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# Township of Scio

Washtenaw County, Michigan

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**Financial Report**  
**with Supplemental Information**  
**March 31, 2018**

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## Independent Auditor's Report

To the Board of Trustees  
Township of Scio

### Report on the Basic Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Township of Scio (the "Township") as of and for the year ended March 31, 2018 and the related notes to the financial statements, which collectively comprise the Township of Scio's basic financial statements, as listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Township of Scio as of March 31, 2018 and the respective changes in its financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees  
Township of Scio

**Required Supplemental Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the major fund budgetary comparison schedules, schedule of changes in the township net pension liability and related ratios, schedule of township pension contributions, and the OPEB system schedule, as identified in the table of contents, be presented to supplement the 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 an opinion on the financial statements that collectively comprise the Township of Scio's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

*Plante & Moran, PLLC*

July 25, 2018

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, 2018. 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, 2018

- The Township's property tax collection remains the largest single revenue source for the general operations of the Township. The collection was relatively flat for the previous five years because of the tax formula used to determine taxable value.
- The fire special assessment district (SAD) funded the fire department budget for the first time in fiscal year 2010. The voter-approved SAD levy is a maximum of 0.9 mills on the taxable value of real property in the district that excludes the City of Dexter, Michigan. It is collected annually with the December tax bills. This collection is not subject to state rollback requirements and is not captured by the Township's Downtown Development Authority. The first collection occurred following the vote with the December 2008 taxes. The monies represent deferred revenue and are committed to the fiscal year budget that starts following collection. Revenue is segregated in the Fire Department Fund and expended only on fire service costs.
- On the sheriff side of public safety, the Township has seen expenditures for sheriff services remain consistent for the sixth year after several years of significant increases related to increasing the number of deputies assigned to the Township and the total number of deployment hours.
- State-shared revenue, the Township's second largest revenue source, increased approximately \$56,000 in fiscal year 2018 compared to 2017.
- Because of the economic downturn, development fee revenue was significantly reduced in the past several years. These fees increased slightly in the prior fiscal year and continued to see an increase in the current fiscal year as the economy continues to improve.
- The revamped billing method for water and sewer service continues to be monitored closely. In this fiscal year, the water and sewer rates were consistent with the prior year. In fiscal year 2018, the Water Fund and Sewer Fund revenue slightly exceeded expenditures.

### **Using this Annual Report**

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

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

It is important that the reader note that this report represents a snapshot of the financial position of the Township as of the close of business on March 31, 2018. 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)

### Township's Net Position

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

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>Assets</b>						
Current assets	\$ 17,538,017	\$ 17,750,944	\$ 22,908,862	\$ 23,318,616	\$ 40,446,879	\$ 41,069,560
Noncurrent assets	13,692,759	13,200,406	32,258,700	30,179,674	45,951,459	43,380,080
Total assets	31,230,776	30,951,350	55,167,562	53,498,290	86,398,338	84,449,640
<b>Deferred Outflows of Resources</b>						
	388,687	397,495	64,686	68,180	453,373	465,675
<b>Liabilities</b>						
Current liabilities	157,985	267,745	1,613,419	1,698,584	1,771,404	1,966,329
Long-term liabilities	1,571,780	1,624,983	6,118,556	6,015,767	7,690,336	7,640,750
Total liabilities	1,729,765	1,892,728	7,731,975	7,714,351	9,461,740	9,607,079
<b>Deferred Inflows</b>	1,112,543	1,024,749	24,618	1,374	1,137,161	1,026,123
<b>Net Position</b>						
Net investment in capital assets	13,376,759	12,741,406	26,626,869	24,380,511	40,003,628	37,121,917
Restricted	7,827,363	7,796,788	20,848,786	21,470,234	28,676,149	29,267,022
Unrestricted	7,573,033	7,893,174	-	-	7,573,033	7,893,174
Total net position	<b>\$ 28,777,155</b>	<b>\$ 28,431,368</b>	<b>\$ 47,475,655</b>	<b>\$ 45,850,745</b>	<b>\$ 76,252,810</b>	<b>\$ 74,282,113</b>

A significant portion of the assets represents fixed capital improvements. The equity in township capital assets, such as sewer and water lines, is not readily transferable to cash. The unrestricted net position is more liquid in nature and is available to finance day-to-day operations. Unrestricted net position was approximately \$7,573,000 and \$7,893,000 as of March 31, 2018 and 2017, respectively. The current level of unrestricted net position for governmental activities is approximately 26 percent of total governmental activities net position. The reader should note throughout the statements that certain amounts remain restricted for specific items and legally can only be expended on those items, such as land preservation, boulevard landscape maintenance, tree activities, special assessment purposes, sewer and water operations, and capital projects.

# Township of Scio

## Management's Discussion and Analysis (Continued)

### Township's Changes in Net Position

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

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 1,325,568	\$ 1,851,159	\$ 5,538,083	\$ 5,614,020	\$ 6,863,651	\$ 7,465,179
Operating grants and contributions	67,102	-	-	-	67,102	-
Capital grants and contributions	-	-	2,188,640	799,771	2,188,640	799,771
General revenue:						
Property taxes	2,510,693	2,460,752	-	-	2,510,693	2,460,752
State-shared revenue	1,407,499	1,351,579	-	-	1,407,499	1,351,579
Unrestricted investment earnings	165,429	106,847	252,721	164,614	418,150	271,461
Other revenue:						
Franchise fees	328,962	411,418	-	-	328,962	411,418
Miscellaneous	157,728	296,635	-	-	157,728	296,635
<b>Total revenue</b>	<b>5,962,981</b>	<b>6,478,390</b>	<b>7,979,444</b>	<b>6,578,405</b>	<b>13,942,425</b>	<b>13,056,795</b>
<b>Program Expenses</b>						
General government	2,360,688	2,105,689	-	-	2,360,688	2,105,689
Public safety	2,991,823	2,671,931	-	-	2,991,823	2,671,931
Public works	245,806	905,594	-	-	245,806	905,594
Debt service	18,877	28,501	-	-	18,877	28,501
Water	-	-	3,159,207	3,033,087	3,159,207	3,033,087
Sewer	-	-	3,195,327	3,356,834	3,195,327	3,356,834
<b>Total program expenses</b>	<b>5,617,194</b>	<b>5,711,715</b>	<b>6,354,534</b>	<b>6,389,921</b>	<b>11,971,728</b>	<b>12,101,636</b>
<b>Change in Net Position</b>	<b>\$ 345,787</b>	<b>\$ 766,675</b>	<b>\$ 1,624,910</b>	<b>\$ 188,484</b>	<b>\$ 1,970,697</b>	<b>\$ 955,159</b>

### Financial Analysis of Individual Funds

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

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

### **Governmental Activities**

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

### **Business-type Activities**

The Township's largest business-type activities consist of the Water Fund and Sewer Fund. All assets, liabilities, revenue, and expenses are restricted solely for those operations. The Township provides water and sewage services to property owners within a defined district in the Township. The water supply and sewerage processing is through contract with the City of Ann Arbor, Michigan (the "City"). The Township is reviewing other outstanding system improvements required under outstanding contracts with the City, including a major rehabilitation of the pump station on Liberty Road and completion of the West High Pump Station.

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

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 12, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds. The township board of trustees creates accounting funds to segregate 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, and Township Road Improvement Special Assessment Fund.

The General Fund revenue is not restricted or dedicated to specific uses. The General Fund pays for most of the Township's governmental services. The most significant expenditures are those for the police department, which incurred expenses of approximately \$1,399,000 in fiscal year 2018 and \$1,312,000 in 2017. All public safety expenditures except for the fire department have been funded entirely by the General Fund. The dedicated fire special assessment has funded the fire department since 2010.

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

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

### **Budgetary Highlights**

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



### **Capital Assets and Debt Administration**

At the end of fiscal year 2018, the Township had approximately \$46 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 \$9.5 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. A bond issue of \$6.88 million was sold in July 2015, refunding the remaining debt from the 2006 issue. Per the adopted DDA financing plan, all bond payments will be met by the DDA through the capture of tax increment revenue. The Washtenaw County Road Commission has full jurisdiction over the road, retains the asset, and is responsible for the project and contract administration of funds from township, state, and federal sources. The numbers in this audit represent contributions from the DDA and the Township's sewer funds. The total final costs, including acquisition, design, and construction through Phase III, were approximately \$22 million and were completed in 2011. The proposed Phase IV construction (Dino Drive to Parker Road) has been planned since 1986; however, the uncertainty over the current state of the economy and a decrease in the level of activity on this portion of the road means that the start of this final phase will be placed on hold for the foreseeable future.

### **Economic Factors and Next Year's Budgets and Rates**

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

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

### **Contacting Township Management**

This financial report is intended to provide our 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, 2018

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments	\$ 14,179,107	\$ 22,050,221	\$ 36,229,328	\$ 2,037,144
Receivables:				
Property taxes receivable	53,451	-	53,451	-
Special assessments receivable	2,778,944	-	2,778,944	-
Customer receivables - Net	75,455	801,827	877,282	-
Other receivables	5,800	-	5,800	-
Due from other governmental units	445,260	56,814	502,074	-
Capital assets - Net: (Note 5)				
Nondepreciated	8,715,579	3,708,298	12,423,877	16,010,711
Depreciated	4,977,180	28,550,402	33,527,582	8,790,868
Total assets	31,230,776	55,167,562	86,398,338	26,838,723
<b>Deferred Outflows of Resources</b>				
Bond refunding loss being amortized	-	-	-	315,135
Deferred outflows related to pensions (Note 9)	388,687	64,686	453,373	-
Total deferred outflows of resources	388,687	64,686	453,373	315,135
<b>Liabilities</b>				
Accounts payable	88,768	487,517	576,285	-
Due to other governmental units	-	885,376	885,376	-
Accrued liabilities and other	69,217	240,526	309,743	168,760
Noncurrent liabilities:				
Due within one year:				
Compensated absences	116,867	-	116,867	-
Current portion of long-term debt (Note 7)	-	364,995	364,995	815,000
Due in more than one year:				
Net pension obligation (Note 9)	490,111	194,157	684,268	-
Net other postemployment benefit obligations (Note 10)	648,802	292,568	941,370	-
Long-term debt - Net of current portion (Note 7)	316,000	5,266,836	5,582,836	8,651,565
Total liabilities	1,729,765	7,731,975	9,461,740	9,635,325
<b>Deferred Inflows</b>				
Special assessment revenue for the following year	1,045,760	-	1,045,760	-
Deferred pension cost reductions (Note 9)	66,783	24,618	91,401	-
Total deferred inflows	1,112,543	24,618	1,137,161	-

# Township of Scio

## Statement of Net Position (Continued)

March 31, 2018

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Net Position</b>				
Net investment in capital assets	\$ 13,376,759	\$ 26,626,869	\$ 40,003,628	\$ 15,650,149
Restricted for:				
Land preservation	2,212,253	-	2,212,253	-
Debt service	100,662	-	100,662	-
Public safety	1,258,416	-	1,258,416	-
Water operations	-	6,234,114	6,234,114	-
Sewer operations	-	14,614,672	14,614,672	-
Road improvement	3,104,994	-	3,104,994	-
Bridge maintenance	38,161	-	38,161	-
Bus	338,041	-	338,041	-
Public improvement	562,405	-	562,405	-
Tree mitigation	212,431	-	212,431	-
Unrestricted	7,573,033	-	7,573,033	1,868,384
	<b>\$ 28,777,155</b>	<b>\$ 47,475,655</b>	<b>\$ 76,252,810</b>	<b>\$ 17,518,533</b>

# Township of Scio

Functions/Programs	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 2,360,688	\$ 229,632	\$ 67,102	\$ -
Public safety - Police, fire, and EMS	2,991,823	1,049,803	-	-
Public works	245,806	46,133	-	-
Debt service	18,877	-	-	-
Total governmental activities	5,617,194	1,325,568	67,102	-
Business-type activities:				
Water Fund	3,159,207	2,881,625	-	1,131,850
Sewer Fund	3,195,327	2,656,458	-	1,056,790
Total business-type activities	6,354,534	5,538,083	-	2,188,640
Total primary government	<b>\$ 11,971,728</b>	<b>\$ 6,863,651</b>	<b>\$ 67,102</b>	<b>\$ 2,188,640</b>
Component units	<b>\$ 1,457,011</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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

### Change in Net Position

**Net Position** - Beginning of year

**Net Position** - End of year

## Statement of Activities

**Year Ended March 31, 2018**

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (2,063,954)	\$ -	\$ (2,063,954)	\$ -
(1,942,020)	-	(1,942,020)	-
(199,673)	-	(199,673)	-
(18,877)	-	(18,877)	-
(4,224,524)	-	(4,224,524)	-
-	854,268	854,268	-
-	517,921	517,921	-
-	1,372,189	1,372,189	-
(4,224,524)	1,372,189	(2,852,335)	-
-	-	-	(1,457,011)
2,510,693	-	2,510,693	1,450,064
1,407,499	-	1,407,499	-
165,429	252,721	418,150	6,082
328,962	-	328,962	-
157,728	-	157,728	-
4,570,311	252,721	4,823,032	1,456,146
345,787	1,624,910	1,970,697	(865)
28,431,368	45,850,745	74,282,113	17,519,398
<b><u>\$ 28,777,155</u></b>	<b><u>\$ 47,475,655</u></b>	<b><u>\$ 76,252,810</u></b>	<b><u>\$ 17,518,533</u></b>

# Township of Scio

## Governmental Funds Balance Sheet

March 31, 2018

	General Fund	Fire Department Fund	Township Road Improvement Special Assessment Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and investments (Note 3)	\$ 6,994,623	\$ 2,348,291	\$ 569,101	\$ 4,267,092	\$ 14,179,107
Receivables - Net:					
Property taxes receivable	40,118	-	-	13,333	53,451
Special assessments receivable	-	-	2,719,214	59,730	2,778,944
Customer receivables - Net	75,455	-	-	-	75,455
Other receivables	5,800	-	-	-	5,800
Due from other governmental units	370,128	26,431	22,010	26,691	445,260
Due from other funds (Note 6)	427,000	-	-	-	427,000
Prepaid expenses	-	-	54,915	21,855	76,770
<b>Total assets</b>	<b>\$ 7,913,124</b>	<b>\$ 2,374,722</b>	<b>\$ 3,365,240</b>	<b>\$ 4,388,701</b>	<b>\$ 18,041,787</b>
<b>Liabilities</b>					
Accounts payable	\$ 49,172	\$ 23,216	\$ 9,246	\$ 7,134	\$ 88,768
Due to other funds (Note 6)	-	-	251,000	176,000	427,000
Accrued liabilities and other	19,779	47,330	-	2,108	69,217
<b>Total liabilities</b>	<b>68,951</b>	<b>70,546</b>	<b>260,246</b>	<b>185,242</b>	<b>584,985</b>
<b>Deferred Inflows (Note 4)</b>	<b>151,755</b>	<b>1,045,760</b>	<b>2,719,214</b>	<b>72,611</b>	<b>3,989,340</b>
<b>Fund Balances</b>					
Nonspendable - Prepays	-	-	54,915	21,855	76,770
Restricted:					
Roads	-	-	330,865	-	330,865
Land preservation	-	-	-	2,199,817	2,199,817
Public safety	-	1,258,416	-	-	1,258,416
Debt service	-	-	-	19,077	19,077
Tree mitigation	-	-	-	212,431	212,431
Bus	-	-	-	337,596	337,596
Public improvements	-	-	-	562,405	562,405
Bridge maintenance	-	-	-	38,161	38,161
Committed:					
Capital projects	-	-	-	739,506	739,506
Other postemployment benefit obligations	941,370	-	-	-	941,370
Assigned - Subsequent year's budget	1,660,620	-	-	-	1,660,620
Unassigned	5,090,428	-	-	-	5,090,428
<b>Total fund balances</b>	<b>7,692,418</b>	<b>1,258,416</b>	<b>385,780</b>	<b>4,130,848</b>	<b>13,467,462</b>
<b>Total liabilities, deferred inflows, and fund balances</b>	<b>\$ 7,913,124</b>	<b>\$ 2,374,722</b>	<b>\$ 3,365,240</b>	<b>\$ 4,388,701</b>	<b>\$ 18,041,787</b>

**Governmental Funds**

**Reconciliation of the Balance Sheet to the Statement of Net Position**

**March 31, 2018**

<b>Fund Balances Reported in Governmental Funds</b>	<b>\$ 13,467,462</b>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	13,692,759
Grants and other receivables that are not collected soon after year end are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds	2,943,580
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(392,770)
Some employee fringe benefits are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities:	
Employee compensated absences	(116,867)
Net pension liability and related deferred inflows and outflows	(168,207)
Other postemployment benefit obligations	(648,802)
<b>Net Position of Governmental Activities</b>	<b><u>\$ 28,777,155</u></b>

**Township of Scio**

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

**Year Ended March 31, 2018**

	General Fund	Fire Department Fund	Township Road Improvement Special Assessment Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>					
Property taxes	\$ 1,087,532	\$ -	\$ -	\$ 958,097	\$ 2,045,629
Special assessments	-	1,015,566	667,224	56,001	1,738,791
State-shared revenue	1,398,755	-	-	-	1,398,755
Locally raised	990,267	11,987	-	-	1,002,254
Rental income	36,990	22,250	-	-	59,240
Federal grants	-	32,372	-	-	32,372
Investment income	73,499	17,139	34,932	39,859	165,429
Other miscellaneous income	103,102	3,529	-	80,709	187,340
Total revenue	3,690,145	1,102,843	702,156	1,134,666	6,629,810
<b>Expenditures</b>					
Current:					
General government	1,580,471	-	-	450,828	2,031,299
Public safety	1,936,680	1,024,597	-	225	2,961,502
Public works	55,830	-	139,997	225	196,052
Capital outlay	178,726	483,165	-	270,913	932,804
Debt service	-	-	64,011	101,196	165,207
Total expenditures	3,751,707	1,507,762	204,008	823,387	6,286,864
<b>Excess of Revenue (Under) Over Expenditures</b>	(61,562)	(404,919)	498,148	311,279	342,946
<b>Other Financing Sources (Uses)</b>					
Transfers in (Note 6)	45,505	-	-	77,119	122,624
Transfers out (Note 6)	(77,119)	-	-	(45,505)	(122,624)
Proceeds from sale of capital assets	-	500	-	-	500
Total other financing (uses) sources	(31,614)	500	-	31,614	500
<b>Net Change in Fund Balances</b>	(93,176)	(404,419)	498,148	342,893	343,446
<b>Fund Balances - Beginning of year</b>	7,785,594	1,662,835	(112,368)	3,787,955	13,124,016
<b>Fund Balances - End of year</b>	<u>\$ 7,692,418</u>	<u>\$ 1,258,416</u>	<u>\$ 385,780</u>	<u>\$ 4,130,848</u>	<u>\$ 13,467,462</u>



## Township of Scio

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

Year Ended March 31, 2018

<b>Net Change in Fund Balances Reported in Governmental Funds</b>	<b>\$ 343,446</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	770,904
Depreciation expense	(278,207)
Net book value of assets disposed of	(344)
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds until it is available	(667,331)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	143,000
Change in accrued interest payable and other	4,331
Some employee costs (pension, OPEB, and compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	29,988
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ 345,787</u></b>

**Proprietary Funds  
Statement of Net Position**

**March 31, 2018**

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 1,432,154	\$ 2,908,957	\$ 4,341,111
Investments	5,456,019	12,253,091	17,709,110
Receivables:			
Customer receivables - Net	372,729	429,098	801,827
Due from other governmental units	1,672	55,142	56,814
Total current assets	7,262,574	15,646,288	22,908,862
Noncurrent assets - Capital assets (Note 5)	18,230,399	14,028,301	32,258,700
Total assets	25,492,973	29,674,589	55,167,562
<b>Deferred Outflows of Resources</b> - Deferred outflows related to pensions (Note 9)	32,576	32,110	64,686
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	188,102	299,415	487,517
Due to other governmental units	497,906	387,470	885,376
Accrued liabilities and other	118,954	121,572	240,526
Current portion of long-term debt (Note 7)	364,995	-	364,995
Total current liabilities	1,169,957	808,457	1,978,414
Noncurrent liabilities:			
Net pension obligation (Note 9)	98,015	96,142	194,157
Net other postemployment benefit obligations (Note 10)	145,663	146,905	292,568
Long-term debt - Net of current portion (Note 7)	5,266,836	-	5,266,836
Total noncurrent liabilities	5,510,514	243,047	5,753,561
Total liabilities	6,680,471	1,051,504	7,731,975
<b>Deferred Inflows</b> - Deferred inflows related to pensions (Note 9)	12,396	12,222	24,618
<b>Net Position</b>			
Net investment in capital assets	12,598,568	14,028,301	26,626,869
Restricted:			
Restricted for water operations	6,234,114	-	6,234,114
Restricted for sewer operations	-	14,614,672	14,614,672
Total net position	<u>\$ 18,832,682</u>	<u>\$ 28,642,973</u>	<u>\$ 47,475,655</u>

## Township of Scio

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

**Year Ended March 31, 2018**

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Operating Revenue</b>			
Charges for services	\$ 2,815,449	\$ 2,539,594	\$ 5,355,043
Other	66,176	116,864	183,040
Total operating revenue	2,881,625	2,656,458	5,538,083
<b>Operating Expenses</b>			
Cost of water	1,719,711	-	1,719,711
Cost of sewage treatment	-	1,896,125	1,896,125
Operation and maintenance	240,063	426,864	666,927
General and administrative	552,754	454,282	1,007,036
Depreciation	505,150	418,056	923,206
Total operating expenses	3,017,678	3,195,327	6,213,005
<b>Operating Loss</b>	(136,053)	(538,869)	(674,922)
<b>Nonoperating Revenue (Expense)</b>			
Investment income	77,671	175,050	252,721
Interest expense	(141,529)	-	(141,529)
Total nonoperating (expense) revenue	(63,858)	175,050	111,192
<b>Loss - Before contributions</b>	(199,911)	(363,819)	(563,730)
<b>Capital Contributions</b>			
Lines donated by developers	975,318	594,232	1,569,550
Other capital contributions	156,532	462,558	619,090
Total capital contributions	1,131,850	1,056,790	2,188,640
<b>Change in Net Position</b>	931,939	692,971	1,624,910
<b>Net Position - Beginning of year</b>	17,900,743	27,950,002	45,850,745
<b>Net Position - End of year</b>	<b>\$ 18,832,682</b>	<b>\$ 28,642,973</b>	<b>\$ 47,475,655</b>

## Township of Scio

## Proprietary Funds Statement of Cash Flows

**Year Ended March 31, 2018**

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 2,852,742	\$ 2,648,744	\$ 5,501,486
Payments to suppliers	(1,978,385)	(2,152,129)	(4,130,514)
Payments to employees	(87,540)	(329,250)	(416,790)
Other payments	(242)	-	(242)
Net cash and cash equivalents provided by operating activities	786,575	167,365	953,940
<b>Cash Flows from Capital and Related Financing Activities</b>			
Collection of connection fees	156,532	462,558	619,090
Tap fees collected on behalf of the City of Ann Arbor, Michigan	311,127	142,561	453,688
Tap fees paid to the City of Ann Arbor, Michigan	(528,895)	(240,599)	(769,494)
Purchase of capital assets	(408,274)	(1,024,408)	(1,432,682)
Debt service	(523,856)	-	(523,856)
Net cash and cash equivalents used in capital and related financing activities	(993,366)	(659,888)	(1,653,254)
<b>Cash Flows from Investing Activities</b>			
Interest received on investments	77,671	175,050	252,721
Purchase of investment securities	(64,635)	(146,895)	(211,530)
Net cash and cash equivalents provided by investing activities	13,036	28,155	41,191
<b>Net Decrease in Cash and Cash Equivalents</b>	(193,755)	(464,368)	(658,123)
<b>Cash and Cash Equivalents - Beginning of year</b>	1,625,909	3,373,325	4,999,234
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 1,432,154</b>	<b>\$ 2,908,957</b>	<b>\$ 4,341,111</b>
<b>Classification of Cash and Cash Equivalents</b>			
Cash and investments	\$ 6,888,173	\$ 15,162,048	\$ 22,050,221
Less amounts classified as investments	(5,456,019)	(12,253,091)	(17,709,110)
Total cash and cash equivalents	<b>\$ 1,432,154</b>	<b>\$ 2,908,957</b>	<b>\$ 4,341,111</b>

## Township of Scio

### Proprietary Funds Statement of Cash Flows (Continued)

**Year Ended March 31, 2018**

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>			
Operating loss	\$ (136,053)	\$ (538,869)	\$ (674,922)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	505,150	418,056	923,206
Changes in assets and liabilities:			
Receivables	(29,125)	(7,714)	(36,839)
Accrued and other liabilities	284,265	35,399	319,664
Accounts payable	148,875	247,218	396,093
Deferred inflow	11,704	11,540	23,244
Deferred outflows	1,759	1,735	3,494
Total adjustments	922,628	706,234	1,628,862
Net cash and cash equivalents provided by operating activities	\$ 786,575	\$ 167,365	\$ 953,940
<b>Significant Noncash Transactions</b> - Lines donated by developers	\$ 975,318	\$ 594,232	\$ 1,569,550

## Township of Scio

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### Fiduciary Funds Statement of Assets and Liabilities

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March 31, 2018

	Current Tax Collection	Trust and Agency	Total Fiduciary Funds
<b>Assets</b> - Cash and investments	<u>\$ 56,872</u>	<u>\$ 593,997</u>	<u>\$ 650,869</u>
<b>Liabilities</b> - Accrued liabilities and other	<u>\$ 56,872</u>	<u>\$ 593,997</u>	<u>\$ 650,869</u>

## Township of Scio

## Component Units Statement of Net Position

March 31, 2018

	Downtown Development Authority	Economic Development Corporation	Total
<b>Assets</b>			
Cash and investments	\$ 2,026,938	\$ 10,206	\$ 2,037,144
Capital assets (Note 5)	24,801,579	-	24,801,579
Total assets	26,828,517	10,206	26,838,723
<b>Deferred Outflows of Resources</b> - Bond refunding loss being amortized	315,135	-	315,135
<b>Liabilities</b>			
Accrued interest payable	168,760	-	168,760
Long-term debt:			
Due within one year - Current portion of long-term debt	815,000	-	815,000
Due in more than one year - Long-term debt	8,651,565	-	8,651,565
Total liabilities	9,635,325	-	9,635,325
<b>Net Position</b>			
Net investment in capital assets	15,650,149	-	15,650,149
Unrestricted	1,858,178	10,206	1,868,384
Total net position	<u>\$ 17,508,327</u>	<u>\$ 10,206</u>	<u>\$ 17,518,533</u>

## Township of Scio

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Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Downtown Development Authority	\$ 1,457,011	\$ -	\$ -	\$ -
Economic Development Corporation	-	-	-	-
<b>Total</b>	<b>\$ 1,457,011</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

General revenue:

Property taxes

Investment income

Total general revenue

### Change in Net Position

**Net Position** - Beginning of year

**Net Position** - End of year



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Component Units  
Statement of Activities

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**Year Ended March 31, 2018**

Net (Expense) Revenue and Changes in Net Position		
Downtown Development Authority	Economic Development Corporation	Total
\$ (1,457,011)	\$ -	\$ (1,457,011)
-	-	-
(1,457,011)	-	(1,457,011)
1,450,064	-	1,450,064
6,069	13	6,082
1,456,133	13	1,456,146
(878)	13	(865)
17,509,205	10,193	17,519,398
<b>\$ 17,508,327</b>	<b>\$ 10,206</b>	<b>\$ 17,518,533</b>

**Note 1 - Significant Accounting Policies**

***Accounting and Reporting Principles***

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

***Reporting Entity***

The Township of Scio is governed by an elected seven-member board of trustees. The accompanying financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. Blended component units are, in substance, part of the Township's operations, even though they are separate legal entities. Thus, blended component units are appropriately presented as funds of the Township. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Township (see discussion below for description).

***Blended Component Units***

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

***Discretely Presented Component Units***

***Downtown Development Authority***

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

***Economic Development Corporation***

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

**Note 1 - Significant Accounting Policies (Continued)**

***Report Presentation***

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

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

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

***Basis of Accounting***

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

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree 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.

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

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

**Note 1 - Significant Accounting Policies (Continued)**

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

***Fund Accounting***

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

**Governmental Funds**

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

- The General Fund is the primary operating fund because it accounts for all financial resources used to provide government services other than those specifically assigned to another fund.
- The Fire Department Fund is used to account for monies collected and expended for fire protection services.
- The Township Road Improvement Special Assessment Fund is used to account for the monies collected and expended for road improvements. This fund includes the Township Special Assessment District Fund, Township Road Improvement Revolving Fund, Newman Boulevard Special Assessment District Fund, the 2014 Road Special Assessment District Fund, Park Road Special Assessment District Fund, the 2015 Road Special Assessment District Road, the 2016 Road Special Assessment Fund, and the 2017 Road Special Assessment Fund.

**Proprietary Funds**

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.

**Note 1 - Significant Accounting Policies (Continued)**

**Interfund Activity**

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

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

***Specific Balances and Transactions***

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

**Investments**

Investments are reported at fair value. Pooled investment income from the General Fund is generally allocated to each fund based on the relative participation in the pool.

**Prepaid Items**

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

**Capital Assets**

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

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

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

**Note 1 - Significant Accounting Policies (Continued)**

**Long-term Obligations**

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as an "other financing source," as well as bond premiums and discounts. The General Fund and debt service funds 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 represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

The Township reports deferred outflows of resources for deferred charges on bond refunding in the government-wide financial statements and the Downtown Development Authority. A deferred charge on refunding results from the difference in carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from four sources: grants, delinquent property taxes, state-shared revenue, and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Also, in the government-wide and proprietary funds' financial statements, a deferred inflow has been recorded related to the variance between the pension plan's actual experience compared to the plan's assumed experience.

**Net Position Flow Assumption**

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

**Note 1 - Significant Accounting Policies (Continued)**

**Fund Balance Flow Assumptions**

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

**Fund Balance Policies**

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

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

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Township has, by resolution, authorized the board of trustees to assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**Property Tax Revenue**

Property taxes are levied on each December 1 and become an enforceable lien at that time; the tax is based on the taxable valuation of property as of the preceding December 31. Taxes are due on February 14 with the final collection date of the last day of February before they are added to the county tax roll.

The Township's 2017 property tax revenue was levied and collectible on December 31, 2017 and is recognized as revenue in the year ended March 31, 2018 when the proceeds of the levy are budgeted and available for the financing of operations.

The 2017 taxable valuation of the Township totaled \$1.2 billion (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of .9471 mills for operating purposes, .4917 mills for land preservation services, and .3609 mills for bus transportation. After DDA capture, this resulted in approximately \$1,088,000 million for operating, \$553,000 for open space land preservation, and \$406,000 for bus transportation. These amounts are recognized in the respective General, Open Space Land, and Bus Fund financial statements as tax revenue.

In addition, the Township assesses .90000 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, 2018, \$1,045,760 is included in unearned revenue. This is reported in the Fire Department Fund.



**Note 1 - Significant Accounting Policies (Continued)**

**Special Assessment Revenue**

The Township has various special assessments for capital projects throughout the Township. These special assessments are placed on tax bills levied on December 1. Special assessment revenue for the year ended March 31, 2018 is \$723,000 and included in the Township's various capital projects funds. A 10-year special assessment for road construction and maintenance in the amount of \$5.26 million was approved during the year ended March 31, 2014. This assessment is collectible in 10 equal annual installments beginning on December 1, 2013 for the next fiscal year. As of March 31, 2018, \$2,194,617 is included in deferred inflows. This is reported in the Township Road Improvement Special Assessment Fund.

**Pension**

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

**Other Postemployment Benefit Costs**

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

**Compensated Absences (Paid Time Off)**

It is the Township's policy to permit employees to accumulate earned but unused paid time off. All paid time off is accrued when incurred and reported in the government-wide, proprietary, and fiduciary fund financial statements. No liability for these amounts is reported in governmental funds, as there were no employee terminations as of year end.

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

**Proprietary Funds Operating Classification**

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



**Note 1 - Significant Accounting Policies (Continued)**

**Use of Estimates**

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

**Upcoming Accounting Pronouncements**

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Township to recognize on the face of the financial statements its net OPEB liability. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Township is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Township's financial statements for the year ending March 31, 2019.

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

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The Township is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Township's financial statements for the year ending March 31, 2021.

**Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information**

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

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

During the year, the Township incurred expenditures in the General Fund, which were in excess of the amounts budgeted for capital outlay in the amount of \$41,726 due to unforeseen building construction costs.

**Note 2 - Stewardship, Compliance, and Accountability (Continued)**

**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.

**Note 3 - Deposits and Investments**

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

The Township has designated eight banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority, as listed above. The Township's deposits and investment policies are in accordance with statutory authority.

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

**Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$7,630,350 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized; the component units had \$825,471 of bank deposits that was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Interest Rate Risk**

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

At year end, the Township had the following investments:

Investment	Fair Value	Weighted- average Maturity (Days)
<b>Commercial Paper - General Electric Cap Corp</b>		
U.S. government agency securities	\$ 981,092	702
Commercial paper	<u>20,710,753</u>	67
Total	<u>\$ 21,691,845</u>	

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

**Credit Risk**

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

Investment	Fair Value	Rating	Rating Organization
<b>Primary Government</b>			
U.S. government agency securities	\$ 981,092	AAA	S&P
Commercial paper	20,710,753	AI/PI	S&P
Money market	<u>2,359,290</u>	Unrated	S&P
Total	<u>\$ 24,051,135</u>		

**Fair Value Measurements**

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

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

The Township has the following recurring fair value measurements as of March 31, 2018:

- Money market funds of \$17,223 (debt securities) are valued using quoted market prices (Level 1 inputs).
- Government securities of \$981,092 (debt securities) are valued using quoted market prices (Level 1 inputs).
- Mutual funds of \$2,342,067 (debt securities) are valued using quoted market prices (Level 1 inputs).
- Corporate fixed income of \$20,710,753 (debt securities) are valued using a matrix pricing model (Level 2 inputs).

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

March 31, 2018

**Note 4 - Deferred Inflows/Outflows of Resources**

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

	Governmental Funds
Delinquent property taxes - Unavailable	\$ 52,427
Special assessments - Unavailable	2,778,944
State-shared revenue - Unavailable	112,209
Special assessment revenue for the following year	1,045,760
<b>Total deferred inflows</b>	<b>\$ 3,989,340</b>

**Note 5 - Capital Assets**

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

**Governmental Activities**

	Balance April 1, 2017	Additions	Disposals	Balance March 31, 2018
Capital assets not being depreciated:				
Land	\$ 1,006,268	\$ -	\$ -	\$ 1,006,268
Land preservation - Land and easement	7,334,127	-	-	7,334,127
Construction in progress	-	159,229	-	159,229
Drain rights and infrastructure	215,955	-	-	215,955
Subtotal	8,556,350	159,229	-	8,715,579
Capital assets being depreciated:				
Sidewalks and other intangible rights	2,181,108	-	-	2,181,108
Buildings and improvements	2,534,344	-	-	2,534,344
Equipment	1,178,069	74,824	(15,605)	1,237,288
Vehicles	1,069,493	536,850	-	1,606,343
Land improvements	156,087	-	-	156,087
Subtotal	7,119,101	611,674	(15,605)	7,715,170
Accumulated depreciation:				
Sidewalks and other intangible rights	178,839	87,244	-	266,083
Buildings	1,118,984	55,738	-	1,174,722
Vehicles	419,809	54,590	(15,262)	459,137
Fire vehicles	624,942	78,572	-	703,514
Intangible road rights	132,471	2,063	-	134,534
Subtotal	2,475,045	278,207	(15,262)	2,737,990
Net capital assets being depreciated	4,644,056	333,467	(343)	4,977,180
Net governmental activities capital assets	<u>\$ 13,200,406</u>	<u>\$ 492,696</u>	<u>\$ (343)</u>	<u>\$ 13,692,759</u>

March 31, 2018

**Note 5 - Capital Assets (Continued)**

***Business-type Activities***

	Balance April 1, 2017	Additions	Disposals	Balance March 31, 2018
Capital assets not being depreciated:				
Land	\$ 1,995,542	\$ -	\$ -	\$ 1,995,542
Construction in progress	264,547	1,448,209	-	1,712,756
Subtotal	2,260,089	1,448,209	-	3,708,298
Capital assets being depreciated:				
Utility systems	41,107,821	1,552,218	-	42,660,039
Buildings	761,586	-	-	761,586
Machinery and equipment	432,405	1,806	(585)	433,626
Vehicles	81,426	-	-	81,426
Sewer meters	7,118	-	-	7,118
Subtotal	42,390,356	1,554,024	(585)	43,943,795
Accumulated depreciation:				
Utility system	13,583,798	875,998	-	14,459,796
Buildings	559,533	19,278	-	578,811
Machinery and equipment	262,163	25,353	(585)	286,931
Vehicles	58,230	2,578	-	60,808
Sewer meters	7,047	-	-	7,047
Subtotal	14,470,771	923,207	(585)	15,393,393
Net capital assets being depreciated	27,919,585	630,817	-	28,550,402
Net business-type activity capital assets	<u>\$ 30,179,674</u>	<u>\$ 2,079,026</u>	<u>\$ -</u>	<u>\$ 32,258,700</u>

***Component Units***

	Balance April 1, 2017	Additions	Disposals	Balance March 31, 2018
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	12,258,499	877,057	-	13,135,556
Net capital assets being depreciated	9,667,925	(877,057)	-	8,790,868
Net capital assets	<u>\$ 25,678,636</u>	<u>\$ (877,057)</u>	<u>\$ -</u>	<u>\$ 24,801,579</u>

March 31, 2018

**Note 5 - Capital Assets (Continued)**

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

Governmental activities:		
General government		\$ 165,410
Public safety		112,797
Total governmental activities		<u>\$ 278,207</u>
Business-type activities:		
Water		\$ 505,150
Sewer		418,057
Total business-type activities		<u>\$ 923,207</u>
Component unit activities - Public works		<u>\$ 877,057</u>

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

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Township Road Improvement Special Assessment Fund	\$ 251,000
	Other nonmajor funds	176,000
	Total	<u>\$ 427,000</u>

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

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

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
Other nonmajor governmental funds	General Fund	\$ 45,505
General Fund	Other nonmajor governmental funds	77,119
	Total	<u>\$ 122,624</u>

The transfer from other governmental funds to the General Fund is related to interest earnings due to the General Fund for the period when it was covering construction costs for Baker Road.

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

March 31, 2018

**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 for the year ended March 31, 2018 can be summarized as follows:

**Governmental Activities**

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and contracts payable:							
1999 General Obligation Limited Tax Bonds - Amount of issue: \$900,000							
Maturing through 2017	5.65%	\$75,000	\$ 75,000	\$ -	\$ (75,000)	\$ -	\$ -
2012 Special Assessment Bonds - Amount of issue: \$190,000							
Maturing through April 2022	3.71%	\$20,000	100,000	-	(20,000)	80,000	-
2013 Special Assessment Bonds - Amount of issue: \$460,000							
Maturing through April 2023	4.78%	\$46,000 - \$49,000	284,000	-	(48,000)	236,000	-
Accumulated compensated absences			112,193	101,201	(96,527)	116,867	116,867
Total governmental activities			\$ 571,193	\$ 101,201	\$ (239,527)	\$ 432,867	\$ 116,867

**Business-type Activities**

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and contracts payable:							
Contractual obligation to the City of Ann Arbor, Michigan related to the City's 2008 DWRF Bonds - Amount of issue: \$2,490,749							
Maturing through October 2028	2.50%	\$5,749 - \$170,000	\$ 1,410,749	\$ -	\$ (150,000)	\$ 1,260,749	\$ 155,000
Contractual obligation to the City of Ann Arbor, Michigan related to the City's 2012 DWRF Bonds - Amount of issue: \$4,882,478							
Maturing through April 2034	2.50%	\$192,862 - \$310,800	4,388,414	-	(17,332)	4,371,082	209,995
Total business-type activities			\$ 5,799,163	\$ -	\$ (167,332)	\$ 5,631,831	\$ 364,995

March 31, 2018

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

**Component Units**

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and contracts payable:							
2015 Downtown Development and Refunding Bonds - Amount of issue: \$6,910,000							
Maturing through March 2026	2.00% - 4.00%	\$30,000 - \$1,000,000	\$ 6,845,000	\$ -	\$ (530,000)	\$ 6,315,000	\$ 630,000
2008 Downtown Development and Refunding Bonds - Amount of issue: \$3,250,000							
Maturing through November 2028	4.00% - 5.00%	\$100,000 - \$400,000	2,850,000	-	(2,700,000)	150,000	150,000
2012 Downtown Development and Refunding Bonds - Amount of issue: \$3,470,000							
Maturing through April 2018	2.00% - 4.00%	\$565,000 - \$685,000	685,000	-	(685,000)	-	-
2017 Downtown Development and Refunding Bonds - Amount of issue: \$2,765,000							
Maturing through November 2028	2.21%	\$35,000 - \$385,000	-	2,765,000	-	2,765,000	35,000
Unamortized bond premiums			266,135	-	(29,570)	236,565	-
Total component units			<u>\$ 10,646,135</u>	<u>\$ 2,765,000</u>	<u>\$ (3,944,570)</u>	<u>\$ 9,466,565</u>	<u>\$ 815,000</u>

**Debt Service Requirements to Maturity**

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

Years Ending March 31	Governmental Activities			Business-type Activities			Component Units Activities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2019	\$ -	\$ 7,231	\$ 7,231	\$ 364,995	\$ 128,037	\$ 493,032	\$ 815,000	\$ 398,066	\$ 1,213,066
2020	68,000	12,921	80,921	375,749	134,730	510,479	820,000	230,883	1,050,883
2021	68,000	9,842	77,842	381,502	125,408	506,910	965,000	207,784	1,172,784
2022	67,000	6,787	73,787	392,255	115,943	508,198	955,000	180,730	1,135,730
2023	67,000	3,756	70,756	403,009	106,208	509,217	1,045,000	153,937	1,198,937
2024-2028	46,000	1,120	47,120	1,696,343	390,740	2,087,083	4,245,000	315,906	4,560,906
2029-2033	-	-	-	1,418,184	184,229	1,602,413	385,000	8,509	393,509
2034-2036	-	-	-	599,794	15,521	615,315	-	-	-
Total	<u>\$ 316,000</u>	<u>\$ 41,657</u>	<u>\$ 357,657</u>	<u>\$ 5,631,831</u>	<u>\$ 1,200,816</u>	<u>\$ 6,832,647</u>	<u>\$ 9,230,000</u>	<u>\$ 1,495,815</u>	<u>\$ 10,725,815</u>



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

***Bond Refunding***

During the year, the Township issued \$2,765,000 in general obligation (revenue) bonds with an average interest rate of 2.21 percent. The proceeds of these bonds were used to advance refund \$2,550,000 of outstanding general obligation series 2008 bonds with an average interest rate of 5.0 percent. The net proceeds of \$2,704,211 (after payment of \$60,789 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased, and the liability for the bonds has been removed from the statement of net position. The advance refunding reduced total debt service payments over the years by \$344,087, which represents an economic gain of \$313,338.

In current and previous years, the Township defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. As of March 31, 2018, there is still \$8,150,000 of bonds outstanding that is 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 - Pension Plans**

***Plan Description***

The Township participates in an agent multiple-employer defined benefit pension plan administered by the Municipal Employees' Retirement System of Michigan (MERS of Michigan), an agent multiple-employer defined benefit pension plan that covers all full- and part-time firefighters of the Township and all full-time employees, except the elected officials other than the current treasurer. MERS of Michigan was established as a statewide public employee pension plan by the Michigan Legislature under PA 135 of 1945 and is administered by a nine-member retirement board. MERS of Michigan issues a publicly available financial report which includes the financial statements and required supplemental information of this defined benefit plan. This report can be obtained at [www.mersofmichigan.com](http://www.mersofmichigan.com) or in writing to MERS of Michigan at 1134 Municipal Way, Lansing, Michigan 48917.

The Township also offers pension benefits to its elected officials through a defined contribution plan. This plan is administered through John Hancock Retirement Plan Services, LLC. Firefighters and other full-time employees participated in this plan in the past, but have since transferred to the defined benefit plan.

In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate 90 days from the date of employment. As established by the board of trustees, the Township contributes 8 percent of an employee's approved pension earnings. Employee contributions are not required. In accordance with these requirements, the Township contributed approximately \$8,700 during the current year. The Township's contributions for each employee are fully vested upon entering service.

**Note 9 - Pension Plans (Continued)**

***Benefits Provided***

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

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

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

***Employees Covered by Benefit Terms***

At the December 31, 2016 measurement date, the following members were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	4
Active plan members	<u>22</u>
Total employees covered by MERS of Michigan	<u><u>26</u></u>

***Contributions***

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

For general and fire employees, the plan provides that the employer and employees contribute amounts necessary to fund the actuarially determined benefits. General and fire employees are required to contribute 1.30 and 1.38 percent of compensation, respectively. The Township makes employer contributions in accordance with funding requirements determined by the system's actuary. The Township's current rate is 8 percent of annual covered payroll.

***Net Pension Liability***

The Township has chosen to use the December 31 measurement date as its measurement date for the net pension liability. The March 31, 2018 fiscal year end reported net pension liability was determined using a measure of the total pension liability and the pension net position as of the December 31, 2016 measurement date. The December 31, 2016 measurement date total pension liability was determined by an actuarial valuation performed as of that date.

**Note 9 - Pension Plans (Continued)**

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
<b>Balance at December 31, 2015</b>	\$ 2,875,332	\$ 2,081,159	\$ 794,173
Changes for the year:			
Service cost	105,564	-	105,564
Interest	232,738	-	232,738
Changes in benefits	15,021	-	15,021
Differences between expected and actual experience	(95,097)	-	(95,097)
Contributions - Employer	-	110,862	(110,862)
Contributions - Employee	-	17,669	(17,669)
Net investment income	-	244,417	(244,417)
Benefit payments, including refunds	(37,766)	(37,766)	-
Administrative expenses	-	(4,817)	4,817
Net changes	220,460	330,365	(109,905)
<b>Balance at December 31, 2016</b>	<u>\$ 3,095,792</u>	<u>\$ 2,411,524</u>	<u>\$ 684,268</u>

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

For the year ended March 31, 2018, the Township recognized pension expense of \$208,993. At March 31, 2018, the Township reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (91,400)
Changes in assumptions	111,764	-
Net difference between projected and actual earnings on pension plan investments	77,083	-
Employer contributions to the plan subsequent to the measurement date	264,526	-
Total	<u>\$ 453,373</u>	<u>\$ (91,400)</u>

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

Years Ending March 31	Amount
2019	\$ 38,452
2020	31,202
2021	(9,522)
2022	5,375
2023	5,375
Thereafter	(11,887)

**Note 9 - Pension Plans (Continued)**

**Actuarial Assumptions**

The total pension liability in the December 31, 2016 actuarial valuation was determined using an inflation assumption of 2.5 percent, assumed salary increases (in the long term, plus a percentage based on an age-related scale to reflect merit, longevity, and promotional pay increases) of 3.75 percent, an investment rate of return (net of investment expenses, including inflation) of 7.75 percent, and the RP-2014 mortality tables.

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

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

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

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

**Discount Rate**

The discount rate used to measure the total pension liability was 8.0 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

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

**Investment Rate of Return**

The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of the December 31, 2016 measurement date for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	55.50 %	4.80 %
Global fixed income	18.50	0.70
Real assets	13.50	1.31
Diversifying strategies	12.50	0.94

**Note 9 - Pension Plans (Continued)**

The preceding target allocation was amended as of January 1, 2017 to reduce the previous allocation to global equity and global fixed income and to increase the allocation of real assets and diversifying strategies. The target allocation as of January 1, 2017 will be 55.5 percent global equity, 18.5 percent global fixed income, 13.5 percent real assets, and 12.5 percent diversifying strategies.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the Township, calculated using the discount rate of 8 percent, as well as what the Township's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (7.0%)	Current Discount Rate (8.0%)	1 Percent Increase (9.0%)
Net pension liability of the Township	\$ 1,079,005	\$ 684,268	\$ 348,663

**Pension Plan Fiduciary Net Position**

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

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

**Note 10 - Other Postemployment Benefits**

**Plan Description**

The Township provides retiree healthcare benefits to eligible employees. This is an agent multiple-employer defined benefit plan administered by the Township. The benefits are provided through board resolution. The Township provides a monthly stipend to be used to supplement the insurance cost for postemployment healthcare benefits. At the governmental fund level, the expense is recognized by the Township as the payments to the retirees are made. During the year, this amounted to \$8,417.

**Funding Policy**

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

March 31, 2018

**Note 10 - Other Postemployment Benefits (Continued)**

**Funding Progress**

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, 2018, 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)	\$ 125,343
Interest on the prior year's net OPEB obligation	11,066
Amounts contributed - Payments of current premiums	<u>(8,417)</u>
Increase in net OPEB obligation	127,992
OPEB obligation - Beginning of year	<u>813,378</u>
OPEB obligation - End of year	<u><u>\$ 941,370</u></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 2016, 2017, and 2018 are as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
March 31, 2016	March 31, 2015	\$ 93,183	10.60 %	\$ 653,446
March 31, 2017	March 31, 2016	168,052	4.80	813,378
March 31, 2018	March 31, 2017	137,355	5.90	941,370

The funding progress of the plan 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
March 31, 2015	\$ -	\$ 944,687	\$ 944,687	-	\$ 1,478,224	63.91 %
March 31, 2016	-	943,936	943,936	-	1,429,665	66.02
March 31, 2017	-	1,022,745	1,022,745	-	1,499,212	68.22

**Actuarial Methods and Assumptions**

Actuarial 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 multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Note 10 - Other Postemployment Benefits (Continued)**

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 actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial 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 the purpose of allocating the periods of the present value of total benefits to be paid.

*Healthcare Costs and Inflation* - The Township provides a stipend to its retirees to supplement the insurance costs for the retiree's healthcare premiums. The Township's policy requires the stipend be adjusted annually with the lesser of the Michigan inflation rate used for calculating property tax adjustments for the previous calendar year (Michigan Headlee Inflation Rate) or the percentage of change in the Township of Scio General Fund fiscal year-end revenue, as determined by comparing the difference between the current and prior fiscal year-end audits. A rate of 2 percent annually was used to project future increases based on recent changes to the Michigan Headlee inflation rate.

*Health Insurance Premiums* - Fiscal year 2018 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, 2017 actuarial valuation, the entry age actuarial cost method was used. The actuarial 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 an open basis. The remaining amortization period at March 31, 2017 was 24 years.

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## Required Supplemental Information

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## Township of Scio

### Required Supplemental Information Budgetary Comparison Schedule General Fund

**Year Ended March 31, 2018**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 1,043,000	\$ 1,065,000	\$ 1,087,532	\$ 22,532
State-shared revenue and grants	1,365,000	1,365,000	1,398,755	33,755
Locally raised	998,225	980,740	990,267	9,527
Rental income	34,000	36,000	36,990	990
Investment income	15,000	50,000	73,499	23,499
Other revenue	22,100	101,115	103,102	1,987
Total revenue	3,477,325	3,597,855	3,690,145	92,290
<b>Expenditures</b>				
Current services:				
General government:				
General government	772,050	931,050	827,452	103,598
Assessing	464,485	465,720	396,522	69,198
Elections	62,110	66,130	34,935	31,195
Boards and commissions	380,770	387,540	321,562	65,978
Health and safety	1,931,250	2,251,750	1,936,680	315,070
Building and grounds	118,500	92,000	55,830	36,170
Capital outlay	37,000	137,000	178,726	(41,726)
Total expenditures	3,766,165	4,331,190	3,751,707	579,483
<b>Excess of Expenditures Over Revenue</b>	(288,840)	(733,335)	(61,562)	671,773
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	43,960	45,505	1,545
Transfers out	(77,119)	(77,119)	(77,119)	-
Total other financing uses	(77,119)	(33,159)	(31,614)	1,545
<b>Net Change in Fund Balance</b>	(365,959)	(766,494)	(93,176)	673,318
<b>Fund Balance - Beginning of year</b>	7,785,594	7,785,594	7,785,594	-
<b>Fund Balance - End of year</b>	<u>\$ 7,419,635</u>	<u>\$ 7,019,100</u>	<u>\$ 7,692,418</u>	<u>\$ 673,318</u>

**Township of Scio**

Required Supplemental Information  
Budgetary Comparison Schedule  
Fire Department Fund

**Year Ended March 31, 2018**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Special assessments	\$ 1,016,560	\$ 1,016,560	\$ 1,015,566	\$ (994)
Charges for services	-	11,900	11,987	87
Rental income	22,500	22,250	22,250	-
Federal grants	-	30,380	32,372	1,992
Investment income	4,500	9,000	17,139	8,139
Other revenue	2,000	3,440	3,529	89
Total revenue	1,045,560	1,093,530	1,102,843	9,313
<b>Expenditures</b>				
Current services - Public safety	1,221,650	1,129,950	1,024,597	105,353
Capital outlay	-	484,000	483,165	835
Total expenditures	1,221,650	1,613,950	1,507,762	106,188
<b>Excess of Expenditures Over Revenue</b>	(176,090)	(520,420)	(404,919)	115,501
<b>Other Financing Sources</b> - Proceeds from sale of capital assets	-	500	500	-
<b>Net Change in Fund Balance</b>	(176,090)	(519,920)	(404,419)	115,501
<b>Fund Balance</b> - Beginning of year	1,662,835	1,662,835	1,662,835	-
<b>Fund Balance</b> - End of year	<u>\$ 1,486,745</u>	<u>\$ 1,142,915</u>	<u>\$ 1,258,416</u>	<u>\$ 115,501</u>

**Required Supplemental Information  
Schedule of OPEB Funding Progress**

**Last Three Fiscal Years  
Years Ended March 31**

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
March 31, 2015	\$ -	\$ 944,687	\$ 944,687	-	% \$1,478,224	63.91 %
March 31, 2016	-	943,936	943,936	-	1,429,665	66.02
March 31, 2017	-	1,022,745	1,022,745	-	1,499,212	68.22

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of March 31, 2017, the latest actuarial valuation, is as follows:

Amortization method	Level percent of payroll
Remaining amortization period	24 years
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	1.0 percent
Projected salary increases	2 percent
*Includes inflation at	2 percent
Cost-of-living adjustments	None

## Township of Scio

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

#### Last Three Fiscal Years (Prospectively Built from 2015)

	2017	2016	2015
<b>Total Pension Liability</b>			
Service cost	\$ 105,564	\$ 86,870	\$ 84,554
Interest	232,738	207,927	187,978
Changes in benefit terms	15,021	(14,402)	-
Differences between expected and actual experience	(95,097)	(10,921)	-
Changes in assumptions	-	149,019	-
Benefit payments, including refunds	(37,766)	(40,118)	(23,658)
<b>Net Change in Total Pension Liability</b>	220,460	378,375	248,874
<b>Total Pension Liability - Beginning of year</b>	2,875,332	2,496,957	2,248,083
<b>Total Pension Liability - End of year</b>	<b>\$ 3,095,792</b>	<b>\$ 2,875,332</b>	<b>\$ 2,496,957</b>
<b>Plan Fiduciary Net Position</b>			
Contributions - Employer	\$ 110,862	\$ 104,248	\$ 98,495
Contributions - Member	17,669	14,638	12,301
Net investment income (loss)	244,417	(32,319)	118,779
Administrative expenses	(4,817)	(4,600)	(4,402)
Benefit payments, including refunds	(37,766)	(40,118)	(23,658)
<b>Net Change in Plan Fiduciary Net Position</b>	330,365	41,849	201,515
<b>Plan Fiduciary Net Position - Beginning of year</b>	2,081,159	2,039,310	1,837,795
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 2,411,524</b>	<b>\$ 2,081,159</b>	<b>\$ 2,039,310</b>
<b>Township's Net Pension Liability - Ending</b>	<b>\$ 684,268</b>	<b>\$ 794,173</b>	<b>\$ 457,647</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	77.90 %	72.38 %	81.67 %
<b>Covered Employee Payroll</b>	\$ 1,499,212	\$ 1,429,665	\$ 1,221,187
<b>Township's Net Pension Liability as a Percentage of Covered Employee Payroll</b>	45.64 %	55.55 %	37.48 %

# Township of Scio

## Required Supplemental Information Schedule of Township Contributions

### Last Ten Fiscal Years Years Ended March 31

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 128,530	\$ 118,886	\$ 101,020	\$ 94,445	\$ 98,710	\$ 89,603	\$ 91,202	\$ 88,208	\$ 90,958	\$ 92,497
Contributions in relation to the actuarially determined contribution	<u>128,530</u>	<u>118,886</u>	<u>101,020</u>	<u>94,445</u>	<u>98,710</u>	<u>89,603</u>	<u>91,202</u>	<u>88,208</u>	<u>90,958</u>	<u>92,497</u>
<b>Contribution Deficiency</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>
<b>Covered Employee Payroll</b>	<b>\$ 1,499,212</b>	<b>\$ 1,429,665</b>	<b>\$ 1,221,187</b>	<b>\$ 1,202,784</b>	<b>\$ 1,171,216</b>	<b>\$ 1,034,441</b>	<b>\$ 1,113,744</b>	<b>\$ 1,121,009</b>	<b>\$ 1,121,009</b>	<b>\$ 1,149,993</b>
<b>Contributions as a Percentage of Covered Employee Payroll</b>	<b>8.57 %</b>	<b>8.32 %</b>	<b>8.27 %</b>	<b>7.85 %</b>	<b>8.43 %</b>	<b>8.66 %</b>	<b>8.19 %</b>	<b>7.87 %</b>	<b>8.11 %</b>	<b>8.04 %</b>

#### Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date                      Actuarially determined contribution rates are calculated as of December 31 each year, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level of percentage of payroll, open
Remaining amortization period	22
Asset valuation method	Five-year smoothed
Inflation	2.5 percent
Salary increase	3.75 percent
Investment rate of return	7.75 percent
Retirement age	60 years old, 50 with 25 years of service, 55 with 15 years of service, or 55 with 30 years of service
Mortality	50 percent female/50 percent male 2014 Group Annuity Mortality Table
Other information	None

**March 31, 2018**

***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, 2018 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

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## Other Supplemental Information

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# Township of Scio

	Special Revenue Funds			
	Public Improvement Fund	Tree Mitigation Fund	Bus Fund	Open Space Land Preservation Fund
<b>Assets</b>				
Cash and investments	\$ 738,405	\$ 212,431	\$ 327,673	\$ 2,193,491
Receivables:				
Property taxes receivable	-	-	636	12,697
Special assessments receivable	-	-	-	-
Due from other governmental units	-	-	10,599	14,440
Prepaid expenses and other assets	-	-	-	-
<b>Total assets</b>	<b>\$ 738,405</b>	<b>\$ 212,431</b>	<b>\$ 338,908</b>	<b>\$ 2,220,628</b>
<b>Liabilities - Accrued liabilities and other</b>	\$ 176,000	\$ -	\$ 867	\$ 8,375
<b>Deferred Inflows</b>	-	-	445	12,436
<b>Fund Balances</b>				
Nonspendable - Prepaids	-	-	-	-
Restricted:				
Land preservation	-	-	-	2,199,817
Debt service	-	-	-	-
Tree mitigation	-	212,431	-	-
Bus	-	-	337,596	-
Public improvements	562,405	-	-	-
Bridge maintenance	-	-	-	-
Committed - Capital projects	-	-	-	-
<b>Total fund balances</b>	<b>562,405</b>	<b>212,431</b>	<b>337,596</b>	<b>2,199,817</b>
<b>Total liabilities, deferred inflows, and fund balances</b>	<b>\$ 738,405</b>	<b>\$ 212,431</b>	<b>\$ 338,908</b>	<b>\$ 2,220,628</b>



Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds

March 31, 2018

Debt Service Funds		Capital Project Funds				
Building Authority Fund	Capital Projects Fund	East Delhi Bridge Maintenance Fund	Public Safety and Improvement Fund	Park Road SAD	Total	
\$ -	\$ -	\$ 37,882	\$ 739,506	\$ 17,704	\$ 4,267,092	
-	-	-	-	-	13,333	
-	-	-	-	59,730	59,730	
-	-	279	-	1,373	26,691	
-	-	-	-	21,855	21,855	
<b>\$ -</b>	<b>\$ -</b>	<b>\$ 38,161</b>	<b>\$ 739,506</b>	<b>\$ 100,662</b>	<b>\$ 4,388,701</b>	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 185,242	
-	-	-	-	59,730	72,611	
-	-	-	-	21,855	21,855	
-	-	-	-	-	2,199,817	
-	-	-	-	19,077	19,077	
-	-	-	-	-	212,431	
-	-	-	-	-	337,596	
-	-	-	-	-	562,405	
-	-	38,161	-	-	38,161	
-	-	-	739,506	-	739,506	
-	-	38,161	739,506	40,932	4,130,848	
<b>\$ -</b>	<b>\$ -</b>	<b>\$ 38,161</b>	<b>\$ 739,506</b>	<b>\$ 100,662</b>	<b>\$ 4,388,701</b>	

## Township of Scio

	Special Revenue Funds			
	Public Improvement Fund	Tree Mitigation Fund	Bus Fund	Open Space Land Preservation Fund
<b>Revenue</b>				
Property taxes	\$ -	\$ -	\$ 405,517	\$ 552,580
Special assessments	-	-	-	-
Investment income	8,606	611	607	15,785
Other miscellaneous income	80,709	-	-	-
<b>Total revenue</b>	<b>89,315</b>	<b>611</b>	<b>406,124</b>	<b>568,365</b>
<b>Expenditures</b>				
Current:				
General government	52,272	750	395,977	-
Public safety	-	-	-	-
Public works	-	-	-	-
Capital outlay	176,000	-	-	41,228
Debt service	-	-	-	-
<b>Total expenditures</b>	<b>228,272</b>	<b>750</b>	<b>395,977</b>	<b>41,228</b>
<b>Excess of Revenue (Under) Over Expenditures</b>	<b>(138,957)</b>	<b>(139)</b>	<b>10,147</b>	<b>527,137</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balance</b>	<b>(138,957)</b>	<b>(139)</b>	<b>10,147</b>	<b>527,137</b>
<b>Fund Balance - Beginning of year</b>	<b>701,362</b>	<b>212,570</b>	<b>327,449</b>	<b>1,672,680</b>
<b>Fund Balance - End of year</b>	<b>\$ 562,405</b>	<b>\$ 212,431</b>	<b>\$ 337,596</b>	<b>\$ 2,199,817</b>

Other Supplemental Information  
Combining Statement of Revenue, Expenditures, and Changes in Fund  
Balances  
Nonmajor Governmental Funds

Year Ended March 31, 2018

Debt Service Funds		Capital Project Funds				
Building Authority Fund	Capital Projects Fund	East Delhi Bridge Maintenance Fund	Public Safety and Improvement Fund	Park Road SAD	Total	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 958,097	
-	30,000	4,999	-	21,002	56,001	
-	1,542	104	8,432	4,172	39,859	
-	-	-	-	-	80,709	
-	31,542	5,103	8,432	25,174	1,134,666	
-	-	1,829	-	-	450,828	
-	-	-	225	-	225	
-	-	-	-	225	225	
-	-	-	53,685	-	270,913	
77,119	-	-	-	24,077	101,196	
77,119	-	1,829	53,910	24,302	823,387	
(77,119)	31,542	3,274	(45,478)	872	311,279	
77,119	-	-	-	-	77,119	
-	(45,505)	-	-	-	(45,505)	
77,119	(45,505)	-	-	-	31,614	
-	(13,963)	3,274	(45,478)	872	342,893	
-	13,963	34,887	784,984	40,060	3,787,955	
<b>\$ -</b>	<b>\$ -</b>	<b>\$ 38,161</b>	<b>\$ 739,506</b>	<b>\$ 40,932</b>	<b>\$ 4,130,848</b>	

July 25, 2018

To the Board of Trustees  
Township of Scio

We have audited the financial statements of the Township of Scio (the "Township") as of and for the year ended March 31, 2018 and have issued our report thereon dated July 25, 2018. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Required Communications with Those Charged with Governance

Section II - Other Recommendations and Related Information

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

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

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

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

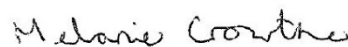
We welcome any questions you may have regarding the following communications, and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

**Plante & Moran, PLLC**



Michael J. Swartz



Melanie L. Crowther

## **Section I - Required Communications with Those Charged with Governance**

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated April 26, 2018, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

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

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

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 4, 2018.

### **Significant Audit Findings**

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

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

No new accounting policies were adopted, and the application of existing policies was not changed during 2018.

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

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

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

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

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

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

### ***Difficulties Encountered in Performing the Audit***

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

### ***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

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

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not detect any misstatements as a result of audit procedures.

### ***Significant Findings or Issues***

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

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated July 25, 2018.

### ***Management Consultations with Other Independent Accountants***

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

## Section II - Other Recommendations and Related Information

### Updated Uniform Chart of Accounts

In April 2017, the State released an updated Uniform Chart of Accounts and requires local units of government to comply with the changes beginning with June 30, 2018 year ends. On June 4, 2018, the State extended the deadline for compliance to “sometime in 2019.” This allows officials more time to convert to new accounts. In the meantime, the Treasury is working on developing training and additional information to assist in the transition. Local units should begin evaluating this new chart of accounts to determine what changes will be necessary and set up a plan to achieve compliance. Some accounting software vendors have already been working with some local units on an automated remapping solution to the extent needed; this could be a possible solution for some. The changes in the chart of accounts are not voluminous, but will require some review. The new chart of accounts can be found at the following link: [http://www.michigan.gov/documents/uniformchart\\_24524\\_7.pdf](http://www.michigan.gov/documents/uniformchart_24524_7.pdf)

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

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB, which refers to retiree health care). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses reporting by OPEB plans, whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees.

Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statements more extensive footnote disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the Township will, after adoption of GASB No. 75, recognize on the face of the financial statements its net OPEB liability. The Township is currently evaluating the impact these standards will have on the financial statements when adopted. GASB No. 74, which is not applicable to the Township, as it does not have an OPEB trust, is effective for fiscal years beginning after June 15, 2016, the Township’s year end of March 31, 2018, whereas GASB No. 75 is effective one year later.

### Legacy Cost Impact - Pro Forma

A pro forma of how the reporting of this liability is expected to impact the Township’s government-wide net position is shown below:

	As Currently Reported	With Unfunded Health Care
Net position:		
Net investment in capital assets	\$ 40,003,628	\$ 40,003,628
Restricted	28,706,149	28,706,149
Unrestricted	7,543,033	7,461,658
Total net position	<u>\$ 76,252,810</u>	<u>\$ 76,171,435</u>

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

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

The accounting entries to implement GASB No. 75 and allocate these costs to the various proprietary funds and governmental functions is complex. We are happy to work with the Township and its actuarial firm over the next year to ensure smooth implementation of this new standard. We would also encourage township personnel to view the free webinars available on Plante & Moran, PLLC's website, if you have not already done so. In addition, we have developed and will distribute a comprehensive GASB No. 75 Toolkit for use by your staff.

### **Revenue Sharing**

The FY 2019 budget recommendation includes \$1.3 billion for revenue sharing broken down as follows:

Description	Final 2018 Budget	Final 2019 Budget
Constitutionally required payments	\$798.1 M	\$835.3 M
CVTRS	243.0 M	243.0 M
CVTRS - One-time payments	5.8 M	5.8 M
County revenue sharing	176.9 M	177.2 M
County incentive program	43.2 M	43.3 M
County one-time payments	-	1.0 M
Fiscally distressed community grants	5.0 M	2.5 M
Supplemental CVTRS	6.2 M	6.2 M
<b>Total</b>	<b>\$1,278.2 M</b>	<b>\$1,314.3 M</b>

For the second year in a row, local units will experience an increase in 2019, as the constitutional payment budget has been increased by \$37.2 million over the 2018 budget act appropriated amount. The FY 2019 budget also includes the "City, Village, and Township Revenue Sharing" (CVTRS) appropriation which was established in FY 2015, and that number remains flat at \$243 million. Each community's overall increase will vary, as each has a different mix of constitutional and CVTRS.

In order to receive the CVTRS payments in FY 2019, qualified local units will once again need to comply with the same best practices as they did last year, as follows:

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

The amount budgeted for distressed CVTRS has been reduced from \$5 million in 2018 to \$2.5 million in 2019. The State has once again budgeted \$6.2 million for "supplemental CVTRS" payments in FY 2019, but added a requirement that funds must be used to pay down debt, pension, or OPEB. Any city, village, or township receiving CVTRS payments will receive an additional payment equal to its population multiplied by \$0.807929 (rounded to the nearest dollar).

The "one-time" additional CVTRS payments that were in the 2018 budget are also part of the 2019 budget and remain flat at \$5.8 million. Additionally, \$1.0 million was added as a one-time payment for counties to be used for debt, pension, and OPEB. The one-time payment to counties will be distributed to all counties at a rate of 0.4627 percent of full funding under the Glen Steil State Revenue Sharing Act.



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

### **Soft Launch of MI Community Financial Dashboard**

The Michigan Department of Treasury is beginning a soft launch of the MI Community Financial Dashboard. This dashboard will provide you and your community members with easy-to-use visual data regarding your municipality. The data presented on the dashboard is pulled from the Annual Local Fiscal Report (F65) submitted by your local unit. The dashboard will present data from fiscal years 2010 through 2016. You can sign in and review the dashboard here: <http://micommunityfinancials.michigan.gov/#!/dashboard/COUNTY/?lat=44.731431779455505&lng=-83.018211069625&zoom=5>.

### **Administrative Charges**

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

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

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

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

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

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

### ***Pension and OPEB Reporting Under Public Act 202 of 2017***

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

The releases by the Department of Treasury included Numbered Letter 2018-1, Form 5572, detailed instructions for completion of Form 5572, and a listing of frequently asked questions. All documents can be located at [http://www.michigan.gov/treasury/0,4679,7-121-1751\\_51556\\_84499---,00.html](http://www.michigan.gov/treasury/0,4679,7-121-1751_51556_84499---,00.html).

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

The due date for completion of Form 5572 is January 31, 2018 for local units with a fiscal year ending on or before June 30, 2017. For local units with fiscal years ending after June 30, 2017, Form 5572 is due no later than six months after the end of your fiscal year.

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

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

1. *OPEB* - Total plan assets are less than 40 percent of total plan liabilities, according to the most recent annual report, and, for primary units of government\*, the annual required contribution for all of the retirement health systems of the local unit is greater than 12 percent of the local unit of government's governmental funds operations revenue.
2. *Retirement Pension Plans* - Total plan assets are less than 60 percent of plan total liabilities, according to the most recent annual report, and, for primary units of government\*, the annual required contribution for all of the retirement health systems of the local unit is greater than 10 percent of the local unit of government's governmental funds operations revenue.

If, after submission of Form 5572, the Treasury determines your community to have underfunded status, you will have the opportunity to file a "waiver" under Section 6 of the Act. The waiver needs to provide a plan for how the underfunding is being addressed. This waiver will then be submitted to the Treasury. The template for the waiver has not yet been provided by the Treasury.

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

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

Questions should be directed via email to the Treasury offices at [LocalRetirementReporting@michigan.gov](mailto:LocalRetirementReporting@michigan.gov) or by visiting their website at [www.Michigan.gov/LocalRetirementReporting](http://www.Michigan.gov/LocalRetirementReporting).

### **Proposed Legislation**

#### ***Dark Stores***

(*HB 4397*) - This bill was recently introduced in the House and referred to the Committee on Tax Policy. This legislation would require Tax Tribunal members to make their own independent determination and apply standard appraisal procedures when reaching their findings of facts and conclusions of law in larger property tax cases. In recent years, the MTT has used the "dark store" assessing theory even for fully functional big box retail stores. The result is much lower assessments since the property is compared to the sales of vacant structures that oftentimes have deed restrictions severely limiting their use.

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

(SB 578) - Senate Bill 578 has been introduced in response to the dark stores issue that has been occurring in Michigan. If passed, it would amend PA 136 of 1973 the "Tax Tribunal Act" by amending Section 3 (MCL 205.703), as amended by 2008 PA 125, and by adding Section 38. The bill would require that when a dispute regarding the true cash value of real or personal property is brought forth, the following must be done by the Michigan Tax Tribunal:

- Review comparable properties in the market that have similar "highest and best use" as the property under review.
- Must separately state their conclusions of law and fact for those properties.

Comparable properties should be determined as follows:

- Ensure that all information gathered on each property is verified for completeness and is accurate with regard to all noted disclosures, covenants on use of the property, private restrictions, the impact of such covenants and restrictions, sale terms, and the financing method.
- If one of the comparable properties identified has a private restriction or covenant in connection with the sale or rental of the property that causes the property to have a "substantially impaired highest and best use" as compared to the property whose assessment is under review or if the private restriction or covenant does not assist in economic development of the property, does not provide a continuing benefit to the property, or if the chance of vacancy or inactivity on the property is "materially" increased, such property should be excluded as a comparable.

Overall, the intent of the bill is to eliminate properties that are vacant (dark stores), inactive, or that have certain restrictions or covenants from being used as a comparable in an assessment dispute.