

**Township of Scio
Washtenaw County, Michigan**

**Financial Report
with Supplemental Information
March 31, 2015**

Township of Scio

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Independent Auditor's Report

To the Board of Trustees
Township of Scio

Report on the Basic 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, 2015 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 an opinion 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 opinion.

Opinion

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, 2015 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

Emphasis of Matter

As discussed in Note 12 to the financial statements, the 2014 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the major fund budgetary comparison schedules, the pension system schedule, and the OPEB system schedule as identified on the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 an opinion on the financial statements that collectively comprise the Township of Scio's 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 financial statements.

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

Plante & Morse, PLLC

July 17, 2015

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, 2015. 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, 2015:

- The Township's property tax collection remains the largest single revenue source for the general operations of the Township. The collection was relatively flat for the previous five 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's 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 fifth 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, increased approximately \$66,000 in fiscal year 2015 compared to 2014. This increase is due, in part, to the Township receiving an allocation of the City, Village, and Township (CVT) revenue in fiscal year 2015.
- Because of the economic downturn, development fee revenue was significantly reduced in the past several years. These fees increased slightly in the prior fiscal year and continued to see an increase in the current fiscal year as the economy continues to improve.
- The revamped billing method for water and sewer service continues to be monitored closely. In this fiscal year, the water and sewer rates were increased to help cover operating costs. In fiscal year 2015, the Water Fund and Sewer Fund expenditures slightly exceeded revenues.
- The Township is working with its water supplier, the City of Ann Arbor, to perform rehabilitation of the sewer pumping station on Liberty Road.

Township of Scio

Management's Discussion and Analysis (Continued)

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, 2015. 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	
	2015	2014	2015	2014	2015	2014
Assets						
Current assets	\$ 18,910	\$ 19,286	\$ 22,938	\$ 22,574	\$ 41,848	\$ 41,860
Noncurrent assets	11,154	10,473	29,921	29,047	41,075	39,520
Total assets	30,064	29,759	52,859	51,621	82,923	81,380
Liabilities						
Current liabilities	1,343	1,280	1,751	1,144	3,094	2,424
Long-term liabilities	1,061	1,148	6,423	5,812	7,484	6,960
Total liabilities	2,404	2,428	8,174	6,956	10,578	9,384
Net Position						
Net investment in capital assets	10,407	9,582	23,337	23,744	33,744	33,326
Restricted	9,365	10,116	21,348	20,921	30,713	31,037
Unrestricted	7,888	7,633	-	-	7,888	7,633
Total net position	<u>\$ 27,660</u>	<u>\$ 27,331</u>	<u>\$ 44,685</u>	<u>\$ 44,665</u>	<u>\$ 72,345</u>	<u>\$ 71,996</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 \$7,888,000 and \$7,633,000 as of March 31, 2015 and 2014, respectively. The current level of unrestricted net position for governmental activities is approximately 29 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	
	2015	2014	2015	2014	2015	2014
Revenue						
Program revenue:						
Charges for services	\$ 1,406	\$ 7,101	\$ 4,565	\$ 3,951	\$ 5,971	\$ 11,052
Capital grants and contributions	-	78	321	369	321	447
General revenue:						
Property taxes	2,248	2,211	-	-	2,248	2,211
State-shared revenue	1,293	1,228	-	-	1,293	1,228
Unrestricted investment earnings	73	47	144	47	217	94
Franchise fees	290	270	-	-	290	270
Miscellaneous	61	63	-	-	61	63
Total revenue	5,371	10,998	5,030	4,367	10,401	15,365
Program Expenses						
General government	1,832	1,541	-	-	1,832	1,541
Public safety	2,326	2,276	-	-	2,326	2,276
Public works	838	146	-	-	838	146
Interest on long-term debt	47	48	-	-	47	48
Water	-	-	2,365	2,614	2,365	2,614
Sewer	-	-	2,646	2,626	2,646	2,626
Total program expenses	5,043	4,011	5,011	5,240	10,054	9,251
Change in Net Position	\$ 328	\$ 6,987	\$ 19	\$ (873)	\$ 347	\$ 6,114

Governmental Activities

Charges for services decreased significantly during the current year, which was largely related to the Township-wide special assessment from the prior year.

Business-type Activities

The Township's largest business-type activities consist of the Water Fund and Sewer Fund. All assets, liabilities, revenue, and expenses are restricted solely 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 rehabilitation of the pump station on Liberty Road and the West High Pump Station.

Township of Scio

Management's Discussion and Analysis (Continued)

The Township's operational responsibility for sewer and water is limited to the service lines and pumping facilities located within the borders of the Township. The utilities department continues to implement an adopted capital improvement program. Over the past eight 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, and show accountability for certain activities, such as special property tax millages. The Township's major funds include the General Fund, Fire Department Fund, Sewer Fund, Water Fund, Open Space Land Preservation Fund, and Township Road Improvement Revolving 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 those for the police department, which incurred expenses of approximately \$1,283,000 in fiscal year 2015 and \$1,261,000 in 2014. 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 2024.

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 its 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 its district, the major growth area of the Township. However, the DDA also captures taxes from other jurisdictions that can be used for DDA purposes. The DDA has incurred most of the Township's outstanding debt for improvements to Jackson Road, as discussed below. The debt will be repaid through the collection of future tax increments.

Township of Scio

Management's Discussion and Analysis (Continued)

The Fire Department 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 2015, the Township had approximately \$41.1 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 \$12.7 million. The proceeds from these debt issuances financed the development of the Jackson Road corridor. The DDA amended its financing plan in fall 2006 to extend its life and fund Phase III of Jackson Road. A bond issue of \$3.47 million was sold in February 2012, refunding the remaining debt from the 2002 issue. A bond issue of \$9.7 million was sold in December 2006. An additional \$3.3 million of debt was issued in 2008. Per the adopted DDA financing plan, all bond payments will be met by the DDA through the capture of tax increment revenue. The Washtenaw County Road Commission has full jurisdiction over the road, retains the asset, and is responsible for the project and contract administration of funds from Township, state, and federal sources. The numbers in this audit represent contributions from the DDA and the Township sewer funds. The total final costs, including acquisition, design, and construction through Phase III, will be approximately \$23 million, with over \$16 million paid by the Township local sources. The proposed Phase IV construction (Dino Drive to Parker Road) has been planned since 1986; however, the uncertainty over the current state of the economy means that the start of this final phase will be placed on hold for the foreseeable future.

Economic Factors and Next Year's Budgets and Rates

The recent national economic downturn caused a decline in property values in the past several years that has resulted in lower property tax collections for the Township. There was an increase in property values in prior fiscal year and this increase continued in the current fiscal year as the economy continues to improve.

Township of Scio

Management's Discussion and Analysis (Continued)

Most readers are familiar with fiscal planning that occurs on a calendar-year basis. However, when analyzing various funding cycles that apply to the statements in this report, one needs to consider the varying fiscal years of the State of Michigan (October 1 to September 30), Washtenaw County (January 1 to December 31), and the Township of Scio (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, 2015

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments	\$ 13,686,479	\$ 22,231,112	\$ 35,917,591	\$ 2,964,180
Receivables:				
Property taxes receivable	55,092	-	55,092	123,446
Customer receivables - Net	141,850	702,822	844,672	-
Accrued interest receivable	2,542	-	2,542	-
Other receivables	5,800	-	5,800	-
Due from other governmental units	443,620	600	444,220	-
Special assessments receivable	4,574,403	-	4,574,403	-
Due from primary government	-	-	-	62,652
Prepaid expenses	-	3,417	3,417	-
Capital assets - Net (Note 5):				
Nondepreciated	7,367,813	7,547,564	14,915,377	16,010,711
Depreciated	3,786,611	22,372,929	26,159,540	11,422,039
Total assets	30,064,210	52,858,444	82,922,654	30,583,028
Liabilities				
Accounts payable	98,528	155,081	253,609	-
Due to other governmental units	-	1,016,824	1,016,824	-
Due to component units	62,652	-	62,652	-
Accrued liabilities and other	48,221	240,767	288,988	190,104
Unearned revenue - Special assessments	958,946	-	958,946	-
Noncurrent liabilities:				
Due within one year:				
Compensated absences	99,890	-	99,890	-
Current portion of long-term debt (Note 7)	75,000	337,862	412,862	600,000
Due in more than one year:				
Net other postemployment benefit obligations (Note 11)	389,216	177,688	566,904	-
Long-term debt - Net of current portion (Note 7)	672,000	6,245,365	6,917,365	12,080,000
Total liabilities	2,404,453	8,173,587	10,578,040	12,870,104
Net Position				
Net investment in capital assets	10,407,424	23,337,266	33,744,690	14,752,750
Restricted for:				
Debt service	160,913	-	160,913	-
Water operations	-	6,529,353	6,529,353	-
Sewer operations	-	14,818,238	14,818,238	-
Metro act	137,178	-	137,178	-
Land preservation	1,804,204	-	1,804,204	-
Public safety	1,613,179	-	1,613,179	-
Public improvement	598,286	-	598,286	-
Tree mitigation	9,718	-	9,718	-
Road improvement	4,961,791	-	4,961,791	-
Bridge maintenance	35,215	-	35,215	-
Capital projects	43,942	-	43,942	-
Unrestricted	7,887,907	-	7,887,907	2,960,174
Total net position	\$ 27,659,757	\$ 44,684,857	\$ 72,344,614	\$ 17,712,924

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	\$ 1,832,039	\$ 321,539	\$ -	\$ -
Public safety	2,325,501	960,597	-	-
Public works	838,094	123,823	-	-
Interest on long-term debt	46,842	-	-	-
Total governmental activities	5,042,476	1,405,959	-	-
Business-type activities:				
Water	2,364,509	2,298,195	-	48,350
Sewer	2,646,349	2,267,125	-	272,642
Total business-type activities	5,010,858	4,565,320	-	320,992
Total primary government	<u>\$ 10,053,334</u>	<u>\$ 5,971,279</u>	<u>\$ -</u>	<u>\$ 320,992</u>
Component units:				
Downtown Development Authority	\$ 1,435,762	\$ -	\$ -	\$ -
Economic Development Corporation	14,988	-	16,050	-
Total component units	<u>\$ 1,450,750</u>	<u>\$ -</u>	<u>\$ 16,050</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, 2015

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (1,510,500)	\$ -	\$ (1,510,500)	\$ -
(1,364,904)	-	(1,364,904)	-
(714,271)	-	(714,271)	-
(46,842)	-	(46,842)	-
(3,636,517)	-	(3,636,517)	-
-	(17,964)	(17,964)	-
-	(106,582)	(106,582)	-
-	(124,546)	(124,546)	-
(3,636,517)	(124,546)	(3,761,063)	-
-	-	-	(1,435,762)
-	-	-	1,062
-	-	-	(1,434,700)
2,247,797	-	2,247,797	1,355,683
1,293,362	-	1,293,362	-
73,145	143,848	216,993	13,765
289,883	-	289,883	-
61,046	-	61,046	47,912
3,965,233	143,848	4,109,081	1,417,360
328,716	19,302	348,018	(17,340)
27,331,041	44,665,555	71,996,596	17,730,264
\$ 27,659,757	\$ 44,684,857	\$ 72,344,614	\$ 17,712,924

Township of Scio

Governmental Funds Balance Sheet March 31, 2015

	General Fund	Open Space Land Preservation Fund	Fire Department Fund	Township Road Improvement Special Assessment Fund	Other Nonmajor Governmental Funds	Total
Assets						
Cash and investments (Note 3)	\$ 7,187,695	\$ 1,846,073	\$ 2,557,059	\$ 512,748	\$ 1,582,904	\$ 13,686,479
Receivables - Net:						
Taxes	42,235	12,767	90	-	-	55,092
Special assessments	-	-	-	4,366,734	207,669	4,574,403
Customers	141,850	-	-	-	-	141,850
Interest	2,542	-	-	-	-	2,542
Other receivables	5,800	-	-	-	-	5,800
Due from other governmental units	355,238	25,521	38,606	23,682	573	443,620
Prepaid expenses	-	-	-	59,495	22,968	82,463
Total assets	\$ 7,735,360	\$ 1,884,361	\$ 2,595,755	\$ 4,962,659	\$ 1,814,114	\$ 18,992,249
Liabilities						
Accounts payable	\$ 76,657	\$ 13,434	\$ 4,769	\$ 868	\$ 2,800	\$ 98,528
Due to component units (Note 6)	10,686	5,549	-	-	46,417	62,652
Accrued liabilities and other	22,889	1,174	18,861	-	-	42,924
Unearned revenue - Special assessment	-	-	958,946	-	-	958,946
Total liabilities	110,232	20,157	982,576	868	49,217	1,163,050
Deferred Inflows of Resources (Note 4)	135,330	12,554	-	4,366,734	207,669	4,722,287
Fund Balances						
Nonspendable - Prepays	-	-	-	59,495	22,968	82,463
Restricted:						
Land preservation	-	1,791,650	-	-	-	1,791,650
Public safety	-	-	1,613,179	-	-	1,613,179
Metro act	-	-	-	-	137,178	137,178
Public improvements	-	-	-	-	598,286	598,286
Tree mitigation	-	-	-	-	9,718	9,718
Debt service	-	-	-	-	20,276	20,276
Road improvements	-	-	-	535,562	-	535,562
Bridge maintenance	-	-	-	-	35,215	35,215
Committed:						
Other postemployment benefit obligations	973,630	-	-	-	-	973,630
Capital projects	-	-	-	-	779,645	779,645
Assigned:						
Subsequent year's budget	151,408	-	-	-	-	151,408
Land preservation	-	60,000	-	-	-	60,000
Unassigned	6,364,760	-	-	-	(46,058)	6,318,702
Total fund balances	7,489,798	1,851,650	1,613,179	595,057	1,557,228	13,106,912
Total liabilities, deferred inflows of resources, and fund balances	\$ 7,735,360	\$ 1,884,361	\$ 2,595,755	\$ 4,962,659	\$ 1,814,114	\$ 18,992,249

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

Township of Scio

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position Year Ended March 31, 2015

Fund Balance Reported in Governmental Funds	\$	13,106,912
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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		11,154,424
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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		4,722,287
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Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds		(829,463)
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Accrued interest is not due and payable in the current period and is not reported in the funds		(5,297)
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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		(99,890)
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Net other postemployment benefit obligations are not reported as fund liabilities		(389,216)
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Net Position of Governmental Activities	\$	<u>27,659,757</u>
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Township of Scio

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2015

	General Fund	Open Space Land Preservation Fund	Fire Department Fund	Township Road Improvement Special Assessment Fund	Other Nonmajor Governmental Funds	Total
Revenue						
Property taxes	\$ 1,178,909	\$ 604,496	\$ -	\$ -	\$ -	\$ 1,783,405
State-shared revenue and grants	1,300,188	-	-	-	-	1,300,188
Locally raised	1,080,825	-	657	-	-	1,081,482
Investment income	16,338	4,471	11,716	25,749	14,871	73,145
Rental income	35,240	-	22,250	-	-	57,490
Other revenue:						
Special assessments	-	-	937,690	867,545	52,859	1,858,094
Other miscellaneous income	5,536	-	2,600	-	11,313	19,449
Total revenue	3,617,036	608,967	974,913	893,294	79,043	6,173,253
Expenditures						
Current:						
General government	1,536,563	-	-	-	29,218	1,565,781
Public safety	1,474,990	-	845,159	-	225	2,320,374
Public works	108,556	-	-	1,111,000	225	1,219,781
Capital outlay	40,024	452,536	-	-	-	492,560
Debt service	-	-	-	48,133	122,989	171,122
Total expenditures	3,160,133	452,536	845,159	1,159,133	152,657	5,769,618
Excess of Revenue Over (Under) Expenditures	456,903	156,431	129,754	(265,839)	(73,614)	403,635
Other Financing Sources (Uses)						
Transfers in (Note 6)	-	-	-	10,000	90,688	100,688
Transfers out (Note 6)	(100,688)	-	-	-	-	(100,688)
Net Change in Fund Balances	356,215	156,431	129,754	(255,839)	17,074	403,635
Fund Balances - Beginning of year	7,133,583	1,695,219	1,483,425	850,896	1,540,154	12,703,277
Fund Balances - End of year	\$ 7,489,798	\$ 1,851,650	\$ 1,613,179	\$ 595,057	\$ 1,557,228	\$13,106,912

Township of Scio

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended March 31, 2015

Net Change in Fund Balances - Total Governmental Funds	\$	403,635
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	889,347
Depreciation expense	(206,538)

Revenue is recorded in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds	(808,418)
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	124,000
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Change in accrued interest payable and other	280
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Increase in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources and therefore are not reported in the fund statements until they come due for payment	(14,376)
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Loss on disposal of assets is not recorded in the governmental funds	(1,678)
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Change in net other postemployment benefits	(57,536)
---	----------

Change in Net Position of Governmental Activities	\$	<u>328,716</u>
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Township of Scio

Proprietary Funds Statement of Net Position March 31, 2015

	Enterprise Funds			
	Water Fund	Sewer Fund	Non-Major Enterprise	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,794,758	\$ 2,679,316	\$ -	\$ 4,474,074
Investments	5,320,682	12,436,356	-	17,757,038
Receivables:				
Customer receivables - Net	318,375	384,447	-	702,822
Due from other governmental units	600	-	-	600
Prepaid expenses and other assets	-	3,417	-	3,417
Total current assets	7,434,415	15,503,536	-	22,937,951
Noncurrent assets - Capital assets (Notes 5 and 12)	17,330,144	12,590,349	-	29,920,493
Total assets	24,764,559	28,093,885	-	52,858,444
Liabilities				
Current liabilities:				
Accounts payable	14,722	140,359	-	155,081
Due to other governmental units	734,759	282,065	-	1,016,824
Accrued liabilities and other	66,737	174,030	-	240,767
Current portion of long-term debt (Note 7)	337,862	-	-	337,862
Total current liabilities	1,154,080	596,454	-	1,750,534
Noncurrent liabilities:				
Net other postemployment benefit obligations (Note 11)	88,844	88,844	-	177,688
Long-term debt - Net of current portion (Notes 7 and 12)	6,245,365	-	-	6,245,365
Total noncurrent liabilities	6,334,209	88,844	-	6,423,053
Total liabilities	7,488,289	685,298	-	8,173,587
Net Position				
Net investment in capital assets	10,746,917	12,590,349	-	23,337,266
Restricted:				
Restricted for water operations	6,529,353	-	-	6,529,353
Restricted for sewer operations	-	14,818,238	-	14,818,238
Total net position	<u>\$ 17,276,270</u>	<u>\$ 27,408,587</u>	<u>\$ -</u>	<u>44,684,857</u>
Net Position of Business-type Activities				<u>\$ 44,684,857</u>

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

Township of Scio

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended March 31, 2015

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating Revenue			
Sale of water	\$ 2,250,047	\$ 2,127,446	\$ 4,377,493
Other	48,148	139,679	187,827
Total operating revenue	2,298,195	2,267,125	4,565,320
Operating Expenses			
Cost of water	1,442,736	-	1,442,736
Cost of sewage treatment	-	1,504,792	1,504,792
Operation and maintenance	68,775	115,095	183,870
General and administrative	433,784	650,113	1,083,897
Depreciation	374,945	376,349	751,294
Total operating expenses	2,320,240	2,646,349	4,966,589
Operating Loss	(22,045)	(379,224)	(401,269)
Nonoperating Revenue (Expenses)			
Investment income	43,951	99,897	143,848
Interest expense	(44,269)	-	(44,269)
Total nonoperating (expenses) revenue	(318)	99,897	99,579
Loss - Before contributions	(22,363)	(279,327)	(301,690)
Capital Contributions - Other capital contributions	48,350	272,642	320,992
Change in Net Position	25,987	(6,685)	19,302
Net Position - Beginning of year	17,250,283	27,415,272	44,665,555
Net Position - End of year	<u>\$ 17,276,270</u>	<u>\$ 27,408,587</u>	<u>\$ 44,684,857</u>

Township of Scio

Proprietary Funds Statement of Cash Flows Year Ended March 31, 2015

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 2,841,102	\$ 2,155,996	\$ 4,997,098
Payments to suppliers	(1,868,282)	(2,185,413)	(4,053,695)
Payments to employees	(262,687)	(285,802)	(548,489)
Other receipts	2,107	-	2,107
Net cash provided by (used in) operating activities	712,240	(315,219)	397,021
Cash Flows from Capital and Related Financing Activities			
Proceeds from long-term debt	917,221	-	917,221
Collection of connection fees	48,350	272,642	320,992
Tap fees collected on behalf of the City of Ann Arbor	238,420	83,250	321,670
Purchase of capital assets	(1,040,090)	(584,995)	(1,625,085)
Principal paid on capital debt	(140,000)	-	(140,000)
Repayment of interest	(44,269)	-	(44,269)
Net cash used in capital and related financing activities	(20,368)	(229,103)	(249,471)
Cash Flows from Investing Activities			
Interest received on investments	43,951	99,897	143,848
Purchase of investment securities	-	(998,800)	(998,800)
Proceeds from sale and maturities of investment securities	78,421	1,044,210	1,122,631
Net cash provided by investing activities	122,372	145,307	267,679
Net Increase (Decrease) in Cash and Cash Equivalents	814,244	(399,015)	415,229
Cash and Cash Equivalents - Beginning of year	980,514	3,078,331	4,058,845
Cash and Cash Equivalents - End of year	<u>\$ 1,794,758</u>	<u>\$ 2,679,316</u>	<u>\$ 4,474,074</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 7,115,440	\$ 15,115,672	\$ 22,231,112
Less amounts classified as investments	(5,320,682)	(12,436,356)	(17,757,038)
Total cash and cash equivalents	<u>\$ 1,794,758</u>	<u>\$ 2,679,316</u>	<u>\$ 4,474,074</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (22,045)	\$ (379,224)	\$ (401,269)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	374,945	376,349	751,294
Changes in assets and liabilities:			
Receivables	41,570	(111,129)	(69,559)
Prepaid and other assets	-	(2,327)	(2,327)
Accounts payable	(286,722)	(15,767)	(302,489)
Due to other governmental units	576,725	(184,677)	392,048
Accrued and other liabilities	27,767	1,556	29,323
Net cash provided by (used in) operating activities	<u>\$ 712,240</u>	<u>\$ (315,219)</u>	<u>\$ 397,021</u>

Noncash Investing, Capital, and Financing Activities - During the year ended March 31, 2015, there were no noncash transactions entered into by the Township.

Township of Scio

Fiduciary Funds Statement of Assets and Liabilities March 31, 2015

	Current Tax Collection	Trust and Agency	Total
Assets - Cash and investments (Note 3)	<u>\$ 353,648</u>	<u>\$ 166,749</u>	<u>\$ 520,397</u>
Liabilities - Accrued liabilities and other	<u>\$ 353,648</u>	<u>\$ 166,749</u>	<u>\$ 520,397</u>

Township of Scio

Component Units Statement of Net Position March 31, 2015

	Downtown Development Authority	Economic Development Corporation	Total
Assets			
Cash and investments	\$ 2,954,005	\$ 10,175	\$ 2,964,180
Receivables - Taxes	123,446	-	123,446
Due from primary government	62,652	-	62,652
Capital assets (Note 5)	27,432,750	-	27,432,750
Total assets	30,572,853	10,175	30,583,028
Liabilities			
Accrued liabilities and other:			
Accrued interest payable	190,104	-	190,104
Due within one year -			
Current portion of long-term debt (Note 7)	600,000	-	600,000
Due in more than one year -			
Long-term debt (Note 7)	12,080,000	-	12,080,000
Total liabilities	12,870,104	-	12,870,104
Net Position			
Net investment in capital assets	14,752,750	-	14,752,750
Unrestricted	2,949,999	10,175	2,960,174
Total net position	<u>\$ 17,702,749</u>	<u>\$ 10,175</u>	<u>\$ 17,712,924</u>

Township of Scio

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Downtown Development Authority - Public works	\$ 1,435,762	\$ -	\$ -	\$ -
Economic Development Corporation - Public works	14,988	-	16,050	-
Total component units	<u>\$ 1,450,750</u>	<u>\$ -</u>	<u>\$ 16,050</u>	<u>\$ -</u>
General revenue:				
Property taxes				
Investment income				
Other miscellaneous 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, 2015**

Net (Expense) Revenue and Changes in Net Position		
<u>Downtown Development Authority</u>	<u>Economic Development Corporation</u>	<u>Total</u>
\$ (1,435,762)	\$ -	\$ (1,435,762)
<u>-</u>	<u>1,062</u>	<u>1,062</u>
(1,435,762)	1,062	(1,434,700)
1,355,683	-	1,355,683
13,762	3	13,765
<u>47,912</u>	<u>-</u>	<u>47,912</u>
<u>1,417,357</u>	<u>3</u>	<u>1,417,360</u>
(18,405)	1,065	(17,340)
<u>17,721,154</u>	<u>9,110</u>	<u>17,730,264</u>
<u>\$ 17,702,749</u>	<u>\$ 10,175</u>	<u>\$ 17,712,924</u>

Township of Scio

Notes to Financial Statements March 31, 2015

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 (DDA or the "Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and 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 the means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, 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)

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. 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. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes and other items not included among program revenues are properly 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.

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare-related costs, or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Note I - Summary of Significant Accounting Policies (Continued)

Revenues are not recognized until they are collected, or collected soon enough after the end of the year that they are available to pay for obligations outstanding at the end of the year. For this purpose, the Township considers amounts collected within 60 days of year end to be available for recognition. 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 inflow."

Proprietary funds and fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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.

Fund Accounting

The Township accounts for its various activities in several different funds, in order to demonstrate accountability for how we have spent certain resources; separate funds allow us to show the particular expenditures for which specific revenues were used. The various funds are aggregated into three broad fund types:

Governmental funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds. The Township reports the following funds as "major" governmental funds:

- The General Fund, which is the primary operating fund because it accounts for all financial resources used to provide general government services, other than those specifically assigned to another 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.

Note I - Summary of Significant Accounting Policies (Continued)

- The Fire Department Fund is used to account for monies collected and expended for fire protection services.
- The Township Road Improvement Special Assessment Fund is used to account for the monies collected and expended for road improvements. This fund includes the Township Special Assessment District Fund, Township Road Improvement Revolving Fund, Newman Boulevard Special Assessment District Fund, and the 2014 Road Special Assessment District Fund.

Proprietary funds include enterprise funds, which provide goods or services to users in exchange for charges or fees. The Township reports the following funds as “major” enterprise funds:

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

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.

Interfund activity: During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Furthermore, certain activity occurs during the year involving transfers of resources between funds. In the fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

Township of Scio

Notes to Financial Statements March 31, 2015

Note I - Summary of Significant Accounting Policies (Continued)

Specific Balances and Transactions

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.

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

Capital Assets - Capital assets, which include property, plant, equipment, and intangible assets, 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.

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

Capital Asset Class	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

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 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 expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as an "other financing source," as well as bond premiums and discounts. The general fund and debt service fund are generally used to liquidate governmental long-term debt.

Note I - Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Township has no deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from four sources: grants, delinquent property taxes, state-shared revenue, and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Note I - Summary of Significant Accounting Policies (Continued)

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The board of trustees is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The board of trustees can assign fund balance. Commitments are made and can be rescinded only via resolution of the board of trustees.

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 2014 tax is levied and collectible on December 1, 2014 and is recognized as revenue in the year ended March 31, 2015, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2014 taxable valuation of the Township totaled \$1.3 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 \$1,179,000 for operating purposes and approximately \$604,000 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 is recognized at the beginning of the next fiscal year. As of March 31, 2015, \$958,946 is included in unearned revenue. This is reported in the Fire Department Fund.

Note I - Summary of Significant Accounting Policies (Continued)

Special Assessment Revenue

The Township has various special assessments for capital projects throughout the Township. These special assessments are placed on tax bills levied December 1. Special assessment revenue for the year ended March 31, 2015 is \$920,404 and included in the Township's various capital projects funds.

A 10-year special assessment for road construction and maintenance in the amount of \$5.26 million was approved during the year ended March 31, 2014. This assessment is collectible in 10 equal annual installments beginning December 1, 2013 for the next fiscal year. As of March 31, 2015, \$4,028,320 is included in deferred inflows. This is reported in the Township Road Improvement Special Assessment Fund.

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.

Compensated Absences (Paid Time Off) - It is the Township's policy to permit employees to accumulate earned but unused paid time off. All paid time off 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.

Compensated absences attributable to the governmental activities will be liquidated primarily by the General Fund. Claims and judgments liability will generally be liquidated through the Township's General Fund. The net pension obligation and net OPEB obligation have generally been liquidated from the funds from which the individual employees' salaries are paid, which are primarily the General Fund and Water and Sewer Funds.

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.

Township of Scio

Notes to Financial Statements March 31, 2015

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, 2015, the Capital Projects Fund has a fund deficit of \$46,058 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 four years.

Note 3 - Deposits and Investments

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

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

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$12,903,582 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized; the component units had \$428,286 of bank deposits that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Township of Scio

Notes to Financial Statements March 31, 2015

Note 3 - Deposits and Investments (Continued)

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

Investment	Fair Value	Weighted Average Maturity (Days)
Commercial paper - General Electric Cap Corp	\$ 2,142,786	42
U.S. government or agency bonds	15,463,616	839

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
Commercial paper - General Electric Cap Corp	\$ 2,142,786	AI/PI	S&P
U.S. government or agency bonds	15,463,616	AAA	S&P
Money markets	6,880,432	Unrated	N/A

Note 4 - Deferred Inflows/Outflows of Resources

At the end of the current fiscal year, the various components of deferred inflows of resources are as follows:

	Governmental Funds
Delinquent property taxes - Unavailable	\$ 52,399
Special assessments - Unavailable	4,574,403
State-shared revenue - Unavailable	95,485
Total deferred inflows	<u>\$ 4,722,287</u>

Township of Scio

Notes to Financial Statements March 31, 2015

Note 5 - Capital Assets

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

	Balance April 1, 2014	Reclassifications	Additions	Disposals	Balance March 31, 2015
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 1,006,268	\$ -	\$ -	\$ -	\$ 1,006,268
Land preservation - Land and easement	5,844,731	-	355,193	-	6,199,924
Construction in progress	584,800	(584,800)	-	-	-
Drain rights and infrastructure	120,927	-	40,694	-	161,621
Subtotal	7,556,726	(584,800)	395,887	-	7,367,813
Capital assets being depreciated:					
Sidewalks and other intangible rights	-	584,800	467,773	-	1,052,573
Building and improvements	2,507,179	-	-	-	2,507,179
Equipment	1,058,808	-	25,689	(38,877)	1,045,620
Vehicles	1,238,641	-	-	-	1,238,641
Land improvements	156,087	-	-	-	156,087
Subtotal	4,960,715	584,800	493,462	(38,877)	6,000,100
Accumulated depreciation:					
Sidewalks and other intangible rights	-	-	42,103	-	42,103
Buildings	954,525	-	53,926	-	1,008,451
Equipment	359,885	-	46,574	(37,199)	369,260
Fire vehicles	603,458	-	61,872	-	665,330
Land improvements	126,282	-	2,063	-	128,345
Subtotal	2,044,150	-	206,538	(37,199)	2,213,489
Net capital assets being depreciated	2,916,565	584,800	286,924	(1,678)	3,786,611
Net capital assets	\$ 10,473,291	\$ -	\$ 682,811	\$ (1,678)	\$ 11,154,424

Township of Scio

Notes to Financial Statements March 31, 2015

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance April 1, 2014 (as restated)	Additions	Disposals	Balance March 31, 2015
Capital assets not being depreciated:				
Land	\$ 1,984,555	\$ 10,987	\$ -	\$ 1,995,542
Construction in progress as restated*	3,965,258	1,586,764	-	5,552,022
Subtotal	5,949,813	1,597,751	-	7,547,564
Capital assets being depreciated:				
Utility system	33,989,117	-	-	33,989,117
Buildings	761,586	-	-	761,586
Machinery and equipment	443,098	27,335	-	470,433
Vehicles	74,022	-	-	74,022
Sewer meters	7,118	-	-	7,118
Subtotal	35,274,941	27,335	-	35,302,276
Accumulated depreciation:				
Utility system	11,322,259	703,688	-	12,025,947
Buildings	501,699	19,278	-	520,977
Machinery and equipment	288,926	20,378	-	309,304
Vehicles	58,122	7,950	-	66,072
Sewer meters	7,047	-	-	7,047
Subtotal	12,178,053	751,294	-	12,929,347
Net capital assets being depreciated	23,096,888	(723,959)	-	22,372,929
Net capital assets	\$ 29,046,701	\$ 873,792	\$ -	\$ 29,920,493

* Construction costs of \$3,461,814 related to upgrades of the West High Pump Station were incurred as of March 31, 2014 but not included in the March 31, 2014 financial statements. The beginning balance of construction in progress for business-type activities has been restated to reflect those costs. Also see Note 12.

Component Units	Balance April 1, 2014	Additions	Disposals	Balance March 31, 2015
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	9,627,328	877,057	-	10,504,385
Net capital assets being depreciated	12,299,096	(877,057)	-	11,422,039
Net capital assets	\$ 28,309,807	\$ (877,057)	\$ -	\$ 27,432,750

Township of Scio

Notes to Financial Statements March 31, 2015

Note 5 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 120,614
Public safety	85,924
Total governmental activities	<u>\$ 206,538</u>

Business-type activities:

Water	\$ 374,945
Sewer	376,349
Total business-type activities	<u>\$ 751,294</u>

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

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Primary Government and Component Units		
Component unit - Downtown		
Development Authority	Primary government - Capital Projects Fund	\$ 46,417
	Primary government - General Fund	10,686
	Primary government - Open Space Land Preservation Fund	<u>5,549</u>
	Total component unit - Downtown Development Authority	<u>\$ 62,652</u>

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, 2015

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

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

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Township Road Improvement	
	Special Assessment Fund	\$ 10,000
	Other nonmajor governmental funds	90,668
	Total General Fund	<u>\$ 100,668</u>

The transfer from the General Fund to the Township Road Improvement Special Assessment Fund is related to financing a capital project and the transfers from the General Fund to other governmental funds are related to debt service.

Note 7 - Long-term Debt

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

Long-term debt activity can be summarized as follows:

	<u>Interest Rate Ranges</u>	<u>Principal Maturity Ranges</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities							
1999 General Obligation Limited Tax Bonds -							
Amount of issue: \$900,000							
Maturing through May 2017	5.65%	\$75,000	\$ 300,000	\$ -	\$ 75,000	\$ 225,000	\$ 75,000
2012 Special Assessment Bonds -							
Amount of issue: \$190,000							
Maturing through April 2022	3.71%	20,000	160,000	-	20,000	140,000	-
2013 Special Assessment Bonds -							
Amount of issue: \$460,000		46,000 -					
Maturing through April 2023	4.87%	49,000	431,000	-	49,000	382,000	-
Accumulated compensated absences			85,515	116,569	102,194	99,890	99,890
Total governmental activities			<u>\$ 976,515</u>	<u>\$ 116,569</u>	<u>\$ 246,194</u>	<u>\$ 846,890</u>	<u>\$ 174,890</u>

Township of Scio

Notes to Financial Statements March 31, 2015

Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance (as restated*)	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
Contractual obligation to the City of Ann Arbor related to the City's 2008 WRF Bonds - Amount of issue: \$2,490,749 Maturing through October 2028	2.5%	\$5,749 - 170,000	\$ 1,840,749	\$ -	\$ 140,000	\$ 1,700,749	\$ 145,000
Contractual obligation to the City of Ann Arbor related to the City's 2012 DWRF Bonds - Amount of issue: \$4,882,478 Maturing through April 2034	2.5%	192,862 - 310,800	3,965,258	917,220	-	4,882,478	192,862
Total business-type activities			\$ 5,806,007	\$ 917,220	\$ 140,000	\$ 6,583,227	\$ 337,862

* Long-term debt costs of \$3,965,258 related to upgrades of the West High Pump Station were incurred as of March 31, 2014. Of these costs, only \$503,444 was recorded on the March 31, 2014 financial statements and included in due to other governmental units. The beginning balance of long-term debt in the business-type activities has been restated to reflect the \$503,444 of costs previously recorded in due to other governmental units as well as the \$3,461,814 of new costs. Also see Note 12.

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Component Unit Activities							
2006 General Obligation Limited Tax Bonds - Amount of issue: \$9,700,000 Maturing through November 2025	4.00%	\$500,000 - 1,000,000	\$ 8,100,000	\$ -	\$ 400,000	\$ 7,700,000	\$ 500,000
2007 Downtown Development and Refunding Bonds - Amount of issue: \$4,745,000 Maturing through May 2014			705,000	-	705,000	-	-
2008 Downtown Development and Refunding Bonds - Amount of issue: \$3,250,000 Maturing through November 2028	4.00% - 5.00%	100,000 - 400,000	3,150,000	-	100,000	3,050,000	100,000
2012 Downtown Development and Refunding Bonds - Amount of issue: \$3,250,000 Maturing through November 2028	2.00% - 4.00%	565,000 - 685,000	2,495,000	-	565,000	1,930,000	-
Total component unit activities			\$ 14,450,000	\$ -	\$ 1,770,000	\$ 12,680,000	\$ 600,000

Township of Scio

Notes to Financial Statements March 31, 2015

Note 7 - Long-term Debt (Continued)

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
2016	\$ 75,000	\$ 35,956	\$ 110,956	\$ 337,862	\$ 74,974	\$ 412,836	\$ 600,000	\$ 483,800	\$ 1,083,800
2017	144,000	28,590	172,590	343,800	142,510	486,310	1,205,000	481,300	1,686,300
2018	144,000	21,224	165,224	354,400	133,845	488,245	1,290,000	441,650	1,731,650
2019	68,000	16,001	84,001	365,000	124,915	489,915	1,435,000	394,150	1,829,150
2020	68,000	12,921	80,921	375,600	115,720	491,320	750,000	351,500	1,101,500
2021-2025	248,000	21,504	269,504	1,916,400	433,197	2,349,597	5,100,000	1,205,500	6,305,500
2026-2030	-	-	-	1,493,349	210,568	1,703,917	2,300,000	215,000	2,515,000
2029-2034	-	-	-	1,396,816	34,887	1,431,703	-	-	-
Total	\$ 747,000	\$ 136,196	\$ 883,196	\$ 6,583,227	\$ 1,270,616	\$ 7,853,843	\$ 12,680,000	\$ 3,572,900	\$ 16,252,900

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, 2015, \$1,950,000 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.

Township of Scio

Notes to Financial Statements March 31, 2015

Note 9 - Defined Benefit Pension Plan (Continued)

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

Annual Pension Cost - For the year ended March 31, 2015, the Township's annual pension cost was approximately \$101,000 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, 2013 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 13.0 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 10-year period.

The unfunded actuarial liability is being amortized as a level percent of payroll on an open basis. The remaining amortization period is 24 years.

Three-year trend information as of March 31 follows:

	Fiscal Year Ended March 31		
	2013	2014	2015
Annual pension cost (APC)	\$ 98,710	\$ 94,445	\$ 101,020
Percentage of APC contributed	100 %	100 %	100 %

Township of Scio

Notes to Financial Statements March 31, 2015

Note 9 - Defined Benefit Pension Plan (Continued)

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

	Actuarial Valuation as of December 31		
	2012	2013	2014
Actuarial value of assets	\$ 1,746,680	\$ 1,951,443	\$ 2,161,541
Actuarial accrued liability (AAL) (entry age)	\$ 2,160,065	\$ 2,346,133	\$ 2,571,344
Unfunded AAL (UAAL)*	\$ 413,385	\$ 394,690	\$ 409,803
Funded ratio	80.9 %	83.2 %	84.1 %
Covered payroll	\$ 1,171,216	\$ 1,202,784	\$ 1,221,187
UAAL as a percentage of covered payroll	35.3 %	32.8 %	33.6 %

* 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. This plan is administered through John Hancock Retirement Plan Services, LLC. 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 \$13,100 during the current year. The Township's contributions for each employee are fully vested upon entering service.

Note 11 - Other Postemployment Benefits

Plan Description - The Township provides retiree healthcare benefits to eligible employees. This is an agent multiple-employer defined benefit plan administered by the Township. The benefits are provided through board resolution. 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 \$10,202.

Township of Scio

Notes to Financial Statements March 31, 2015

Note 11 - Other Postemployment Benefits (Continued)

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).

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, 2015, 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)	\$ 94,653
Interest on the prior year's net OPEB obligation	4,511
Amounts contributed - Payments of current premiums	<u>(10,202)</u>
Increase in net OPEB obligation	88,962
OPEB obligation - Beginning of year	<u>477,942</u>
OPEB obligation - End of year	<u>\$ 566,904</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 2013, 2014, and 2015 are as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
3/31/13	3/31/12	\$ 109,296	11.1	\$ 382,291
3/31/14	3/31/13	107,299	10.9	477,942
3/31/15	3/31/14	99,164	10.3	566,904

Township of Scio

Notes to Financial Statements March 31, 2015

Note 11 - Other Postemployment Benefits (Continued)

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
3/31/12	\$ -	\$ 906,493	\$ 906,493	-	\$ 1,394,454	65.0
3/31/13	-	941,220	941,220	-	1,353,504	69.5
3/31/14	-	973,630	973,630	-	1,435,305	67.8

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.

Note 11 - Other Postemployment Benefits (Continued)

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 Michigan inflation rate used for calculating property tax adjustments for the previous calendar year (Michigan Headlee Inflation Rate) 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 Michigan Headlee Inflation Rate.

Health Insurance Premiums - Fiscal year 2015 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, 2014 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, 2014 was 25 years.

Note 12 - Reporting Change (Prior Period Adjustments)

Capital assets and long-term debt for the business-type activities of Scio Township have been restated as of March 31, 2014 in order to properly reflect construction costs related to the upgrades of the West High Pump Station incurred as of March 31, 2014. Related construction costs of \$503,444 were recorded in current liabilities. The effect of this correction was to reclassify \$503,444 from current liabilities to long-term debt as well as to record \$3,461,814 of capital assets and long-term debt previously unrecorded. This correction had no effect on net position. Also see Notes 5 and 7.

Note 13 - Upcoming Accounting Pronouncements

In June 2012, the GASB issued 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 ended March 31, 2016.

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The Township is currently evaluating the impact this standard will have on the financial statements when adopted, during the Township's 2017 fiscal year.

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses reporting by OPEB plans, whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statements more extensive note disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the Township will, after adoption of GASB Statement No. 75, recognize on the face of the financial statements its net OPEB liability. The Township is currently evaluating the impact these standards will have on the financial statements when adopted. GASB Statement No. 74 is effective for fiscal years beginning after June 15, 2016, whereas GASB Statement No. 75 is effective one year later.

Required Supplemental Information

Township of Scio

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2015

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 1,102,000	\$ 1,145,000	\$ 1,178,909	\$ 33,909
State-shared revenue and grants	1,200,000	1,220,000	1,300,188	80,188
Locally raised	851,325	1,044,559	1,080,825	36,266
Investment income	8,000	12,000	16,338	4,338
Rental income	33,000	33,000	35,240	2,240
Other revenue	4,500	5,535	5,536	1
Total revenue	3,198,825	3,460,094	3,617,036	156,942
Expenditures - Current				
General government:				
General government	706,150	762,320	681,545	80,775
Assessing	521,300	467,050	426,515	40,535
Elections	40,640	36,500	36,366	134
Boards and commissions	227,050	455,950	392,137	63,813
Total general government	1,495,140	1,721,820	1,536,563	185,257
Health and safety	1,475,250	1,492,750	1,474,990	17,760
Building and grounds	77,500	139,500	108,556	30,944
Capital outlay	41,500	55,000	40,024	14,976
Total expenditures	3,089,390	3,409,070	3,160,133	248,937
Excess of Revenue Over Expenditures	109,435	51,024	456,903	405,879
Other Financing Uses - Transfers out	(90,087)	(100,688)	(100,688)	-
Net Change in Fund Balance	19,348	(49,664)	356,215	405,879
Fund Balance - Beginning of year	7,133,583	7,133,583	7,133,583	-
Fund Balance - End of year	<u>\$ 7,152,931</u>	<u>\$ 7,083,919</u>	<u>\$ 7,489,798</u>	<u>\$ 405,879</u>

Township of Scio

Required Supplemental Information Budgetary Comparison Schedule Open Space Land Preservation Fund Year Ended March 31, 2015

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 577,150	\$ 583,150	\$ 604,496	\$ 21,346
State grants	350,000	-	-	-
Investment income	1,600	4,000	4,471	471
Total revenue	928,750	587,150	608,967	21,817
Expenditures - Capital outlay	781,400	796,900	452,536	344,364
Net Change in Fund Balance	147,350	(209,750)	156,431	366,181
Fund Balance - Beginning of year	1,695,219	1,695,219	1,695,219	-
Fund Balance - End of year	<u>\$ 1,842,569</u>	<u>\$ 1,485,469</u>	<u>\$ 1,851,650</u>	<u>\$ 366,181</u>

Township of Scio

Required Supplemental Information Budgetary Comparison Schedule Fire Department Fund Year Ended March 31, 2015

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Locally raised	\$ 1,500	\$ 650	\$ 657	\$ 7
Investment income	2,500	4,500	11,716	7,216
Rental income	22,250	22,250	22,250	-
Other revenue:				
Special assessments	930,000	936,800	937,690	890
Other miscellaneous income	2,000	2,600	2,600	-
Total revenue	958,250	966,800	974,913	8,113
Expenditures - Current - Public safety	951,500	880,500	845,159	35,341
Net Change in Fund Balance	6,750	86,300	129,754	43,454
Fund Balance - Beginning of year	1,483,425	1,483,425	1,483,425	-
Fund Balance - End of year	<u>\$ 1,490,175</u>	<u>\$ 1,569,725</u>	<u>\$ 1,613,179</u>	<u>\$ 43,454</u>

Township of Scio

Note to Required Supplemental Information Year Ended March 31, 2015

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, 2015 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

Township of Scio

Required Supplemental Information Pension System Schedule Year Ended March 31, 2015

The schedule of funding progress is as follows:

Actuarial 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
12/31/08	\$ 935,259	\$ 1,506,556	\$ 571,297	62.1	\$ 1,121,009	51.0
12/31/09	1,149,103	1,537,420	388,317	74.7	1,113,744	34.9
12/31/10	1,369,871	1,681,599	311,728	81.5	1,034,441	30.1
12/31/11	1,554,088	1,869,560	315,472	83.1	1,140,438	27.7
12/31/12	1,746,680	2,160,065	413,385	80.9	1,171,216	35.3
12/31/13	1,951,443	2,346,133	394,690	83.2	1,202,784	32.8
12/31/14	2,161,541	2,571,344	409,803	84.1	1,221,187	33.6

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
3/31/09	12/31/08	\$ 90,958	100.0
3/31/10	12/31/09	88,208	100.0
3/31/11	12/31/10	91,202	100.0
3/31/12	12/31/11	89,603	100.0
3/31/13	12/31/12	98,710	100.0
3/31/14	12/31/13	94,445	100.0
3/31/15	12/31/14	101,020	100.0

* The required contribution is expressed to the Township as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2014, the latest actuarial valuation, is as follows:

Amortization method	Level percent of payroll
Remaining amortization period	24 years
Asset valuation method	10-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	0% - 13%
*Includes inflation at	4.5%
Cost of living adjustments	None

Township of Scio

Required Supplemental Information OPEB System Schedule Year Ended March 31, 2015

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
3/31/09	\$ -	\$ 839,225	\$ 839,225	-	\$ 1,402,156	59.9
3/31/10	-	908,496	908,496	-	1,445,090	62.9
3/31/11	-	855,706	855,706	-	1,409,534	60.7
3/31/12	-	906,493	906,493	-	1,394,454	65.0
3/31/13	-	941,220	941,220	-	1,353,504	69.5
3/31/14	-	973,630	973,630	-	1,435,305	67.8

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
3/31/10	3/31/09	\$ 93,063	16.4
3/31/11	3/31/10	122,132	12.5
3/31/12	3/31/11	111,124	10.2
3/31/13	3/31/12	109,296	11.1
3/31/14	3/31/13	107,299	10.9
3/31/15	3/31/14	99,164	10.3

* The required contribution is expressed to the Township as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of March 31, 2014, the latest actuarial valuation, is as follows:

Amortization method	Level percent of payroll
Remaining amortization period	25 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	1.0%
Projected salary increases	2%
*Includes inflation at	2%
Cost of living adjustments	None

Other Supplemental Information

Township of Scio

	Special Revenue Funds		Debt Service Fund
	Public Improvement Fund	Tree Mitigation Fund	Building Authority Fund
Assets			
Cash and investments	\$ 738,264	\$ 9,718	\$ -
Receivables:			
Special assessments receivable	-	-	-
Due from other governmental units	-	-	-
Prepaid expenses and other assets	-	-	-
Total assets	\$ 738,264	\$ 9,718	\$ -
Liabilities			
Accounts payable	\$ 2,800	\$ -	\$ -
Due to component units	-	-	-
Total liabilities	2,800	-	-
Deferred Inflows of Resources	-	-	-
Fund Balances (Deficit)			
Nonspendable - Prepaids	-	-	-
Restricted:			
Metro act	137,178	-	-
Public improvements	598,286	-	-
Tree mitigation	-	9,718	-
Debt service	-	-	-
Bridge maintenance	-	-	-
Committed - Capital projects	-	-	-
Unassigned	-	-	-
Total fund balances (deficit)	735,464	9,718	-
Total liabilities, deferred inflows of resources, and fund balances (deficit)	\$ 738,264	\$ 9,718	\$ -

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
March 31, 2015

Capital Projects Funds				Total Nonmajor Governmental Funds
Capital Projects Fund	Public Safety and Improvement Fund	East Delhi Bridge Maintenance Fund	Park Road SAD	
\$ 359	\$ 779,645	\$ 34,850	\$ 20,068	\$ 1,582,904
90,000	-	-	117,669	207,669
-	-	365	208	573
-	-	-	22,968	22,968
\$ 90,359	\$ 779,645	\$ 35,215	\$ 160,913	\$ 1,814,114
\$ -	\$ -	\$ -	\$ -	\$ 2,800
46,417	-	-	-	46,417
46,417	-	-	-	49,217
90,000	-	-	117,669	207,669
-	-	-	22,968	22,968
-	-	-	-	137,178
-	-	-	-	598,286
-	-	-	-	9,718
-	-	-	20,276	20,276
-	-	35,215	-	35,215
-	779,645	-	-	779,645
(46,058)	-	-	-	(46,058)
(46,058)	779,645	35,215	43,244	1,557,228
\$ 90,359	\$ 779,645	\$ 35,215	\$ 160,913	\$ 1,814,114

Township of Scio

	Special Revenue Funds		Debt Service Funds	Capital Projects Funds	
	Public Improvement Fund	Tree Mitigation Fund	Building Authority Fund	Capital Projects Fund	Public Safety and Improvement Fund
Revenue					
Investment income	\$ 1,133	\$ 35	\$ -	\$ 6,011	\$ 878
Other revenue:					
Special assessments	-	-	-	30,000	-
Other miscellaneous income	11,313	-	-	-	-
Total revenue	12,446	35	-	36,011	878
Expenditures					
Current:					
General government	27,683	1,450	-	-	-
Public safety	-	-	-	-	225
Public works	-	-	-	-	-
Debt service	-	-	90,688	6,000	-
Total expenditures	27,683	1,450	90,688	6,000	225
Excess of Revenue (Under) Over Expenditures	(15,237)	(1,415)	(90,688)	30,011	653
Other Financing Sources - Transfers in	-	-	90,688	-	-
Net Change in Fund Balances	(15,237)	(1,415)	-	30,011	653
Fund Balances (Deficit) - Beginning of year	750,701	11,133	-	(76,069)	778,992
Fund Balances (Deficit) - End of year	<u>\$ 735,464</u>	<u>\$ 9,718</u>	<u>\$ -</u>	<u>\$ (46,058)</u>	<u>\$ 779,645</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended March 31, 2015

Capital Projects Funds		Total Nonmajor Governmental Funds
East Delhi Bridge Maintenance Fund	Park Road SAD	
\$ 103	\$ 6,711	\$ 14,871
4,999	17,860	52,859
-	-	11,313
5,102	24,571	79,043
85	-	29,218
-	-	225
-	225	225
-	26,301	122,989
85	26,526	152,657
5,017	(1,955)	(73,614)
-	-	90,688
5,017	(1,955)	17,074
30,198	45,199	1,540,154
\$ 35,215	\$ 43,244	\$ 1,557,228

July 17, 2015

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, 2015 and have issued our report thereon dated July 17, 2015. 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 Identified in an Audit

Section II - Required Communications with Those Charged with Governance

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.

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 were 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 17, 2015

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", with a stylized flourish at the end.

Michael J. Swartz

Section I - Internal Control Related Matters Identified in an Audit

In planning and performing our audit of the financial statements of the Township as of and for the year ended March 31, 2015, 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 a certain deficiency in internal control that we consider to be a material weakness.

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

A material weakness is a deficiency, or 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 deficiency in the Township's internal control to be a material weakness:

- **Review of Debt Agreements and Required Disclosures** - During our audit procedures, we found that the Township entered into a DWRF program with the City of Ann Arbor in fiscal year 2013 that had not been properly recorded or disclosed. Under the agreement, the city would oversee the construction of the West High Service Pump Station Project and the Township would reimburse them for its portion of the costs. The city started receiving state revolving loan disbursements in fiscal year 2014 for construction costs but the Township did not record its share of the debt or construction in progress. As a result, assets and liabilities were both materially misstated for business-type activities in the amount of \$3,461,814 and a prior period adjustment was necessary. The prior period adjustment had no effect on net position.

Section II - Required Communications with Those Charged with Governance

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 4, 2015, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

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

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

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 4, 2015.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended March 31, 2015.

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 basic 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 estimations determining that they are reasonable in relation to the basic 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. We identified a material misstatement related to the recording of long-term assets and long-term debt for the construction costs of the West High Service Pump Station Project. We also identified an adjustment necessary to a prior period related to this project. Without these adjustments, the financial statements would have been materially misstated. Management has corrected all such misstatements.

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 our 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 17, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the 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

Other Communicated Items

The following items are suggestions to further strengthen internal control or to increase operating efficiencies. Our observations on those areas are presented for your consideration below:

- 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 funds. The Township adopted a revised rate schedule during the year to reduce the amount of surplus used as the Township has a plan in place to use accumulated net position for capital improvements. Plant & Moran, PLLC recommends the Township continue to monitor the cost of providing water and sewer to residents and ensure rates are in line with these costs.
- It was noted during the audit that small errors existed within the manual depreciation calculation and rollforward. We recommend the Township's fixed assets be input into the accounting software to avoid these manual input errors.

New Pension Standards

Beginning with the March 31, 2016 year end, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, significantly revises the employer's accounting and reporting requirements for pensions.

Employers providing defined benefit pensions to its employees will begin to recognize their unfunded pension benefit obligation as a liability for the first time, and must begin to measure the costs of pension benefits as the employees' service is rendered, rather than as the employer funds the benefit. As a result, the Township will record a net pension liability of approximately \$400,000, based on the December 31, 2014 actuarial valuation. In addition, the Governmental Accounting Standards Board adopted pronouncement No. 75. With this new pronouncement, the retiree healthcare liability will also be required to be reported in this same way in three years. A pro forma of how this is expected to impact the Township's government-wide net position is shown below:

	As Currently Reported	With Unfunded Pension	With Unfunded Health Care
Net position:			
Net investment in capital assets	\$ 33,744,690	\$ 33,744,690	\$ 33,744,690
Restricted	30,712,017	30,712,017	30,712,017
Unrestricted	7,887,907	7,478,104	6,504,474
Total net position	<u>\$ 72,344,614</u>	<u>\$ 71,934,811</u>	<u>\$ 70,961,181</u>

This pro forma indicates that Township will likely still have a positive unrestricted net position. The fact that the unrestricted portion is still positive indicates that legacy costs earned to date have already been fully funded.

The accounting entries to implement GASB Statement No. 68 and allocate these costs to the various proprietary funds and governmental functions is complex. We are happy to work with the Township and its actuarial firm over the next year to ensure smooth implementation of this new standard. We would also encourage Township personnel to view the free webinars available on Plante & Moran, PLLC's website, if you have not already done so.

Personal Property Tax

In August 2014, Michigan voters put the last piece of personal property tax reform in place. As a result, personal property taxes will be reduced in two respects:

1. Small taxpayers with total personal property within a taxing unit valued at less than \$80,000 will be able to sign an affidavit exempting this personal property from taxation. This exemption began with the 2014 tax billings.
2. Personal property used in a manufacturing process that is purchased after December 31, 2012 will be exempt. This exemption will begin in the 2016 tax billings.

The legislation is generally intended to fully reimburse local units of government for revenue losses that result from this exempt property. The changes include creation of a new Local Community Stabilization Authority (LCSA) that will receive money from two sources:

- Use Tax: The legislation includes specific amounts of the use tax that will be diverted from the State's General Fund to the new LCSA; and
- Essential Services Assessment: Manufacturers will pay a "local community essential services assessment" to the LCSA based on the value of their exempt manufacturing property. The rate is set at 2.4 mills for a property's first five years; then 1.25 mills for the next five; then 0.9 mills thereafter.

The losses described by the bill are to be paid in order of this priority:

- a) School debt;
- b) Intermediate School District losses;
- c) School operations;
- d) Government essential services (police, fire, ambulance, and jail);
- e) Debt and TIFA forgone increases; and
- f) All other reimbursements (defined below).

In theory, if there is not enough money available, the lower-priority items may not be fully reimbursed. However, that department has indicated that it expects the fund to have enough to cover all reimbursements.

All Other Reimbursements - These reimbursements come from the use tax and would also begin in 2015-2016 and initially be proportional to each local unit's share of total "qualified losses," taking into account the losses of all municipalities. Over time, the reimbursement will shift to be based on each entity's share of eligible manufacturing personal property (based on the amount used in the ESA calculation above). Beginning in FY 2017-2018, 5 percent of the revenue would be distributed proportionally based on each local unit's share of eligible manufacturing personal property. The 5 percent portion would increase in 5 percent increments in each subsequent year. By FY 2036-2037, all revenue in the last category of reimbursements would be distributed based on the local unit's share of eligible manufacturing personal property. In short, in the beginning, the reimbursement is closely tied to the amount of lost personal property taxes, but over time, the community's reimbursement will be tied to the level of eligible manufacturing personal property then in existence.

Determining the Amount of Community Loss:

Communities will first need to calculate their losses. Losses are classified as either debt loss or nondebt loss, as follows:

- **Debt Loss** - Debt loss is defined as the amount of ad valorem and dedicated taxes that go toward debt that are lost as a result of the personal property tax exemption. During FY 2014-2015 and 2015-2016, revenue distributed by the newly created Local Community Stabilization Authority (LCSA) would equal either a community's debt loss or, in the case of a TIF, the small taxpayer loss. Through the 2015-2016 fiscal year, the losses are limited to the impact of the \$80,000 small business exemption. When the phase-out of eligible manufacturing property would begin to occur when tax bills go out in 2016, the debt loss (and corresponding reimbursement) will increase.
- **Nondebt Loss** - Nondebt loss is calculated using the lowest rate of each individual millage levied in the period between 2012 and the year immediately preceding the current year. This will exclude debt millage. The department will compute the loss by comparing the current year taxable value of commercial and industrial property to the taxable value that existed at December 31, 2012 (2013 tax year). In 2016, cities will be reimbursed for nondebt loss for 2014 and 2015 related to the small taxpayer exemption loss. This is for cities only. For 2014 and 2015, townships will be reimbursed for the debt loss related to the small business exemption, but not the other losses created by the small business exemption. Starting in 2016, all municipalities are reimbursed for nondebt loss.

TIF Authority Personal Property Tax Reimbursement Forms Were Due June 15, 2015

The Michigan Municipal League has communicated that the two forms created by the Treasury for reimbursement of TIF plans for small parcel exemption losses are available on the Treasury's website under *Local Government Services/Forms/Instructions/Local Government Officials Forms*. The forms are:

- Form 5176 - Non-Brownfield Authorities (to be used for DDAs, LDFAs, CIAs, etc.)
- Form 5176BR - Brownfield Authorities

Authorities can only receive reimbursement for the small parcel exemption loss to the extent the exemption actually causes revenue loss. In the case where an Authority has "negative capture" overall and would not have any tax increment revenue regardless of the small parcel exemption loss, they are not eligible for any reimbursement. Therefore, one step on the form requires the estimated 2015 tax increment revenue for all property by class to be provided. Since Brownfield Authorities cannot have negative capture, that step is omitted from Form 5176BR.

The forms have multiple tabs requiring input, but in essence, the calculation takes the difference between the 2014 captured value of the personal property in the TIF district and the 2015 captured value of the personal property in the TIF district, times the captured millages adjusted for exemptions by class to get the personal property TIF revenue loss or gain. This total is compared to the estimated overall TIF revenue including small taxpayer loss (FY 2015) to determine the amount to be reimbursed.

New Freedom of Information Act (FOIA) Regulations

The governor signed PA 563 of 2014 into effect in January 2015. This new act is effective beginning July 1, 2015 and will change the regulations on how governmental entities charge for FOIA requests. Under the new law, public bodies will need to establish and make publicly available written procedures and guidelines for FOIA requests. This can be done by providing paper copies or a link on the government's website. The written procedures and guidelines, which must be provided free of charge upon request, must include certain items, including fee calculations and procedures for submitting written requests and to appeal denials.

The new act has numerous other very specific requirements and guidelines that will require a significant change in practice. We strongly advise you to read the entire act to ensure understanding with all the related provisions. Written documentation and appropriate tracking mechanisms will need to be put in place to ensure compliance by July 1, 2015.

Retro-pay Prohibition

Public Act 54 of 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.

PA 322 of 2014 provides for exceptions to the retro-pay prohibition for public safety personnel that are subject to compulsory arbitration of labor disputes under PA 312 of 1969. In addition, these employees would only be required to pay increases in insurance benefits after a collective bargaining agreement expired and before a new agreement is in place that would not exceed the amount of the employee's share under the Publicly Funded Health Insurance Contribution Act.

Shift in Liability for Credit Card Fraud

In response to increasing concerns about credit card security, many U.S. banks are switching to the use of Europay Mastercard Visa (EMV) technology. Credit cards with EMV technology are commonly referred to as "chip" cards because they rely on a microchip embedded in the card rather than the magnetic stripe that has been traditionally used in the United States. Microchip technology makes theft of credit card data more difficult. Visa, Mastercard, and Discover have all announced October 2015 dates for their official switch to EMV technology. After these dates, organizations will be able to choose between processing payments with either the chip or the magnetic stripe technology; however, they will be held responsible for any fraudulent transactions processed using the magnetic stripe if the card presented for the transaction had a chip option. This shift in liability will not apply to transactions in which the credit card is not physically present, such as online donations. We recommend management review the volume of card-present transactions and the associated risk of fraud compared to the cost of migrating to EMV technology, which would require updates to existing hardware and software.