Township of Scio

Washtenaw County, Michigan

Financial Report
with Supplemental Information
March 31, 2020

Contents

Plante & Moran, PLLC
Suite 400
1000 Oakbrook Drive
Ann Arbor, MI 48104
Tel: 734.665.9494
Fax: 734.665.0664
plantemoran.com

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, 2020 and the related notes to the financial statements, which collectively comprise the Township of Scio's basic financial statements, as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Township of Scio as of March 31, 2020 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

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplemental information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Scio's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Plante & Moran, PLLC

October 21, 2020

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, 2020. 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, 2020:

- 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 voter-approved fire Special Assessment District (SAD) levy is a maximum of 1.35 mills on the taxable value of real property in the district that excludes the City of Dexter, Michigan. Voters approved an increase from 0.9 mills to 1.35 mills in November 2019. 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 moneys 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.
- In this fiscal year, the water and sewer rates were consistent with the prior year. In fiscal year 2020, the Sewer Fund revenue slightly exceeded expenditures, and the Water Fund expenditures exceeded revenue. In the coming year, the Township plans to conduct a rate study to assess current and planned fees.
- State-shared revenue, the Township's second largest revenue source, increased by approximately $57,000 in fiscal year 2020 compared to 2019.
- The governor declared a State of Emergency on March 10, 2020 in recognition of the COVID-19 pandemic. Since then, the Township has adapted its operations to continue its services. The Township continues to closely monitor economic forecasts, as it expects it may see reductions in its state revenue and property tax collection in the coming years. We are actively seeking all federal CARES Act COVID-19 relief funds possible and will consider these economic impacts in the budget strategies we adopt in the coming years.

Using This Annual Report

This annual report consists of a series of financial statements. The statement of net position and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell the reader how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more 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 outside of the 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, 2020. The largest financial resource, property tax collection, is seasonal. It is collected late in the budget year and only during the fourth quarter (December to February). The revenue generated from property tax collection is in the fourth quarter revenue stream and not available for the first three quarters. As such, it becomes reflected in fund balance. Sufficient cash balance must be in reserve to meet the expenditures for the entire year.

The Township's Net Position

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

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Assets						
Current assets	$ 19,279,151	$ 18,184,018	$ 21,764,487	$ 20,817,516	$ 41,043,638	$ 39,001,534
Noncurrent assets	14,160,745	14,013,321	32,391,318	33,332,171	46,552,063	47,345,492
Total assets	33,439,896	32,197,339	54,155,805	54,149,687	87,595,701	86,347,026
Deferred Outflows of Resources	399,648	397,359	75,023	68,070	474,671	465,429
Liabilities						
Current liabilities	235,718	186,567	1,690,944	1,207,141	1,926,662	1,393,708
Long-term liabilities	1,602,833	1,544,451	5,456,973	5,800,269	7,059,806	7,344,720
Total liabilities	1,838,551	1,731,018	7,147,917	7,007,410	8,986,468	8,738,428
Deferred Inflows of Resources	1,850,734	1,229,963	41,206	50,603	1,891,940	1,280,566
Net Position						
Net investment in capital assets	13,980,745	13,765,321	27,482,857	28,047,961	41,463,602	41,813,282
Restricted	7,602,760	7,967,339	19,558,848	19,111,783	27,161,608	27,079,122
Unrestricted	8,566,754	7,901,057	-	-	8,566,754	7,901,057
Total net position	**$ 30,150,259**	**$ 29,633,717**	**$ 47,041,705**	**$ 47,159,744**	**$ 77,191,964**	**$ 76,793,461**

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. Unrestricted net position was approximately $8,567,000 and $7,901,000 as of March 31, 2020 and 2019, 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, and capital projects.

The Township's Changes in Net Position

The following table shows the changes in the net position during the fiscal year as compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenue						
Program revenue:						
Charges for services	$ 1,446,245	$ 1,500,068	$ 5,885,538	$ 5,790,178	$ 7,331,783	$ 7,290,246
Operating grants and contributions	4,310	186,224	-	-	4,310	186,224
Capital grants and contributions	-	-	394,512	406,849	394,512	406,849
General revenue:						
Property taxes	2,746,917	2,570,528	-	-	2,746,917	2,570,528
State-shared revenue	1,555,847	1,499,303	-	-	1,555,847	1,499,303
Unrestricted investment earnings	262,880	278,931	427,935	479,880	690,815	758,811
Other revenue:						
Franchise fees	285,349	291,579	-	-	285,349	291,579
Miscellaneous	34,098	114,994	-	-	34,098	114,994
Total revenue	6,335,646	6,441,627	6,707,985	6,676,907	13,043,631	13,118,534
Program Expenses						
General government	2,557,863	2,593,034	-	-	2,557,863	2,593,034
Public safety	3,081,537	2,708,922	-	-	3,081,537	2,708,922
Public works	168,349	399,948	-	-	168,349	399,948
Debt service	11,355	14,436	-	-	11,355	14,436
Water	-	-	3,313,376	3,643,114	3,313,376	3,643,114
Sewer	-	-	3,512,648	3,419,974	3,512,648	3,419,974
Total program expenses	5,819,104	5,716,340	6,826,024	7,063,088	12,645,128	12,779,428
Change in Net Position	**$ 516,542**	**$ 725,287**	**$ (118,039)**	**$ (386,181)**	**$ 398,503**	**$ 339,106**

Governmental Activities

Charges for services decreased slightly 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 and Sewer funds. 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’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 inflow and infiltration (I&I) program on the sanitary sewer system that has led to fewer problems with wet-weather flooding.

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

Financial Analysis of Individual Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Township’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township’s financing requirements. In particular, unrestricted fund balance may serve as a useful measure of a government’s net resources available for discretionary use, as it represents the portion of the fund balance that has not yet been limited to use for a particular purpose by an external party. Uncommitted or unassigned fund balance provides further information about the resources that have not been constrained by either the board of trustees or a group or individual that has been delegated authority to assign resources for use for particular purposes by the board of trustees.

Within these governmental funds, the General Fund is the most significant to understanding the Township’s financial activities. In addition, the Water and Sewer funds are a significant enterprise activity for the Township. A brief analysis of each of those funds is presented below:

Township Funds

The analysis of the Township’s major funds begins on page 12, 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 moneys, 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, Open Space Land Preservation Fund, Fire Department Fund, Sewer Fund, Water 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 $1,354,107 in fiscal year 2020 and $1,401,888 in 2019. 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 Township's 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 moneys 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 Assets and Debt Administration

At the end of fiscal year 2020, the Township had approximately $47 million invested in a broad range of capital assets, including buildings, fire equipment, and water and sewer lines (not including the Jackson Road improvements). Capital assets are not liquid and cannot be easily transferred to cash equivalents.

The Township's Downtown Development Authority has a debt obligation at the end of the audit year of approximately $7.8 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, Michigan (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 residents, 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 township board via the clerk at clerk@sciotownship.org.

Statement of Net Position

March 31, 2020

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and investments	$ 15,307,059	$ 20,882,116	$ 36,189,175	$ 4,634,183
Receivables:				
Property taxes receivable	7,965	-	7,965	-
Special assessments receivable	1,624,725	-	1,624,725	-
Customer receivables - Net	82,319	875,524	957,843	-
Accrued interest receivable	3,998	1,388	5,386	-
Other receivables	8,814	-	8,814	-
Due from other governmental units	535,345	5,459	540,804	191
Prepaid expenses	8,926	-	8,926	-
Capital assets - Net: (Note 6)				
Nondepreciated	9,249,634	2,302,591	11,552,225	16,010,711
Depreciated	4,911,111	30,088,727	34,999,838	7,036,754
Note receivable (Note 4)	1,700,000	-	1,700,000	-
Total assets	33,439,896	54,155,805	87,595,701	27,681,839
Deferred Outflows of Resources				
Bond refunding loss being amortized	-	-	-	246,579
Deferred outflows related to pensions (Note 10)	288,261	28,192	316,453	-
Deferred outflows related to other postemployment benefits (Note 11)	111,387	46,831	158,218	-
Total deferred outflows of resources	399,648	75,023	474,671	246,579
Liabilities				
Accounts payable	169,154	757,282	926,436	-
Due to other governmental units	-	591,680	591,680	1,473,227
Accrued liabilities and other	66,564	341,982	408,546	86,576
Noncurrent liabilities:				
Due within one year:				
Compensated absences	139,685	23,184	162,869	-
Current portion of long-term debt (Note 8)	-	381,502	381,502	994,570
Due in more than one year:				
Net pension liability (Note 10)	553,371	218,526	771,897	-
Total OPEB liability	729,777	306,802	1,036,579	-
Long-term debt - Net of current portion (Note 8)	180,000	4,526,959	4,706,959	6,777,854
Total liabilities	1,838,551	7,147,917	8,986,468	9,332,227
Deferred Inflows of Resources				
Special assessment revenue for the following year	1,744,636	-	1,744,636	-
Deferred pension cost reductions (Note 10)	106,098	41,206	147,304	-
Total deferred inflows of resources	1,850,734	41,206	1,891,940	-

Statement of Net Position (Continued)

March 31, 2020

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Net Position				
Net investment in capital assets	$ 13,980,745	$ 27,482,857	$ 41,463,602	$ 15,521,620
Restricted for:				
Metro act	28,882	-	28,882	-
Land preservation	2,641,853	-	2,641,853	-
Debt service	38,470	-	38,470	-
Public safety	875,217	-	875,217	-
Water operations	-	5,322,929	5,322,929	-
Sewer operations	-	14,235,919	14,235,919	-
Road improvement	2,857,776	-	2,857,776	-
Bridge maintenance	47,815	-	47,815	-
Bus	398,104	-	398,104	-
Public improvement	494,439	-	494,439	-
Tree mitigation	220,204	-	220,204	-
Unrestricted	8,566,754	-	8,566,754	3,074,571
Total net position	**$ 30,150,259**	**$ 47,041,705**	**$ 77,191,964**	**$ 18,596,191**

See notes to financial statements.

		Program Revenue		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	$ 2,557,863	$ 323,992	$ 4,310	$ -
Public safety - Police, fire, and EMS	3,081,537	1,106,380	-	-
Public works	168,349	15,873	-	-
Debt service	11,355	-	-	-
Total governmental activities	5,819,104	1,446,245	4,310	-
Business-type activities:				
Water Fund	3,313,376	2,867,953	-	113,899
Sewer Fund	3,512,648	3,017,585	-	280,613
Total business-type activities	6,826,024	5,885,538	-	394,512
Total primary government	**$ 12,645,128**	**$ 7,331,783**	**$ 4,310**	**$ 394,512**
Component units - Downtown Development Authority	**$ 1,120,579**	**$ -**	**$ -**	**$ -**

General revenue:
- Property taxes
- State-shared revenue
- Investment income
- Franchise fees
- Other miscellaneous income

Total general revenue

Change in Net Position

Net Position - Beginning of year

Net Position - End of year

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (2,229,561)	$ -	$ (2,229,561)	$ -
(1,975,157)	-	(1,975,157)	-
(152,476)	-	(152,476)	-
(11,355)	-	(11,355)	-
(4,368,549)	-	(4,368,549)	-
-	(331,524)	(331,524)	-
-	(214,450)	(214,450)	-
-	(545,974)	(545,974)	-
(4,368,549)	(545,974)	(4,914,523)	-
-	-	-	(1,120,579)
2,746,917	-	2,746,917	1,525,027
1,555,847	-	1,555,847	127,811
262,880	427,935	690,815	12,015
285,349	-	285,349	-
34,098	-	34,098	125
4,885,091	427,935	5,313,026	1,664,978
516,542	(118,039)	398,503	544,399
29,633,717	47,159,744	76,793,461	18,051,792
$ 30,150,259	**$ 47,041,705**	**$ 77,191,964**	**$ 18,596,191**

Governmental Funds Balance Sheet

March 31, 2020

	General Fund	Open Space Land Preservation Fund	Fire Department Fund	Township Road Improvement Special Assessment Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and investments (Note 3)	$ 8,187,140	$ 938,091	$ 2,600,592	$ 1,517,229	$ 2,064,007	$ 15,307,059
Receivables - Net:						
Property taxes receivable	5,185	1,937	-	-	843	7,965
Special assessments receivable	-	-	-	1,595,961	28,764	1,624,725
Customer receivables - Net	80,769	-	1,550	-	-	82,319
Accrued interest receivable	-	-	2,396	961	641	3,998
Other receivables	8,814	-	-	-	-	8,814
Due from other governmental units	422,158	20,311	56,737	20,325	15,814	535,345
Due from other funds (Note 7)	353,610	-	-	-	-	353,610
Prepaid expenses	-	-	8,926	52,578	21,114	82,618
Note receivable (Note 4)	-	1,700,000	-	-	-	1,700,000
Total assets	**$ 9,057,676**	**$ 2,660,339**	**$ 2,670,201**	**$ 3,187,054**	**$ 2,131,183**	**$ 19,706,453**
Liabilities						
Accounts payable	$ 118,598	$ 18,486	$ 27,980	$ 4,090	$ -	$ 169,154
Due to other funds (Note 7)	-	-	-	272,610	81,000	353,610
Accrued liabilities and other	15,400	-	22,368	-	28,796	66,564
Total liabilities	133,998	18,486	50,348	276,700	109,796	589,328
Deferred Inflows of Resources (Note 5)	113,456	1,938	1,744,636	1,595,961	29,608	3,485,599
Fund Balances						
Nonspendable - Prepaids	-	-	8,926	52,578	21,114	82,618
Restricted:						
Roads	-	-	-	1,261,815	-	1,261,815
Land preservation	-	2,639,915	-	-	-	2,639,915
Public safety	-	-	866,291	-	-	866,291
Debt service	-	-	-	-	9,706	9,706
Tree mitigation	-	-	-	-	220,204	220,204
Bus	-	-	-	-	397,260	397,260
Metro act	-	-	-	-	28,882	28,882
Public improvements	-	-	-	-	494,439	494,439
Bridge maintenance	-	-	-	-	47,815	47,815
Committed:						
Capital projects	-	-	-	-	772,359	772,359
Other postemployment benefit obligations	729,777	-	-	-	-	729,777
Assigned - Subsequent year's budget	960,955	-	-	-	-	960,955
Unassigned	7,119,490	-	-	-	-	7,119,490
Total fund balances	8,810,222	2,639,915	875,217	1,314,393	1,991,779	15,631,526
Total liabilities, deferred inflows of resources, and fund balances	**$ 9,057,676**	**$ 2,660,339**	**$ 2,670,201**	**$ 3,187,054**	**$ 2,131,183**	**$ 19,706,453**

See notes to financial statements.

Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Position

	March 31, 2020
Fund Balances Reported in Governmental Funds	$ 15,631,526
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	14,160,745
Grants and other receivables that are not collected soon after year end are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds	1,740,963
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(253,692)
Some employee fringe benefits 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:	
Employee compensated absences	(139,685)
Net pension liability and related deferred inflows and outflows	(371,208)
Other postemployment benefit obligations	(618,390)
Net Position of Governmental Activities	**$ 30,150,259**

Governmental Funds
Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended March 31, 2020

	General Fund	Open Space Land Preservation Fund	Fire Department Fund	Township Road Improvement Special Assessment Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue						
Property taxes	$ 1,177,288	$ 602,968	$ -	$ -	$ 443,437	$ 2,223,693
Special assessments	-	-	1,104,789	618,844	21,033	1,744,666
State-shared revenue	1,542,004	12,235	-	-	8,982	1,563,221
Locally raised	1,133,316	-	1,591	-	-	1,134,907
Rental income	-	11,900	-	-	-	11,900
Federal grants	-	-	4,060	-	-	4,060
Investment income	134,529	16,480	32,735	39,629	39,507	262,880
Other miscellaneous income	16,438	9	4,015	-	13,886	34,348
Total revenue	4,003,575	643,592	1,147,190	658,473	526,845	6,979,675
Expenditures						
Current:						
General government	1,803,593	-	-	-	476,349	2,279,942
Public safety	1,436,983	-	1,567,494	-	224	3,004,701
Public works	77,549	115	-	43,669	225	121,558
Capital outlay	7,274	441,835	-	-	-	449,109
Debt service	-	-	-	58,305	22,591	80,896
Total expenditures	3,325,399	441,950	1,567,494	101,974	499,389	5,936,206
Excess of Revenue Over (Under) Expenditures	678,176	201,642	(420,304)	556,499	27,456	1,043,469
Other Financing Uses - Loss on land held for resale	-	(3,538)	-	-	-	(3,538)
Net Change in Fund Balances	678,176	198,104	(420,304)	556,499	27,456	1,039,931
Fund Balances - Beginning of year	8,132,046	2,441,811	1,295,521	757,894	1,964,323	14,591,595
Fund Balances - End of year	**$ 8,810,222**	**$ 2,639,915**	**$ 875,217**	**$ 1,314,393**	**$ 1,991,779**	**$ 15,631,526**

Governmental Funds
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities

Year Ended March 31, 2020

Net Change in Fund Balances Reported in Governmental Funds	$ 1,039,931
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	429,436
Depreciation expense	(276,996)
Net book value of assets disposed of	(5,016)
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds until it is available	(644,028)
Repayment of bond principal is an expenditure in the governmental funds but not in the statement of activities (where it reduces long-term debt)	68,000
Change in accrued interest payable and other	1,539
Some employee costs (pension, OPEB, and compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	(96,324)
Change in Net Position of Governmental Activities	**$ 516,542**

Proprietary Funds
Statement of Net Position

March 31, 2020

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Assets			
Current assets:			
Cash and cash equivalents (Note 3)	$ 1,247,946	$ 2,629,323	$ 3,877,269
Investments (Note 3)	4,692,335	12,312,512	17,004,847
Receivables:			
Customer receivables - Net	400,672	474,852	875,524
Accrued interest receivable	590	798	1,388
Due from other governmental units	5,459	-	5,459
Total current assets	6,347,002	15,417,485	21,764,487
Noncurrent assets - Capital assets (Note 6)	17,809,668	14,581,650	32,391,318
Total assets	24,156,670	29,999,135	54,155,805
Deferred Outflows of Resources			
Deferred outflows related to pensions (Note 10)	13,172	15,020	28,192
Deferred outflows related to other postemployment benefits (Note 11)	23,415	23,416	46,831
Total deferred outflows of resources	36,587	38,436	75,023
Liabilities			
Current liabilities:			
Accounts payable	307,929	449,353	757,282
Due to other governmental units	281,779	309,901	591,680
Accrued liabilities and other	177,443	164,539	341,982
Compensated absences	11,592	11,592	23,184
Current portion of long-term debt (Note 8)	381,502	-	381,502
Total current liabilities	1,160,245	935,385	2,095,630
Noncurrent liabilities:			
Net pension liability (Note 10)	108,400	110,126	218,526
Total OPEB liability	153,401	153,401	306,802
Long-term debt - Net of current portion (Note 8)	4,526,959	-	4,526,959
Total noncurrent liabilities	4,788,760	263,527	5,052,287
Total liabilities	5,949,005	1,198,912	7,147,917
Deferred Inflows of Resources - Deferred inflows related to pensions (Note 10)	20,116	21,090	41,206
Net Position			
Net investment in capital assets	12,901,207	14,581,650	27,482,857
Restricted for:			
Water operations	5,322,929	-	5,322,929
Sewer operations	-	14,235,919	14,235,919
Total net position	**$ 18,224,136**	**$ 28,817,569**	**$ 47,041,705**

Proprietary Funds
Statement of Revenue, Expenses, and Changes in Net Position

Year Ended March 31, 2020

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating Revenue			
Charges for services	$ 2,813,617	$ 2,785,966	$ 5,599,583
Other	54,336	231,619	285,955
Total operating revenue	2,867,953	3,017,585	5,885,538
Operating Expenses			
Cost of water	2,020,759	-	2,020,759
Cost of sewage treatment	-	2,093,012	2,093,012
Operation and maintenance	146,567	574,554	721,121
General and administrative	493,537	411,131	904,668
Depreciation	524,298	433,951	958,249
Total operating expenses	3,185,161	3,512,648	6,697,809
Operating Loss	(317,208)	(495,063)	(812,271)
Nonoperating Revenue (Expense)			
Investment interest income	125,160	302,775	427,935
Interest expense	(128,215)	-	(128,215)
Total nonoperating revenue	(3,055)	302,775	299,720
Loss - Before contributions	(320,263)	(192,288)	(512,551)
Capital Contributions - Other capital contributions	113,899	280,613	394,512
Change in Net Position	(206,364)	88,325	(118,039)
Net Position - Beginning of year	18,430,500	28,729,244	47,159,744
Net Position - End of year	**$ 18,224,136**	**$ 28,817,569**	**$ 47,041,705**

See notes to financial statements.

Proprietary Funds
Statement of Cash Flows

Year Ended March 31, 2020

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash Flows from Operating Activities			
Receipts from customers	$ 2,825,678	$ 2,975,637	$ 5,801,315
Payments to suppliers	(2,100,506)	(2,358,922)	(4,459,428)
Payments to employees	(326,202)	(390,089)	(716,291)
Other receipts	(4,345)	-	(4,345)
Net cash and cash equivalents provided by operating activities	394,625	226,626	621,251
Cash Flows from Capital and Related Financing Activities			
Collection of connection fees	113,899	280,613	394,512
Tap fees collected on behalf of the City of Ann Arbor, Michigan	173,598	173,598	347,196
Tap fees paid to the City of Ann Arbor, Michigan	(296,590)	(158,342)	(454,932)
Purchase of capital assets	(15,264)	(2,132)	(17,396)
Debt service	(460,163)	-	(460,163)
Net cash and cash equivalents (used in) provided by capital and related financing activities	(484,520)	293,737	(190,783)
Cash Flows from Investing Activities			
Interest received on investments	124,570	301,977	426,547
Purchase of investment securities	(104,868)	(780,404)	(885,272)
Net cash and cash equivalents provided by (used in) investing activities	19,702	(478,427)	(458,725)
Net (Decrease) Increase in Cash and Cash Equivalents	(70,193)	41,936	(28,257)
Cash and Cash Equivalents - Beginning of year	1,318,139	2,587,387	3,905,526
Cash and Cash Equivalents - End of year	**$ 1,247,946**	**$ 2,629,323**	**$ 3,877,269**
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	$ (317,208)	$ (495,063)	$ (812,271)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	524,298	433,951	958,249
Changes in assets and liabilities:			
Receivables	(46,620)	(41,948)	(88,568)
Net pension and OPEB liability	16,054	16,053	32,107
Accounts payable	243,201	403,540	646,741
Accrued and other liabilities	(25,100)	(89,907)	(115,007)
Total adjustments	711,833	721,689	1,433,522
Net cash and cash equivalents provided by operating activities	**$ 394,625**	**$ 226,626**	**$ 621,251**

See notes to financial statements.

Fiduciary Funds
Statement of Assets and Liabilities

March 31, 2020

	Current Tax Collection	Trust and Agency	Total Fiduciary Funds
Assets			
Cash and cash equivalents	$ 664,199	$ 263,620	$ 927,819
Receivables - Due from other governmental units	1,473,226	-	1,473,226
Total assets	**$ 2,137,425**	**$ 263,620**	**$ 2,401,045**
Liabilities - Accrued liabilities and other	**$ 2,137,425**	**$ 263,620**	**$ 2,401,045**

See notes to financial statements.

Component Units
Statement of Net Position

March 31, 2020

	Downtown Development Authority	Economic Development Corporation	Total
Assets			
Cash and investments	$ 4,623,935	$ 10,248	$ 4,634,183
Receivables - Due from other governmental units	191	-	191
Capital assets (Note 6)	23,047,465	-	23,047,465
Total assets	27,671,591	10,248	27,681,839
Deferred Outflows of Resources - Bond refunding loss being amortized	246,579	-	246,579
Liabilities			
Due to other governmental units	1,473,227	-	1,473,227
Accrued interest payable	86,576	-	86,576
Long-term debt:			
Due within one year - Current portion of long-term debt	994,570	-	994,570
Due in more than one year - Long-term debt	6,777,854	-	6,777,854
Total liabilities	9,332,227	-	9,332,227
Net Position			
Net investment in capital assets	15,521,620	-	15,521,620
Unrestricted	3,064,323	10,248	3,074,571
Total net position	**$ 18,585,943**	**$ 10,248**	**$ 18,596,191**

		Program Revenue		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Downtown Development Authority	$ 1,120,579	$ -	$ -	$ -
Economic Development Corporation	-	-	-	-
Total	**$ 1,120,579**	**$ -**	**$ -**	**$ -**

General revenue:
- Property taxes
- Unrestricted state-shared revenue
- Investment income
- Other miscellaneous income

Total general revenue

Change in Net Position

Net Position - Beginning of year

Net Position - End of year

Year Ended March 31, 2020

Net (Expense) Revenue and Changes in Net Position		
Downtown Development Authority	Economic Development Corporation	Total
$ (1,120,579)	$ -	$ (1,120,579)
-	-	-
(1,120,579)	-	(1,120,579)
1,525,027	-	1,525,027
127,811	-	127,811
11,998	17	12,015
125	-	125
1,664,961	17	1,664,978
544,382	17	544,399
18,041,561	10,231	18,051,792
$ 18,585,943	**$ 10,248**	**$ 18,596,191**

Note 1 - Significant Accounting Policies

Accounting and Reporting Principles

The Township of Scio (the "Township") follows accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies used by the Township:

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. Blended component units are, in substance, part of the Township's operations, even though they are separate legal entities. Thus, blended component units are appropriately presented as funds of the Township. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are 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, the Building Authority 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. A 10-member board appointed by the township board administers the Economic Development Corporation. Interim 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 1 - 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 health care-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.

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.

Note 1 - Significant Accounting Policies (Continued)

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:

<u>Governmental Funds</u>

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 government services other than those specifically assigned to another fund.
- The Open Space Land Preservation Fund accounts for moneys collected to be used for permanent preservation of farmland, open space, wildlife, etc. and to provide new parks and recreational opportunities.
- The Fire Department Fund is used to account for moneys collected and expended for fire protection services.
- The Township Road Improvement Special Assessment Fund is used to account for the moneys 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 Fund, the 2016 Road Special Assessment Fund, the 2017 Road Special Assessment Fund, and the 2018 Road Special Assessment Fund.

<u>Proprietary Funds</u>

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.

<u>Agency Funds</u>

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

Note 1 - Significant Accounting Policies (Continued)

Interfund Activity

During the course of operations, the Township 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 fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in 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.

Specific Balances and Transactions

Cash and Cash Equivalents

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

Investments are reported 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, intangible assets, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are recorded by the Township as appropriate based on cost and useful life. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated 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:

Capital Asset Class	Depreciable Life - Years
Sewer meters	25
Utility system	25-50
Buildings	20-50
Machinery and equipment	5-30
Vehicles	5
Fire vehicles	20
Land improvements	10-25
Road rights and infrastructure	25

Note 1 - Significant Accounting Policies (Continued)

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 other financing sources, as well as bond premiums and discounts. The General Fund and Park Road SAD Fund are generally used to liquidate governmental long-term debt.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet 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 will not be recognized as an outflow of resources (expense/expenditure) until that time.

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 four 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, the variance between the pension plan's actual experience compared to the plan's assumed experience, and changes in assumptions related to economic and demographic factors.

The deferred outflows of resources related to the other postemployment benefit plan are reported in the government-wide financial statements and the Water and Sewer funds. The deferred outflows of resources result from two transactions: the variance between the pension plan's actual experience compared to the plan's assumed experience and changes in assumptions related to economic and demographic factors.

In addition to liabilities, the statement of net position and/or balance sheet 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 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.

Note 1 - Significant Accounting Policies (Continued)

Net Position

Net position of the Township is classified in three components. Net investment in capital assets - net of related debt consist of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position is further classified as expendable and nonexpendable. Expendable restricted net position has been limited for use by donors and as held in trust for debt service and self-insured professional liability. Nonexpendable restricted net position has been restricted by donors to be maintained in perpetuity. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Net Position Flow Assumption

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

Fund Balance Flow Assumptions

The Township will sometimes 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 Township has, by resolution, authorized the board of trustees to assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Property Tax Revenue

Property taxes are levied on each December 1, and become an enforceable lien at that time; the tax is based 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.

Note 1 - Significant Accounting Policies (Continued)

The Township's 2019 property tax revenue was levied and collectible on December 31, 2019 and is recognized as revenue in the year ended March 31, 2020 when the proceeds of the levy are budgeted and available for the financing of operations.

The 2019 taxable valuation of the Township totaled $1.36 billion (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 0.9311 mills for operating purposes, 0.4833 mills for land preservation services, and 0.3548 mills for bus transportation. After DDA capture, this resulted in approximately $1,177,000 million for operating, $603,000 for open space land preservation, and $444,000 for bus transportation. These amounts are recognized in the respective General, Open Space Land Preservation, and Bus 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, 2020, $1,744,636 is included in deferred inflows. 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, 2020 is $640,000 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, 2020, $1,212,867 is included in deferred inflows. This is reported in the Township Road Improvement Special Assessment Fund.

Pension

The Township offers a defined benefit pension plan to its employees. 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 purpose 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.

Other Postemployment Benefit Costs

The Township offers retiree health care benefits to retirees. The Township records a net OPEB liability for the difference between the total OPEB liability calculated by the actuary and the OPEB plan's fiduciary net position. For the purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

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 and reported 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.

Note 1 - Significant Accounting Policies (Continued)

Compensated absences attributable to the governmental activities will be liquidated primarily by the General Fund. The 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.

Proprietary Funds Operating Classification

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Water and Sewer funds is charges to customers for sales and services. The Water and Sewer funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise 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.

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.

Upcoming Accounting Pronouncements

In January 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The Township is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement were originally effective for the Township's financial statements for the year ended March 31, 2020 but were extended to March 31, 2021 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*.

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Township is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement were originally effective for the Township's financial statements for the year ending March 31, 2021 but were extended to September 30, 2022 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*.

Note 1 - Significant Accounting Policies (Continued)

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.* This statement establishes criteria to improve the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Township is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement were originally effective for the Township's financial statements for the year ended March 31, 2020 but were extended to March 31, 2021 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period,* which simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that, in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The provisions of this statement were originally effective for the Township's financial statements for the March 31, 2021 fiscal year but were extended to March 31, 2022 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*.

In August 2018, the Governmental Accounting Standards Board issued Statement No. 90, *Majority Equity Interests*. This statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. The Township is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement were originally effective for the Township's financial statements for the year ended March 31, 2020 but were extended to March 31, 2021 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance.*

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. This statement addresses eight unrelated practice issues and technical inconsistencies in authoritative literature. The standard addresses leases, intraentity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The standard has various effective dates. The Township does not believe this pronouncement will have a significant impact on its financial statements but is still making a full evaluation.

In June 2020, the Governmental Accounting Standards Board issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.* While this standard had certain aspects impacting defined contribution pension and OPEB plans and other employee benefit plans that were effective immediately, it also clarifies when a 457 should be considered a pension plan or an other employee benefit plan to assist in the application of GASB Statement No. 84 to these types of plans. The Township is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement related to 457 plans are effective for the Township's financial statements for the year ending March 31, 2023.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and all special revenue funds. All annual appropriations lapse at fiscal year end. The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Township to have its budget in place by April 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. There were no significant amendments during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders or contracts) are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

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.

Noncompliance with Legal Provisions

Section 4(l)(a)(i)(ii) of Public Act 202 of 2017 requires the local unit to pay retiree insurance premiums for the year, as well as the normal costs for the new employees hired after June 30, 2018. As of March 31, 2020, the Township has not set up a trust to pay retiree insurance premiums for the year, as well as the normal costs for the new employees hired after June 30, 2018.

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 that matures no more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that 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.

Note 3 - Deposits and Investments (Continued)

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 $15,924,369 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized; the component units had $2,540,577 of bank deposits that was uninsured and uncollateralized. The Township believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

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

At year end, the Township had the following investments:

Investment	Fair Value	Weighted-average Maturity (Days)
Commercial paper	$ 9,982,735	149

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
Primary Government			
Commercial paper	$ 9,982,735	A1	S&P
Money market	7,956,123	Unrated	S&P
Bank investment pool	6,521,598	AAA	S&P
Total	$ 24,460,456		

Fair Value Measurements

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, and Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where 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.

Note 3 - Deposits and Investments (Continued)

The Township has the following recurring fair value measurements as of March 31, 2020:

- Money market funds of $7,956,123 (equity securities) are valued using quoted marketed prices (Level 1 inputs).
- Corporate fixed income of $9,982,735 (debt securities) are valued using a matrix pricing model (Level 2 inputs).
- Investment pools of $6,521,598 (equity securities) are valued using quoted market prices (Level 1 inputs).

Note 4 - Note Receivables

The Township sold a parcel of land on March 27, 2020. There are two outstanding promissory notes related to the sale of the land. Both notes have a 5 percent interest rate and mature on April 1, 2025. The outstanding balances at March 31, 2020 are $900,000 and $800,000.

Note 5 - 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	$ 7,965
Special assessments - Unavailable	1,624,725
State-shared revenue - Unavailable	108,273
Special assessment revenue for the following year	1,744,636
Total deferred inflows of resources	$ 3,485,599

Note 6 - Capital Assets

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

Governmental Activities

	Balance April 1, 2019	Reclassifications	Additions	Disposals	Balance March 31, 2020
Capital assets not being depreciated:					
Land	$ 1,006,268	$ -	$ -	$ -	$ 1,006,268
Land preservation - Land and easement	7,652,797	-	356,891	-	8,009,688
Construction in progress	-	-	17,723	-	17,723
Drain rights and infrastructure	215,955	-	-	-	215,955
Subtotal	8,875,020	-	374,614	-	9,249,634
Capital assets being depreciated:					
Sidewalks and other intangible rights	2,181,108	-	-	-	2,181,108
Buildings	2,959,517	-	-	-	2,959,517
Equipment	1,288,228	-	41,511	(201,976)	1,127,763
Vehicles	1,319,920	-	-	-	1,319,920
Land improvements	156,087	-	13,311	-	169,398
Subtotal	7,904,860	-	54,822	(201,976)	7,757,706
Accumulated depreciation:					
Sidewalks and other intangible rights	353,328	-	87,243	-	440,571
Buildings	1,238,963	(282,380)	63,540	-	1,020,123
Equipment	487,387	281,352	59,248	(196,960)	631,027
Vehicles	550,284	1,028	64,418	-	615,730
Land improvements	136,597	-	2,547	-	139,144
Subtotal	2,766,559	-	276,996	(196,960)	2,846,595
Net capital assets being depreciated	5,138,301	-	(222,174)	(5,016)	4,911,111
Net governmental activities capital assets	$ 14,013,321	$ -	$ 152,440	$ (5,016)	$ 14,160,745

Note 6 - Capital Assets (Continued)

Business-type Activities

	Balance April 1, 2019	Reclassifications	Additions	Disposals	Balance March 31, 2020
Capital assets not being depreciated:					
Land	$ 1,995,542	$ -	$ -	$ -	$ 1,995,542
Construction in progress	305,906	-	1,143	-	307,049
Subtotal	2,301,448	-	1,143	-	2,302,591
Capital assets being depreciated:					
Utility systems	44,408,283	-	-	-	44,408,283
Buildings	2,413,580	-	-	-	2,413,580
Machinery and equipment	453,195	-	16,253	-	469,448
Vehicles	81,426	-	-	-	81,426
Sewer meters	7,118	-	-	-	7,118
Subtotal	47,363,602	-	16,253	-	47,379,855
Accumulated depreciation:					
Utility system	15,338,346	-	878,244	-	16,216,590
Buildings	631,128	-	52,317	-	683,445
Machinery and equipment	292,973	(71)	25,111	-	318,013
Vehicles	63,385	-	2,577	-	65,962
Sewer meters	7,047	71	-	-	7,118
Subtotal	16,332,879	-	958,249	-	17,291,128
Net capital assets being depreciated	31,030,723	-	(941,996)	-	30,088,727
Net business-type activities capital assets	$ 33,332,171	$ -	$ (940,853)	$ -	$ 32,391,318

Component Units

	Balance April 1, 2019	Reclassifications	Additions	Disposals	Balance March 31, 2020
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	14,012,613	-	877,057	-	14,889,670
Net capital assets being depreciated	7,913,811	-	(877,057)	-	7,036,754
Net component units capital assets	$ 23,924,522	$ -	$ (877,057)	$ -	$ 23,047,465

Note 6 - Capital Assets (Continued)

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

Governmental activities:		
General government	$	169,701
Public safety		107,295
Total governmental activities	$	276,996
Business-type activities:		
Water	$	524,298
Sewer		433,951
Total business-type activities	$	958,249
Component unit activities - Public works	$	877,057

Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Township Road Improvement Special Assessment Fund	$ 272,610
	Other nonmajor governmental funds	81,000
	Total	$ 353,610

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 payment between funds are made.

Note 8 - Long-term Debt

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

Long-term debt activity for the year ended March 31, 2020 can be summarized as follows:

Governmental Activities

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable:							
2012 Special Assessment Bonds - Amount of issue: $190,000 Maturing through April 2022	3.71%	$20,000	$ 60,000	$ -	$ (20,000)	$ 40,000	$ -
2013 Special Assessment Bonds - Amount of issue: $460,000 Maturing through April 2023	4.87%	$46,000-$48,000	188,000	-	(48,000)	140,000	-
Accumulated compensated absences			125,435	165,914	(151,664)	139,685	139,685
Total governmental activities			$ 373,435	$ 165,914	$ (219,664)	$ 319,685	$ 139,685

Note 8 - Long-term Debt (Continued)

Business-type Activities

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable:							
Contractual obligation to the City of Ann Arbor, Michigan related to the City's 2008 DWRF Bonds - Amount of issue: $2,490,749 Maturing through October 2028	2.50%	$5,749 - $170,000	$ 1,105,749	$ -	$ (160,000)	$ 945,749	$ 160,000
Contractual obligation to the City of Ann Arbor, Michigan related to the City's 2012 DWRF Bonds - Amount of issue: $4,882,478 Maturing through April 2034	2.50%	$215,749 - $310,800	4,178,461	-	(215,749)	3,962,712	221,502
Compensated absences			39,188	56,634	(72,638)	23,184	23,184
Total business-type activities			$ 5,323,398	$ 56,634	$ (448,387)	$ 4,931,645	$ 404,686

Component Units

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable:							
2015 Downtown Development and Refunding Bonds - Amount of issue: $6,910,000 Maturing through March 2026	2% - 4%	$630,000 - $1,000,000	$ 5,685,000	$ -	$ (630,000)	$ 5,055,000	$ 725,000
2017 Downtown Development and Refunding Bonds - Amount of issue: $2,765,000 Maturing through November 2028	2.210%	$190,000 - $385,000	2,730,000	-	(190,000)	2,540,000	240,000
Unamortized bond premiums			206,994	-	(29,570)	177,424	29,570
Total component units			$ 8,621,994	$ -	$ (849,570)	$ 7,772,424	$ 994,570

Note 8 - Long-term Debt (Continued)

Debt Service Requirements to Maturity

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

Years Ending March 31	Governmental Activities Principal	Governmental Activities Interest	Governmental Activities Total	Business-type Activities Principal	Business-type Activities Interest	Business-type Activities Total	Component Units Activities Principal	Component Units Activities Interest	Component Units Activities Total
2021	$ -	$ 4,151	$ 4,151	$ 381,502	$ 119,943	$ 501,445	$ 965,000	$ 207,784	$ 1,172,784
2022	67,000	6,787	73,787	392,255	110,333	502,588	955,000	180,730	1,135,730
2023	67,000	3,755	70,755	403,009	100,455	503,464	1,045,000	153,937	1,198,937
2024	46,000	1,120	47,120	408,762	90,308	499,070	1,080,000	124,404	1,204,404
2025	-	-	-	339,515	80,017	419,532	1,265,000	94,176	1,359,176
2026-2030	-	-	-	1,497,501	277,631	1,775,132	2,285,000	105,835	2,390,835
2031-2035	-	-	-	1,485,917	94,746	1,580,663	-	-	-
Total	$ 180,000	$ 15,813	$ 195,813	$ 4,908,461	$ 873,433	$ 5,781,894	$ 7,595,000	$ 866,866	$ 8,461,866

Bond Refunding

In previous 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. As of March 31, 2020, there is still $6,500,000 of bonds outstanding that is considered defeased.

Note 9 - 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 four fiscal years.

Note 10 - Pension Plans

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 statewide 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 that includes the financial statements and required supplemental information of this defined benefit plan. This report can be obtained at www.mersofmichigan.com or in writing to MERS of Michigan at 1134 Municipal Way, Lansing, MI 48917.

The Township also 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.

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 $26,000 during the current year. The Township's contributions for each employee are fully vested upon entering service.

Note 10 - Pension Plans (Continued)

As of September 14, 2016, the MERS of Michigan defined benefit pension plan is closed to new hires.

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 final five-year average compensation 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 township service may withdraw his or her contributions, plus any accumulated interest.

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 ages 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.

Employees Covered by Benefit Terms

At the December 31, 2019 measurement date, the following members were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	5
Inactive plan members entitled to but not yet receiving benefits	1
Active plan members	19
Total employees covered by MERS of Michigan	25

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 1.30 and 1.38 percent of compensation, respectively. The Township makes employer contributions in accordance with funding requirements determined by the system's actuary. For the measurement year ended December 31, 2019, the average employer contribution rate was 8.0 percent of annual payroll.

Note 10 - Pension Plans (Continued)

Net Pension Liability

The Township has chosen to use the December 31 measurement date as its measurement date for the net pension liability. The March 31, 2020 fiscal year end reported net pension liability was determined using a measure of the total pension liability and the pension net position as of the December 31, 2019 measurement date. The December 31, 2019 measurement date total pension liability was determined by an actuarial valuation performed as of that date.

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

	Increase (Decrease)		
Changes in Net Pension Liability	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2018	$ 3,765,539	$ 2,971,649	$ 793,890
Changes for the year:			
Service cost	103,174	-	103,174
Interest	303,859	-	303,859
Differences between expected and actual experience	68,900	-	68,900
Changes in assumptions	102,370	-	102,370
Contributions - Employer	-	171,666	(171,666)
Contributions - Employee	-	21,054	(21,054)
Net investment income	-	414,724	(414,724)
Benefit payments, including refunds	(37,766)	(37,766)	-
Administrative expenses	-	(7,148)	7,148
Net changes	540,537	562,530	(21,993)
Balance at December 31, 2019	$ 4,306,076	$ 3,534,179	$ 771,897

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

For the year ended March 31, 2020, the Township recognized pension expense of $213,880. At March 31, 2020, the Township reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 129,302	$ (147,304)
Changes in assumptions	141,190	-
Net difference between projected and actual earnings on pension plan investments	11,318	-
Employer contributions to the plan subsequent to the measurement date	34,643	-
Total	$ 316,453	$ (147,304)

Note 10 - Pension Plans (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (note that employer contributions subsequent to the measurement date will reduce the net position liability and, therefore, will not be included in future pension expense):

Years Ending March 31	Amount
2021	$ 23,671
2022	38,568
2023	67,224
2024	(23,502)
2025	28,545

Actuarial Assumptions

The total pension liability in the December 31, 2019 actuarial valuation was determined using an inflation assumption of 2.5 percent, assumed salary increases (in the long term, plus a percentage based on an age-related scale to reflect merit, longevity, and promotional pay increases) of 3.00 percent, an investment rate of return (net of investment expenses, including inflation) of 7.60 percent, and the RP-2014 mortality tables.

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.

These assumptions were applied to all periods included in the measurement and are based on an experience study conducted for the period from January 1, 2009 through December 31, 2013.

Discount Rate

The discount rate used to measure the total pension liability was 7.60 percent. In 2020, the discount rate was changed from 8.00 percent to 7.60 percent. The projection of cash flows used to determine the discount rate assumed 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.

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.

Note 10 - Pension Plans (Continued)

Investment Rate of Return

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 the December 31, 2019 measurement date for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	60.00 %	6.15 %
Global fixed income	20.00	1.26
Private investments	20.00	6.56

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 7.60 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 or 1 percentage point higher than the current rate:

	1 Percentage Point Decrease (6.60%)	Current Discount Rate (7.60%)	1 Percentage Point Increase (8.60%)
Net pension liability of the Township	$ 1,301,073	$ 771,897	$ 322,190

Pension Plan Fiduciary Net Position

Detailed information about the plan’s fiduciary net position is available in the separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the plan’s fiduciary net position and additions to/deductions from fiduciary net position have 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 11 - Other Postemployment Benefit Plan

Plan Description

The Township provides retiree health care benefits to eligible employees. This is single-employer defined benefit plan administered by the Township. The benefits are provided through board resolution. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

Benefits Provided

The Township provides a monthly stipend to be used to supplement the insurance cost for postemployment health care benefits upon retirement in accordance with labor contracts.

Note 11 - Other Postemployment Benefit Plan (Continued)

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

Date of member count	March 31, 2019
Inactive plan members or beneficiaries currently receiving benefits	6
Active plan members	25
Total plan members	31

Contributions

Retiree health care costs are paid by the Township on a pay-as-you-go basis. The Township has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the fiscal year ended March 31, 2020, the Township made payments for postemployment health benefit premiums of $11,947. The actuarially determined contribution (ADC) at March 31, 2020 was $34,145.

Total OPEB Liability

The Township has chosen to use the March 31 measurement date as its measurement date for the total OPEB liability. The March 31, 2020 measurement date total OPEB liability was determined by an actuarial valuation performed March 31, 2019, which used update procedures to roll forward the estimated liability to March 31, 2020.

Changes in the total OPEB liability during the measurement year were as follows:

Changes in Total OPEB Liability	Increase (Decrease) Total OPEB Liability
Balance at April 1, 2019	$ 853,997
Changes for the year:	
Service cost	30,227
Interest	29,519
Differences between expected and actual experience	134,783
Benefit payments, including refunds	(11,947)
Net changes	182,582
Balance at March 31, 2020	$ 1,036,579

OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the year ended March 31, 2020, the Township recognized OPEB expense of $87,539.

At March 31, 2020, the Township reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources
Difference between expected and actual experience	$ 25,931
Changes in assumptions	132,287
Total	$ 158,218

Note 11 - Other Postemployment Benefit Plan (Continued)

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

Years Ending March 31	Amount
2021	$ 27,793
2022	27,793
2023	27,793
2024	27,793
2025	27,793
Thereafter	19,253
Total	$ 158,218

Actuarial Assumptions

The total OPEB liability in the March 31, 2019 actuarial valuation was determined using an inflation assumption of 2.5 percent; assumed salary increases (including inflation) of 2.5 percent, average; a health care cost trend rate of 2.5 percent; and the 50 percent female/50 percent male 2014 Group Annuity Mortality Table. These assumptions were applied to all periods included in the measurement.

Discount Rate

The discount rate used to measure the total OPEB liability was 2.48 percent. The single discount rate was based on the Fidelity 20-Year Municipal GO AA Index bond rate as of the measurement date, as there are no assets set aside to pay benefits out of a trust.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Township, calculated using the discount rate of 2.48 percent, as well as what the Township's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percentage Point Decrease (1.48%)	Current Discount Rate (2.48%)	1 Percentage Point Increase (3.48%)
Total OPEB liability of the plan	$ 1,213,177	$ 1,036,579	$ 894,073

Sensitivity of the Total OPEB Liability to Changes in the Health Care Cost Trend Rate

The following presents the total OPEB liability of the Township, calculated using the health care cost trend rate of 2.5 percent, as well as what the Township's total OPEB liability would be if it were calculated using a health care cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percentage Point Decrease (1.5%)	Current Health Care Cost Trend Rate (2.5%)	1 Percentage Point Increase (3.5%)
Total OPEB liability of the plan	$ 883,227	$ 1,036,579	$ 1,220,674

Note 12 - COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations. As of the date of issuance of the financial statements, the Township's operations have not been significantly impacted, but the Township continues to monitor the situation. No impairments were recorded as of the statement of net position/balance sheet date; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. In addition, while the Township’s results of operations, cash flows, and financial condition could be negatively impacted, the extent of the impact cannot be reasonably estimated at this time. Alternative investments measured at fair market value are also subject to fluctuation.

Required Supplemental Information

Required Supplemental Information
Budgetary Comparison Schedule
General Fund

Year Ended March 31, 2020

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	$ 1,120,000	$ 1,155,000	$ 1,177,288	$ 22,288
State-shared revenue and grants	1,240,000	1,500,000	1,542,004	42,004
Locally raised	1,718,500	1,098,225	1,133,316	35,091
Rental income	50,000	30,000	-	(30,000)
Investment income	75,000	75,000	134,529	59,529
Other revenue	6,000	16,088	16,438	350
Total revenue	4,209,500	3,874,313	4,003,575	129,262
Expenditures				
Current services:				
General government:				
General government	938,700	998,055	892,093	105,962
Assessing	473,225	477,700	433,908	43,792
Elections	36,875	99,000	84,369	14,631
Boards and commissions	409,975	418,325	393,223	25,102
Health and safety	2,297,650	2,297,650	1,436,983	860,667
Building and grounds	85,300	88,300	77,549	10,751
Capital outlay	80,000	65,000	7,274	57,726
Total expenditures	4,321,725	4,444,030	3,325,399	1,118,631
Net Change in Fund Balance	(112,225)	(569,717)	678,176	1,247,893
Fund Balance - Beginning of year	8,132,046	8,132,046	8,132,046	-
Fund Balance - End of year	**$ 8,019,821**	**$ 7,562,329**	**$ 8,810,222**	**$ 1,247,893**

See notes to required supplemental information.

Required Supplemental Information
Budgetary Comparison Schedules
Fire Department Fund

Year Ended March 31, 2020

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Special assessments	$ 1,095,000	$ 1,095,000	$ 1,104,789	$ 9,789
Charges for services	-	1,500	1,591	91
Rental income	22,250	22,250	-	(22,250)
Federal grants	-	4,000	4,060	60
Investment income	20,000	25,000	32,735	7,735
Other revenue	5,300	3,900	4,015	115
Total revenue	1,142,550	1,151,650	1,147,190	(4,460)
Expenditures				
Current services - Public safety	1,576,750	1,786,475	1,567,494	218,981
Capital outlay	45,000	45,000	-	45,000
Total expenditures	1,621,750	1,831,475	1,567,494	263,981
Excess of Expenditures Over Revenue	(479,200)	(679,825)	(420,304)	259,521
Other Financing Sources - Transfers out	200,000	200,000	-	(200,000)
Net Change in Fund Balance	(279,200)	(479,825)	(420,304)	59,521
Fund Balance - Beginning of year	1,295,521	1,295,521	1,295,521	-
Fund Balance - End of year	**$ 1,016,321**	**$ 815,696**	**$ 875,217**	**$ 59,521**

See notes to required supplemental information.

Required Supplemental Information
Budgetary Comparison Schedules (Continued)
Open Space Land Preservation Fund

Year Ended March 31, 2020

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	$ 580,150	$ 595,150	$ 602,968	$ 7,818
State-shared revenue	-	-	12,235	12,235
Rental income	-	-	11,900	11,900
Investment income	20,000	20,000	16,480	(3,520)
Other miscellaneous income	-	-	9	9
Total revenue	600,150	615,150	643,592	28,442
Expenditures				
Current services - Public works	-	200	115	85
Capital outlay	861,725	2,811,725	441,835	2,369,890
Total expenditures	861,725	2,811,925	441,950	2,369,975
Excess of Revenue (Under) Over Expenditures	(261,575)	(2,196,775)	201,642	2,398,417
Other Financing Uses - Gain on assets held for resale	-	-	(3,538)	(3,538)
Net Change in Fund Balance	(261,575)	(2,196,775)	198,104	2,394,879
Fund Balance - Beginning of year	2,441,811	2,441,811	2,441,811	-
Fund Balance - End of year	**$ 2,180,236**	**$ 245,036**	**$ 2,639,915**	**$ 2,394,879**

See notes to required supplemental information.

Required Supplemental Information
Schedule of Changes in the Net Pension Liability and Related Ratios

Last Six Fiscal Years (Prospectively Built from 2015)

	2020 (Measurement Date 12/31/19)	2019 (Measurement Date 12/31/18)	2018 (Measurement Date 12/31/17)	2017 (Measurement Date 12/31/16)	2016 (Measurement Date 12/31/15)	2015 (Measurement Date 12/31/14)
Total Pension Liability						
Service cost	$ 103,174	$ 115,683	$ 110,220	$ 105,564	$ 86,870	$ 84,554
Interest	303,859	286,297	250,562	232,738	207,927	187,978
Changes in benefit terms	-	5,065	(4,856)	15,021	(14,402)	-
Differences between expected and actual experience	68,900	(143,490)	125,799	(95,097)	(10,921)	-
Changes in assumptions	102,370	-	-	-	149,019	-
Benefit payments, including refunds	(37,766)	(37,766)	(37,767)	(37,766)	(40,118)	(23,658)
Net Change in Total Pension Liability	540,537	225,789	443,958	220,460	378,375	248,874
Total Pension Liability - Beginning of year	3,765,539	3,539,750	3,095,792	2,875,332	2,496,957	2,248,083
Total Pension Liability - End of year	**$ 4,306,076**	**$ 3,765,539**	**$ 3,539,750**	**$ 3,095,792**	**$ 2,875,332**	**$ 2,496,957**
Plan Fiduciary Net Position						
Contributions - Employer	$ 171,666	$ 123,561	$ 228,687	$ 110,862	$ 104,248	$ 98,495
Contributions - Member	21,054	20,976	51,858	17,669	14,638	12,301
Net investment income (loss)	414,724	(123,721)	345,694	244,417	(32,319)	118,779
Administrative expenses	(7,148)	(5,958)	(5,439)	(4,817)	(4,600)	(4,402)
Benefit payments, including refunds	(37,766)	(37,766)	(37,767)	(37,766)	(40,118)	(23,658)
Net Change in Plan Fiduciary Net Position	562,530	(22,908)	583,033	330,365	41,849	201,515
Plan Fiduciary Net Position - Beginning of year	2,971,649	2,994,557	2,411,524	2,081,159	2,039,310	1,837,795
Plan Fiduciary Net Position - End of year	**$ 3,534,179**	**$ 2,971,649**	**$ 2,994,557**	**$ 2,411,524**	**$ 2,081,159**	**$ 2,039,310**
Township's Net Pension Liability - Ending	**$ 771,897**	**$ 793,890**	**$ 545,193**	**$ 684,268**	**$ 794,173**	**$ 457,647**
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	82.07 %	78.92 %	84.60 %	77.90 %	72.38 %	81.67 %
Covered Payroll	$ 1,401,630	$ 1,498,568	$ 1,498,568	$ 1,499,212	$ 1,429,665	$ 1,221,187
Township's Net Pension Liability as a Percentage of Covered Payroll	55.07 %	52.98 %	36.38 %	45.64 %	55.55 %	37.48 %

*In 2020, the discount rate was changed from 8.00 percent to 7.60 percent, and in 2016, the discount rate was changed from 8.25 to 8.00 percent.

Required Supplemental Information
Schedule of Township Contributions

Last Ten Fiscal Years

Years Ended March 31

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	$ 171,666	$ 124,080	$ 119,806	$ 128,709	$ 118,886	$ 101,020	$ 94,445	$ 98,710	$ 89,603	$ 91,202
Contributions in relation to the actuarially determined contribution	171,666	124,080	229,198	128,709	118,886	101,020	94,445	98,710	89,603	91,202
Contribution Excess	**$ -**	**$ -**	**$ 109,392**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Covered Payroll	$ 1,401,630	$ 1,498,568	$ 1,499,212	$ 1,429,665	$ 1,419,544	$ 1,221,187	$ 1,202,784	$ 1,171,216	$ 1,034,441	$ 113,744
Contributions as a Percentage of Covered Payroll	12.25 %	8.28 %	15.29 %	9.00 %	8.37 %	8.27 %	7.85 %	8.43 %	8.66 %	80.18 %

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date	Actuarially determined contribution rates are calculated as of December 31 each year, one year 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, closed
Remaining amortization period	20
Asset valuation method	Five-year smoothed
Inflation	2.5 percent
Salary increase	3.75 percent
Investment rate of return	7.6 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

See notes to required supplemental information.

Required Supplemental Information
Schedule of Changes in the Total OPEB Liability and Related Ratios
No Trust

Last Two Fiscal Years (Prospectively Built from 2019)

	2020	2019
Total OPEB Liability		
Service cost	$ 30,227	$ 26,065
Interest	29,519	27,472
Differences between expected and actual experience	-	36,304
Changes in assumptions	134,783	23,461
Benefit payments, including refunds	(11,947)	(14,512)
Net Change in Total OPEB Liability	182,582	98,790
Total OPEB Liability - Beginning of year	853,997	755,207
Total OPEB Liability - End of year	**$ 1,036,579**	**$ 853,997**

Contributions to the OPEB plan are not based on a measure of pay; therefore, no covered payroll is presented.

See notes to required supplemental information.

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, 2020 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

Pension Information

Changes in Assumptions

In 2020, assumed annual rate of investment return, net of all expenses, was lowered from 7.75 to 7.60 percent. In 2016, the mortality table was adjusted to reflect longer lifetimes, and the assumed annual rate of investment return, net of all expenses, was lowered from 8 to 7.75 percent.

Other Supplemental Information

	Special Revenue Funds		
	Public Improvement Fund	Tree Mitigation Fund	Bus Fund
Assets			
Cash and investments	$ 604,321	$ 219,563	$ 411,146
Receivables:			
Property taxes receivable	-	-	843
Special assessments receivable	-	-	-
Accrued interest receivable	-	641	-
Due from other governmental units	-	-	14,911
Prepaid expenses and other assets	-	-	-
Total assets	**$ 604,321**	**$ 220,204**	**$ 426,900**
Liabilities			
Due to other funds	$ 81,000	$ -	$ -
Accrued liabilities and other	-	-	28,796
Total liabilities	81,000	-	28,796
Deferred Inflows of Resources	-	-	844
Fund Balances			
Nonspendable - Prepaids	-	-	-
Restricted:			
Debt service	-	-	-
Tree mitigation	-	220,204	-
Bus	-	-	397,260
Metro act	28,882	-	-
Public improvements	494,439	-	-
Bridge maintenance	-	-	-
Committed - Capital projects	-	-	-
Total fund balances	523,321	220,204	397,260
Total liabilities, deferred inflows of resources, and fund balances	**$ 604,321**	**$ 220,204**	**$ 426,900**

March 31, 2020

Capital Project Funds			
East Delhi Bridge Maintenance Fund	Public Safety and Improvement Fund	Park Road SAD Fund	Total
$ 47,673	$ 772,359	$ 8,945	$ 2,064,007
-	-	-	843
-	-	28,764	28,764
-	-	-	641
142	-	761	15,814
-	-	21,114	21,114
$ 47,815	**$ 772,359**	**$ 59,584**	**$ 2,131,183**
$ -	$ -	$ -	$ 81,000
-	-	-	28,796
-	-	-	109,796
-	-	28,764	29,608
-	-	21,114	21,114
-	-	9,706	9,706
-	-	-	220,204
-	-	-	397,260
-	-	-	28,882
-	-	-	494,439
47,815	-	-	47,815
-	772,359	-	772,359
47,815	772,359	30,820	1,991,779
$ 47,815	**$ 772,359**	**$ 59,584**	**$ 2,131,183**

	Special Revenue Funds		
	Public Improvement Fund	Tree Mitigation Fund	Bus Fund
Revenue			
Property taxes	$ -	$ -	$ 443,437
Special assessments	-	-	-
State-shared revenue - State sources - Local Community Stabilization Authority	-	-	8,982
Investment income	14,999	4,522	978
Other miscellaneous income	13,886	-	-
Total revenue	28,885	4,522	453,397
Expenditures			
Current:			
General government	63,851	-	411,941
Public safety	-	-	-
Public works	-	-	-
Debt service	-	-	-
Total expenditures	63,851	-	411,941
Net Change in Fund Balances	(34,966)	4,522	41,456
Fund Balances - Beginning of year	558,287	215,682	355,804
Fund Balances - End of year	**$ 523,321**	**$ 220,204**	**$ 397,260**

Year Ended March 31, 2020

Capital Project Funds			
East Delhi Bridge Maintenance Fund	Public Safety and Improvement Fund	Park Road SAD Fund	Total
$ -	$ -	$ -	$ 443,437
4,999	-	16,034	21,033
-	-	-	8,982
174	16,547	2,287	39,507
-	-	-	13,886
5,173	16,547	18,321	526,845
557	-	-	476,349
-	224	-	224
-	-	225	225
-	-	22,591	22,591
557	224	22,816	499,389
4,616	16,323	(4,495)	27,456
43,199	756,036	35,315	1,964,323
$ 47,815	**$ 772,359**	**$ 30,820**	**$ 1,991,779**

Plante & Moran, PLLC
Suite 400
1000 Oakbrook Drive
Ann Arbor, MI 48104
Tel: 734.665.9494
Fax: 734.665.0664
plantemoran.com

October 21, 2020

To the Board of Trustees
Township of Scio

We have audited the financial statements of Township of Scio (the "Township") as of and for the year ended March 31, 2020 and have issued our report thereon dated October 21, 2020. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Internal Control Related Matters Identified in an Audit

Section II - Required Communications with Those Charged with Governance

Section III - Legislative and Informational Items

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

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

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

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

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

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

Very truly yours,

Plante & Moran, PLLC

David H. Helisek

Melanie L. Crowther

Section I - Internal Control Related Matters Identified in an Audit

In planning and performing our audit of the financial statements of the Township as of and for the year ended March 31, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

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

However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

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

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

Journal Entries: In performing our audit, there were instances where the accounting records were not yet closed for the year and required adjustment. Journal entries were required to properly state the records in compliance with generally accepted accounting principles. If the entries were not made, the statements would have been materially misstated. We recommend the Township put procedures in place to ensure all year-end entries are posted to the general ledger prior to the commencement of the audit.

Bank Reconciliations: During our review of the bank reconciliations, we noted that there was no confirmation that a review had occurred, as there were no reviewer initials on the bank reconciliation. This lack of review could lead to misappropriation of assets. The Township should implement a process where all bank reconciliations are reviewed timely and the review process is fully documented on the reconciliation.

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 15, 2020, 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 April 15, 2020.

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 2020.

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

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

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were 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 pension liability is based on assumptions used in the actuarial valuation. The net other postemployment benefits liability is based on an actuarial valuation that includes assumptions for the anticipated rate of return on investments, estimated future health care costs, life expectancies, and employee eligibility rates. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

We are required to inform those charged with governance of any serious difficulties encountered in dealing with management related to the performance of the audit. The Township was not able to provide completed trial balances and all requested support by the anticipated start date of June 8, 2020. The majority of support and adjusted trial balance was provided in late July. Audit support for a significant cycle was not provided until early October, resulting in the need to request from the Treasury a 30-day extension to complete the 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.

The following material misstatements detected as a result of audit procedures were corrected by management: entries related to the sale of land held for resale and property tax receivables. Several other entries were detected as a result of audit procedures that were not material individually but were in the aggregate.

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.

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 21, 2020.

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.

Section III - Legislative and Informational Items

COVID-19 Resource Center

Plante & Moran, PLLC has assembled a COVID-19 task force of leaders across the firm to monitor, address, and mitigate risks presented by the virus. We understand the unique challenges our local governments are facing in providing essential services to protect communities during the COVID-19 crisis, while going forward, they face seemingly impossible choices around staffing, capital projects, pension obligations, and dozens of other items in the face of an uncertain revenue outlook. We are sharing our insights within our government COVID-19 resource center https://www.plantemoran.com/explore-our-thinking/areas-of-focus/covid-19-government-resource-center. We will keep you updated with relevant economic analyses, crisis management guidelines, notices of changing regulations, and more to keep the Township running as smoothly as possible amidst uncertainty and unprecedented disruption.

Have questions about the CARES Act? Submit them at https://www.plantemoran.com/campaigns/firm/cares-act by simply providing your contact information and agreeing to our terms and conditions, and an expert from our task force will contact you within the next 24 hours.

Cybersecurity and Information Technology Controls

Cyberattacks are on the rise across the globe, and the cost of these attacks is ever increasing. Because of these attacks, municipalities stand to lose their reputation, the ability to operate efficiently, and proprietary information or assets. Communities can also potentially be subject to financial and legal liabilities. Managing this issue is especially challenging because even a municipality with a highly mature cybersecurity risk management program still has a residual risk that a material cybersecurity breach could occur and not be detected in a timely manner. We understand that the technology department continues to monitor and evaluate this risk, which are critical best practices. Additionally, periodic assessments of the system in order to verify that the control environment is working as intended are key parts of measuring associated business risk. We encourage administration and those charged with governance to work with the technology team on this very important topic. If we can be of assistance in the process, we would be happy to do so.

Michigan's MLTS E911 Legislation (PA 30 of 2019)

Public Act 30 of 2019 was adopted on June 25, 2019 and provides additional compliance requirements for organizations that operate Multi-Line Telephone Systems (MLTS). The intent is to provide emergency responders with more specific location information in case they are responding to a call at a large facility. The regulations will apply to any workspace larger than 7,000 square feet, with a compliance deadline of December 31, 2020.

- **A workspace includes**: offices, production areas, warehouses, shop floors, storage areas, hallways, conference rooms, break rooms, and other common areas.

- **A workspace does not include**: wall thickness, shafts, heating, ventilation, air conditioning equipment spaces, mechanical or electrical spaces, or any similar areas to which employees do not normally have access.

For single buildings over 7,000 square feet of workspace, with their own street address on a single contiguous property, the floor number, street address, and specific location of the communications device must be reported. When facilities with multiple buildings served by the same MLTS are considered, they must report the above requirements in addition to the building's unique identifier. Also, note that, under Kari's Law, any MLTS equipment that is manufactured, imported, sold, leased, or installed after February 16, 2020 must be capable of enabling its users to dial 911 directly without having to dial a prefix.

E911 Exemptions

- If a building contains less than 20,000 square feet of workspace and fewer than 20 communications devices, the MLTS operator is exempt from providing specific location information until it installs a new MLTS after January 1, 2020.

- If a building maintains, on a 24-hour basis, an alternative system capable of identifying the location of any communications device that dialed 911 or the building is serviced with its own appropriate medical, fire, and security personnel, it is exempt.

- Any MLTS operator that is not currently served by enhanced 911 service is exempt until enhanced 911 service becomes available.

- Other exemptions exist for farms and houses of worship, which, for the latter, do not extend to attached schools.

If you operate in a facility that is subject to these regulations, you should begin to plan for compliance. If we can be of assistance in the process, we would be happy to do so.

Updated Uniform Chart of Accounts

In April 2017, the State released an updated Uniform Chart of Accounts. Originally, local units of government were expected to comply with the changes beginning with June 30, 2018 year ends. However, the State has extended the deadline for compliance. On April 20, 2020, the State issued a memo that sets an implementation date for fiscal years ending on October 31, 2022 and thereafter. The State has committed to releasing various tools to help local units with implementation, including FAQs and clarification on which accounts should be used when implementing GASB 84. A significant revision to the current version of the chart of accounts will be issued in the future that will incorporate feedback that the Treasury has received. This revision will include significant changes to the expenditure accounts 700-999, which will now mirror the old approach that allowed for various numbers within certain ranges. Going forward, the Treasury will issue the following three documents for any future revisions: a revised chart of accounts, a marked-up version of the chart showing the changes, and a summary of the revisions report. Local units can sign up for alerts at this link: https://public.govdelivery.com/accounts/MITREAS/subscriber/new?qsp=MITREAS_1.

Section III - Legislative and Informational Items (Continued)

Legacy Costs

Legacy costs and the challenge of funding them continue to be topics of discussion. GASB pronouncements of late have placed even more focus on the net long-term liability arising from these benefit promises by requiring governmental financial statements to reflect the net pension and OPEB liability. For many governments, these net liabilities are significant. In addition, Public Act 202 of 2017 has brought further focus on the funding level of these plans.

The following are the funding levels per the funding valuations for the last three years for both pension and OPEB:

	Pension	OPEB
2020	81%	0%
2019	84%	0%
2018	83%	0%

Maintaining or even improving the funded status of the plans is dependent upon a number of factors, including the government’s contribution policies, its amortization policy for funding the unfunded actuarial accrued liability, its benefit levels, and the ability to make future changes to the plan.

That said, the challenge here is significant. We are happy to assist you in thinking through alternative ways to manage this liability.

Revenue Sharing

Given the recent COVID-19 pandemic, there are anticipated declines in the state revenue sharing constitutional portion and an unknown impact on the statutory portion as a result of COVID-19. Please refer to the Plante & Moran, PLLC COVID-19 resource center discussed above to keep updated on the economic analyses and other up-to-date information related to the pandemic.

Federal Procurement Threshold Changes

The Office of Management and Budget (OMB) has issued significant reforms to the compliance requirements that must be followed by nonfederal entities The Office of Management and Budget recently issued Memorandum M-18-18, which provides guidance on changes to micropurchases and simplified acquisition threshold requirements. The key changes are as follows:

- Threshold for micropurchases is increased to $10,000.
- Threshold for simplified acquisitions (small purchase procedures limit) increased to $250,000.

Key adoption considerations for micropurchase and simplified acquisition thresholds include the following:

- During the original adoption of Uniform Guidance (UG) procurement standards, were specific amounts included within the Township’s procurement policy, or were references to the UG sections or amounts as adjusted referenced? If specific amounts were referenced, the procurement policy will need to be updated to take advantage of the changes.

- If the Township's procurement policy was written to allow for changes in amounts, the procedures will need to be updated to conform.
- If this change is inconsistent with other procurement policies within the organization, the Township must decide how the policy will be enacted. Remember local ordinances in place may limit full utilization of changes.
- If the Township has chosen not to fully adopt the change and maintain a lower threshold, then the Township is not required to use these thresholds but cannot exceed them.

Pension/OPEB Bonds

Originally, the public act allowing for the issuance of pension/OPEB borrowings was set to sunset effective December 31, 2015, but it was extended until December 31, 2018 through Public Act 46 of 2015. Therefore, communities meeting certain criteria, such as maintaining a credit rating of AA or higher and closing or freezing plans, were able to issue bonds up until December 31, 2018. This was further extended through December 31, 2023 by Public Act 575 of 2018. This public act has additional stipulations that can be found in more detail at http://www.legislature.mi.gov/documents/2017-2018/publicact/pdf/2018-PA-0575.pdf.

Launch of MI Community Financial Dashboard

The Michigan Department of Treasury launched the MI Community Financial Dashboard. This dashboard will provide you and your community members with easy-to-use visual data regarding your municipality. The data presented on the dashboard is pulled from the Annual Local Fiscal Report (F65) submitted by your local unit. The dashboard will present data from fiscal years 2010 through 2017. You can sign in and review the dashboard here: http://micommunityfinancials.michigan.gov/#!/dashboard/COUNTY/?lat=44.731431779455505&lng=-83.018211069625&zoom=5.

Administrative Charges

The services provided by employees that are traditionally charged to the General Fund, like treasury, finance, HR, etc., oftentimes significantly benefit other funds. As a result, it is a fairly common practice to allocate a portion of these costs via an administrative charge to other funds of the government. Administrative charges can take many forms, such as interfund allocations, chargebacks, and payment in lieu of taxes to other funds (such as a golf courses). While the practice of charging for administrative services provided to other funds may certainly be justified, there seems to be a heightened focus lately on the methodology and amount of charges. Given the fact that many cost allocation methodologies were implemented several years ago, it would be prudent to revisit your current methodology and the related inputs to ensure that any administrative charges are fully substantiated.

Section III - Legislative and Informational Items (Continued)

Legacy Cost Reporting

Public Act 530 of 2016

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 was effective on March 29, 2017.

Under the prior act, communities were required to publish a summary annual report setting forth key information related to pension and retiree health care 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 time frame.

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

Public Act 202 of 2017

On January 5, 2018, the Michigan Department of Treasury released initial reporting requirements under Public Act 202 of 2017 (the “Act”), which were primary components of the Act. These reporting requirements apply to all local units of government that offer or provide defined benefit pension and/or defined benefit OPEB retirement benefits.

Local units began reporting funded ratios and contributions in accordance with these uniform assumptions starting with their fiscal year 2019 if their audited financial statements were based on an actuarial valuation issued after December 31, 2018. If their fiscal year 2019 audited financial statements were based on an actuarial valuation issued prior to December 31, 2018, the local units will begin reporting on these uniform assumptions starting with their fiscal year 2020.

On October 21, 2019, the Michigan Department of Treasury released the updated uniform assumptions to be used for fiscal year 2020. Beginning with fiscal year 2020 reporting, all local governments must utilize the updated fiscal year 2020 uniform assumptions. Each year moving forward, the annual uniform assumptions will be updated and are expected to be utilized within Form 5572, where indicated, for that fiscal year. Local governments may utilize roll-forward procedures in nonvaluation years utilizing any updates to the uniform assumptions to calculate the data.

This means that the local unit may potentially need three calculations: a funding valuation (if the local unit chooses to have different assumptions for funding purposes), a valuation that complies with GAAP to be used for financial statement reporting, and a calculation that complies with the State’s new uniform assumptions.

Section III - Legislative and Informational Items
(Continued)

The releases by the Department of Treasury include the letters titled "Public Act 202: Selection of the Uniform Assumptions" and "Public Act 202: Selection of the Uniform Assumptions for Fiscal Year 2020," Numbered Letter 2018-1, Form 5572, detailed instructions for completion of Form 5572, and a listing of frequently asked questions. All documents can be located at http://www.michigan.gov/treasury/0,4679,7-121-1751_51556_84499---,00.html.

Form 5572 is due annually for both pension and OPEB plans provided by an employer no later than six months after the end of your fiscal year.

In addition to submitting this new form to the Department of Treasury, a local unit must also post this information either on its website or in a public place if it does not have a website. The governing body of a local unit will also need to receive a copy of this form, in accordance with the Act, but the Act does not require approval by the governing body before submission to the Treasury.

Public Act 202 defines that a local unit of government is in underfunded status if any of the following apply:

1. OPEB - Total plan assets are less than 40 percent of total plan liabilities according to the most recent annual report, and, for primary units of government*, the annual required contribution for all of the retirement health systems of the local unit is greater than 12 percent of the local unit of government's governmental funds operations revenue.

2. Retirement pension plans - Total plan assets are less than 60 percent of total plan liabilities according to the most recent annual report, and, for primary units of government, the annual required contribution for all of the retirement pension systems of the local unit is greater than 10 percent of the local unit of government's governmental funds operations revenue.

*Primary units of government are cities, villages, townships, and counties.

If, after submission of Form 5572, the Treasury determines your community to have underfunded status, you will have the opportunity to file a waiver under Section 6 of the Act. The waiver needs to provide a plan for how the underfunding is being addressed. This waiver will then be submitted to the Treasury.

In the event that a local unit has underfunded plans and does not submit a waiver or the waiver is not approved, the Treasury will perform an internal review. The local unit will also need to submit a corrective action plan to the newly created Municipal Stability Board (under Section 7 of the Act). The local unit will be responsible for creating the corrective action plan.

For governments with OPEB plans, Section 4(l)(a)(i)(ii) of Public Act 202 of 2017 requires the local unit to pay retiree insurance premiums for the year, as well as the normal costs for the new employees hired after June 30, 2018. The actuary will likely need to calculate this number in order for governments to comply. In addition, if communities must essentially prefund this additional cost, those communities without a qualifying OPEB trust will need to consider where these contributions will go.

Questions should be directed via email to the Treasury offices at LocalRetirementReporting@michigan.gov or by visiting its website at www.Michigan.gov/LocalRetirementReporting.

Numbered Letter 2018-3

On March 13, 2020, the Treasury issued Numbered Letter 2018-3 (Revised) as a revision to Numbered Letter 2018-3 that was first issued in September 2018. This revised numbered letter provides additional clarity and guidance for compliance with Public Act 202 related to the calculation and reporting of the actuarial determined contribution (ADC) for other postemployment benefit (OPEB) systems. The revision emphasized two key points:

1. The ADC, regardless of funding policy, must be calculated as the normal cost plus the amortization of the unfunded liability.

2. The ADC, calculated in accordance with the act, must be reported in the audited financial statements. Note that OPEB plans that are not administrated through a trust are not required by GAAP to disclose the ADC in the required supplemental information section of the audited financial statements, but those plans should disclose this information in the footnotes to the financial statements, as required by this revised numbered letter.

Failure to calculate the ADC in compliance with this Numbered Letter 2018-3 (Revised) will be considered statutory noncompliance and shall be reported in the notes to the financial statements and result in an auditor finding for statutory noncompliance. Failure to report a compliance ADC in audited financial statements may result in the rejection of Form 5572 submissions and noncompliance with the Act and/or rejection of the local government's audited financial statements.

Public Act 57 Consolidation of Tax Increment Authorities

Public Act 57 of 2018, otherwise known as The Recodified Tax Increment Financing Act (PA 57), went into effect on January 1, 2019. PA 57 consolidated the ability to create and operate tax increment authorities (other than brownfield redevelopment authorities) into a single statute. All previously created authorities will remain; however, the following acts were repealed, and the corresponding authorities will now operate under PA 57:

- Downtown Development Authority Act (PA 197 of 1975)
- Tax Increment Finance Authority Act (PA 450 of 1980)
- Local Development Finance Authority Act (PA 281 of 1986)
- Nonprofit Street Railway Act (PA 35 of 1867)
- Corridor Improvement Authority Act (PA 280 of 2005)
- Water Resource Improvement Tax Increment Finance Authority Act (PA 94 of 2008)
- Neighborhood Improvement Authority Act (PA 61 of 2007)

Note that the above acts were repealed and recodified into PA 57. The acts listed below were repealed; however, they were not recodified:

- Historical Neighborhood Tax Increment Finance Authority Act (PA 530 of 2004)
- Private Investment Infrastructure Funding Act (PA 250 of 2010)

Any obligation, or refunding of an obligation, that was issued by an authority or by the municipality that created the authority, under a statute that was repealed by Public Act 57, will continue in effect under its original terms under the corresponding part of PA 57.

Transparency and Reporting Requirements

1. By April 1, 2019, each authority was required to submit its currently adopted development plan or tax increment finance plan to the Department of Treasury.

2. Annually, after January 1, 2019, each authority must submit a comprehensive annual report to the Treasury, the governing bodies of its related municipality, and each taxing unit levying taxes that are captured by the authority. This report must contain detailed information on the capture and use of tax increment revenue and is due concurrent with the authority's audit report due date (typically six months after the fiscal year end).

3. Within 180 days after the authority's fiscal year end, subsequent to January 1, 2019, the municipality that created the authority must give public access (either on its website or at a physical location within the municipality) to the following documents:

    - Minutes of all authority board meetings
    - Current authority staff contact information
    - Authority's approved budgets and annual audits
    - Currently adopted development and/or tax increment financing plans
    - Current contracts with descriptions
    - Annual synopsis of the authority's activity, which includes the following:

        - For any tax increment revenue not expended within five years of receipt, include the reasoning for accumulating the funds, their expected uses, and a time frame of when they will be expended.

        - For any tax increment revenue not expended within 10 years of receipt, include the amount of those funds, along with a written explanation for the reason the funds have not been expended.

    - For the immediately preceding fiscal year, a list of the authority's accomplishments, projects, investments, events, and promotional campaigns

4. The authority must hold, at a minimum, two informational meetings each year and give a 14-day advance notice to the public and to the governing body of each taxing unit. These meetings may be held in conjunction with other public meetings of the authority or municipality.

Any authority not in compliance with the above reporting requirements will receive a notice from the Department of Treasury. If the authority is still in noncompliance status 60 days after receipt of the notice, the authority will be prohibited from capturing tax increment revenue in excess of the amounts needed to pay bonded indebtedness and other obligations of the authority during this period of noncompliance.

Additional Information

To view Public Act 57 of 2018, regarding the consolidation of tax increment authorities and additional reporting requirements, visit the State of Michigan's website: http://www.legislature.mi.gov/(S(nhboq4doz1h4bwbqb0gcxqim))/mileg.aspx?page=GetObject&objectname=mcl-Act-57-of-2018.

Other New Legislation

LCSA Act Amendments

Public Acts 247 and 248 of 2018 were signed into law on June 27, 2018 by Governor Snyder. These acts significantly impact the Local Community Stabilization Authority (LCSA) Act, including how personal property tax (PPT) reimbursements are calculated.

The State Department of Treasury issued a summary of the amendments in July 2018, which can be found at the following link: https://www.michigan.gov/documents/treasury/Overview_of_2018_LCSA_Act_Amendments_627459_7.pdf.

This summary document lists the following changes that resulted from these acts:

1. Accelerate some reporting deadlines and add two new reporting requirements.
2. Change the calculation of the millage rate to be used in the calculation of the PPT reimbursements.
3. Change the calculation of the personal property exemption loss and eliminate the requirements to recalculate prior year taxable values.
4. Change the millage rate to be used in the calculation of a tax increment finance authority's (TIFA) PPT reimbursement.
5. Make the local community stabilization authority responsible for distributing the fire protection services payments.
6. Create a process for correcting PPT reimbursements.
7. Allow for a one-time PPT advance for prior year underpayments of $500,000 or more.
8. Change the payment dates of the PPT reimbursements to allow for corrections to current year reimbursements and delay the payment of qualified loss in excess of 100 percent until May 20.
9. Change how municipalities are required to record and allocate the revenue.

Section III - Legislative and Informational Items
(Continued)

While we strongly recommend reviewing the link provided above for an in-depth look at the changes, highlighted below are the more significant changes:

- PPT reimbursement calculations are changing as follows:
  - The requirements for recalculation of prior year taxable value have changed. Going forward, prior year property tax values for commercial and industrial personal property will only be modified for municipality boundary changes and to exclude any property that was classified in the municipality where it is currently located as utility personal property or real property after 2012.
  - The calculation of PPT reimbursements that are based on the acquisition cost of eligible personal property for two years has been delayed until 2021.
  - Reimbursement for 100 percent of the calculated qualified loss going forward will be received in either October or February.
  - Each year, any remaining balance of the local community stabilization share fund revenue for the calendar year will be distributed to counties, cities, townships, villages, and community colleges. The allocation will be based on each municipality's share of the total reimbursement based on the acquisition cost of all eligible personal property and qualified loss. These reimbursement payments will be a separate payment that will be reimbursed in May. This allows time for any errors in that year's PPT reimbursement calculation to be identified and corrected.
  - There are also changes to the tax increment finance authority PPT reimbursement calculation; please refer to the link above for more details.
- Fire protection service payments were distributed by LCSA to municipalities starting in 2018. The payment distributions will continue to occur by November 30 each year. Each municipality is to continue to complete and submit the required questionnaire to LARA in order to qualify.
- The timing of PPT reimbursements has changed as follows:
  - Tax increment finance authorities - For a TIFA that previously received payments in November, reimbursements will be issued on October 20 of each year. Corrections for the underpayment of a prior year PPT reimbursement or a current year reimbursement will be issued on May 20 of each year.
  - Municipalities, excluding school districts, intermediate school districts, and TIFAs - For a municipality that previously received payments in November, reimbursements for essential services, small taxpayer exemption loss, and qualified loss up to 100 percent will be issued on October 20 of each year. For municipalities that previously received payments in February, reimbursements for essential services, small taxpayer exemption loss, and qualified loss up to 100 percent will continue to be issued on February 20 of each year. Corrections for the underpayment of a prior year PPT reimbursement or a current year reimbursement will be issued on May 20 of each year, as will the portion of qualified loss exceeding 100 percent reimbursement.

Section III - Legislative and Informational Items (Continued)

The table below provides a schedule of payment dates for all municipalities.

Description of PPT Reimbursement	Date of Reimbursement
Payment of calculated current year PPT reimbursements up to 100 percent of the calculated losses for county-allocated millage to municipalities that do not levy millage 100 percent in December and TIFAs (payment must be allocated to the funds based on millages)	October 20 (each year)
Payment of calculated current year PPT reimbursements up to 100 percent of the calculated losses for townships, county extra-voted millage, and to municipalities that levy millage 100 percent in December	February 20 (each following year)
Payment of prior year underpayment that was not advanced and current year underpayment and prorated qualified loss in excess of 100 percent. (Note that the payment does not need to be allocated based on millages. If the local unit chooses, this can be fully recorded in the General Fund.)	May 20 (each following year)

- Changes to the requirement to restrict revenue - To date, the previous LCSA act had only required a municipality to use the reimbursement amount received for debt millage to pay for debt and to use the essential service reimbursement to pay for the cost of essential services. The newly signed amendment now also requires that each municipality allocate and record the payments received in the same manner as the millage levied up to 100 percent reimbursement. The October payment represents the 100 percent reimbursement and should be allocated by millages. The May payment does not represent reimbursement and can be receipted into the General Fund at the discretion of the local unit.

In addition, for county road millages levied under Section 20b of 1909 PA 283, MCL 224.20b, a formula for allocating a portion of the PPT reimbursement to each city and village must be decided by March 31 by the cities, villages, and road commission. If this does not occur, a formula for allocating payments will be determined by the Department of Treasury.

As a reminder, the LCSA reimbursements should not be reported on the financial statements with property taxes; instead, they should be included with other intergovernmental revenue from the State (state-shared revenue, grants, and other). The State has created a new account number for the revenue, 573, and titled it "Local Community Stabilization Share Appropriation." As always, communities should follow the State's guidance related to the Uniform Chart of Accounts.

Section III - Legislative and Informational Items
(Continued)

<u>Upcoming Accounting Standards Requiring Preparation</u>

GASB Statement No. 95 - Postponement of the Effective Dates of Certain Authoritative Guidance

This new pronouncement was adopted in May 2020 and is effective immediately. This statement postpones the effective dates of the following pronouncements and implementation guides by one year:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide No. 2018-1, *Implementation Guidance Update - 2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update - 2019*
- Implementation Guide No. 2019-2*, Fiduciary Activities*

The effective dates of the following pronouncement and implementation guide are postponed by 18 months:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*

GASB Statement No. 84 - Fiduciary Activities

This new pronouncement is effective for reporting periods beginning after December 15, 2018 (December 15, 2019 after extension within GASB Statement No. 95). This statement provides criteria for state and local governments to use in identifying whether an activity is fiduciary and should be reported as a fiduciary fund type in its financial statements. In addition, once fiduciary activities are identified, GASB 84 also provides specific reporting requirements.

This statement has the potential to significantly impact what governments report currently as a fiduciary activity. Upon adoption, we anticipate that some governments' fiduciary activities will need to move to governmental funds, while other activities that previously were not considered fiduciary may now be reported as such under certain circumstances. It is also possible that certain pension and OPEB fiduciary funds will no longer be reported in a local unit's financial statements.

Given the potential to have a major impact on many governments, not only to their external financial statements, but also to their accounting system requirements and budget documents, we encourage you to start analyzing the impact of this standard now. The first step to implementation is identifying the type of activities that should be analyzed and then running those activities through the lens of this standard.

GASB Statement No. 87 - Leases

This new accounting pronouncement will be effective for reporting periods beginning after December 15, 2019 (June 15, 2021 after extension within GASB Statement No. 95). This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

We recommend beginning to accumulate information now related to all significant lease agreements in order to more efficiently implement this new standard once it becomes effective.

Plante & Moran, PLLC will be providing trainings and other resources to our clients in the coming months to help prepare for the implementation of all these new standards. In the interim, please reach out to your engagement team for assistance in getting started.

GASB Statement No. 88 - Debt Disclosures

This new accounting pronouncement is effective for reporting periods beginning after June 15, 2018 (June 15, 2019 after extension within GASB Statement No. 95). The primary objective of this statement is to improve the information that is disclosed in the notes to the financial statements related to debt, including direct borrowings and direct placements. It also requires that additional information be disclosed, including unused lines of credit, assets pledged as collateral, and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. Plante & Moran, PLLC will be providing resources to assist with compiling information related to these new disclosures.

GASB Statement No. 89 - Interest Incurred during Construction

This new accounting pronouncement will be effective for reporting periods beginning after December 15, 2019 (December 15, 2020 after extension within GASB Statement No. 95). This statement eliminates capitalized interest and instead requires all interest expense, including the portion incurred during construction of a capital asset, to be expensed. Early adoption is encouraged.

Section III - Legislative and Informational Items
(Continued)

GASB Statement No. 92 - Omnibus 2020

This new accounting pronouncement has various effective dates that were postponed by one year after extension within GASB Statement No. 95. This statement addresses eight unrelated practice issues and technical inconsistencies in authoritative literature. The standard addresses leases, intraentity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments.

GASB Statement No. 93 - Replacement of Interbank Offered Rates

The requirements of this new accounting pronouncement will be effective for reporting periods beginning after June 15, 2020 (June 15, 2021 after extension within GASB Statement No. 95), except for the removal of LIBOR as an appropriate benchmark interest rate for a hedging derivative instrument, which is effective for reporting periods ending after December 31, 2021 (December 31, 2022 after extension within GASB Statement No. 95). With the London Interbank Offered Rate (LIBOR) expected to cease existence in its current form at the end of 2021, this statement addresses accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR) in hedging derivative instruments and leases.