

**Township of Scio
Washtenaw County, Michigan**

**Financial Report
with Supplemental Information
March 31, 2014**

Township of Scio

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Independent Auditor's Report

To the Board of Trustees

Township of Scio

Report on the Basic Financial Statements

We have audited the accompanying basic 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, 2014, 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 Basic Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 basic 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 basic 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 basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 basic 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 basic 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, 2014 and the respective changes in its financial position, and, where applicable, cash flows, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees
Township of Scio

Emphasis of Matter

As discussed in Note 12 to the basic financial statements, in 2014 the Township adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the major fund budgetary comparison schedules, the pension system schedule of funding progress, and the other postemployment benefits schedule of funding progress as identified on 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 basic 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

August 18, 2014

Township of Scio

Management's Discussion and Analysis

Our discussion and analysis of the Township of Scio's (the "Township") financial performance provides an overview of the financial activities for the fiscal year ended March 31, 2014. 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, 2014:

- The Township property tax collection remains the largest single revenue source for the general operations of the Township. The collection was relatively flat for the previous four years because of the tax formula used to determine taxable value.
- The fire special assessment district (SAD) funded the fire department budget for the first time in fiscal year 2010. The voter-approved SAD levy is a maximum of 0.9 mills on the taxable value of real property in the district that excludes the Village of Dexter. It is collected annually with the December tax bills. This collection is not subject to state rollback requirements and is not captured by the Township Downtown Development Authority. The first collection occurred following the vote with the December 2008 taxes. The monies represent deferred revenue and are committed to the fiscal year budget that starts following collection. Revenue is segregated in the Fire Department Fund and expended only on fire service costs.
- On the sheriff side of public safety, the Township has seen expenditures for sheriff services remain consistent for the fourth year after several years of significant increases related to increasing the number of deputies assigned to the Township and the total number of deployment hours.
- State-shared revenue, the Township's second largest revenue source, increased approximately \$22,000 in fiscal year 2014 compared to 2013. As the Township receives only the constitutional allocation of state revenue sharing, this revenue source is relatively stable.
- Because of the economic downturn, development fee revenue was significantly reduced in the past several years. During the current fiscal year, there was a bit of an increase in these fees.
- The revamped billing method for water and sewer service continues to be monitored closely. In this fiscal year, the Water Fund and Sewer Fund expenditures exceeded revenue. Fees will be increased for the fiscal year ended March 31, 2015 to ensure that annual cost and revenue are in line.
- The Township is working with its water supplier, the City of Ann Arbor, to perform rehabilitation of the sewer pumping station on Liberty Road.

Township of Scio

Management's Discussion and Analysis (Continued)

- In the current fiscal year, several smaller special assessments were established to repair roads for specific subdivisions. These assessments were financed through the 2013 Special Assessment Bonds discussed in the notes to the financial statements. Additionally, during the current fiscal year, the Township passed a 10-year Township-wide special assessment for the improvement of the secondary roads within the Township.

Using this Annual Report

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

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

It is important that the reader note that this report represents a snapshot of the financial position of the Township as of the close of business on March 31, 2014. The largest financial resource, property tax collection, is seasonal. It is collected late in the budget year and only during the fourth quarter (December to February). The revenue generated from property tax collection is in the fourth quarter revenue stream and not available for the first three quarters. As such, it becomes reflected in fund balance. Sufficient cash balance must be in reserve to meet the expenditures for the entire year.

Township of Scio

Management's Discussion and Analysis (Continued)

The Township as a Whole

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

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current assets	\$ 19,286	\$ 12,886	\$ 22,574	\$ 22,958	\$ 41,860	\$ 35,844
Noncurrent assets	<u>10,473</u>	<u>9,549</u>	<u>25,585</u>	<u>25,592</u>	<u>36,058</u>	<u>35,141</u>
Total assets	29,759	22,435	48,159	48,550	77,918	70,985
Liabilities						
Current liabilities	1,280	1,344	1,647	1,054	2,927	2,398
Long-term liabilities	<u>1,148</u>	<u>746</u>	<u>1,847</u>	<u>1,957</u>	<u>2,995</u>	<u>2,703</u>
Total liabilities	<u>2,428</u>	<u>2,090</u>	<u>3,494</u>	<u>3,011</u>	<u>5,922</u>	<u>5,101</u>
Net Position						
Net investment in capital assets	9,582	8,984	23,744	23,616	33,326	32,600
Restricted	10,116	3,749	20,921	21,923	31,037	25,672
Unrestricted	<u>7,633</u>	<u>7,612</u>	<u>-</u>	<u>-</u>	<u>7,633</u>	<u>7,612</u>
Total net position	<u>\$ 27,331</u>	<u>\$ 20,345</u>	<u>\$ 44,665</u>	<u>\$ 45,539</u>	<u>\$ 71,996</u>	<u>\$ 65,884</u>

A significant portion of the assets represents fixed capital improvements. The equity in Township capital assets, such as sewer and water lines, is not readily transferable to cash. The unrestricted net position is more liquid in nature and is available to finance day-to-day operations. They were \$7,633,000 and \$7,612,000 as of March 31, 2014 and 2013, respectively. The current level of unrestricted net position for governmental activities is approximately 28 percent of total governmental activities net position. The reader should note throughout the statements that certain amounts remain restricted for specific items and legally can only be expended on those items, such as land preservation, boulevard landscape maintenance, tree activities, special assessment purposes, sewer and water operations, Metro Act funds, and capital projects.

Township of Scio

Management's Discussion and Analysis (Continued)

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

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenue						
Program revenue:						
Charges for services	\$ 7,101	\$ 1,215	\$ 3,952	\$ 4,292	\$ 11,053	\$ 5,507
Capital grants and contributions	78	-	369	230	447	230
General revenue:						
Property taxes	2,211	2,161	-	-	2,211	2,161
State-shared revenue	1,228	1,198	-	-	1,228	1,198
Unrestricted investment earnings	47	41	47	90	94	131
Franchise fees	270	265	-	-	270	265
Miscellaneous	63	396	-	-	63	396
Total revenue	10,998	5,276	4,368	4,612	15,366	9,888
Program Expenses						
General government	1,542	1,821	-	-	1,542	1,821
Public safety	2,276	2,152	-	-	2,276	2,152
Public works	146	117	-	-	146	117
Interest on long-term debt	48	35	-	-	48	35
Water	-	-	2,615	2,721	2,615	2,721
Sewer	-	-	2,626	2,320	2,626	2,320
Total program expenses	4,012	4,125	5,241	5,041	9,253	9,166
Change in Net Position	\$ 6,986	\$ 1,151	\$ (873)	\$ (429)	\$ 6,113	\$ 722

Governmental Activities

Charges for services increased significantly during the current year, which was largely related to the Township-wide special assessment. The full assessment was recorded into revenue on the government-wide statements during the year.

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 (the "City"). The Township is reviewing other outstanding system improvements required under outstanding contracts with the City, including a major rehabilitation of the pump station on Liberty Road.

Township of Scio

Management's Discussion and Analysis (Continued)

The Township's operational responsibility for sewer and water is limited to the service lines and pumping facilities located within the borders of the Township. The utilities department continues to implement an adopted capital improvement program. Over the past eight years, the department implemented an extensive in-flow and infiltration (I&I) program on the sanitary sewer system that has led to a lesser problem with wet weather flooding.

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

Township Funds

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

The General Fund revenue is not restricted or dedicated to specific uses. The General Fund pays for most of the Township's governmental services. The most significant expenditures are those for the police department, which incurred expenses of approximately \$1,261,000 in fiscal year 2014 and \$1,256,000 in 2013. All public safety expenditures except for the fire department have been funded entirely by the General Fund. The dedicated fire special assessment has funded the fire department since 2010.

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

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

Township of Scio

Management's Discussion and Analysis (Continued)

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

Budgetary Highlights

Over the course of the year, the Township amended the budget in a legally permissible manner to reflect changing events. There were minimal amendments made in the Township's General Fund budget.

Capital Asset and Debt Administration

At the end of fiscal year 2014, the Township had approximately \$36.1 million invested in a broad range of capital assets, including buildings, fire equipment, and water and sewer lines (not including the Jackson Road improvements). Capital assets are not liquid and cannot be easily transferred to cash equivalents.

The Township's Downtown Development Authority has a debt obligation at the end of the audit year of approximately \$14.5 million. The proceeds from these debt issuances financed the development of the Jackson Road corridor. The DDA amended its financing plan in fall 2006 to extend its life and fund Phase III of Jackson Road. A bond issue of \$3.47 million was sold in February 2012, refunding the remaining debt from the 2002 issue. A bond issue of \$9.7 million was sold in December 2006. An additional \$3.3 million of debt was issued in 2008. Per the adopted DDA financing plan, all bond payments will be met by the DDA through the capture of tax increment revenue. The Washtenaw County Road Commission has full jurisdiction over the road, retains the asset, and is responsible for the project and contract administration of funds from Township, State, and federal sources. The numbers in this audit represent contributions from the DDA and the Township sewer funds. The total final costs, including acquisition, design, and construction through Phase III, will be approximately \$23 million, with over \$16 million paid by the Township local sources. The proposed Phase IV construction (Dino Drive to Parker Road) has been planned since 1986; however, the uncertainty over the current state of the economy means that the start of this final phase will be placed on hold for the foreseeable future.

Economic Factors and Next Year's Budgets and Rates

The recent national economic downturn caused a decline in property values in the past several years that has resulted in lower property tax collections for the Township. During the current year, property values increased for the first time since the downturn and there was a slight increase in property tax revenue.

Township of Scio

Management's Discussion and Analysis (Continued)

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

Contacting Township Management

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

Township of Scio

Statement of Net Position March 31, 2014

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments	\$ 13,309,888	\$ 21,939,714	\$ 35,249,602	\$ 5,622,004
Receivables:				
Property taxes receivable	60,101	-	60,101	-
Customer receivables - Net	108,585	631,156	739,741	-
Accrued interest receivable	2,500	-	2,500	-
Other receivables	6,706	-	6,706	-
Due from other governmental units	426,647	2,707	429,354	-
Special assessments receivable	5,370,984	-	5,370,984	-
Due from component units	311	-	311	-
Due from primary government	-	-	-	113,917
Prepaid expenses	-	1,090	1,090	-
Capital assets - Net:				
Nondepreciated	7,556,726	2,487,999	10,044,725	16,010,711
Depreciated	2,916,565	23,096,888	26,013,453	12,299,096
Total assets	29,759,013	48,159,554	77,918,567	34,045,728
Liabilities				
Accounts payable	38,426	457,570	495,996	47,913
Due to other governmental units	-	806,548	806,548	1,607,052
Due to component units	113,917	-	113,917	-
Due to primary government	-	-	-	311
Accrued liabilities and other	30,592	242,870	273,462	210,188
Unearned revenue - Special assessments	936,842	-	936,842	-
Noncurrent liabilities:				
Due within one year:				
Compensated absences	85,515	-	85,515	-
Current portion of long-term debt	75,000	140,000	215,000	1,205,000
Due in more than one year:				
Net other postemployment benefits obligation	331,680	146,262	477,942	-
Long-term debt - Net of current portion	816,000	1,700,749	2,516,749	13,245,000
Total liabilities	2,427,972	3,493,999	5,921,971	16,315,464
Net Position				
Net investment in capital assets	9,582,291	23,744,138	33,326,429	13,859,807
Restricted for:				
Debt service	180,728	-	180,728	-
Water operations	-	5,887,848	5,887,848	-
Sewer operations	-	15,033,569	15,033,569	-
Metro act	125,865	-	125,865	-
Land preservation	1,649,321	-	1,649,321	-
Public safety	1,483,425	-	1,483,425	-
Public improvement	624,836	-	624,836	-
Tree mitigation	11,133	-	11,133	-
Road improvement	5,966,351	-	5,966,351	-
Bridge maintenance	30,198	-	30,198	-
Capital projects	43,931	-	43,931	-
Unrestricted	7,632,962	-	7,632,962	3,870,457
Total net position	\$ 27,331,041	\$ 44,665,555	\$ 71,996,596	\$ 17,730,264

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

Township of Scio

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,541,902	\$ 251,453	\$ -	\$ -
Public safety	2,276,311	952,823	-	-
Public works	145,616	5,897,133	-	77,782
Interest on long-term debt	47,767	-	-	-
Total governmental activities	4,011,596	7,101,409	-	77,782
Business-type activities:				
Water	2,615,154	2,278,377	-	68,987
Sewer	2,625,903	1,673,334	-	300,487
Total business-type activities	5,241,057	3,951,711	-	369,474
Total primary government	\$ 9,252,653	\$ 11,053,120	\$ -	\$ 447,256
Component units:				
Downtown Development Authority	\$ 1,495,490	\$ -	\$ -	\$ -
Economic Development Corporation	10,986	-	10,454	-
Total component units	\$ 1,506,476	\$ -	\$ 10,454	\$ -

General revenue:

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

Total general revenue

Change in Net Position

Net Position - Beginning of year

Net Position - End of year

Statement of Activities
Year Ended March 31, 2014

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (1,290,449)	\$ -	\$ (1,290,449)	\$ -
(1,323,488)	-	(1,323,488)	-
5,829,299	-	5,829,299	-
(47,767)	-	(47,767)	-
3,167,595	-	3,167,595	-
-	(267,790)	(267,790)	-
-	(652,082)	(652,082)	-
-	(919,872)	(919,872)	-
3,167,595	(919,872)	2,247,723	-
-	-	-	(1,495,490)
-	-	-	(532)
-	-	-	(1,496,022)
2,211,412	-	2,211,412	1,904,747
1,227,711	-	1,227,711	-
46,903	46,749	93,652	15,972
269,894	-	269,894	-
62,668	-	62,668	-
3,818,588	46,749	3,865,337	1,920,719
6,986,183	(873,123)	6,113,060	424,697
20,344,858	45,538,678	65,883,536	17,305,567
\$ 27,331,041	\$ 44,665,555	\$ 71,996,596	\$ 17,730,264

Township of Scio

Governmental Funds Balance Sheet March 31, 2014

	General Fund	Open Space Land Preservation Fund	Fire Department Fund	Township Road Improvement Revolving Fund	Other Nonmajor Governmental Funds	Total
Assets						
Cash and investments (Note 3)	\$ 6,797,713	\$ 1,681,546	\$ 2,414,106	\$ 786,429	\$ 1,630,094	\$ 13,309,888
Receivables - Net:						
Taxes	45,697	14,314	90	-	-	60,101
Special assessments	-	-	-	5,115,455	255,529	5,370,984
Customers	108,585	-	-	-	-	108,585
Interest	2,500	-	-	-	-	2,500
Other receivables	6,706	-	-	-	-	6,706
Due from other governmental units	338,900	24,176	36,116	26,817	638	426,647
Due from component units (Note 6)	205	106	-	-	-	311
Prepaid expenses	-	-	-	37,650	23,339	60,989
Total assets	\$ 7,300,306	\$ 1,720,142	\$ 2,450,312	\$ 5,966,351	\$ 1,909,600	\$ 19,346,711
Liabilities						
Accounts payable	\$ 21,105	\$ 8,606	\$ 8,715	\$ -	\$ -	\$ 38,426
Due to component units (Note 6)	-	-	-	-	113,917	113,917
Accrued liabilities and other	-	2,215	21,330	-	-	23,545
Unearned revenue - Special assessment	-	-	936,842	-	-	936,842
Total liabilities	21,105	10,821	966,887	-	113,917	1,112,730
Deferred Inflows of Resources (Note 4)	145,618	14,102	-	5,115,455	255,529	5,530,704
Fund Balances						
Nonspendable - Prepaids	-	-	-	37,650	23,339	60,989
Restricted:						
Land preservation	-	1,635,219	-	-	-	1,635,219
Public safety	-	-	1,483,425	-	-	1,483,425
Metro act	-	-	-	-	125,865	125,865
Public improvements	-	-	-	-	624,836	624,836
Tree mitigation	-	-	-	-	11,133	11,133
Debt service	-	-	-	-	21,860	21,860
Road improvements	-	-	-	813,246	-	813,246
Bridge maintenance	-	-	-	-	30,198	30,198
Committed:						
Other postemployment benefits obligation	941,220	-	-	-	-	941,220
Capital projects	-	-	-	-	778,992	778,992
Assigned - Land preservation	-	60,000	-	-	-	60,000
Unassigned	6,192,363	-	-	-	(76,069)	6,116,294
Total fund balances	7,133,583	1,695,219	1,483,425	850,896	1,540,154	12,703,277
Total liabilities, deferred inflows of resources, and fund balances	\$ 7,300,306	\$ 1,720,142	\$ 2,450,312	\$ 5,966,351	\$ 1,909,600	\$ 19,346,711

Township of Scio

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position Year Ended March 31, 2014

Fund Balance Reported in Governmental Funds	\$ 12,703,277
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	10,473,291
Grants and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds	5,530,704
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(951,989)
Accrued interest is not due and payable in the current period and is not reported in the funds	(7,047)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(85,515)
Net other postemployment benefit obligations are not reported as fund liabilities	(331,680)
Net Position of Governmental Activities	<u>\$ 27,331,041</u>

Township of Scio

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2014

	General Fund	Open Space Land Preservation Fund	Fire Department Fund	Township Road Improvement Revolving Fund	Other Nonmajor Governmental Funds	Total
Revenue						
Property taxes	\$ 1,172,551	\$ 592,731	\$ -	\$ -	\$ -	\$ 1,765,282
State-shared revenue and grants	1,217,882	211,164	-	-	-	1,429,046
Locally raised	975,855	-	6,018	77,782	-	1,059,655
Investment income	12,616	2,640	10,313	4,042	17,292	46,903
Rental income	30,740	-	22,250	-	-	52,990
Other revenue:						
Special assessments	-	-	924,555	776,679	67,654	1,768,888
Other miscellaneous income	16,517	-	2,100	-	12,310	30,927
Total revenue	3,426,161	806,535	965,236	858,503	97,256	6,153,691
Expenditures						
Current:						
General government	1,363,257	-	-	-	47,247	1,410,504
Public safety	1,387,347	-	789,029	-	225	2,176,601
Public works	54,529	-	-	600,899	225	655,653
Capital outlay	299,643	195,456	-	-	87,500	582,599
Debt service	-	-	-	-	117,911	117,911
Total expenditures	3,104,776	195,456	789,029	600,899	253,108	4,943,268
Excess of Revenue Over (Under) Expenditures	321,385	611,079	176,207	257,604	(155,852)	1,210,423
Other Financing Sources (Uses)						
Face value of debt issue	-	-	-	455,400	-	455,400
Proceeds from sale of capital assets	-	-	1,000	-	-	1,000
Transfers in (Note 6)	-	-	-	-	94,269	94,269
Transfers out (Note 6)	(94,269)	-	-	-	-	(94,269)
Total other financing (uses) sources	(94,269)	-	1,000	455,400	94,269	456,400
Net Change in Fund Balances	227,116	611,079	177,207	713,004	(61,583)	1,666,823
Fund Balances - Beginning of year	6,906,467	1,084,140	1,306,218	137,892	1,601,737	11,036,454
Fund Balances - End of year	\$ 7,133,583	\$ 1,695,219	\$ 1,483,425	\$ 850,896	\$ 1,540,154	\$ 12,703,277

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

Township of Scio

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended March 31, 2014

Net Change in Fund Balances - Total Governmental Funds	\$	1,666,823
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Capital outlay		1,093,600
Depreciation expense		(167,844)
Revenue is recorded in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds		4,843,087
Bond proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position		(460,000)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		85,000
Change in accrued interest payable and other		(10,256)
Decrease in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources and therefore are not reported in the fund statements until they come due for payment		2,811
Loss on disposal of assets is not recorded in the governmental funds		(1,289)
Change in net other postemployment benefits		(65,749)
Change in Net Position of Governmental Activities	\$	<u>6,986,183</u>

Township of Scio

Proprietary Funds Statement of Net Position March 31, 2014

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 980,514	\$ 3,078,331	\$ 4,058,845
Investments	5,399,103	12,481,766	17,880,869
Receivables:			
Customer receivables - Net	357,838	273,318	631,156
Due from other governmental units	2,707	-	2,707
Prepaid expenses and other assets	-	1,090	1,090
Total current assets	6,740,162	15,834,505	22,574,667
Noncurrent assets - Capital assets	13,203,184	12,381,703	25,584,887
Total assets	19,943,346	28,216,208	48,159,554
Liabilities			
Current liabilities:			
Accounts payable	301,444	156,126	457,570
Due to other governmental units	423,056	383,492	806,548
Accrued liabilities and other	54,683	188,187	242,870
Current portion of long-term debt	140,000	-	140,000
Total current liabilities	919,183	727,805	1,646,988
Noncurrent liabilities:			
Net other postemployment benefits obligation	73,131	73,131	146,262
Long-term debt - Net of current portion	1,700,749	-	1,700,749
Total noncurrent liabilities	1,773,880	73,131	1,847,011
Total liabilities	2,693,063	800,936	3,493,999
Net Position			
Net investment in capital assets	11,362,435	12,381,703	23,744,138
Restricted:			
Restricted for water operations	5,887,848	-	5,887,848
Restricted for sewer operations	-	15,033,569	15,033,569
Total net position	<u>\$ 17,250,283</u>	<u>\$ 27,415,272</u>	44,665,555
Net Position of Business-type Activities			<u>\$ 44,665,555</u>

Township of Scio

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended March 31, 2014

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating Revenue			
Sale of water	\$ 2,256,829	\$ 1,652,925	\$ 3,909,754
Other	21,548	20,409	41,957
Total operating revenue	2,278,377	1,673,334	3,951,711
Operating Expenses			
Cost of water	1,682,987	-	1,682,987
Cost of sewage treatment	-	1,479,244	1,479,244
Operation and maintenance	73,575	265,315	338,890
General and administrative	432,462	505,712	938,174
Depreciation	378,424	375,632	754,056
Total operating expenses	2,567,448	2,625,903	5,193,351
Operating Loss	(289,071)	(952,569)	(1,241,640)
Nonoperating Revenue (Expenses)			
Investment income	17,252	29,497	46,749
Interest expense	(47,706)	-	(47,706)
Total nonoperating (expenses) revenue	(30,454)	29,497	(957)
Loss - Before contributions	(319,525)	(923,072)	(1,242,597)
Capital Contributions - Other capital contributions	68,987	300,487	369,474
Change in Net Position	(250,538)	(622,585)	(873,123)
Net Position - Beginning of year	17,500,821	28,037,857	45,538,678
Net Position - End of year	\$ 17,250,283	\$ 27,415,272	\$ 44,665,555

Township of Scio

Proprietary Funds Statement of Cash Flows Year Ended March 31, 2014

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 2,281,939	\$ 1,690,115	\$ 3,972,054
Payments to suppliers	(1,718,851)	(1,937,166)	(3,656,017)
Payments to employees	(220,362)	(165,931)	(386,293)
Other receipts	140	-	140
Net cash provided by (used in) operating activities	342,866	(412,982)	(70,116)
Cash Flows from Capital and Related Financing Activities			
Collection of connection fees	68,987	300,487	369,474
Tap fees collected on behalf of the City of Ann Arbor	151,960	226,486	378,446
Tap fees paid to the City of Ann Arbor	(153,481)	-	(153,481)
Purchase of capital assets	(745,420)	(1,840)	(747,260)
Principal paid on capital debt	(140,000)	-	(140,000)
Repayment of interest	(47,706)	-	(47,706)
Net cash (used in) provided by capital and related financing activities	(865,660)	525,133	(340,527)
Cash Flows from Investing Activities			
Interest received on investments	17,252	29,497	46,749
Purchase of investment securities	(1,996,658)	(5,989,547)	(7,986,205)
Proceeds from sale and maturities of investment securities	2,726,586	5,971,044	8,697,630
Net cash provided by investing activities	747,180	10,994	758,174
Net Increase in Cash and Cash Equivalents	224,386	123,145	347,531
Cash and Cash Equivalents - Beginning of year	756,128	2,955,186	3,711,314
Cash and Cash Equivalents - End of year	<u>\$ 980,514</u>	<u>\$ 3,078,331</u>	<u>\$ 4,058,845</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 6,379,617	\$ 15,560,097	\$ 21,939,714
Less amounts classified as investments	(5,399,103)	(12,481,766)	(17,880,869)
Total cash and cash equivalents	<u>\$ 980,514</u>	<u>\$ 3,078,331</u>	<u>\$ 4,058,845</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (289,071)	\$ (952,569)	\$ (1,241,640)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation and amortization	378,424	375,632	754,056
Changes in assets and liabilities:			
Receivables	3,702	16,781	20,483
Prepaid and other assets	-	(1,090)	(1,090)
Accounts payable	190,242	35,923	226,165
Accrued and other liabilities	59,569	112,341	171,910
Net cash provided by (used in) operating activities	<u>\$ 342,866</u>	<u>\$ (412,982)</u>	<u>\$ (70,116)</u>

Noncash Investing, Capital, and Financing Activities - During the year ended March 31, 2014, there were no noncash transactions entered into by the Township.

Township of Scio

Fiduciary Funds Statement of Assets and Liabilities March 31, 2014

	Current Tax Collection	Trust and Agency	Total
Assets - Cash and investments (Note 3)	<u>\$ 468,463</u>	<u>\$ 166,806</u>	<u>\$ 635,269</u>
Liabilities - Accrued liabilities and other	<u>\$ 468,463</u>	<u>\$ 166,806</u>	<u>\$ 635,269</u>

Township of Scio

Component Units Statement of Net Position March 31, 2014

	Downtown Development Authority	Economic Development Corporation	Total
Assets			
Cash and investments	\$ 5,612,894	\$ 9,110	\$ 5,622,004
Due from primary government	113,917	-	113,917
Capital assets	28,309,807	-	28,309,807
Total assets	34,036,618	9,110	34,045,728
Liabilities			
Accounts payable	47,913	-	47,913
Due to other governmental units	1,607,052	-	1,607,052
Due to primary government	311	-	311
Accrued liabilities and other:			
Accrued interest payable	210,188	-	210,188
Due within one year - Current portion of long-term debt	1,205,000	-	1,205,000
Due in more than one year - Long-term debt	13,245,000	-	13,245,000
Total liabilities	16,315,464	-	16,315,464
Net Position			
Net investment in capital assets	13,859,807	-	13,859,807
Unrestricted	3,861,347	9,110	3,870,457
Total net position	<u>\$ 17,721,154</u>	<u>\$ 9,110</u>	<u>\$ 17,730,264</u>

Township of Scio

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Downtown Development Authority - Public works	\$ 1,495,490	\$ -	\$ -	\$ -
Economic Development Corporation - Public works	10,986	-	10,454	-
Total component units	<u>\$ 1,506,476</u>	<u>\$ -</u>	<u>\$ 10,454</u>	<u>\$ -</u>

General revenue:

Property taxes

Investment income

Total general revenue

Change in Net Position

Net Position - Beginning of year

Net Position - End of year

**Component Units
Statement of Activities
Year Ended March 31, 2014**

<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Downtown Development Authority</u>	<u>Economic Development Corporation</u>	<u>Total</u>
\$ (1,495,490)	\$ -	\$ (1,495,490)
<u>-</u>	<u>(532)</u>	<u>(532)</u>
(1,495,490)	(532)	(1,496,022)
1,904,747	-	1,904,747
<u>15,967</u>	<u>5</u>	<u>15,972</u>
<u>1,920,714</u>	<u>5</u>	<u>1,920,719</u>
425,224	(527)	424,697
<u>17,295,930</u>	<u>9,637</u>	<u>17,305,567</u>
<u>\$ 17,721,154</u>	<u>\$ 9,110</u>	<u>\$ 17,730,264</u>

Note I - Summary of Significant Accounting Policies

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

Reporting Entity

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

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

Discretely Presented Component Units

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

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

Note I - Summary of Significant Accounting Policies (Continued)

Report Presentation

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

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

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

Basis of Accounting

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

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

Note I - Summary of Significant Accounting Policies (Continued)

Revenues are not recognized until they are collected, or collected soon enough after the end of the year that they are available to pay for obligations outstanding at the end of the year. For this purpose, the Township considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred inflow."

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

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

Fund Accounting

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

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

- The General Fund, which is the primary operating fund because it accounts for all financial resources used to provide general government services, other than those specifically assigned to another fund.
- The Open Space Land Preservation Fund accounts for monies collected to be used for permanent preservation of farmland, open space, wildlife, etc. and to provide new parks and recreational opportunities.

Note I - Summary of Significant Accounting Policies (Continued)

- The Fire Department Fund is used to account for monies collected and expended for fire protection services.
- The Township Road Improvement Revolving Fund is used to account for the monies collected and expended for road improvements.

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

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

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

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

Further, 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

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

Township of Scio

Notes to Financial Statements March 31, 2014

Note I - Summary of Significant Accounting Policies (Continued)

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

Capital Assets - Capital assets, which include property, plant, equipment, and intangible assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are recorded by the Township as appropriate based on cost and useful life. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures. The general fund and debt service fund are generally used to liquidate governmental long-term debt.

Deferred Outflows/Inflows of Resources

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

Note I - Summary of Significant Accounting Policies (Continued)

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

Net Position Flow Assumption

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

Fund Balance Flow Assumption

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

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).

Note I - Summary of Significant Accounting Policies (Continued)

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

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

Property Tax Revenue

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

The Township's 2013 tax is levied and collectible on December 1, 2013 and is recognized as revenue in the year ended March 31, 2014, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2013 taxable valuation of the Township totaled \$1.3 billion (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 0.9518 mills for operating purposes and 0.4942 mills for land preservation. After DDA capture, the resulting amounts are approximately \$1,173,000 for operating purposes and approximately \$593,000 for open space land preservation. These amounts are recognized in the respective General Fund and Open Space Preservation Fund financial statements as tax revenue.

In addition, the Township assesses .9000 mills for fire protection under Public Act 33 of 1951. The assessment is collectible on December 1 and is recognized at the beginning of the next fiscal year. As of March 31, 2014, \$936,842 is included in unearned revenue. This is reported in the Fire Department Fund.

Special Assessment Revenue

The Township has various special assessments for capital projects throughout the Township. These special assessments are placed on tax bills levied December 1. Special assessment revenue for the year ended March 31, 2014 is \$844,333 and included in the Township's various capital projects funds.

Note I - Summary of Significant Accounting Policies (Continued)

A 10-year special assessment for road construction and maintenance in the amount of \$5.26 million was approved during the year ended March 31, 2014. This assessment is collectible in 10 equal annual installments beginning December 1, 2013 for the next fiscal year. As of March 31, 2014, \$4,735,350 is included in deferred outflows. This is reported in the Township Road Improvement Revolving Fund.

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

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

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

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

Note 2 - Stewardship, Compliance, and Accountability

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

Fund Deficits - As of March 31, 2014, the Capital Projects Fund has a fund deficit of \$76,069 resulting from the loan payable to the Downtown Development Authority for the Baker Road construction costs. This deficit will be resolved by the collection of special assessment revenue over the next five years.

Note 3 - Deposits and Investments

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

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

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$12,141,521 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized; the component units had \$2,109,146 of bank deposits that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Township of Scio

Notes to Financial Statements March 31, 2014

Note 3 - Deposits and Investments (Continued)

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

Investment	Fair Value	Weighted Average Maturity (Days)
Commercial paper - NATIXIS US Finance C/P	\$ 2,996,310	86
U.S. government or agency bonds	7,992,139	1,017

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

Investment	Fair Value	Rating	Rating Organization
Pooled investment	\$ 639,141	AAAm	S&P
Commercial paper - NATIXIS US Finance C/P	2,996,310	A1/P1	S&P
U.S. government or agency bonds	7,992,139	AAA	S&P
Money markets	12,973,678	Unrated	N/A

Note 4 - Deferred Inflows/Outflows of Resources

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

	Governmental Funds
Delinquent property taxes - Unavailable	\$ 57,409
Special assessments - Unavailable	5,370,984
State shared revenue - Unavailable	102,311
Total deferred inflows	\$ 5,530,704

Township of Scio

Notes to Financial Statements March 31, 2014

Note 5 - Capital Assets

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

Governmental Activities	Balance April 1, 2013	Reclassifications	Additions	Disposals	Balance March 31, 2014
Capital assets not being depreciated:					
Land	\$ 822,764	\$ -	\$ 183,504	\$ -	\$ 1,006,268
Land preservation - Land and easement	5,717,343	-	127,388	-	5,844,731
Construction in process	-	-	584,800	-	584,800
Drain rights and infrastructure	120,927	-	-	-	120,927
Subtotal	6,661,034	-	895,692	-	7,556,726
Capital assets being depreciated:					
Building and improvements	2,454,591	(1,850)	54,438	-	2,507,179
Equipment	946,811	-	143,470	(31,473)	1,058,808
Vehicles	1,255,319	-	-	(16,678)	1,238,641
Land improvements	154,237	1,850	-	-	156,087
Subtotal	4,810,958	-	197,908	(48,151)	4,960,715
Accumulated depreciation:					
Buildings	900,599	-	53,926	-	954,525
Equipment	340,085	-	49,983	(30,183)	359,885
Fire vehicles	558,264	-	61,872	(16,678)	603,458
Land improvements	124,219	-	2,063	-	126,282
Subtotal	1,923,167	-	167,844	(46,861)	2,044,150
Net capital assets being depreciated	2,887,791	-	30,064	(1,290)	2,916,565
Net capital assets	\$ 9,548,825	\$ -	\$ 925,756	\$ (1,290)	\$ 10,473,291

Township of Scio

Notes to Financial Statements March 31, 2014

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance April 1, 2013	Additions	Disposals	Balance March 31, 2014
Capital assets not being depreciated:				
Land	\$ 1,984,555	\$ -	\$ -	\$ 1,984,555
Construction in progress	503,444	-	-	503,444
Subtotal	2,487,999	-	-	2,487,999
Capital assets being depreciated:				
Utility system	33,245,537	743,580	-	33,989,117
Buildings	761,586	-	-	761,586
Machinery and equipment	461,626	3,680	(22,208)	443,098
Vehicles	74,022	-	-	74,022
Sewer meters	7,118	-	-	7,118
Subtotal	34,549,889	747,260	(22,208)	35,274,941
Accumulated depreciation:				
Utility system	10,614,515	707,744	-	11,322,259
Buildings	482,422	19,277	-	501,699
Machinery and equipment	292,049	19,085	(22,208)	288,926
Vehicles	50,172	7,950	-	58,122
Sewer meters	7,047	-	-	7,047
Subtotal	11,446,205	754,056	(22,208)	12,178,053
Net capital assets being depreciated	23,103,684	(6,796)	-	23,096,888
Net capital assets	<u>\$ 25,591,683</u>	<u>\$ (6,796)</u>	<u>\$ -</u>	<u>\$ 25,584,887</u>
Component Units	Balance April 1, 2013	Additions	Disposals	Balance March 31, 2014
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	8,750,271	877,057	-	9,627,328
Net capital assets being depreciated	13,176,153	(877,057)	-	12,299,096
Net capital assets	<u>\$ 29,186,864</u>	<u>\$ (877,057)</u>	<u>\$ -</u>	<u>\$ 28,309,807</u>

Township of Scio

Notes to Financial Statements March 31, 2014

Note 5 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 76,227
Public safety	91,617
Total governmental activities	<u>\$ 167,844</u>

Business-type activities:

Water	\$ 378,424
Sewer	375,632
Total business-type activities	<u>\$ 754,056</u>

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

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Primary Government and Component Units		
Component unit - Downtown Development Authority	Primary government - Capital Projects Fund	\$ 113,917
Primary government - General Fund	Component unit - Downtown Development Authority	205
Primary government - Open Space Land Preservation Fund	Component unit - Downtown Development Authority	106

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

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

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Other nonmajor governmental funds	<u>\$ 94,269</u>

Township of Scio

Notes to Financial Statements March 31, 2014

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

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

Note 7 - Long-term Debt

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

Long-term debt activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
1999 General Obligation Limited Tax Bonds:							
Amount of issue: \$900,000	5.60% -						
Maturing through May 2017	5.65%	\$75,000	\$ 375,000	\$ -	\$ 75,000	\$ 300,000	\$ 75,000
2012 Special Assessment Bonds:							
Amount of issue: \$190,000							
Maturing through April 2022	3.71%	\$20,000	190,000	-	30,000	160,000	-
2013 Special Assessment Bonds:							
Amount of issue: \$460,000							
Maturing through April 2023	4.87%	\$46,000 - \$49,000	-	460,000	29,000	431,000	-
Accumulated compensated absences			88,326	-	2,811	85,515	85,515
Total governmental activities			\$ 653,326	\$ 460,000	\$ 136,811	\$ 976,515	\$ 160,515
Business-type Activities							
General obligation bonds - 2008							
DWRP Bonds:							
Amount of issue: \$2,490,749							
Maturing through October 2028	2.5%	\$5,749 - \$170,000	\$ 1,975,749	\$ -	\$ 135,000	\$ 1,840,749	\$ 140,000

Township of Scio

Notes to Financial Statements March 31, 2014

Note 7 - Long-term Debt (Continued)

Component Unit Activities	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2006 General Obligation Limited Tax Bonds: Amount of issue: \$9,700,000 Maturing through November 2025	4.00%	\$400,000 - \$1,000,000	\$ 8,500,000	\$ -	\$ 400,000	\$ 8,100,000	\$ 400,000
2007 Downtown Development and Refunding Bonds: Amount of issue: \$4,745,000 Maturing through May 2014	4.00%	\$705,000	1,415,000	-	710,000	705,000	705,000
2008 Downtown Development and Refunding Bonds: Amount of issue: \$3,250,000 Maturing through November 2028	4.00% - 5.00%	\$100,000 - \$400,000	3,200,000	-	50,000	3,150,000	100,000
2012 Downtown Development and Refunding Bonds: Amount of issue: \$3,250,000 Maturing through November 2028	2.00% - 4.00%	\$565,000 - \$685,000	2,970,000	-	475,000	2,495,000	-
Total component unit activities			<u>\$ 16,085,000</u>	<u>\$ -</u>	<u>\$ 1,635,000</u>	<u>\$ 14,450,000</u>	<u>\$ 1,205,000</u>

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

Years Ending March 31	Governmental Activities			Business-type Activities			Component Unit Activities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 75,000	\$ 28,275	\$ 103,275	\$ 140,000	\$ 46,019	\$ 186,019	\$ 1,205,000	\$ 523,550	\$ 1,728,550
2016	144,000	35,956	179,956	145,000	42,519	187,519	1,165,000	517,000	1,682,000
2017	144,000	28,590	172,590	145,000	38,894	183,894	1,205,000	481,300	1,686,300
2018	144,000	21,224	165,224	150,000	35,269	185,269	1,290,000	441,650	1,731,650
2019	68,000	16,001	84,001	155,000	31,519	186,519	1,435,000	394,150	1,829,150
2020-2024	316,000	34,426	350,426	825,000	97,719	922,719	4,600,000	1,399,500	5,999,500
2025-2029	-	-	-	280,749	26,469	307,218	3,550,000	372,500	3,922,500
Total	<u>\$ 891,000</u>	<u>\$ 164,472</u>	<u>\$ 1,055,472</u>	<u>\$ 1,840,749</u>	<u>\$ 318,408</u>	<u>\$ 2,159,157</u>	<u>\$ 14,450,000</u>	<u>\$ 4,129,650</u>	<u>\$ 18,579,650</u>

Advance and Current Refundings - In prior years, the Township defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At March 31, 2014, \$3,200,000 of bonds outstanding are considered defeased.

Note 8 - Risk Management

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

Note 9 - Defined Benefit Pension Plan

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

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

Under the bargaining agreement with the firefighters, the Township is required to contribute a fixed 8 percent of gross wages through April 30, 2016, after which the percent contribution may change. The balance of funding required beyond the Township's 8 percent will be contributed by the full- and part-time firefighters of the Township.

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

Township of Scio

Notes to Financial Statements March 31, 2014

Note 9 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost - For the year ended March 31, 2014, the Township's annual pension cost was approximately \$94,000 and was equal to the Township's required and actual contribution. The Township's participation in the plan commenced for the firefighters during the 2005 fiscal year. The other Township employees followed during the 2008 fiscal year. The annual required contribution was determined as part of an actuarial valuation performed by MERS as of December 31, 2012 using the entry age normal actuarial method and was revised for the full-time employees entering into the defined benefit plan during the 2008 fiscal year, subject to the fixed contribution noted above. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent attributable to inflation, (c) additional salary increases of 0 percent to 13.0 percent per year, attributable to seniority/merit, and (d) the assumption that benefits will increase 4.5 percent per year annually after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a 10-year period.

The unfunded actuarial liability is being amortized as a level percent of payroll on an open basis. The remaining amortization period is 25 years.

Three-year trend information as of March 31 follows:

	Fiscal Year Ended March 31		
	2012	2013	2014
Annual pension cost (APC)	\$ 89,603	\$ 98,710	\$ 94,445
Percentage of APC contributed	100 %	100 %	100 %

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

	Actuarial Valuation as of December 31		
	2011	2012	2013
Actuarial value of assets	\$ 1,554,088	\$ 1,746,680	\$ 1,951,443
Actuarial accrued liability (AAL) (entry age)	\$ 1,869,560	\$ 2,160,065	\$ 2,346,133
Unfunded AAL (UAAL)*	\$ 315,472	\$ 413,385	\$ 394,690
Funded ratio	83.1 %	80.9 %	83.2 %
Covered payroll	\$ 1,140,438	\$ 1,171,216	\$ 1,202,784
UAAL as a percentage of covered payroll	27.7 %	35.3 %	32.8 %

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

Note 10 - Defined Contribution Pension Plan

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

In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate 90 days from the date of employment. As established by the Board of Trustees, the Township contributes 8 percent of an employee's approved pension earnings. Employee contributions are not required. In accordance with these requirements, the Township contributed approximately \$12,900 during the current year. The Township's contributions for each employee are fully vested upon entering service.

Note 11 - Other Postemployment Benefits

Plan Description - The Township provides retiree healthcare benefits to eligible employees. This is an agent multiple-employer defined benefit plan administered by the Township. The benefits are provided under collective bargaining agreements as approved by the board. The Township provides a monthly stipend to be used to supplement the insurance cost for postemployment healthcare benefits. At the governmental fund level, the expense is recognized by the Township as the payments to the employees are made. During the year, this amounted to \$11,648.

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

Township of Scio

Notes to Financial Statements March 31, 2014

Note 11 - Other Postemployment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation - The Township's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC). For the year ended March 31, 2014, the Township has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Township's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Township's net OPEB obligation to the retiree health plan:

Annual required contribution (recommended)	\$ 103,723
Interest on the prior year's net OPEB obligation	3,576
Amounts contributed - Payments of current premiums	<u>(11,648)</u>
Increase in net OPEB obligation	95,651
OPEB obligation - Beginning of year	<u>382,291</u>
OPEB obligation - End of year	<u>\$ 477,942</u>

The Township's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2012, 2013, and 2014 are as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
3/31/12	3/31/11	\$ 111,124	10.2	\$ 285,138
3/31/13	3/31/12	109,296	11.1	382,291
3/31/14	3/31/13	107,299	10.9	477,942

The funding progress of the plan is as follows:

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
3/31/11	\$ -	\$ 855,706	\$ 855,706	-	\$ 1,409,534	60.7
3/31/12	-	906,493	906,493	-	1,394,454	65.0
3/31/13	-	941,220	941,220	-	1,353,504	68.5

Note 11 - Other Postemployment Benefits (Continued)

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

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

The following simplifying assumptions were made:

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

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

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

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

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

Township of Scio

Notes to Financial Statements March 31, 2014

Note 11 - Other Postemployment Benefits (Continued)

Health Insurance Premiums - Fiscal year 2014 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

In the March 31, 2013 valuation, the entry age actuarial cost method was used. The assumptions included a 1.00 percent investment rate of return and an inflation rate of 2.00 percent. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at March 31, 2013 was 26 years.

Note 12 - Change in Accounting

During the current year, the Township adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead to classify them as deferred inflows of resources, deferred outflows of resources, or outflows of resources.

As a result of implementing this statement, the following assets and liabilities have been reclassified, as indicated:

<u>Item</u>	<u>Amount</u>	<u>Prior Reporting Classification/Treatment</u>	<u>New Classification After Adoption of GASB Statement No. 65</u>
Revenue in governmental funds not collected within 60 days of year end	\$ 5,530,704	Liability	Deferred inflow of resources

Note 13 - Upcoming Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Township is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending March 31, 2016.

Required Supplemental Information

Township of Scio

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 1,102,000	\$ 1,145,000	\$ 1,172,551	\$ 27,551
State-shared revenue and grants	1,200,000	1,200,000	1,217,882	17,882
Locally raised	826,815	953,793	975,855	22,062
Investment income	5,000	8,500	12,616	4,116
Rental income	33,000	33,000	30,740	(2,260)
Other revenue	7,000	16,486	16,517	31
Total revenue	3,173,815	3,356,779	3,426,161	69,382
Expenditures - Current				
General government:				
General government	727,310	712,200	605,395	106,805
Assessing	506,050	510,475	461,164	49,311
Elections	19,600	12,100	11,725	375
Buildings and grounds	35,000	2,000	1,850	150
Boards and commissions	235,550	298,675	283,123	15,552
Total general government	1,523,510	1,535,450	1,363,257	172,193
Health and safety	1,456,250	1,463,250	1,387,347	75,903
Building and grounds	75,700	75,500	54,529	20,971
Capital outlay	35,000	302,700	299,643	3,057
Total expenditures	3,090,460	3,376,900	3,104,776	272,124
Excess of Revenue Over (Under)				
Expenditures	83,355	(20,121)	321,385	341,506
Other Financing Uses - Transfers out	(94,270)	(94,270)	(94,269)	1
Net Change in Fund Balance	(10,915)	(114,391)	227,116	341,507
Fund Balance - Beginning of year	6,906,467	6,906,467	6,906,467	-
Fund Balance - End of year	<u>\$ 6,895,552</u>	<u>\$ 6,792,076</u>	<u>\$ 7,133,583</u>	<u>\$ 341,507</u>

Township of Scio

Required Supplemental Information Budgetary Comparison Schedule Open Space Land Preservation Fund Year Ended March 31, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 570,150	\$ 582,150	\$ 592,731	\$ 10,581
State grants	326,000	-	211,164	211,164
Investment income	500	1,600	2,640	1,040
Total revenue	896,650	583,750	806,535	222,785
Expenditures - Capital outlay	1,078,400	286,400	195,456	90,944
Net Change in Fund Balance	(181,750)	297,350	611,079	313,729
Fund Balance - Beginning of year	1,084,140	1,084,140	1,084,140	-
Fund Balance - End of year	\$ 902,390	\$ 1,381,490	\$ 1,695,219	\$ 313,729

Township of Scio

Required Supplemental Information Budgetary Comparison Schedule Fire Department Fund Year Ended March 31, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Locally raised	\$ 1,500	\$ 6,018	\$ 6,018	\$ -
Investment income	2,000	2,650	10,313	7,663
Rental income	22,250	22,250	22,250	-
Other revenue:				
Special assessments	920,000	923,476	924,555	1,079
Other miscellaneous income	2,000	2,100	2,100	-
Total revenue	<u>947,750</u>	<u>956,494</u>	<u>965,236</u>	<u>8,742</u>
Expenditures - Current - Public safety	<u>945,200</u>	<u>803,670</u>	<u>789,029</u>	<u>14,641</u>
Excess of Revenue Over Expenditures	2,550	152,824	176,207	23,383
Other Financing Sources - Proceeds from sale of capital assets	<u>-</u>	<u>1,000</u>	<u>1,000</u>	<u>-</u>
Net Change in Fund Balance	2,550	153,824	177,207	23,383
Fund Balance - Beginning of year	<u>1,306,218</u>	<u>1,306,218</u>	<u>1,306,218</u>	<u>-</u>
Fund Balance - End of year	<u><u>\$ 1,308,768</u></u>	<u><u>\$ 1,460,042</u></u>	<u><u>\$ 1,483,425</u></u>	<u><u>\$ 23,383</u></u>

Township of Scio

Note to Required Supplemental Information Year Ended March 31, 2014

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, 2014 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

Township of Scio

Required Supplemental Information Pension System Schedule Year Ended March 31, 2014

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/08	\$ 935,259	\$ 1,506,556	\$ 571,297	62.1	\$ 1,121,009	51.0
12/31/09	1,149,103	1,537,420	388,317	74.7	1,113,744	34.9
12/31/10	1,369,871	1,681,599	311,728	81.5	1,034,441	30.1
12/31/11	1,554,088	1,869,560	315,472	83.1	1,140,438	27.7
12/31/12	1,746,680	2,160,065	413,385	80.9	1,171,216	35.3
12/31/13	1,951,443	2,346,133	394,690	83.2	1,202,784	32.8

The schedule of employer contributions is as follows:

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

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

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2013, the latest actuarial valuation, follows:

Amortization method	Level percent of payroll
Remaining amortization period	25 years
Asset valuation method	10-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	0% - 13%
*Includes inflation at	4.5%
Cost of living adjustments	None

Township of Scio

Required Supplemental Information OPEB System Schedule Year Ended March 31, 2014

The schedule of funding progress is as follows:

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

The schedule of employer contributions is as follows:

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

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

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of March 31, 2013, the latest actuarial valuation, follows:

Amortization method	Level percent of payroll
Remaining amortization period	26 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	1.0%
Projected salary increases	2%
*Includes inflation at	2%
Cost of living adjustments	None

Other Supplemental Information

Township of Scio

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>
	Public Improvement Fund	Tree Mitigation Fund	Building Authority Fund
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>
Assets			
Cash and investments	\$ 750,701	\$ 11,133	\$ -
Receivables:			
Special assessments receivable	-	-	-
Due from other governmental units	-	-	-
Prepaid expenses and other assets	-	-	-
	<u>750,701</u>	<u>11,133</u>	<u>-</u>
Total assets	\$ 750,701	\$ 11,133	\$ -
Liabilities - Due to component units	\$ -	\$ -	\$ -
Deferred Inflows of Resources	-	-	-
Fund Balances (Deficit)			
Nonspendable - Prepaids	-	-	-
Restricted:			
Metro act	125,865	-	-
Public improvements	624,836	-	-
Tree mitigation	-	11,133	-
Debt service	-	-	-
Bridge maintenance	-	-	-
Committed - Capital projects	-	-	-
Unassigned	-	-	-
	<u>750,701</u>	<u>11,133</u>	<u>-</u>
Total fund balances (deficit)	<u>750,701</u>	<u>11,133</u>	<u>-</u>
Total liabilities, deferred inflows of resources, and fund balances (deficit)	\$ 750,701	\$ 11,133	\$ -

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
March 31, 2014**

Capital Projects Funds				
Capital Projects Fund	Public Safety and Improvement Fund	East Delhi Bridge Maintenance Fund	Park Road SAD	Total Nonmajor Governmental Funds
\$ 37,848	\$ 778,992	\$ 29,886	\$ 21,534	\$ 1,630,094
120,000	-	-	135,529	255,529
-	-	312	326	638
-	-	-	23,339	23,339
\$ 157,848	\$ 778,992	\$ 30,198	\$ 180,728	\$ 1,909,600
\$ 113,917	\$ -	\$ -	\$ -	\$ 113,917
120,000	-	-	135,529	255,529
-	-	-	23,339	23,339
-	-	-	-	125,865
-	-	-	-	624,836
-	-	-	-	11,133
-	-	-	21,860	21,860
-	-	30,198	-	30,198
-	778,992	-	-	778,992
(76,069)	-	-	-	(76,069)
(76,069)	778,992	30,198	45,199	1,540,154
\$ 157,848	\$ 778,992	\$ 30,198	\$ 180,728	\$ 1,909,600

Township of Scio

	Special Revenue Funds		Debt Service	Capital Projects Funds	
	Public Improvement Fund	Tree Mitigation Fund	Funds Building Authority Fund	Capital Projects Fund	Public Safety and Improvement Fund
Revenue					
Investment income	\$ 675	\$ 36	\$ -	\$ 7,523	\$ 381
Other revenue:					
Special assessments	-	-	-	30,000	-
Other miscellaneous income	12,310	-	-	-	-
Total revenue	12,985	36	-	37,523	381
Expenditures					
Current:					
General government	47,247	-	-	-	-
Public safety	-	-	-	-	225
Public works	-	-	-	-	-
Capital outlay	-	-	-	-	87,500
Debt service	-	-	94,269	7,500	-
Total expenditures	47,247	-	94,269	7,500	87,725
Excess of Revenue (Under) Over Expenditures	(34,262)	36	(94,269)	30,023	(87,344)
Other Financing Sources - Transfers in	-	-	94,269	-	-
Net Change in Fund Balances	(34,262)	36	-	30,023	(87,344)
Fund Balances (Deficit) - Beginning of year	784,963	11,097	-	(106,092)	866,336
Fund Balances (Deficit) - End of year	\$ 750,701	\$ 11,133	\$ -	\$ (76,069)	\$ 778,992

**Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended March 31, 2014**

Capital Projects Funds		Total Nonmajor Governmental Funds
East Delhi Bridge Maintenance Fund	Park Road SAD	
\$ 85	\$ 8,592	\$ 17,292
4,999	32,655	67,654
-	-	12,310
5,084	41,247	97,256
-	-	47,247
-	-	225
-	225	225
-	-	87,500
-	16,142	117,911
-	16,367	253,108
5,084	24,880	(155,852)
-	-	94,269
5,084	24,880	(61,583)
25,114	20,319	1,601,737
\$ 30,198	\$ 45,199	\$ 1,540,154

Township of Scio
Washtenaw County, Michigan

Report to the Township Board of Trustees
March 31, 2014

August 18, 2014

To the Board of Trustees
Township of Scio

We have audited the basic financial statements of the Township of Scio (the "Township") as of and for the year ended March 31, 2014 and have issued our report thereon dated August 18, 2014. 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 of Scio.

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

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

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

To the Board of Trustees
Township of Scio

August 18, 2014

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

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Michael J. Swartz". The signature is stylized with a large, looped "M" and "S".

Michael J. Swartz

Section I - Internal Control Related Matters Identified in an Audit

In planning and performing our audit of the basic financial statements of the Township of Scio as of and for the year ended March 31, 2014, 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 basic 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 deficiency in the Township's internal control to be a material weakness:

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

Section II - Required Communications with Those Charged with Governance

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 27, 2014, our responsibility, as described by professional standards, is to express an opinion about whether the basic 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 basic 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 basic financial statements are free of material misstatement.

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

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

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on May 20, 2014.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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

As described in Note 12, the Township changed accounting policies as a result of the implementation of GASB Statement No. 65. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used.

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

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

Accounting estimates are an integral part of the basic 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 basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the basic financial statements were unbilled water and sewer receivables and the calculation of the net other postemployment benefits liability (i.e., retiree healthcare). The unbilled water and sewer receivable estimate is based on prior performance. Management's estimate of the net other postemployment benefits liability is based on assumptions used in the actuarial valuations. We evaluated the key factors and assumptions used to develop these estimations determining that they are reasonable in relation to the basic financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the basic financial statements or the auditor's report.

Corrected and Uncorrected Misstatements

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

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

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Township, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as the Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 18, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Township’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Information in Documents Containing Audited Financial Statements

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

Section III - Legislative and Informational Items

Previously Communicated Items

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

- Review and approval of manual journal entries - In a smaller accounting environment where staffing is limited, it becomes very important for management to provide enough oversight over the accounting function. We continue to note that there is no review or authorization process in place for entries made by the CFO. Even though the Township Board of Trustees receives and reviews budget to actual statements each month, we suggest that one of the elected officials review manual journal entries periodically throughout the year as an additional aspect of internal control.
- Designated banking institutions - It was previously communicated that the Township's investment policy did not require the board's approval before utilizing a financial institution. During the current year, the board approved a new investment policy which now designates specific institutions. We commend the Township for taking action on this matter.
- Water and sewer utility rates - In previous years, we have commented on the Township's strategy related to water and sewer rates, especially the practice of subsidizing sewer rates charged to customers from the accumulated surplus in the fund. Our understanding is that a revised rate schedule has been adopted subsequent to the end of the fiscal year under audit.

Reporting Change - GASB Statement No. 65

The Township adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources.

Upcoming Reporting Changes - GASB Statement No. 68

The Governmental Accounting Standards Board has released an additional statement that will become effective during the Township's fiscal year ending March 31, 2016. A brief explanation for this new statement has been included in Note 13 of the Township's financial statements. We will work with the Township to implement this change as required.

Personal Property Tax

Significant personal property tax legislation has recently passed. Key provisions of the new acts include the following:

1. In August 2014, Michigan voters overwhelmingly approved Proposal 1. As a result, there will be a shift in use tax dollars to create a replacement fund. The eligible manufacturing exemption described below will occur, and the \$40,000 Small Taxpayer Exemption under PA 48 of 2012 will be effective for 2014 and subsequent tax years.
2. The much-talked about local Essential Services Assessment (ESA) will be replaced with a State-assessed ESA, which is actually a tax but is being referred to as an assessment simply so that it is recognized as the substitute for the local ESA.
3. The new bills increase the reimbursement to local units for lost personal property tax revenue to an amount stated as 100 percent replacement.

Two key provisions under the previous personal property tax reform legislation (PA 408 of 2012) remain. Businesses will benefit from the following provisions:

1. Under PA 408 of 2012, businesses with less than \$40,000 of combined industrial and commercial personal property TV (\$80,000 true cash value) would not have to file PPT returns or pay any personal property tax. This provision remains unchanged in these new bills. This exemption begins with the 2014 tax year (December 31, 2013 assessments).
2. "Eligible manufacturing" property would be exempt from PPT. This would be phased in beginning in 2016 (December 31, 2015 assessment date), with the following provisions:
 - a. Any property purchased subsequent to December 31, 2012 would be exempt immediately effective in 2016.
 - b. Property purchased prior to December 31, 2012 would be reduced to zero by its 10th year of existence (should take nine years).

Determining the Amount of Community Loss:

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

- **Debt Loss** - Debt loss is defined as the amount of ad valorem and dedicated taxes that go toward debt that are lost as a result of the personal property tax exemption. During FY 2014-2015 and 2015-2016, revenue distributed by the newly created Local Community Stabilization Authority (LCSA) would equal either a community's debt loss or, in the case of a TIF, the small taxpayer loss. Through the 2015-2016 fiscal year, the losses are limited to the impact of the \$40,000 small business exemption. When the phase-out of eligible manufacturing property would begin to occur when tax bills go out in 2016, the debt loss (and corresponding reimbursement) will increase.

- **Nondebt Loss** - Nondebt loss is calculated using the lowest rate of each individual millage levied in the period between 2012 and the year immediately preceding the current year. This will exclude debt millage. The department will compute the loss by comparing the current year taxable value of commercial and industrial property to the taxable value that existed at December 31, 2012 (2013 tax year). In 2016, cities will be reimbursed for nondebt loss for 2014 and 2015 related to the small taxpayer exemption loss. This is for cities only. For 2014 and 2015, townships will be getting reimbursed for the debt loss related to the small business exemption, but not the other losses created by the small business exemption. Starting in 2016, all municipalities are reimbursed for nondebt loss.

Reimbursement Mechanisms:

Beginning in 2015-2016, the LCSA will reimburse local units. Reimbursements to communities for the losses come from two funding sources:

- **Use Tax Shift** - A portion of use tax will shift to the LCSA.
- **Essential Services Reimbursement** - Beginning in 2015-2016, the LCSA will receive a portion of the use tax as well as the full Essential Services Assessments in which to reimburse local units. This assessment is set at a prescribed millage rate based on the acquisition cost of property (depreciation will no longer apply). The rate is set at 2.4 mills for a property's first five years; then 1.25 mills for the next five; then 0.9 mills thereafter. Essential services are defined as ambulance, fire, and police services as well as jail operations. This includes the cost of related pension funding.

The losses described by the bill are to be paid in order of this priority: school debt; Intermediate School District losses; school operations; government essential services; debt and TIFA forgone increases; and all other reimbursements (defined below). In theory, if there is not enough money available, the lower priority items may not be fully reimbursed. However, that department has indicated that it expects the fund to have enough to cover all reimbursements.

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

Retro-Pay Prohibition - Proposed Changes

Public Act 54 of 2011, which was signed by the Governor on June 7, 2011, prohibits retroactive pay on an expired contract and calls for employees working under an expired agreement to bear the cost of any increased healthcare costs until a new contract is in effect. During that period, the public employer is authorized to make payroll deductions necessary to pay the increased cost of maintaining those benefits.

The Legislature has been working over the past two years to pass a bill to amend PA 54 of 2011 to allow those who are eligible to negotiate contracts under PA 312 of 1969 to be exempt from PA 54. HB 5097 of 2013 and Senate Bill 850 of 2014 have been introduced to provide for exceptions to the retro-pay prohibition for public safety personnel. The passing of this legislation would mean that police, fire, and emergency medical personnel would be eligible to receive retroactive increases in compensation after expiration of their collective bargaining agreement and would also be exempt from having to pay the increased cost of benefits during the time without a contract.

Michigan Qualifying Statement Revisions and Changes to Filing Process

Bulletin 6 was issued by the State Department of Treasury and was effective beginning May 1, 2013. The bulletin details out the revisions made to the form and changes in the electronic filing process, and provides information on the new process to submit a reconsideration request.

The Qualifying Statement is now Form 5047. The new form and link to the online filing are available at: www.michigan.gov/municipalfinance. You can also find Bulletin 6 by following this same link.

Several minor changes have been made to the form including the following: additional question asking for the municipality's six-digit municode, information buttons to provide added instruction, and elimination of the requirement to include SEV and population. In addition, changes were made to help ease the completion of the form, such as the elimination of certain questions which were duplicative of information that the Department of Treasury already had at its disposal (e.g., audit filing date) as well as separating out compound questions to ease the process of responding to them.

The more significant change, however, is with the electronic filing process. Since May 1, 2013 there is now only one way in which a Qualifying Statement can be submitted:

1. The form is now a PDF that can be downloaded and saved. The form is fillable, allowing preparers to type in responses and save the form with answers intact.
2. The PDF will be uploaded via the Department of Treasury website. The upload page is: www.michigan.gov/municipalfinance. Once you are on the webpage, choose the Online Qualifying Statement link.

3. The State has a set naming convention that should be used for each uploaded file. The file should be named as follows: municipality's six-digit municode + fiscal year + the word "QStmt" (example: 7830402012QStmt). Please note the system will only accept ONE Qualifying Statement per fiscal year per municipality.
4. Municipalities will NOT be able to use the same username and password that they used for filings prior to May 1, 2013. The State has directed each municipality to call the Local Audit and Finance Division at 517.373.3227 to obtain a new username and password.

The Bulletin also allows the Qualifying Statement to be filed by an individual other than the chief administrative officer (CAO) as long as the CAO is made aware and takes full responsibility for the filing. The filer will be asked to indicate whether he or she is the CAO or the designee at the time the Qualifying Statement is filed.

Potential Change in Audited Financial Statement Due Date

Senate Bill 949 of 2014 was recently introduced. Among other things, the bill changes the due date for audits:

- The audit deadline would be moved to 150 days from 180 days (effective for fiscal years ending after June 30, 2014).
- If the deadline can't be met, the State can move in and either perform or contract for and charge the local unit for the audit services.
- There would be a requirement that budgets conform to the Uniform Chart of Accounts.
- The biennial audit exception for units with a population under 4,000 would be removed.
- Very specific language is added to say a unit cannot adopt or operate under a deficit budget, nor incur an operating deficit. If a unit is operating under a deficit, the State is to be notified. In that situation, a deficit elimination plan is due to the State within 90 days. Failure to comply will allow the State to withhold state funds as necessary to gain compliance.

Reminder: Brownfield, TIFA, LDFA, and DDA Annual Reporting

Please remember that if you have any sort of tax capture district, you may have annual filing requirements with the Department of Treasury.

For TIFA, LDFA, and DDA districts:

Form 2604 or Form 2967 is due annually in July. These forms are titled Tax Increment Financing Plan Report for Capture of Property Taxes and State Reimbursement Amount. Form 2604 is for plans that have only one school district. Form 2967 is for plans that capture from two or more school districts.

If the TIF plan had no eligible obligations and did not capture any school taxes (state education tax, local school district tax, or ISD tax), the form still needs to be completed, although it basically only involves providing background information and checking a box. The State has indicated that it will notify local units when they no longer are required to file this form.

In addition, an Annual Report (AR) is required by State Tax Commission Bulletin 9 of 1997 setting forth the amount and source of tax increments received, amount and purpose of expenditures, etc. In addition, authorities must submit a copy of the assessor's or treasurer's worksheet for the authority's tax increment financing plan district, which was used to determine the plan's tax increment revenue. This is the worksheet that was used to compute how much money to send to the authority, and it may be either handwritten or computed.

For Brownfield Redevelopment Authorities:

Reporting for BRAs includes information similar to the items noted above, but also includes capital investment, square footage, number of residential units constructed, etc.

A recent Michigan Auditor General office audit indicated neither the brownfield redevelopment authorities nor the Department of Treasury were in compliance with reporting requirements of the Brownfield Redevelopment Financing Act (Act 381 of 1996) between January 2011 and December 2013. More than 72 percent of brownfield redevelopment authorities did not submit the required annual financial status reports to the Department of Treasury.