance March 31, 2013
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 822,764	\$ -	\$ -	\$ 822,764
Land preservation - Land and easement	5,106,930	610,413	-	5,717,343
Drain rights and infrastructure	120,927	-	-	120,927
Subtotal	6,050,621	610,413	-	6,661,034
Capital assets being depreciated:				
Building and improvements	2,454,591	-	-	2,454,591
Equipment	943,609	10,902	(7,700)	946,811
Vehicles	1,256,525	-	(1,206)	1,255,319
Land improvements	154,237	-	-	154,237
Subtotal	4,808,962	10,902	(8,906)	4,810,958
Accumulated depreciation:				
Buildings	819,065	81,534	-	900,599
Equipment	319,800	27,804	(7,519)	340,085
Fire vehicles	497,599	61,871	(1,206)	558,264
Land improvements	111,797	12,422	-	124,219
Subtotal	1,748,261	183,631	(8,725)	1,923,167
Net capital assets being depreciated	<u>3,060,701</u>	<u>(172,729)</u>	<u>(181)</u>	<u>2,887,791</u>
Net capital assets	<u>\$ 9,111,322</u>	<u>\$ 437,684</u>	<u>\$ (181)</u>	<u>\$ 9,548,825</u>

# Township of Scio

## Notes to Financial Statements March 31, 2013

### Note 5 - Capital Assets (Continued)

<b>Business-type Activities</b>	Balance April 1, 2012	Reclassifications	Additions	Disposals	Balance March 31, 2013
Capital assets not being depreciated:					
Land	\$ 1,984,555	\$ -	\$ -	\$ -	\$ 1,984,555
Construction in progress	1,138,242	(845,121)	210,323	-	503,444
Subtotal	3,122,797	(845,121)	210,323	-	2,487,999
Capital assets being depreciated:					
Utility system	32,400,416	845,121	-	-	33,245,537
Buildings	761,586	-	-	-	761,586
Machinery and equipment	432,276	-	47,810	(18,460)	461,626
Vehicles	74,022	-	-	-	74,022
Sewer meters	7,118	-	-	-	7,118
Subtotal	33,675,418	845,121	47,810	(18,460)	34,549,889
Accumulated depreciation:					
Utility system	9,921,062	-	693,453	-	10,614,515
Buildings	463,144	-	19,278	-	482,422
Machinery and equipment	289,600	-	20,909	(18,460)	292,049
Vehicles	42,222	-	7,950	-	50,172
Sewer meters	7,047	-	-	-	7,047
Subtotal	10,723,075	-	741,590	(18,460)	11,446,205
Net capital assets being depreciated	22,952,343	845,121	(693,780)	-	23,103,684
Net capital assets	\$ 26,075,140	\$ -	\$ (483,457)	\$ -	\$ 25,591,683
<b>Component Units</b>	Balance April 1, 2012	Reclassifications	Additions	Disposals	Balance March 31, 2013
Capital assets not being depreciated - Road rights and infrastructure	\$ 16,010,711	\$ -	\$ -	\$ -	\$ 16,010,711
Capital assets being depreciated - Road rights and infrastructure	21,926,424	-	-	-	21,926,424
Accumulated depreciation - Road rights and infrastructure	7,873,214	-	877,057	-	8,750,271
Net capital assets being depreciated	14,053,210	-	(877,057)	-	13,176,153
Net capital assets	\$ 30,063,921	\$ -	\$ (877,057)	\$ -	\$ 29,186,864

# Township of Scio

## Notes to Financial Statements March 31, 2013

### Note 5 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 69,577
Public safety	<u>114,054</u>
Total governmental activities	<u>\$ 183,631</u>

Business-type activities:

Water	\$ 364,122
Sewer	<u>377,468</u>
Total business-type activities	<u>\$ 741,590</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
<b>Due to/from Primary Government and Component Units</b>		
Component unit - Downtown Development Authority	Primary government - Capital Projects Fund	\$ 106,417
Primary government - General Fund	Component unit - Downtown Development Authority	205
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, 2013

### 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	Open Space Land Preservation Fund	\$ 60,000
	Other nonmajor governmental funds	107,057
	Total General Fund	<u>\$ 167,057</u>

The transfer from the General Fund to the Open Space Land Preservation Fund is for costs incurred several years ago. The transfers from the General Fund to other governmental funds are related to debt service and capital outlay.

### 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
<b>Governmental Activities</b>							
1999 General Obligation Limited Tax Bonds:							
Amount of issue: \$900,000	5.50% -	\$50,000 -					
Maturing through May 2017	5.65%	\$75,000	\$ 425,000	\$ -	\$ 50,000	\$ 375,000	\$ 75,000
2012 Special Assessment Bonds:							
Amount of issue: \$190,000		\$10,000 -					
Maturing through April 2022	3.71%	\$20,000	-	190,000	-	190,000	10,000
Accumulated compensated absences			137,911	-	49,585	88,326	88,326
Total governmental activities			<u>\$ 562,911</u>	<u>\$ 190,000</u>	<u>\$ 99,585</u>	<u>\$ 653,326</u>	<u>\$ 173,326</u>
<b>Business-type Activities</b>							
General obligation bonds - 2008 DWRP Bonds:							
Amount of issue: \$2,490,749		\$5,749 -					
Maturing through October 2028	2.5%	\$170,000	\$ 2,110,749	\$ -	\$ 135,000	\$ 1,975,749	\$ 135,000

# Township of Scio

## Notes to Financial Statements March 31, 2013

### 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
2006 General Obligation Limited Tax Bonds: Amount of issue: \$9,700,000 Maturing through November 2025	4.00%	\$300,000 - \$1,000,000	\$ 8,800,000	\$ -	\$ 300,000	\$ 8,500,000	\$ 400,000
2007 Downtown Development and Refunding Bonds: Amount of issue: \$4,745,000 Maturing through May 2014	4.00%	\$705,000 - \$715,000	2,130,000	-	715,000	1,415,000	710,000
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	-	50,000	3,200,000	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	-	500,000	2,970,000	-
Total component unit activities			\$ 17,650,000	\$ -	\$ 1,565,000	\$ 16,085,000	\$ 1,160,000

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
2014	\$ 85,000	\$ 25,133	\$ 110,133	\$ 135,000	\$ 49,394	\$ 184,394	\$ 1,160,000	\$ 617,550	\$ 1,777,550
2015	95,000	21,119	116,119	140,000	46,019	186,019	1,680,000	561,500	2,241,500
2016	95,000	16,159	111,159	145,000	42,519	187,519	1,165,000	517,000	1,682,000
2017	95,000	11,180	106,180	145,000	38,893	183,893	1,205,000	481,300	1,686,300
2018	95,000	6,200	101,200	150,000	35,268	185,268	1,290,000	441,650	1,731,650
2019-2023	100,000	9,275	109,275	810,000	117,969	927,969	4,985,000	1,591,650	6,576,650
2024-2028	-	-	-	445,000	26,469	471,469	4,200,000	554,500	4,754,500
2029-2031	-	-	-	5,749	144	5,893	400,000	20,000	420,000
Total	\$ 565,000	\$ 89,066	\$ 654,066	\$ 1,975,749	\$ 356,675	\$ 2,332,424	\$ 16,085,000	\$ 4,785,150	\$ 20,870,150

**Advance and Current Refundings** - 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, 2013, \$4,400,000 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 Insurance Company of America 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.

Under the bargaining agreement with the firefighters, the Township is required to contribute a fixed 8 percent of gross wages through April 30, 2016, 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.

# Township of Scio

## Notes to Financial Statements March 31, 2013

### Note 9 - Defined Benefit Pension Plan (Continued)

**Annual Pension Cost** - For the year ended March 31, 2013, the Township's annual pension cost was approximately \$99,000 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, 2011 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		
	2011	2012	2013
Annual pension cost (APC)	\$ 91,202	\$ 89,603	\$ 98,710
Percentage of APC contributed	100 %	100 %	100 %

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

	Actuarial Valuation as of December 31		
	2010	2011	2012
Actuarial value of assets	\$ 1,369,871	\$ 1,554,088	\$ 1,746,680
Actuarial accrued liability (AAL) (entry age)	\$ 1,681,599	\$ 1,869,560	\$ 2,160,065
Unfunded AAL (UAAL)*	\$ 311,728	\$ 315,472	\$ 413,385
Funded ratio	81.5 %	83.1 %	80.9 %
Covered payroll	\$ 1,034,441	\$ 1,140,438	\$ 1,171,216
UAAL as a percentage of covered payroll	30.1 %	27.7 %	35.3 %

\* 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 \$12,300 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 \$12,143.

**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, 2013

### 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, 2013, 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)	\$ 106,839
Interest on the prior year's net OPEB obligation	2,457
Amounts contributed - Payments of current premiums	<u>(12,143)</u>
Increase in net OPEB obligation	97,153
OPEB obligation - Beginning of year	<u>285,138</u>
OPEB obligation - End of year	<u>\$ 382,291</u>

The Township's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2011, 2012, and 2013 are as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
3/31/11	3/31/10	\$ 122,909	12.4	\$ 185,404
3/31/12	3/31/11	111,124	10.2	285,138
3/31/13	3/31/12	109,296	11.1	382,291

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
3/31/10	\$ -	\$ 908,496	\$ 908,496	-	\$ 1,445,090	62.9
3/31/11	-	855,706	855,706	-	1,409,534	60.7
3/31/12	-	906,493	906,493	-	1,394,454	65.0

### 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.

### **Note 11 - Other Postemployment Benefits (Continued)**

**Health Insurance Premiums** - Fiscal year 2013 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, 2012 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, 2012 was 27 years.

### **Note 12 - 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 No. 14 and Statement No. 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.

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the Township for the year ending March 31, 2014.

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**

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# Township of Scio

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2013

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 1,090,000	\$ 1,102,000	\$ 1,135,391	\$ 33,391
State-shared revenue and grants	900,000	1,200,000	1,196,261	(3,739)
Locally raised	810,235	856,620	868,891	12,271
Investment income	5,000	7,500	16,751	9,251
Rental income	33,000	33,000	31,494	(1,506)
Other revenue	11,500	11,000	12,497	1,497
Total revenue	2,849,735	3,210,120	3,261,285	51,165
<b>Expenditures - Current</b>				
General government:				
General government	699,960	725,060	623,610	101,450
Assessing	487,350	530,660	476,346	54,314
Elections	44,195	58,090	57,897	193
Boards and commissions	230,500	285,110	242,593	42,517
Total general government	1,462,005	1,598,920	1,400,446	198,474
Health and safety	1,454,250	1,417,750	1,368,862	48,888
Building and grounds	55,150	56,640	40,417	16,223
Capital outlay	25,000	25,000	8,815	16,185
Total expenditures	2,996,405	3,098,310	2,818,540	279,770
<b>Excess of Revenue (Under) Over Expenditures</b>	(146,670)	111,810	442,745	330,935
<b>Other Financing Uses - Transfers out</b>	(72,727)	(132,727)	(167,057)	(34,330)
<b>Net Change in Fund Balance</b>	(219,397)	(20,917)	275,688	296,605
<b>Fund Balance - Beginning of year</b>	6,630,779	6,630,779	6,630,779	-
<b>Fund Balance - End of year</b>	<u>\$ 6,411,382</u>	<u>\$ 6,609,862</u>	<u>\$ 6,906,467</u>	<u>\$ 296,605</u>

# Township of Scio

## Required Supplemental Information Budgetary Comparison Schedule Open Space Land Preservation Fund Year Ended March 31, 2013

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 540,150	\$ 557,150	\$ 577,714	\$ 20,564
Federal grants	326,000	-	-	-
Investment income	500	1,000	1,353	353
Total revenue	866,650	558,150	579,067	20,917
<b>Expenditures - Capital outlay</b>	1,076,400	1,084,400	679,355	405,045
<b>Excess of Expenditures Over Revenue</b>	(209,750)	(526,250)	(100,288)	425,962
<b>Other Financing Sources -</b>				
Transfers in	-	60,000	60,000	-
<b>Net Change in Fund Balance</b>	(209,750)	(466,250)	(40,288)	425,962
<b>Fund Balance - Beginning of year</b>	1,124,428	1,124,428	1,124,428	-
<b>Fund Balance - End of year</b>	<u>\$ 914,678</u>	<u>\$ 658,178</u>	<u>\$ 1,084,140</u>	<u>\$ 425,962</u>

# Township of Scio

## Required Supplemental Information Budgetary Comparison Schedule Fire Department Fund Year Ended March 31, 2013

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Locally raised	\$ 1,500	\$ 480	\$ 334	\$ (146)
Investment income	2,000	4,500	6,576	2,076
Rental income	22,250	22,250	22,250	-
Other revenue:				
Special assessments	920,000	925,292	929,837	4,545
Other miscellaneous income	2,000	4,694	4,694	-
Total revenue	<u>947,750</u>	<u>957,216</u>	<u>963,691</u>	<u>6,475</u>
<b>Expenditures - Current</b>				
Public safety	825,000	762,050	741,981	20,069
Capital outlay	2,000	-	-	-
Total expenditures	<u>827,000</u>	<u>762,050</u>	<u>741,981</u>	<u>20,069</u>
<b>Net Change in Fund Balance</b>	120,750	195,166	221,710	26,544
<b>Fund Balance - Beginning of year</b>	<u>1,084,508</u>	<u>1,084,508</u>	<u>1,084,508</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u><u>\$ 1,205,258</u></u>	<u><u>\$ 1,279,674</u></u>	<u><u>\$ 1,306,218</u></u>	<u><u>\$ 26,544</u></u>

# Township of Scio

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## **Note to Required Supplemental Information Year Ended March 31, 2013**

**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 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, 2013 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The Township had no expenditures in excess of budgeted amounts, except for operating transfers from the General Fund to the other nonmajor governmental funds. Those transfers exceeded the budgeted amount by \$34,330.

## **Other Supplemental Information**

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# Township of Scio

	Special Revenue Funds		Debt Service	Capital Projects Funds	
	Public Improvement Fund	Tree Mitigation Fund	Funds	Public Safety and Improvement Fund	Township Road Improvement Revolving Fund
			Building Authority Fund		
<b>Assets</b>					
Cash and investments	\$ 784,963	\$ 11,097	\$ -	\$ 866,336	\$ 136,369
Receivables:					
Special assessments receivable	-	-	-	-	-
Due from other governmental units	-	-	-	-	1,523
Total assets	<u>\$ 784,963</u>	<u>\$ 11,097</u>	<u>\$ -</u>	<u>\$ 866,336</u>	<u>\$ 137,892</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred revenue	-	-	-	-	-
Total liabilities	-	-	-	-	-
<b>Fund Balances</b>					
Restricted:					
Metro act	113,555	-	-	-	-
Public improvement	671,408	-	-	-	-
Tree mitigation	-	11,097	-	-	-
Debt service	-	-	-	-	-
Road improvements	-	-	-	-	137,892
Bridge maintenance	-	-	-	-	-
Committed - Capital projects	-	-	-	866,336	-
Total fund balances	<u>784,963</u>	<u>11,097</u>	<u>-</u>	<u>866,336</u>	<u>137,892</u>
Total liabilities and fund balances	<u>\$ 784,963</u>	<u>\$ 11,097</u>	<u>\$ -</u>	<u>\$ 866,336</u>	<u>\$ 137,892</u>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
March 31, 2013**

Capital Projects Funds		Total Nonmajor Governmental Funds
East Delhi Bridge Maintenance Fund	Park Road SAD	
\$ 24,697	\$ 77,715	\$ 1,901,177
-	168,184	168,184
417	597	2,537
<b>\$ 25,114</b>	<b>\$ 246,496</b>	<b>\$ 2,071,898</b>

\$ -	\$ 57,993	\$ 57,993
-	168,184	168,184
-	226,177	226,177
-	-	113,555
-	-	671,408
-	-	11,097
-	20,319	20,319
-	-	137,892
25,114	-	25,114
-	-	866,336
25,114	20,319	1,845,721
<b>\$ 25,114</b>	<b>\$ 246,496</b>	<b>\$ 2,071,898</b>

# Township of Scio

	Special Revenue Funds		Debt Service	Capital Projects Fund	
	Public Improvement Fund	Tree Mitigation Fund	Funds	Public Safety and Improvement Fund	Township Road Improvement Revolving Fund
			Building Authority Fund		
<b>Revenue</b>					
Investment income	\$ 1,849	\$ 41	\$ -	\$ 2,451	\$ 1,524
Other revenue:					
Special assessments	-	-	-	-	21,853
Other miscellaneous income	12,177	-	-	-	-
Total revenue	14,026	41	-	2,451	23,377
<b>Expenditures</b>					
Current:					
General government	18,228	-	-	-	120
Public safety	-	-	-	219	-
Public works	-	-	-	-	-
Debt service	-	-	72,725	-	-
Total expenditures	18,228	-	72,725	219	120
<b>Excess of Revenue (Under) Over Expenditures</b>	(4,202)	41	(72,725)	2,232	23,257
<b>Other Financing Sources</b>					
Face value of debt issue	-	-	-	-	-
Transfers in	-	-	72,725	-	-
Total other financing sources	-	-	72,725	-	-
<b>Net Change in Fund Balances</b>	(4,202)	41	-	2,232	23,257
<b>Fund Balances - Beginning of year</b>	789,165	11,056	-	864,104	114,635
<b>Fund Balances - End of year</b>	<u>\$ 784,963</u>	<u>\$ 11,097</u>	<u>\$ -</u>	<u>\$ 866,336</u>	<u>\$ 137,892</u>

**Other Supplemental Information  
Combining Statement of Revenue, Expenditures,  
and Changes in Fund Balances  
Nonmajor Governmental Funds  
Year Ended March 31, 2013**

Capital Projects Fund		Total Nonmajor Governmental Funds
East Delhi Bridge Maintenance Fund	Park Road SAD	
\$ 76	\$ 1,631	\$ 7,572
4,999	48,740	75,592
-	-	12,177
5,075	50,371	95,341
-	-	18,348
-	-	219
-	252,484	252,484
-	-	72,725
-	252,484	343,776
5,075	(202,113)	(248,435)
-	188,100	188,100
-	34,332	107,057
-	222,432	295,157
5,075	20,319	46,722
20,039	-	1,798,999
<b>\$ 25,114</b>	<b>\$ 20,319</b>	<b>\$ 1,845,721</b>

**Township of Scio  
Washtenaw County, Michigan**

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**Report to the Township Board of Trustees**

**March 31, 2013**

July 25, 2013

To the Board of Trustees  
Township of Scio

We have audited the financial statements of the Township of Scio (the "Township") as of and for the year ended March 31, 2013 and have issued our report thereon dated July 25, 2013. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Internal Control Related Matters

Section II - Results of the Audit Process

Section III - Legislative and Informational Items

Section I includes any deficiencies we observed in the Township's accounting principles or internal control that we believe are significant. Current auditing standards require us to formally communicate annually matters we note about the Township's accounting policies and internal control.

Section II 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 III presents recommendations related to internal control, procedures, and other matters 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.

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 25, 2013

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".

Michael J. Swartz

A handwritten signature in black ink, appearing to read "Brian J. Camiller".

Brian J. Camiller

### **Section I - Internal Controls - Communications Required Under AU 265**

In planning and performing our audit of the financial statements of the Township of Scio as of and for the year ended March 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

We consider the following deficiencies in the Township's internal control to be material weaknesses:

**Auditor-proposed Journal Entry** - During the course of the audit, a material journal entry was proposed by the audit team in order for the financial statements to be in accordance with generally accepted accounting principles. This adjustment was to properly defer revenue related to the receipt of a grant reimbursement not received within 60 days of the fiscal year end. If the auditors had not proposed these entries, the Township's financial statements would have been misstated.

**Segregation of Duties** - As the Township's staffing is limited, complete segregation of duties is not possible. The same person is in charge of the general ledger, prepares bank reconciliation, and prepares payroll. The Township clerk does review the bank reconciliations, but does not review the adjusting journal entries. Without adequate compensating controls in place, the lack of segregation could result in the posting of manual journal entries to hide instances of malfeasance; however, no such transactions were identified during the audit.

## **Section II - Results of the Audit Process - Communications Required Under AU 260**

### **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 of Scio. 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 meeting about planning matters on April 1, 2013.

### **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 of Scio are described in Note I to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2013, except for the implementation of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

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 were unbilled water and sewer receivables and the calculation of the net other postemployment benefits liability (i.e., retiree health care). The unbilled water and sewer receivable estimate is based on prior performance. Management's estimate of the net other postemployment benefits liability is based on assumptions used in the actuarial valuations. We evaluated the key factors and assumptions used to develop these 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.

#### ***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.

#### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

As a result of audit procedures, a material adjustment was required to reduce recorded revenue in the Open Space Land Preservation Fund, as the grant reimbursement receipt was not received within 60 days, the period of availability, following the end of the fiscal year. This receivable is correctly recorded as revenue at the government-wide level in the Township's full accrual financial statements.

Management has corrected this misstatement.

***Significant 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.

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated July 25, 2013.

***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 our knowledge, there were no such consultations with other accountants.

**Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in documents containing the entity's financial statements and report does not extend beyond the financial statements. We do not have an obligation to determine whether or not such other information is properly stated. However, we read the management's discussion and analysis and nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

### **Section III - Legislative and Informational Items**

#### **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.
- GASB No. 34 funds - 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 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.
- Water and Sewer utility rates - In previous years, we have commented on the Township's strategy related to water and sewer rates, especially the practice of subsidizing sewer rates charged to customers from the accumulated surplus in the fund. Our understanding is that a revised rate schedule has been adopted subsequent to the end of the fiscal year under audit.

### **Reporting Change - GASB Statement No. 63**

The Township adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. 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. The 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. Since the Township has no deferred outflows or inflows until adoption of GASB No. 65 (see below), the only impact of the adoption of GASB No. 63 on the Township is a change in terminology, from "net assets" to "net position."

### **Upcoming Reporting Changes - GASB Statements No. 65 and 68**

The Governmental Accounting Standards Board has released several additional statements that will become effective during or subsequent to the Township's fiscal year ending December 31, 2013. A brief explanation for each of these new statements has been included in Note 1 of the Township's financial statements. We will work with the Township to implement these changes as required.

### **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 healthcare 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. Please note that local unit has a different definition than public employer. Not all public employers are deemed to be local units.

The State recently released the caps for benefit plan coverage years beginning on or after January 1, 2013. The caps were increased in response to the release of the most recent U.S. medical care component CPI data which showed a percent change of 3.5 percent. The increased caps are as follows:

- \$5,692.50 for single coverage
- \$11,385.00 for individual and spousal coverage
- \$15,525.00 for family coverage

Alternatively, given a majority vote of its governing bodies, a public employer can opt out of the hard cap and into an 80 percent contribution cap. Under this option, public employers would pay no more than 80 percent of the total annual costs for all of the medical benefit plans it offers or contributed to for its employees and elected public officials. This option would require that publicly elected officials would have to pay 20 percent or more of the total annual costs of that plan, but the employee's share of the costs could be allocated as the government sees fit.

This act does contain a complete opt-out provision, but only for local units. It would allow communities to opt out of these provisions entirely with a 2/3 vote of the governing body. Opting out by a 2/3 vote of the governing body under the provisions of this act is not considered failure to comply.

### **Personal Property Tax Proposals**

The personal property tax was repealed by the passing of various bills during the Legislature's lame duck session in December 2012. This repeal is contingent upon a statewide vote in August 2014. Key provisions of the act phase out the industrial portion of the tax over a nine-year period beginning in 2016. Also, businesses with less than \$40,000 taxable value in industrial and commercial personal property in any jurisdiction would no longer pay the tax beginning in 2014.

As for the impact on local communities, in short, those local governments that would lose at least 2.3 percent of their property tax base as a result of the changes would be eligible to be reimbursed at 80 percent of the revenue the personal property tax currently provides. In addition, local governments would have the option to assess a special assessment on industrial property (referred to as essential services assessments). This assessment would not require local voter approval and would reimburse police, fire, ambulance services, and jail operations to ensure they receive 100 percent of the funding that they now get from the personal property tax.

When working through upcoming budgets and longer-term projections, please keep these items in mind. The final act has not yet been published by the State.

The Michigan Municipal League has developed a tool to aid communities in calculating the potential impact of the personal property tax cuts:

<http://www.mml.org/advocacy/inside208/post/PPT-calculation-spreadsheet-available.aspx>

### **Retro-pay Prohibition**

Public Act 54 of 2011, which was signed by the governor on June 7, 2011, 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.

The House Local Government Committee held a second hearing on a new bill introduced this past summer that would amend PA 54 of 2012, the law prohibiting retroactive wage increases, to exempt police officers and firefighters. This proposed legislation did not pass during the lame duck session in December and will most likely be reintroduced in 2013.

### **Right-to-work for Public Employees**

The governor signed PA 349 in December 2012 which creates a “right-to-work” for public employees. The act will take effect in mid-March 2013. The act, which exempts police and firefighters that are PA 312 eligible, makes it illegal to require as a condition of employment for public and private sector workers that they financially support a union (this includes dues, fees, assessments, and any other charges). Requirement to make payment to a third party or a charitable organization in lieu of financial support is also prohibited. In addition, impacted workers are no longer required to become or remain a member of a union.

### **Pension Obligation Bonds and Other Postemployment Benefits Obligation Bonds**

Michigan Public Act 329 of 2012 was passed on October 17, 2012 and takes immediate effect. The act allows communities that meet certain criteria to issue bonds to fund all or a portion of their unfunded pension and other postemployment benefits (OPEB) liabilities. The bonds are called Pension Obligation Bonds or Other Postemployment Benefits Obligation Bonds and are collectively referred to as “Benefit Bonds”.

These bonds are subject to federal taxation but are tax exempt by the State of Michigan and must be issued prior to December 31, 2014. The bonds are issued by ordinance or resolution and do not require a vote of the people.

Municipalities must meet all of the following key requirements (the act also states additional requirements) in order to be eligible to issue benefit bonds:

- Prior to issuance, the municipality must obtain approval from the State Department of Treasury. In addition, the municipality must publish a notice of intent to issue the security.
- Be assigned a credit rating of AA rating or higher by one of the nationally recognized rating agencies (Standards & Poor’s, Moody’s, or Fitch)
- The issued security shall be rated investment grade by a nationally recognized rating agency.
- The property taxes necessary to meet the debt service obligation may not exceed the limit authorized by law.
- Have a legal capacity to issue the obligation as these Bonds are not exempt from legal debt limitations
- Relative to the pension plan, have partial or complete cessation of accruals to a defined benefit plan or closed the defined benefit plan to new or certain existing employee groups and implemented a defined contribution plan (this requirement does not apply to the retiree health care, or OPEB plan)

- The municipality shall covenant with bond holders and the State that it will not, after the issuance of Benefit Bonds and while the Bonds are outstanding, rescind any action taken for the cessation of accruals to a defined benefit plan or complete closure of defined benefit plans for new and existing employees.

In addition, the municipality must prepare a comprehensive financial plan which is to be made available to the public. Each of the following elements must be completed to meet this requirement:

1. An analysis of the current and future obligations of the pension or OPEB plan
2. Evidence that the issuance of the municipal bonds, together with other available revenues, will be sufficient to eliminate the unfunded liability
3. Debt service amortization schedules and a description of the actions required by the municipality to satisfy the debt service payments
4. Certification by the person preparing the plan that it is complete and accurate
5. If the bond proceeds are to be placed in a health care trust fund, the municipality must also put in place a plan to mitigate increases in health care costs, such as the implementation of a wellness program.