

**Township of Scio  
Washtenaw County, Michigan**

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**Financial Report  
with Supplemental Information  
March 31, 2017**

# Township of Scio

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# Township of Scio

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## Independent Auditor's Report

To the Board of Trustees  
Township of Scio

### **Report on the 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, 2017 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, 2017 and the respective changes in its financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees  
Township of Scio

**Required Supplemental Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the major fund budgetary comparison schedules, schedule of changes in the township net pension liability and related ratios, schedule of township pension contributions, and the OPEB system schedule, as identified in 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 & Moran, PLLC*

August 30, 2017

# 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, 2017. 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, 2017

- 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 sixth 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 \$63,000 in fiscal year 2017 compared to 2016.
- 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 consistent with the prior year. In fiscal year 2017, the Water Fund and Sewer Fund revenue slightly exceeded expenditures.

# **Township of Scio**

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## **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, 2017. 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	
	2017	2016	2017	2016	2017	2016
<b>Assets</b>						
Current assets	\$ 17,751	\$ 17,597	\$ 23,319	\$ 24,036	\$ 41,070	\$ 41,633
Noncurrent assets	13,200	12,681	30,180	30,112	43,380	42,793
Total assets	30,951	30,278	53,499	54,148	84,450	84,426
<b>Deferred Outflows</b>	397	101	68	41	466	142
<b>Liabilities</b>						
Current liabilities	1,284	1,410	1,699	2,387	2,983	3,797
Long-term liabilities	1,625	1,304	6,016	6,139	7,641	7,443
Total liabilities	2,909	2,714	7,715	8,526	10,624	11,240
<b>Deferred Inflows</b>	8	-	1	-	9	-
<b>Net Position</b>						
Net investment in capital assets	12,741	12,078	24,381	23,965	37,122	36,043
Restricted	7,797	8,327	21,470	21,698	29,267	30,025
Unrestricted	7,893	7,260	-	-	7,893	7,260
Total net position	<u>\$ 28,431</u>	<u>\$ 27,665</u>	<u>\$ 45,850</u>	<u>\$ 45,663</u>	<u>\$ 74,282</u>	<u>\$ 73,328</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 approximately \$7,893,000 and \$7,260,000 as of March 31, 2017 and 2016, respectively. The current level of unrestricted net position for governmental activities is approximately 28 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	
	2017	2016	2017	2016	2017	2016
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 1,851	\$ 1,420	\$ 5,613	\$ 4,921	\$ 7,465	\$ 6,341
Capital grants and contributions	-	-	800	1,374	800	1,374
Operating grants and contributions	107	-	-	-	107	-
General revenue:						
Property taxes	2,461	2,208	-	-	2,461	2,208
State-shared revenue	1,352	1,289	-	-	1,352	1,289
Unrestricted investment earnings	107	72	165	125	271	197
Franchise fees	305	301	-	-	305	301
Miscellaneous	297	194	-	-	297	194
Total revenue	6,480	5,484	6,578	6,420	13,058	11,904
<b>Program Expenses</b>						
General government	2,106	1,740	-	-	2,106	1,740
Public safety	2,672	2,832	-	-	2,672	2,832
Public works	906	646	-	-	906	646
Interest on long-term debt	29	37	-	-	29	37
Water	-	-	3,033	2,364	3,033	2,364
Sewer	-	-	3,357	2,990	3,357	2,990
Total program expenses	5,713	5,255	6,390	5,354	12,103	10,609
<b>Change in Net Position</b>	<b>\$ 767</b>	<b>\$ 229</b>	<b>\$ 188</b>	<b>\$ 1,066</b>	<b>\$ 955</b>	<b>\$ 1,295</b>

### Governmental Activities

Charges for services increased significantly during the current year, which was largely related to the Township-wide special assessments.

### 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, Michigan (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 completion of the West High Pump Station.

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.

# **Township of Scio**

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

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 9, 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 Special Assessment 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 \$1,312,000 in fiscal year 2017 and \$1,292,000 in 2016. 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 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.

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 2017, the Township had approximately \$43.4 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.

# **Township of Scio**

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

The Township's Downtown Development Authority has a debt obligation at the end of the audit year of approximately \$10.6 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. A bond issue of \$6.88 million was sold in July 2015, refunding the remaining debt from the 2006 issue. 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's sewer funds. The total final costs, including acquisition, design, and construction through Phase III, were approximately \$22 million and were completed in 2011. 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 and a decrease in the level of activity on this portion of the road 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 the prior fiscal year and this increase continued in the current fiscal year as the economy continues to improve.

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, 2017

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments	\$ 13,670,200	\$ 22,496,814	\$ 36,167,014	\$ 2,450,753
Receivables:				
Property taxes receivable	51,410	-	51,410	-
Customer receivables - Net	106,553	765,230	871,783	-
Other receivables	5,800	-	5,800	-
Due from other governmental units	460,945	56,572	517,517	-
Special assessments receivable	3,456,036	-	3,456,036	-
Capital assets - Net (Note 5):				
Nondepreciated	8,556,350	2,260,089	10,816,439	16,010,711
Depreciated	4,644,056	27,919,585	32,563,641	9,667,925
Total assets	30,951,350	53,498,290	84,449,640	28,129,389
<b>Deferred Outflows of Resources</b>				
Bond refunding loss being amortized	-	-	-	185,777
Deferred outflows related to pensions (Note 9)	397,495	68,180	465,675	-
Total deferred outflows of resources	397,495	68,180	465,675	185,777
<b>Liabilities</b>				
Accounts payable	47,648	91,424	139,072	800
Due to other governmental units	-	1,201,182	1,201,182	-
Accrued liabilities and other	32,904	256,014	288,918	148,833
Unearned revenue - Special assessments	1,016,566	-	1,016,566	-
Noncurrent liabilities:				
Due within one year:				
Compensated absences	112,193	-	112,193	-
Current portion of long-term debt (Note 7)	75,000	150,000	225,000	680,000
Due in more than one year:				
Net other postemployment benefit obligations (Note 11)	561,052	252,326	813,378	-
Net pension obligation (Note 9)	679,931	114,242	794,173	-
Long-term debt - Net of current portion (Note 7)	384,000	5,649,163	6,033,163	9,966,135
Total liabilities	2,909,294	7,714,351	10,623,645	10,795,768
<b>Deferred Inflows of Resources -</b>				
Deferred inflows related to pensions (Note 9)	8,183	1,374	9,557	-

# Township of Scio

## Statement of Net Position (Continued) March 31, 2017

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Net Position</b>				
Net investment in capital assets	\$ 12,741,406	\$ 24,380,511	\$ 37,121,917	\$ 15,298,636
Restricted for:				
Debt service	120,792	-	120,792	-
Water operations	-	6,347,949	6,347,949	-
Sewer operations	-	15,122,285	15,122,285	-
Metro act	162,130	-	162,130	-
Land preservation	1,624,879	-	1,624,879	-
Public safety	1,511,644	-	1,511,644	-
Public improvement	539,232	-	539,232	-
Tree mitigation	212,570	-	212,570	-
Road improvement	3,232,936	-	3,232,936	-
Bridge maintenance	34,887	-	34,887	-
Capital projects	30,000	-	30,000	-
Bus	327,718	-	327,718	-
Unrestricted	7,893,174	-	7,893,174	2,220,762
<b>Total net position</b>	<b>\$ 28,431,368</b>	<b>\$ 45,850,745</b>	<b>\$ 74,282,113</b>	<b>\$ 17,519,398</b>

# 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	\$ 2,105,689	\$ 274,518	\$ -	\$ -
Public safety - Police, fire, and EMS	2,671,931	1,012,444	-	-
Public works	905,594	564,197	-	-
Interest on long-term debt	28,501	-	-	-
Total governmental activities	5,711,715	1,851,159	106,719	-
Business-type activities:				
Water	3,033,087	2,810,547	-	152,219
Sewer	3,356,834	2,803,473	-	647,552
Total business-type activities	6,389,921	5,614,020	-	799,771
Total primary government	<u>\$ 12,101,636</u>	<u>\$ 7,465,179</u>	<u>\$ 106,719</u>	<u>\$ 799,771</u>
Component units	<u>\$ 1,305,607</u>	<u>\$ -</u>	<u>\$ -</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, 2017**

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (1,831,171)	\$ -	\$ (1,831,171)	\$ -
(1,659,487)	-	(1,659,487)	-
(341,397)	-	(341,397)	-
(28,501)	-	(28,501)	-
(3,753,837)	-	(3,753,837)	-
-	(70,321)	(70,321)	-
-	94,191	94,191	-
-	23,870	23,870	-
(3,753,837)	23,870	(3,729,967)	-
-	-	-	(1,305,607)
2,460,752	-	2,460,752	1,363,932
1,351,579	-	1,351,579	-
106,847	164,614	271,461	9,058
304,699	-	304,699	-
296,635	-	296,635	-
4,520,512	164,614	4,685,126	1,372,990
766,675	188,484	955,159	67,383
27,664,693	45,662,261	73,326,954	17,452,015
<b>\$ 28,431,368</b>	<b>\$ 45,850,745</b>	<b>\$ 74,282,113</b>	<b>\$ 17,519,398</b>

# Township of Scio

## Governmental Funds Balance Sheet March 31, 2017

	General Fund	Open Space Land Preservation Fund	Fire Department Fund	Township Road Improvement Special Assessment Fund	Other Nonmajor Governmental Funds	Total
<b>Assets</b>						
Cash and investments (Note 3)	\$ 7,013,466	\$ 1,658,944	\$ 2,679,789	\$ 237,105	\$ 2,080,896	\$ 13,670,200
Receivables - Net:						
Taxes	38,943	12,198	-	-	269	51,410
Special assessments	-	-	-	3,345,304	110,732	3,456,036
Customers	106,553	-	-	-	-	106,553
Other receivables	5,800	-	-	-	-	5,800
Due from other governmental units	379,500	16,598	30,382	21,963	12,502	460,945
Due from other funds (Note 6)	423,000	-	-	-	-	423,000
Prepaid expenses	-	-	-	57,109	22,226	79,335
Total assets	<u>\$ 7,967,262</u>	<u>\$ 1,687,740</u>	<u>\$ 2,710,171</u>	<u>\$ 3,661,481</u>	<u>\$ 2,226,625</u>	<u>\$ 18,253,279</u>
<b>Liabilities</b>						
Accounts payable	\$ 29,788	\$ 2,332	\$ 9,983	\$ 5,545	\$ -	\$ 47,648
Due to other funds (Note 6)	-	-	-	423,000	-	423,000
Accrued liabilities and other	9,473	529	20,787	-	349	31,138
Unearned revenue - Special assessment	-	-	1,016,566	-	-	1,016,566
Total liabilities	39,261	2,861	1,047,336	428,545	349	1,518,352
<b>Deferred Inflows of Resources</b>						
(Note 4)	142,407	12,199	-	3,345,304	111,001	3,610,911
<b>Fund Balances</b>						
Nonspendable - Prepays	-	-	-	57,109	22,226	79,335
Restricted:						
Land preservation	-	1,612,680	-	-	-	1,612,680
Public safety	-	-	1,662,835	-	-	1,662,835
Metro act	-	-	-	-	162,130	162,130
Public improvements	-	-	-	-	539,232	539,232
Tree mitigation	-	-	-	-	212,570	212,570
Debt service	-	-	-	-	31,797	31,797
Bridge maintenance	-	-	-	-	34,887	34,887
Bus	-	-	-	-	327,449	327,449
Committed:						
Other postemployment benefit obligations	813,378	-	-	-	-	813,378
Capital projects	-	-	-	-	784,984	784,984
Assigned:						
Subsequent year's budget	365,959	-	-	-	-	365,959
Land preservation	-	60,000	-	-	-	60,000
Unassigned	6,606,257	-	-	(169,477)	-	6,436,780
Total fund balances	<u>7,785,594</u>	<u>1,672,680</u>	<u>1,662,835</u>	<u>(112,368)</u>	<u>2,115,275</u>	<u>13,124,016</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 7,967,262</u>	<u>\$ 1,687,740</u>	<u>\$ 2,710,171</u>	<u>\$ 3,661,481</u>	<u>\$ 2,226,625</u>	<u>\$ 18,253,279</u>

# Township of Scio

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## Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position March 31, 2017

<b>Fund Balance Reported in Governmental Funds</b>	\$ 13,124,016
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	13,200,406
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	3,610,911
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(538,335)
Accrued interest is not due and payable in the current period and is not reported in the funds	(1,766)
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	(112,193)
Net other postemployment benefit obligations are not reported as fund liabilities	(561,052)
Net pension liability and related deferred inflows and outflows are not current financial resources and are not reported in the funds	<u>(290,619)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 28,431,368</u></b>

# Township of Scio

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2017

	General Fund	Open Space Land Preservation Fund	Fire Department Fund	Township Road Improvement Special Assessment Fund	Other Nonmajor Governmental Funds	Total
<b>Revenue</b>						
Property taxes	\$ 1,088,840	\$ 544,699	\$ -	\$ -	\$ 397,718	\$ 2,031,257
Federal grants	-	-	106,719	-	-	106,719
State-shared revenue and grants	1,351,427	-	-	-	-	1,351,427
Locally raised	1,022,284	-	387	-	-	1,022,671
Investment income	39,728	8,334	15,771	26,028	16,986	106,847
Rental income	30,740	-	22,250	-	-	52,990
Other revenue:						
Special assessments	-	-	989,807	940,552	51,822	1,982,181
Other miscellaneous income	47,741	-	1,501	-	216,303	265,545
<b>Total revenue</b>	<b>3,580,760</b>	<b>553,033</b>	<b>1,136,435</b>	<b>966,580</b>	<b>682,829</b>	<b>6,919,637</b>
<b>Expenditures</b>						
Current:						
General government	1,475,443	-	-	-	326,140	1,801,583
Public safety	1,435,188	-	1,185,912	-	225	2,621,325
Public works	64,517	-	-	996,842	225	1,061,584
Capital outlay	14,978	800,123	14,138	-	-	829,239
Debt service	-	-	-	66,404	109,427	175,831
<b>Total expenditures</b>	<b>2,990,126</b>	<b>800,123</b>	<b>1,200,050</b>	<b>1,063,246</b>	<b>436,017</b>	<b>6,489,562</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>590,634</b>	<b>(247,090)</b>	<b>(63,615)</b>	<b>(96,666)</b>	<b>246,812</b>	<b>430,075</b>
<b>Other Financing Sources (Uses)</b>						
Proceeds from sale of capital assets	310,022	-	349	-	-	310,371
Transfers in (Note 6)	-	-	-	-	81,606	81,606
Transfers out (Note 6)	(81,606)	-	-	-	-	(81,606)
<b>Total other financing sources</b>	<b>228,416</b>	<b>-</b>	<b>349</b>	<b>-</b>	<b>81,606</b>	<b>310,371</b>
<b>Net Change in Fund Balances</b>	<b>819,050</b>	<b>(247,090)</b>	<b>(63,266)</b>	<b>(96,666)</b>	<b>328,418</b>	<b>740,446</b>
<b>Fund Balances - Beginning of year</b>	<b>6,966,544</b>	<b>1,919,770</b>	<b>1,726,101</b>	<b>(15,702)</b>	<b>1,786,857</b>	<b>12,383,570</b>
<b>Fund Balances - End of year</b>	<b>\$ 7,785,594</b>	<b>\$ 1,672,680</b>	<b>\$ 1,662,835</b>	<b>\$ (112,368)</b>	<b>\$ 2,115,275</b>	<b>\$ 13,124,016</b>

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

# 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, 2017**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 740,446</b>
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	1,116,892
Depreciation expense	(244,535)
Net book value of assets disposed of	(352,915)
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	(441,597)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	144,000
Change in accrued interest payable and other	3,328
Decrease 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	(22,148)
Change in net pension and other postemployment benefits	<u>(176,796)</u>
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ 766,675</u></b>

# Township of Scio

## Proprietary Funds Statement of Net Position March 31, 2017

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 1,625,909	\$ 3,373,325	\$ 4,999,234
Investments	5,391,384	12,106,196	17,497,580
Receivables:			
Customer receivables - Net	343,846	421,384	765,230
Due from other governmental units	1,430	55,142	56,572
Total current assets	7,362,569	15,956,047	23,318,616
Noncurrent assets - Capital assets (Note 5)	17,351,957	12,827,717	30,179,674
Total assets	24,714,526	28,783,764	53,498,290
<b>Deferred Outflows of Resources</b> - Deferred outflows related to pensions (Note 9)	34,335	33,845	68,180
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	39,227	52,197	91,424
Due to other governmental units	715,674	485,508	1,201,182
Accrued liabilities and other	109,659	146,355	256,014
Current portion of long-term debt (Note 7)	150,000	-	150,000
Total current liabilities	1,014,560	684,060	1,698,620
Noncurrent liabilities:			
Net other postemployment benefit obligations (Note 11)	126,163	126,163	252,326
Net pension obligation (Note 9)	57,540	56,702	114,242
Long-term debt - Net of current portion (Note 7)	5,649,163	-	5,649,163
Total noncurrent liabilities	5,832,866	182,865	6,015,731
Total liabilities	6,847,426	866,925	7,714,351
<b>Deferred Inflows of Resources</b> - Deferred inflows related to pensions (Note 9)	692	682	1,374
<b>Net Position</b>			
Net investment in capital assets	11,552,794	12,827,717	24,380,511
Restricted:			
Restricted for water operations	6,347,949	-	6,347,949
Restricted for sewer operations	-	15,122,285	15,122,285
Total net position	<b>\$ 17,900,743</b>	<b>\$ 27,950,002</b>	45,850,745
<b>Net Position of Business-type Activities</b>			<b>\$ 45,850,745</b>

# Township of Scio

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended March 31, 2017

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Operating Revenue</b>			
Charges for services	\$ 2,630,664	\$ 2,386,455	\$ 5,017,119
Other	179,883	417,018	596,901
Total operating revenue	2,810,547	2,803,473	5,614,020
<b>Operating Expenses</b>			
Cost of water	1,706,444	-	1,706,444
Cost of sewage treatment	-	1,797,181	1,797,181
Operation and maintenance	108,930	246,558	355,488
General and administrative	582,173	913,098	1,495,271
Depreciation	484,425	399,997	884,422
Total operating expenses	2,881,972	3,356,834	6,238,806
<b>Operating Loss</b>	(71,425)	(553,361)	(624,786)
<b>Nonoperating Revenue (Expense)</b>			
Investment income	46,660	117,954	164,614
Interest expense	(151,115)	-	(151,115)
Total nonoperating (expense) revenue	(104,455)	117,954	13,499
<b>Loss - Before contributions</b>	(175,880)	(435,407)	(611,287)
<b>Capital Contributions</b>			
Lines donated by developers	18,700	63,150	81,850
Other capital contributions	133,519	584,402	717,921
Total capital contributions	152,219	647,552	799,771
<b>Change in Net Position</b>	(23,661)	212,145	188,484
<b>Net Position - Beginning of year</b>	17,924,404	27,737,857	45,662,261
<b>Net Position - End of year</b>	<b>\$ 17,900,743</b>	<b>\$ 27,950,002</b>	<b>\$ 45,850,745</b>

# Township of Scio

## Proprietary Funds Statement of Cash Flows Year Ended March 31, 2017

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 2,781,907	\$ 2,754,582	\$ 5,536,489
Payments to suppliers	(2,089,429)	(2,660,429)	(4,749,858)
Payments to employees	(547,097)	(474,289)	(1,021,386)
Other receipts	160	85,935	86,095
Deferred outflows	(13,875)	(13,504)	(27,379)
Net cash provided by (used in) operating activities	131,666	(307,705)	(176,039)
<b>Cash Flows from Capital and Related Financing Activities</b>			
Collection of connection fees	133,519	584,402	717,921
Tap fees collected on behalf of the City of Ann Arbor	362,870	143,350	506,220
Tap fees paid to the City of Ann Arbor	(606,329)	(139,206)	(745,535)
Purchase of capital assets	(417,845)	(452,781)	(870,626)
Principal paid on capital debt	(154,439)	-	(154,439)
Repayment of interest	(151,115)	-	(151,115)
Net cash (used in) provided by capital and related financing activities	(833,339)	135,765	(697,574)
<b>Cash Flows from Investing Activities</b>			
Interest received on investments	46,660	117,954	164,614
Purchase of investment securities	(34,351)	(99,251)	(133,602)
Net cash provided by investing activities	12,309	18,703	31,012
<b>Net Decrease in Cash and Cash Equivalents</b>	(689,364)	(153,237)	(842,601)
<b>Cash and Cash Equivalents - Beginning of year</b>	2,315,273	3,526,562	5,841,835
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 1,625,909</u>	<u>\$ 3,373,325</u>	<u>\$ 4,999,234</u>
<b>Statement of Net Position Classification of Cash and Cash Equivalents</b>			
Cash and investments	\$ 7,017,293	\$ 15,479,521	\$ 22,496,814
Less amounts classified as investments	(5,391,384)	(12,106,196)	(17,497,580)
Total cash and cash equivalents	<u>\$ 1,625,909</u>	<u>\$ 3,373,325</u>	<u>\$ 4,999,234</u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>			
Operating loss	\$ (71,425)	\$ (553,361)	\$ (624,786)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	484,425	399,997	884,422
Changes in assets and liabilities:			
Receivables	(28,480)	37,044	8,564
Accounts payable	6,706	(1,475)	5,231
Deferred outflows	(13,875)	(13,504)	(27,379)
Accrued and other liabilities	(245,685)	(176,406)	(422,091)
Net cash provided by (used in) operating activities	<u>\$ 131,666</u>	<u>\$ (307,705)</u>	<u>\$ (176,039)</u>

**Noncash Investing, Capital, and Financing Activities** - During the year ended March 31, 2017, there were no noncash transactions entered into by the Township.

# Township of Scio

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## Fiduciary Funds Statement of Assets and Liabilities March 31, 2017

	Current Tax Collection	Trust and Agency	Total
<b>Assets</b> - Cash and investments (Note 3)	<u>\$ 289</u>	<u>\$ 290,080</u>	<u>\$ 290,369</u>
<b>Liabilities</b> - Accrued liabilities and other	<u>\$ 289</u>	<u>\$ 290,080</u>	<u>\$ 290,369</u>

# Township of Scio

## Component Units Statement of Net Position March 31, 2017

	Downtown Development Authority	Economic Development Corporation	Total
<b>Assets</b>			
Cash and investments	\$ 2,440,560	\$ 10,193	\$ 2,450,753
Capital assets (Note 5)	25,678,636	-	25,678,636
Total assets	28,119,196	10,193	28,129,389
<b>Deferred Outflows of Resources -</b>			
Bond refunding loss being amortized	185,777	-	185,777
<b>Liabilities</b>			
Accounts payable	800	-	800
Accrued liabilities and other:			
Accrued interest payable	148,833	-	148,833
Due within one year - Current portion of long-term debt	680,000	-	680,000
Due in more than one year - Long-term debt	9,966,135	-	9,966,135
Total liabilities	10,795,768	-	10,795,768
<b>Net Position</b>			
Net investment in capital assets	15,298,636	-	15,298,636
Unrestricted	2,210,569	10,193	2,220,762
Total net position	<b>\$ 17,509,205</b>	<b>\$ 10,193</b>	<b>\$ 17,519,398</b>

# Township of Scio

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Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Downtown Development Authority - Public works	\$ 1,305,607	\$ -	\$ -	\$ -
Economic Development Corporation - Public works	-	-	-	-
Total component units	<u>\$ 1,305,607</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenue:

Property taxes

Investment income

Total general revenue

**Change in Net Position**

**Net Position** - Beginning of year

**Net Position** - End of year

**Component Units  
Statement of Activities  
Year Ended March 31, 2017**

<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Downtown Development Authority</u>	<u>Economic Development Corporation</u>	<u>Total</u>
\$ (1,305,607)	\$ -	\$ (1,305,607)
<u>-</u>	<u>-</u>	<u>-</u>
(1,305,607)	-	(1,305,607)
1,363,932	-	1,363,932
9,048	10	9,058
<u>1,372,980</u>	<u>10</u>	<u>1,372,990</u>
67,373	10	67,383
<u>17,441,832</u>	<u>10,183</u>	<u>17,452,015</u>
<b><u>\$ 17,509,205</u></b>	<b><u>\$ 10,193</u></b>	<b><u>\$ 17,519,398</u></b>

# Township of Scio

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## Notes to Financial Statements March 31, 2017

### 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 legally 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'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.

### 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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. 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 revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (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 revenue 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)

Revenue is not recognized until it is collected, or collected soon enough after the end of the year that it is 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 revenue was 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 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, the 2014 Road Special Assessment District Fund, Park Road Special Assessment District Fund, the 2015 Road Special Assessment District Road, and the 2016 Road Special Assessment 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.

### 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 acquisition value at the date of donation.

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

<u>Capital Asset Class</u>	<u>Lives</u>
Utility system	25 - 50 years
Sewer meters	25 years
Buildings	20 to 50 years
Land improvements	10 to 25 years
Machinery and equipment	5 to 30 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 reports deferred outflows of resources for deferred charges on bond refunding in the government-wide financial statements and the Downtown Development Authority. A deferred charge on refunding results from the difference in carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

The deferred outflows of resources related to the defined benefit pension plan are reported in the government-wide financial statements and the Water and Sewer Fund. The deferred outflows of resources result from three transactions: contributions to the defined benefit pension plan subsequent to the plan's year end through the Township's fiscal year end, the variance between the plan's actual investment earnings compared to the plan's assumed investment earnings, and changes in assumptions related to economic and demographic factors.

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 revenue 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. Also, in the government-wide and proprietary funds' financial statements, a deferred inflow has been recorded related to the variance between the pension plan's actual experience compared to the plan's assumed experience.

#### **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.

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

#### 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. Furthermore, 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.

#### 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 2016 tax is levied and collectible on December 1, 2016 and is recognized as revenue in the year ended March 31, 2017 when the proceeds of the levy are budgeted and available for the financing of operations.

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

The 2016 taxable valuation of the Township totaled \$1.2 billion (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 0.9471 mills for operating purposes and 0.4917 mills and 0.3609 mills for land preservation and bus transportation, respectively. After DDA capture, the resulting amounts are approximately \$1,089,000 for operating purposes, approximately \$545,000 for open space land preservation, and approximately \$398,000 for bus transportation. These amounts are recognized in the respective General Fund and Open Space Preservation Fund financial statements as tax revenue.

In addition, the Township assesses 0.9000 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, 2017, \$1,016,566 is included in unearned revenue. This is reported in the Fire Department Fund.

#### **Special Assessment Revenue**

The Township has various special assessments for capital projects throughout the Township. These special assessments are placed on tax bills levied on December 1. Special assessment revenue for the year ended March 31, 2017 is \$992,374 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 on December 1, 2013 for the next fiscal year. As of March 31, 2017, \$2,757,655 is included in deferred inflows. This is reported in the Township Road Improvement Special Assessment Fund.

**Other Postemployment Benefit Costs** - The Township offers retiree healthcare benefits to retirees. The Township has elected to calculate the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 total plan members. In the governmental funds, OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the Township reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

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

**Pension** - The Township offers pension benefits to retirees. The Township records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**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, the Fire Department 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.

### 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, 2017, the Township Road Improvement Revolving Fund had a fund deficit of \$169,477. The Township Road Improvement Revolving Fund deficit results from the various special assessment projects construction costs. This deficit will be resolved by the collection of special assessment revenue over the next 10 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 law also allows investments outside the state of Michigan when fully insured. 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 eight banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Township's deposits and investment policies are in accordance with statutory authority.

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

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$9,521,144 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized; the component units had \$905,428 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, 2017

### 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 Township had the following investments:

Investment	Fair Value	Weighted Average Maturity (Days)
<b>Commercial Paper - General Electric Cap Corp</b>		
Commercial paper	\$ 19,191,568	90
U.S. government or agency bonds	<u>987,312</u>	1,067
Total	<u>\$ 20,178,880</u>	

**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
<b>Primary Government</b>			
U.S. government agency securities	\$ 987,312	AAA	S&P
Commercial paper	19,191,568	A1/PI	S&P
Money market	<u>3,903,309</u>	Unrated	S&P
Total	<u>\$ 24,082,189</u>		

The Township categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

# Township of Scio

## Notes to Financial Statements March 31, 2017

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

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Township's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The Township has the following recurring fair value measurements as of March 31, 2017:

- Money market funds of \$174,584 (debt securities) are valued using quoted market prices (Level 1 inputs).
- Government securities of \$987,312 (debt securities) are valued using quoted market prices (Level 1 inputs).
- Mutual funds of \$1,315,981 (debt securities) are valued using quoted market prices (Level 1 inputs).
- Corporate fixed income of \$19,191,568 (debt securities) are valued using a matrix pricing model (Level 2 inputs).

Debt securities classified in Level 1 are valued using prices quoted in active markets for those securities.

### Note 4 - Deferred Inflows 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	\$ 51,410
Special assessments - Unavailable	3,456,036
State-shared revenue - Unavailable	<u>103,465</u>
Total deferred inflows	<u>\$ 3,610,911</u>

# Township of Scio

## Notes to Financial Statements March 31, 2017

### Note 5 - Capital Assets

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

	Balance April 1, 2016	Reclassifications	Additions	Disposals	Balance March 31, 2017
<b>Governmental Activities</b>					
Capital assets not being depreciated:					
Land	\$ 1,344,401	\$ -	\$ -	\$ (338,133)	\$ 1,006,268
Land preservation - Land and easement	6,601,037	-	733,090	-	7,334,127
Construction in progress	738,591	(738,591)	-	-	-
Drain rights and infrastructure	215,955	-	-	-	215,955
Subtotal	8,899,984	(738,591)	733,090	(338,133)	8,556,350
Capital assets being depreciated:					
Sidewalks and other intangible rights	1,237,296	738,591	205,221	-	2,181,108
Building and improvements	2,520,207	-	14,137	-	2,534,344
Equipment	1,094,693	-	164,444	(81,068)	1,178,069
Vehicles	1,069,493	-	-	-	1,069,493
Land improvements	156,087	-	-	-	156,087
Subtotal	6,077,776	738,591	383,802	(81,068)	7,119,101
Accumulated depreciation:					
Sidewalks and other intangible rights	91,595	-	87,244	-	178,839
Buildings	1,063,246	-	55,738	-	1,118,984
Equipment	438,333	-	47,760	(66,284)	419,809
Fire vehicles	573,212	-	51,730	-	624,942
Land improvements	130,408	-	2,063	-	132,471
Subtotal	2,296,794	-	244,535	(66,284)	2,475,045
Net capital assets being depreciated	3,780,982	738,591	139,267	(14,784)	4,644,056
Net capital assets	\$ 12,680,966	\$ -	\$ 872,357	\$ (352,917)	\$ 13,200,406

# Township of Scio

## Notes to Financial Statements March 31, 2017

### Note 5 - Capital Assets (Continued)

	Balance April 1, 2016	Reclassifications	Additions	Disposals	Balance March 31, 2017
<b>Business-type Activities</b>					
Capital assets not being depreciated:					
Land	\$ 1,995,542	\$ -	\$ -	\$ -	\$ 1,995,542
Construction in progress	5,007,961	(5,007,961)	264,547	-	264,547
Subtotal	7,003,503	(5,007,961)	264,547	-	2,260,089
Capital assets being depreciated:					
Utility system	35,467,232	5,007,961	632,628	-	41,107,821
Buildings	761,586	-	-	-	761,586
Machinery and equipment	435,764	-	29,527	(32,886)	432,405
Vehicles	74,022	-	25,774	(18,370)	81,426
Sewer meters	7,118	-	-	-	7,118
Subtotal	36,745,722	5,007,961	687,929	(51,256)	42,390,356
Accumulated depreciation:					
Utility system	12,746,185	-	837,613	-	13,583,798
Buildings	540,255	-	19,278	-	559,533
Machinery and equipment	270,096	-	24,953	(32,886)	262,163
Vehicles	74,022	-	2,578	(18,370)	58,230
Sewer meters	7,047	-	-	-	7,047
Subtotal	13,637,605	-	884,422	(51,256)	14,470,771
Net capital assets being depreciated	23,108,117	5,007,961	(196,493)	-	27,919,585
Net capital assets	\$ 30,111,620	\$ -	\$ 68,054	\$ -	\$ 30,179,674
<b>Component Units</b>					
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	11,381,442	-	877,057	-	12,258,499
Net capital assets being depreciated	10,544,982	-	(877,057)	-	9,667,925
Net capital assets	\$ 26,555,693	\$ -	\$ (877,057)	\$ -	\$ 25,678,636

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

Governmental activities:	
General government	\$ 162,365
Public safety	82,170
Total governmental activities	\$ 244,535

# Township of Scio

## Notes to Financial Statements March 31, 2017

### Note 5 - Capital Assets (Continued)

Business-type activities:		
Water		\$ 484,425
Sewer		<u>399,997</u>
Total business-type activities		<u>\$ 884,422</u>
Component unit activities - Public works		<u>\$ 877,057</u>

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Due to/from Other Funds</b>		
General Fund	Township Road Improvement Special Assessment Fund	<u>\$ 423,000</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.

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	Other nonmajor governmental funds	<u>\$ 81,606</u>

The transfer from the General Fund to other governmental funds is 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.

# Township of Scio

## Notes to Financial Statements March 31, 2017

### Note 7 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
1999 General Obligation Limited Tax Bonds - Amount of issue: \$900,000 Maturing through May 2017	5.65%	\$75,000	\$ 150,000	\$ -	\$ 75,000	\$ 75,000	\$ 75,000
2012 Special Assessment Bonds - Amount of issue: \$190,000 Maturing through April 2022	3.71%	\$20,000	120,000	-	20,000	100,000	-
2013 Special Assessment Bonds - Amount of issue: \$460,000 Maturing through April 2023	4.87%	\$46,000 - \$48,000	333,000	-	49,000	284,000	-
Accumulated compensated absences			90,045	122,509	100,361	112,193	112,193
Total governmental activities			\$ 693,045	\$ 122,509	\$ 244,361	\$ 571,193	\$ 187,193
<b>Business-type Activities</b>							
Contractual obligation to the City of Ann Arbor, Michigan related to the City's 2008 DWRP Bonds - Amount of issue: \$2,490,749 Maturing through October 2028	2.5%	\$5,749 - \$170,000	\$ 1,555,749	\$ -	\$ 145,000	\$ 1,410,749	\$ 150,000
Contractual obligation to the City of Ann Arbor, Michigan related to the City's 2012 DWRP Bonds - Amount of issue: \$4,882,478 Maturing through April 2034	2.5%	\$209,995 - \$312,243	4,591,653	-	203,239	4,388,414	-
Total business-type activities			\$ 6,147,402	\$ -	\$ 348,239	\$ 5,799,163	\$ 150,000

# Township of Scio

## Notes to Financial Statements March 31, 2017

### Note 7 - Long-term Debt (Continued)

Component Unit	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2006 General Obligation Limited Tax Bonds - Amount of issue: \$9,700,000 Maturing through November 2025	4.00%	\$500,000 - \$1,000,000	\$ 500,000	\$ -	\$ 500,000	\$ -	\$ -
2015 Downtown Development and Refunding Bonds - Amount of issue: \$6,910,000 Maturing through March 2026	2.00% - 4.00%	\$30,000 - \$1,000,000	6,875,000	-	30,000	6,845,000	530,000
2008 Downtown Development and Refunding Bonds - Amount of issue: \$3,250,000 Maturing through November 2028	4.00% - 5.00%	\$100,000 - \$400,000	2,950,000	-	100,000	2,850,000	150,000
2012 Downtown Development and Refunding Bonds - Amount of issue: \$3,250,000 Maturing through November 2028	2.00% - 4.00%	\$565,000 - \$685,000	1,325,000	-	640,000	685,000	-
Unamortized premium on bonds			295,706	-	29,571	266,135	-
Total component unit activities			\$ 11,945,706	\$ -	\$ 1,299,571	\$ 10,646,135	\$ 680,000

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

Years Ending March 31	Governmental Activities			Business-type Activities			Component Unit Activities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 75,000	\$ 21,224	\$ 96,224	\$ 150,000	\$ 90,124	\$ 240,124	\$ 680,000	\$ 369,100	\$ 1,049,100
2019	68,000	16,001	84,001	364,995	143,797	508,792	1,465,000	341,900	1,806,900
2020	68,000	12,921	80,921	375,749	134,730	510,479	780,000	298,050	1,078,050
2021	68,000	9,842	77,842	381,502	125,408	506,910	925,000	271,650	1,196,650
2022	67,000	6,787	73,787	392,255	115,943	508,198	920,000	239,900	1,159,900
2023-2027	113,000	3,756	116,756	1,797,576	435,320	2,232,896	4,860,000	666,550	5,526,550
2028-2032	-	-	-	1,423,664	226,725	1,650,389	750,000	57,500	807,500
2033-2035	-	-	-	913,422	34,654	948,076	-	-	-
Total	\$ 459,000	\$ 70,531	\$ 529,531	\$ 5,799,163	\$ 1,306,701	\$ 7,105,864	\$ 10,380,000	\$ 2,244,650	\$ 12,624,650

### Advance Refundings

In current and 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, 2017, \$6,900,000 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 an agent multiple-employer defined benefit pension plan administered by the Municipal Employees Retirement System of Michigan (MERS of Michigan), 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. MERS of Michigan was established as a state-wide public employee pension plan by the Michigan Legislature under PA 135 of 1945 and is administered by a nine-member retirement board. MERS of Michigan issues a publicly available financial report which includes the financial statements and required supplemental information of this defined benefit plan. This report can be obtained at [www.mersofmichigan.com](http://www.mersofmichigan.com) or in writing to MERS of Michigan at 1134 Municipal Way, Lansing, Michigan 48917.

**Benefits Provided** - The plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS of Michigan.

Retirement benefits for fire employees are calculated at 2.25 percent of the employee's five-year average salary times the employee's years of service. Normal retirement is age 60, with early retirement at age 50 with 30 years of service (unreduced) or age 55 and 50 with 15 and 25 years of service (reduced), respectively. The vesting period is 10 years. Employees are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits and are payable immediately without an actuarial reduction. An employee who leaves service may withdraw his or her contributions plus any accumulated interest.

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

Retirement benefits for general employees are calculated at 1.5 percent of the employee's three-year average salary times the employee's years of service. Normal retirement is age 60, with early retirement at age 55 and 50 with 15 and 25 years of service (reduced), respectively. The vesting period is 10 years. Employees are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits are payable immediately without an actuarial reduction. An employee who leaves service may withdraw his or her contributions plus any accumulated interest.

**Employees Covered by Benefit Terms** - At the December 31, 2015 measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	4
Active plan members	<u>20</u>
Total employees covered by MERS of Michigan	<u><u>24</u></u>

**Contributions** - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS of Michigan retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS of Michigan retirement board. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

For general and fire employees, the plan provides that the employer and employees contribute amounts necessary to fund the actuarially determined benefits. General and fire employees are required to contribute 2.60 and 2.31 percent of compensation, respectively. The Township makes employer contributions in accordance with funding requirements determined by the system's actuary. The Township's current rate is 8 percent of annual covered payroll.

### Net Pension Liability

The net pension liability reported at March 31, 2017 was determined using a measure of the total pension liability and the pension net position as of December 31, 2015. The December 31, 2015 total pension liability was determined by an actuarial valuation performed as of that date.

# Township of Scio

## Notes to Financial Statements March 31, 2017

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

Changes in the net pension liability during the measurement year were as follows:

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
<b>Balance at December 31, 2014</b>	\$ 2,496,957	\$ 2,039,310	\$ 457,647
Service cost	86,870	-	86,870
Interest	207,927	-	207,927
Changes in benefits	(14,402)	-	(14,402)
Differences between expected and actual experience	(10,921)	-	(10,921)
Changes in assumptions	149,019	-	149,019
Contributions - Employer	-	104,248	(104,248)
Contributions - Employee	-	14,638	(14,638)
Net investment income	-	(32,319)	32,319
Benefit payments, including refunds	(40,118)	(40,118)	-
Administrative expenses	-	(4,600)	4,600
Net changes	<u>378,375</u>	<u>41,849</u>	<u>336,526</u>
<b>Balance at December 31, 2015</b>	<u>\$ 2,875,332</u>	<u>\$ 2,081,159</u>	<u>\$ 794,173</u>

### Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended March 31, 2017, the Township recognized pension expense of \$164,292. At March 31, 2017, the Township reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (9,557)
Changes in assumptions	130,392	-
Net difference between projected and actual earnings on pension plan investments	184,647	-
Employer contributions to the plan subsequent to the measurement date	<u>150,636</u>	<u>-</u>
Total	<u>\$ 465,675</u>	<u>\$ (9,557)</u>

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

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending March 31	Amount
2018	\$ 65,237
2019	65,237
2020	65,237
2021	57,986
2022	17,262
Thereafter	34,523

**Actuarial Assumptions** - The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%	
Salary increases	3.75%	In the long term, plus a percentage based on an age-related scale to reflect merit, longevity, and promotional pay increases
Investment rate of return	7.75%	Net of pension plan investment expense, including inflation

Mortality rates were based on the 2014 Group Annuity Mortality Table of a 50 percent male and 50 percent female blend of the following tables:

1. The RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105 percent.
2. The RP-2014 Employee Mortality Tables
3. The RP-2014 Juvenile Mortality Tables

For disabled retirees, the RP-2014 Disable Retiree Mortality Table is used with a 50 percent male and 50 percent female blend.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period from January 1, 2009 through December 31, 2013.

**Discount Rate** - The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

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

#### Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2015, the measurement date, for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation (%)</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	58 %	4.90 %
Global fixed income	20	1.14
Real assets	13	0.97
Diversifying strategies	10	1.01

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

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following presents the net pension liability of the Township, calculated using the discount rate of 8 percent, as well as what the Township's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

	1 Percent Decrease (7%)	Current Discount Rate (8%)	1 Percent Increase (9%)
Net pension liability of the Township	\$ 1,164,063	\$ 794,173	\$ 479,761

**Pension Plan Fiduciary Net Position** - Detailed information about the plan's fiduciary net position is available in the separately issued financial report. For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows or resources related to pension, and pension expense, information about the plan's fiduciary net position and additions to/deductions from fiduciary net position has been determined on the same basis as they are reported by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

**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 \$11,600 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 retirees are made. During the year, this amounted to \$8,121.

**Funding Policy** - The collective bargaining agreement does 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, 2017, 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)	\$ 162,348
Interest on the prior year's net OPEB obligation	5,704
Amounts contributed - Payments of current premiums	<u>(8,120)</u>
Increase in net OPEB obligation	159,932
OPEB obligation - Beginning of year	<u>653,446</u>
OPEB obligation - End of year	<u>\$ 813,378</u>

# Township of Scio

## Notes to Financial Statements March 31, 2017

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

The Township's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2015, 2016, and 2017 are as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
3/31/15	3/31/14	\$ 99,164	10.3	\$ 566,904
3/31/16	3/31/15	93,183	10.6	653,446
3/31/17	3/31/16	168,052	4.8	813,378

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
3/31/14	\$ -	\$ 973,630	\$ 973,630	-	\$ 1,435,305	67.8
3/31/15	-	944,687	944,687	-	1,478,224	63.9
3/31/16	-	943,936	943,936	-	1,429,665	66.0

**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.

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

The following simplifying assumptions were made:

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

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

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

**Turnover** - Nongroup-specific age-based turnover data from GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for the purpose 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 Township of Scio 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 2017 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, 2016 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, 2016 was 25 years.

### Note 12 - Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Township to recognize on the face of the financial statements its net OPEB liability. 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 the Township's financial statements for the year ending March 31, 2019.

In January 2017, the Governmental Accounting Standards Board issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and improves guidance for accounting and financial reporting related to how these activities should be reported. 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 the Township's 2021 fiscal year.

## **Required Supplemental Information**

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# Township of Scio

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 1,005,000	\$ 1,035,000	\$ 1,088,840	\$ 53,840
State-shared revenue and grants	1,350,000	1,260,000	1,351,427	91,427
Locally raised	923,625	1,014,350	1,022,284	7,934
Investment income	15,000	23,000	39,728	16,728
Rental income	34,000	34,000	30,740	(3,260)
Other revenue	23,500	47,699	47,741	42
Total revenue	3,351,125	3,414,049	3,580,760	166,711
<b>Expenditures - Current</b>				
General government:				
General government	814,375	803,175	711,621	91,554
Assessing	446,225	449,025	412,033	36,992
Elections	99,690	51,195	51,195	-
Boards and commissions	297,700	344,355	300,594	43,761
Total general government	1,657,990	1,647,750	1,475,443	172,307
Health and safety	1,924,250	1,680,085	1,435,188	244,897
Building and grounds	105,600	112,900	64,517	48,383
Capital outlay	25,000	25,000	14,978	10,022
Total expenditures	3,712,840	3,465,735	2,990,126	475,609
<b>Excess of Revenue (Under) Over Expenditures</b>	(361,715)	(51,686)	590,634	642,320
<b>Other Financing Sources - Proceeds from sale of capital assets</b>	340,000	310,000	310,022	22
<b>Other Financing Uses - Transfers out</b>	(81,632)	(81,607)	(81,606)	1
<b>Net Change in Fund Balance</b>	(103,347)	176,707	819,050	642,343
<b>Fund Balance - Beginning of year</b>	6,966,544	6,966,544	6,966,544	-
<b>Fund Balance - End of year</b>	<u>\$ 6,863,197</u>	<u>\$ 7,143,251</u>	<u>\$ 7,785,594</u>	<u>\$ 642,343</u>

# Township of Scio

## Required Supplemental Information Budgetary Comparison Schedule Open Space Land Preservation Fund Year Ended March 31, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 510,150	\$ 520,300	\$ 544,699	\$ 24,399
Investment income	6,000	5,000	8,334	3,334
Other revenue:				
Total revenue	516,150	525,300	553,033	27,733
<b>Expenditures</b> - Current - Capital outlay	1,311,900	863,725	800,123	63,602
<b>Net Change in Fund Balance</b>	(795,750)	(338,425)	(247,090)	91,335
<b>Fund Balance</b> - Beginning of year	1,919,770	1,919,770	1,919,770	-
<b>Fund Balance</b> - End of year	<u>\$ 1,124,020</u>	<u>\$ 1,581,345</u>	<u>\$ 1,672,680</u>	<u>\$ 91,335</u>

# Township of Scio

## Required Supplemental Information Budgetary Comparison Schedule Fire Department Fund Year Ended March 31, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Federal grants	\$ -	\$ 143,223	\$ 106,719	\$ (36,504)
Charges for services	-	-	387	387
Investment income	3,000	10,000	15,771	5,771
Rental income	22,250	22,250	22,250	-
Other revenue	988,000	990,400	991,308	908
Total revenue	<u>1,013,250</u>	<u>1,165,873</u>	<u>1,136,435</u>	<u>(29,438)</u>
<b>Expenditures</b>				
Public safety	1,231,375	1,273,750	1,185,912	87,838
Capital outlay	-	15,000	14,138	862
Total expenditures	<u>1,231,375</u>	<u>1,288,750</u>	<u>1,200,050</u>	<u>88,700</u>
<b>Excess of Expenditures Over Revenue</b>	(218,125)	(122,877)	(63,615)	59,262
<b>Other Financing Sources -</b>				
Proceeds from sale of capital assets	-	348	349	1
<b>Net Change in Fund Balance</b>	(218,125)	(122,529)	(63,266)	59,263
<b>Fund Balance - Beginning of year</b>	<u>1,726,101</u>	<u>1,726,101</u>	<u>1,726,101</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u><u>\$ 1,507,976</u></u>	<u><u>\$ 1,603,572</u></u>	<u><u>\$ 1,662,835</u></u>	<u><u>\$ 59,263</u></u>

## **Township of Scio**

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### **Note to Required Supplemental Information Year Ended March 31, 2017**

**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, 2017 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

# Township of Scio

## Required Supplemental Information OPEB System Schedule Year Ended March 31, 2017

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
3/31/15	-	944,687	944,687	-	1,478,224	63.9
3/31/16	-	943,936	943,946	-	1,429,665	66.0

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
3/31/16	3/31/15	95,704	10.6
3/31/17	3/31/16	162,348	5.0

\* 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 March 31, 2016, the latest actuarial valuation, is as follows:

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

# Township of Scio

## Required Supplemental Information Schedule of Changes in the Township Net Pension Liability and Related Ratios Last 10 Fiscal Years

	2016	2015
<b>Total Pension Liability</b>		
Service cost	\$ 86,870	\$ 84,554
Interest	207,927	187,978
Changes in benefit terms	(14,402)	-
Differences between expected and actual experience	(10,921)	-
Changes in assumptions	149,019	-
Benefit payments, including refunds	(40,118)	(23,658)
<b>Net Change in Total Pension Liability</b>	378,375	248,874
<b>Total Pension Liability - Beginning of year</b>	2,496,957	2,248,083
<b>Total Pension Liability - End of year</b>	<b>\$ 2,875,332</b>	<b>\$ 2,496,957</b>
<b>Plan Fiduciary Net Position</b>		
Contributions - Employer	\$ 104,248	\$ 98,495
Contributions - Member	14,638	12,301
Net investment income (loss)	(32,319)	118,779
Administrative expenses	(4,600)	(4,402)
Benefit payments, including refunds	(40,118)	(23,658)
<b>Net Change in Plan Fiduciary Net Position</b>	41,849	201,515
<b>Plan Fiduciary Net Position - Beginning of year</b>	2,039,310	1,837,795
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 2,081,159</b>	<b>\$ 2,039,310</b>
<b>Township's Net Pension Liability - Ending</b>	<b>\$ 794,173</b>	<b>\$ 457,647</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	72.38 %	81.67 %
<b>Covered Employee Payroll</b>	\$ 1,429,665	\$ 1,221,187
<b>Township's Net Pension Liability as a Percentage of Covered Employee Payroll</b>	55.5 %	37.5 %

# Township of Scio

## Required Supplemental Information Schedule of Township Contributions Last 10 Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	\$ 118,886	\$ 101,020	\$ 94,445	\$ 98,710	\$ 89,603	\$ 91,202	\$ 88,208	\$ 90,958	\$ 92,497	\$ 20,181
Contributions in relation to the actuarially determined contribution	118,886	101,020	94,445	98,710	89,603	91,202	88,208	90,958	92,497	20,181
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 1,429,665	\$ 1,221,187	\$ 1,202,784	\$ 1,171,216	\$ 1,034,441	\$ 1,113,744	\$ 1,121,009	\$ 1,121,009	\$ 1,149,993	\$ 183,171
Contributions as a percentage of covered employee payroll	8.3 %	8.3 %	7.9 %	8.4 %	8.7 %	8.2 %	7.9 %	8.1 %	8.0 %	11.0 %

### Notes to Schedule of Township Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date	Actuarially determined contribution rates are calculated as of December 31 each year, two years prior to the end of the fiscal year in which the contributions are reported.
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age
Amortization method	Level of percentage of payroll, open
Remaining amortization period	23 years
Asset-valuation method	10-year smoothed
Inflation	2.5 percent
Salary increases	3.75 percent
Investment rate of return	7.75 percent
Retirement age	60 years old, 50 with 25 years of service, 55 with 15 years of service, or 55 with 30 years of service
Mortality	50 percent female/50 percent male 2014 Group Annuity Mortality Table
Other information	None

## **Other Supplemental Information**

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# Township of Scio

	Special Revenue Funds			Debt Service Fund
	Public Improvement Fund	Tree Mitigation Fund	Bus Fund	Building Authority Fund
<b>Assets</b>				
Cash and investments	\$ 701,362	\$ 212,570	\$ 315,615	\$ -
Receivables:				
Property taxes receivable	-	-	269	-
Special assessments receivable	-	-	-	-
Due from other governmental units	-	-	12,183	-
Prepaid expenses and other assets	-	-	-	-
Total assets	<u>\$ 701,362</u>	<u>\$ 212,570</u>	<u>\$ 328,067</u>	<u>\$ -</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>				
<b>Liabilities</b> - Accrued liabilities and other	\$ -	\$ -	\$ 349	\$ -
<b>Deferred Inflows of Resources</b>	-	-	269	-
<b>Fund Balances</b>				
Nonspendable - Prepays	-	-	-	-
Restricted:				
Metro act	162,130	-	-	-
Public improvements	539,232	-	-	-
Tree mitigation	-	212,570	-	-
Debt service	-	-	-	-
Bridge maintenance	-	-	-	-
Bus	-	-	327,449	-
Committed - Capital projects	-	-	-	-
Total fund balances	<u>701,362</u>	<u>212,570</u>	<u>327,449</u>	<u>-</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 701,362</u>	<u>\$ 212,570</u>	<u>\$ 328,067</u>	<u>\$ -</u>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
March 31, 2017**

Capital Projects Funds				
Capital Projects Fund	Public Safety and Improvement Fund	East Delhi Bridge Maintenance Fund	Park Road SAD	Total Nonmajor Governmental Funds
\$ 13,963	\$ 784,984	\$ 34,589	\$ 17,813	\$ 2,080,896
-	-	-	-	269
30,000	-	-	80,732	110,732
-	-	298	21	12,502
-	-	-	22,226	22,226
<b>\$ 43,963</b>	<b>\$ 784,984</b>	<b>\$ 34,887</b>	<b>\$ 120,792</b>	<b>\$ 2,226,625</b>
\$ -	\$ -	\$ -	\$ -	\$ 349
30,000	-	-	80,732	111,001
-	-	-	22,226	22,226
-	-	-	-	162,130
-	-	-	-	539,232
-	-	-	-	212,570
13,963	-	-	17,834	31,797
-	-	34,887	-	34,887
-	-	-	-	327,449
-	784,984	-	-	784,984
13,963	784,984	34,887	40,060	2,115,275
<b>\$ 43,963</b>	<b>\$ 784,984</b>	<b>\$ 34,887</b>	<b>\$ 120,792</b>	<b>\$ 2,226,625</b>

# Township of Scio

	Special Revenue Funds			Debt Service Funds
	Public Improvement Fund	Tree Mitigation Fund	Bus Fund	Building Authority Fund
<b>Revenue</b>				
Property taxes	\$ -	\$ -	\$ 397,718	\$ -
Investment income	4,260	191	481	-
Other revenue:				
Special assessments	-	-	-	-
Other miscellaneous income	13,670	202,633	-	-
	<u>17,930</u>	<u>202,824</u>	<u>398,199</u>	<u>-</u>
Total revenue				
<b>Expenditures</b>				
Current:				
General government	31,312	-	294,020	-
Public safety	-	-	-	-
Public works	-	-	-	-
Debt service	-	-	-	81,606
	<u>31,312</u>	<u>-</u>	<u>294,020</u>	<u>81,606</u>
Total expenditures				
<b>Excess of Revenue (Under) Over Expenditures</b>	(13,382)	202,824	104,179	(81,606)
<b>Other Financing Sources - Transfers in</b>	-	-	-	81,606
<b>Net Change in Fund Balances</b>	(13,382)	202,824	104,179	-
<b>Fund Balances (Deficit) - Beginning of year</b>	714,744	9,746	223,270	-
<b>Fund Balances - End of year</b>	<u>\$ 701,362</u>	<u>\$ 212,570</u>	<u>\$ 327,449</u>	<u>\$ -</u>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures,**  
**and Changes in Fund Balances (Deficit)**  
**Nonmajor Governmental Funds**  
**Year Ended March 31, 2017**

Capital Projects Funds				Total Nonmajor Governmental Funds
Capital Projects Fund	Public Safety and Improvement Fund	East Delhi Bridge Maintenance Fund	Park Road SAD	
\$ -	\$ -	\$ -	\$ -	\$ 397,718
3,013	4,096	99	4,846	16,986
30,000	-	4,999	16,823	51,822
-	-	-	-	216,303
<u>33,013</u>	<u>4,096</u>	<u>5,098</u>	<u>21,669</u>	<u>682,829</u>
-	-	808	-	326,140
-	225	-	-	225
-	-	-	225	225
3,000	-	-	24,821	109,427
<u>3,000</u>	<u>225</u>	<u>808</u>	<u>25,046</u>	<u>436,017</u>
30,013	3,871	4,290	(3,377)	246,812
-	-	-	-	81,606
<u>30,013</u>	<u>3,871</u>	<u>4,290</u>	<u>(3,377)</u>	<u>328,418</u>
(16,050)	781,113	30,597	43,437	1,786,857
<u>\$ 13,963</u>	<u>\$ 784,984</u>	<u>\$ 34,887</u>	<u>\$ 40,060</u>	<u>\$ 2,115,275</u>

August 30, 2017

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, 2017 and have issued our report thereon dated August 30, 2017. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Required Communications with Those Charged with Governance

Section II - Other Recommendations and Related Information

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

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

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

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

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**



Michael J. Swartz



Melanie L. Crowther

## **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 April 12, 2017, 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 May 16, 2017.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

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

No new accounting policies were adopted and the application of existing policies was not changed during 2017, except for the adoption of GASB Statement No. 72, *Fair Value Measurement and Application*. As a result, Note 3 to the financial statements now includes enhanced disclosures about fair value measurement, the level of fair value hierarchy, and valuation techniques.

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, the calculation of the net other postemployment benefits liability (i.e., retiree health care), and the calculation of the net pension liability. The unbilled water and sewer receivable estimate is based on prior performance. Management's estimate of the net other pension liability is based on assumptions used in the actuarial valuation. The net other postemployment benefits liability is based on the alternative measurement method prepared by the Township and permitted by GASB Statement No. 45. Certain assumptions are used to calculate the estimated long-term cost of retiree healthcare benefits and it is management's responsibility to assess whether the assumptions made are reasonable. We evaluated the key factors and assumptions used to develop these estimates to determine that they are reasonable in relation to the basic financial statements taken as a whole.

## **Section II - Required Communications with Those Charged with Governance (Continued)**

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 did not detect any misstatements as a result of audit procedures.

### ***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 August 30, 2017.

### ***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 II - Other Recommendations and Related Information

### New Other Postemployment Benefits Standards (Retiree Healthcare Obligations)

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, which refers to retiree health care). 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 statement more extensive footnote disclosures and required supplementary information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the Township will, after adoption of GASB 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 No. 74 is effective for fiscal years beginning after June 15, 2016, the Township's year end of March 31, 2018, whereas GASB No. 75 is effective one year later.

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 Health Care
Net position:		
Net investment in capital assets	\$ 37,121,917	\$ 37,121,917
Restricted	29,262,509	29,262,509
Unrestricted	7,897,707	6,953,771
Total net position	\$ 74,282,133	\$ 73,338,197

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.

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.

### Revenue Sharing

The FY 2017 governor's budget recommendation includes \$1.3 billion for revenue sharing broken down as follows:

Description	FY 2016 Budget	FY 2016 Forecasted Actual	Final 2017 Budget
Constitutionally required payments	\$783.8 M	\$745.9 M	\$757.9 M
CVTRS	243.0 M	243.0 M	243.0 M
CVTRS - One-time payments	5.8 M	5.8 M	5.8 M
County revenue sharing	171.8 M	171.8 M	174.2 M
County incentive program	42.9 M	42.9 M	43.0 M
Fiscally distressed community grants	5.0 M	5.0 M	5.0 M
Competitive grants			11.0 M
<b>Total</b>	<b>\$1,252.3 M</b>	<b>\$1,214.4 M</b>	<b>\$1,239.9 M</b>

## **Section II - Other Recommendations and Related Information (Continued)**

As noted above, actual sales tax revenue, which serves as the base for the constitutionally required payments, came in lower than expected. As a result, constitutional revenue sharing is \$38 million lower than budgeted. The new budget for 2017 anticipates a slight increase of 1.6 percent. The FY 2017 budget also includes the “city, village, and township revenue sharing” (CVTRS) appropriation, which was established in FY 2015 and that number remains flat at \$243 million. Each community’s overall increase will vary as each has a different mix of constitutional and CVTRS.

In order to receive the CVTRS payments in FY 2017, qualified local units will once again need to comply with the same best practices as they did last year:

- A citizen’s guide to local finances with disclosure of unfunded liabilities
- Performance dashboard
- Debt service report
- Two-year budget projection

The “one-time” additional CVTRS payments that existed in the 2015 and 2016 budgets were not in the governor’s 2017 budget. However, the payments were reinstated in the final 2017 budget.

### **Public Act 530 of 2016 - Additional Legacy Cost Reporting**

On December 31, 2016, the governor signed Public Act 530 of 2016 which amends Public Act 314 of 1965, also known as Public Employee Retirement System Investment Act (PERSIA). This act is effective March 29, 2017.

Under the existing act, communities were required to publish a summary annual report setting forth key information related to pension and retiree healthcare plans. The amendment requires that this summary annual report also be submitted to the Michigan Department of Treasury within 30 days of publication.

In addition, for any system (either pension or retiree health care) that is not funded at a level of at least 60 percent, the community must now post a report to its website indicating steps that are being undertaken to address the liability. In addition, this report must be submitted to the Department of Treasury within a reasonable timeframe.

The legislation calls for the Department of Treasury to accumulate all of the reports and publish a summary of funding levels throughout the state.