

**Charter Township of Shelby
Macomb County, Michigan**

**Financial Report
with Supplemental Information
December 31, 2009**

Charter Township of Shelby

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Charter Township of Shelby

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Independent Auditor's Report

To the Board of Trustees
Charter Township of Shelby
Macomb County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the discretely presented component unit and remaining fund information of the Charter Township of Shelby (the "Township") as of and for the year ended December 31, 2009, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Shelby's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the discretely presented component unit and remaining fund information of the Charter Township of Shelby as of December 31, 2009 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, pension system schedule of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Trustees
Charter Township of Shelby

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Shelby's basic financial statements. The accompanying 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

May 26, 2010

Charter Township of Shelby

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Charter Township of Shelby (the "Township") on a government-wide basis. They are designed to present a longer-term view of the Township's finances. Fund financial statements follow the above-mentioned statements and illustrate how the services provided by the Township were financed in the short term, as well as what remains for future spending. Additionally, fund financial statements report the Township's operations in more detail than the government-wide financial statements.

In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of December 31, 2009 to the prior year:

TABLE I

| | Governmental Activities | | Business-type Activities | | Total | |
|------------------------------|-------------------------|----------------|--------------------------|-----------------|-----------------|-----------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Assets | | | | | | |
| Current assets | \$ 94.3 | \$ 89.3 | \$ 46.0 | \$ 47.7 | \$ 140.3 | \$ 137.0 |
| Noncurrent assets: | | | | | | |
| Restricted assets | - | - | 2.8 | 2.9 | 2.8 | 2.9 |
| Capital assets | <u>44.4</u> | <u>43.3</u> | <u>113.8</u> | <u>116.8</u> | <u>158.2</u> | <u>160.1</u> |
| Total assets | 138.7 | 132.6 | 162.6 | 167.4 | 301.3 | 300.0 |
| Liabilities | | | | | | |
| Current liabilities | 34.8 | 35.0 | 5.6 | 6.0 | 40.4 | 41.0 |
| Long-term liabilities | <u>9.2</u> | <u>4.5</u> | <u>26.0</u> | <u>27.7</u> | <u>35.2</u> | <u>32.2</u> |
| Total liabilities | <u>44.0</u> | <u>39.5</u> | <u>31.6</u> | <u>33.7</u> | <u>75.6</u> | <u>73.2</u> |
| Net Assets | | | | | | |
| Invested in capital assets - | | | | | | |
| Net of related debt | 44.4 | 43.3 | 88.4 | 89.6 | 132.8 | 132.9 |
| Restricted | 45.1 | 36.6 | 2.7 | 3.1 | 47.8 | 39.7 |
| Unrestricted | <u>5.2</u> | <u>13.2</u> | <u>39.9</u> | <u>41.0</u> | <u>45.1</u> | <u>54.2</u> |
| Total net assets | <u>\$ 94.7</u> | <u>\$ 93.1</u> | <u>\$ 131.0</u> | <u>\$ 133.7</u> | <u>\$ 225.7</u> | <u>\$ 226.8</u> |

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

The Township's combined net assets decreased by .5 percent from a year ago, decreasing from \$226.8 million to \$225.7 million. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$1.6 million in net assets, or 1.7 percent, during fiscal year 2009. This increase was the result of road paving, building improvements, bike paths, and numerous capital projects. The Township completed its campus renovation project that included expanded parking, updated lighting, and sewer and water service to outlying buildings and site preparation for future expansion of municipal buildings. The Township started the first phase of a major infrastructure project to widen a main thoroughfare that connects Shelby Township with Sterling Heights and Washington Township - Van Dyke Widening - between 23 and 24 Mile Roads. The Downtown Development Authority, with a budget based on tax capture from the Township district itself and other taxing entities, is discussing improvements to the Van Dyke Avenue corridor as well as other community projects. In January 2007, the Township began migration to a new financial management information system from its legacy mainframe computer system. This project included new technology and software for recreation, imaging storage and retrieval, utility billing, financial reporting, accounts payable, payroll, and ultimately online services for businesses, residents, and employees. The final major module to complete was utility billing that "went live" in October 2009. The final stages of the migration, including a fixed asset module and E-Suites for human resources, vendors, and Township residents' use, will be completed by mid-year 2010.

The net assets of the business-type activities decreased by 2 percent. This decrease was due to several factors, both controllable and non-controllable. The primary non-controllable factors include the poor economic conditions prevailing throughout the country and in southeastern Michigan in particular; the drastic and persistent reduction in interest rates; conservation; and the weather. The primary controllable factor was the implementation of a plan to utilize the portion of the Water and Sewer Fund's cash, which was determined to be in excess of the cash reserves required for debt reduction, equipment replacement, operations, and maintenance, and to reduce the rates charged for water and sewer service. The reduction in rates is being accomplished by excluding the non-cash depreciation expense from the cost of service equation.

Unrestricted net assets for the governmental activities were \$5.2 million at December 31, 2009. This amount represents the part of net assets that is available to finance day-to-day operations and future growth of the Township.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets (in millions of dollars) as of December 31, 2009 and the prior year:

TABLE 2

| | Governmental Activities | | Business-type Activities | | Total | |
|---------------------------------------|-------------------------|----------------|--------------------------|-----------------|-----------------|-----------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Revenue | | | | | | |
| Program revenue: | | | | | | |
| Charges for services | \$ 7.4 | \$ 7.5 | \$ 17.7 | \$ 18.3 | \$ 25.1 | \$ 25.8 |
| Operating grants and contributions | 1.0 | 1.0 | - | - | 1.0 | 1.0 |
| Capital grants and contributions | 0.1 | - | 0.7 | 1.2 | 0.8 | 1.2 |
| General revenue: | | | | | | |
| Property taxes | 32.1 | 32.4 | - | - | 32.1 | 32.4 |
| State-shared revenue | 4.3 | 5.0 | - | - | 4.3 | 5.0 |
| Interest | 0.5 | 1.8 | 0.3 | 1.3 | 0.8 | 3.1 |
| Other | 1.6 | 1.7 | - | - | 1.6 | 1.7 |
| Total revenue | 47.0 | 49.4 | 18.7 | 20.8 | 65.7 | 70.2 |
| Program Expenses | | | | | | |
| General government | 7.7 | 9.5 | - | - | 7.7 | 9.5 |
| Public safety | 28.8 | 27.1 | - | - | 28.8 | 27.1 |
| Public works | 1.3 | 1.5 | - | - | 1.3 | 1.5 |
| 41st District Court | 2.7 | 2.2 | - | - | 2.7 | 2.2 |
| Recreation and culture | 5.0 | 4.4 | - | - | 5.0 | 4.4 |
| Interest on long-term debt | - | - | - | - | - | - |
| Shelby Manor senior housing | - | - | 1.2 | 1.1 | 1.2 | 1.1 |
| Water and sewer | - | - | 20.1 | 18.9 | 20.1 | 18.9 |
| Total program expenses | 45.5 | 44.7 | 21.3 | 20.0 | 66.8 | 64.7 |
| Transfers | 0.1 | 0.1 | (0.1) | (0.1) | - | - |
| Change in Net Assets | 1.6 | 4.8 | (2.7) | 0.7 | (1.1) | 5.5 |
| Net Assets - Beginning of year | 93.1 | 88.3 | 133.7 | 133.0 | 226.8 | 221.3 |
| Net Assets - End of year | \$ 94.7 | \$ 93.1 | \$ 131.0 | \$ 133.7 | \$ 225.7 | \$ 226.8 |

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

Governmental Activities

The Township's total governmental revenues decreased by approximately \$2.4 million, or 4.9 percent, from the last fiscal year. Decreases in major revenue categories included property tax at a .9 percent decrease, state-shared revenue at a 14 percent decrease, fines at a 10.5 percent decrease, and interest at a 72.2 percent decrease. These decreases were mitigated by increases in other local donations, charges for services, and interfund administrative charges. The Township once enjoyed a long period of growth in residential homes and development of a large business and industrial tax base. In the past, this growth mitigated some of the impact of state-shared revenues and other economy-driven fluctuations. The Township is very aware of the uncertainties and fluctuations in the economy predicted for at least the next several fiscal years that may affect property tax revenues, state-shared revenues, and all other major revenue categories. To remain proactive and prepared for any weakness in our largest revenue sources, the Township continues to update its five-year financial forecast to assist in both revenue and expenditure budgeting. This financial forecast is used during planning and budgeting discussions for capital projects as well.

During 2009, the Township board initiated an operational review by a third-party consultant of the Fire Fund. This study resulted in recommendations for staffing and revised five-year capital equipment replacement budgeting. Further operational review of parks recreation and maintenance and our water and sewer operation are scheduled for 2010.

Also in 2009, the Township developed a cost allocation report to assess the value of services of the General Fund to our other major funds. This cost allocation resulted in an increase in interfund administrative services charges of 131.4 percent.

Total government expenses increased approximately \$800,000, or 1.8 percent, over the last fiscal year. General government expenses decreased \$1.8 million, or approximately 18.9 percent. Nearly every functional department in this category experienced cost reductions due to retirements, changes in healthcare benefits, and a dedicated effort to analyze and reduce all operating expenditures. Public safety expenditures increased by 6.3 percent, or \$1.7 million. The demand for public safety increases with our population, and the Township board continues to weigh the need for these essential services with the cost of providing the best resources for delivery of these services. In 2009, the Fire Fund completed \$2 million of a projected \$3 million renovation project to our main fire station with a completion date of August 2010. The scope and timing of the construction of a police judicial building continues to be under review by the Township board. The public safety function's increase in expenses also includes \$3,451,660 from the implementation of GASB No. 45. Recreation and culture experienced a 13.6 percent increase in cost with the library, parks and recreation, and cable television being the largest departments in this category. Cable TV drives the majority of this increase with improvements to operating equipment and administrative fees.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

Most General Fund departments experienced reductions in operating costs between 2008 and 2009, with a large reduction seen in road paving, sidewalks, and intersections. The \$1.2 million Van Dyke Avenue widening project between 23 and 24 Mile Roads (a combined Township and County project supported in part by federal funding) started preliminary work in 2009 and is scheduled to complete in 2010. The Township board annually reviews the list of essential internal road repairs presented by the Township engineer and allocates resources based on safety issues and greatest good. The Township board closely monitors operating costs, has held full-time staffing to a minimum, changed employee healthcare provisions, and filled vacancies caused by retirements only after business case analysis. The Township predicts that the new web-based financial software will improve and expand services to residents in a more labor-efficient manner. The Township continues to set aside funds in a Special Revenue Fund for postemployment benefits in anticipation of a final decision on funding options available for GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

As referenced above, in 2008, the Township implemented GASB No. 45. In 2009, the recognition of the cost of providing retiree health care resulted in additional expense reported at the government-wide level of \$4,867,152 in the governmental activities and \$550,569 in the business-type activities. This new reporting requirement caused increased fluctuation in expenditures between 2008 and 2009.

Business-type Activities

The Township's business-type activities are recorded in the Water and Sewer Fund and Senior Housing Fund. Revenues of the Township's business-type activities decreased by 10 percent to \$18.7 million. The Senior Housing Fund revenues increased 1.5 percent from 2008 to 2009 due to a continued effort to achieve and maintain full occupancy. Senior Housing Fund expenses increased 6.3 percent from 2008 to 2009 due to slight increases in maintenance costs, capital repairs, and the cost allocation to the General Fund.

The Water and Sewer Fund's revenues decreased by approximately \$2.1 million, or 10.6 percent. Charges for sales and services decreased by \$.6 million primarily due to conservation and weather. Interest income decreased by over \$.9 million as a result of the significant reduction in interest rates which followed the upheaval and disruption of the credit markets and general economy. As another manifestation of the poor economic conditions in and around the Water and Sewer Fund's service area, capital contributions from developers decreased over \$.5 million.

Total expenses for the business-type activities increased by \$1.3 million in 2009 over 2008, or 6.5 percent.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

The Water and Sewer Fund's \$1.2 million increase in operating expenses was attributable primarily to a \$.4 million net increase in the cost of water purchases and sewage disposal; a \$.4 million increase in the provision for other postemployment benefits (OPEB); a \$.2 million increase in the costs allocated for the General Fund's support service functions, such as accounts payable; payroll; treasury and financial management; and a \$.3 million increase in sewer main repair.

The Township provides water, which is purchased from the City of Detroit Water and Sewerage Department (DWSD), to 25,211 accounts. The Township also provides sewer service to 13,865 accounts. The sewage service is also provided by the DWSD with the Macomb County Waste Water Disposal District (MCWWDD) acting as an intermediary.

The Water and Sewer Fund's water costs increased by \$.6 million, or 8 percent, which was the result of a 14.2 percent increase in the weighted average rate charged by the DWSD and a 5.4 percent decrease in purchased water volumes. Sewer costs decreased by approximately \$.2 million, or 4 percent, as the result of the compounded effect of both a 2 percent decrease in sewer volumes disposed of and a 2 percent decrease in the weighted average rate charged by the MCWWDD.

During 2009, the Water and Sewer Fund experienced decreases in both the water and sewer units sold consistent with the decrease in water and sewer units purchased and disposed of; for example, water units sold in 2009 decreased 5.7 percent from 2008. The reduction in units sold resulted from economic forces and pressures prompting conservation and cooler and damper weather conditions. There was essentially no growth in the customer base to offset or mitigate the impact of conservation and weather on sales volumes.

Other Water and Sewer Fund expenses increased by approximately \$.9 million. Total labor costs remained essentially flat from 2008 to 2009. Employee and retiree benefit costs would have actually decreased slightly but for a \$.4 million increase in the actuarially determined costs as prescribed and mandated by GASB No. 45. Sewer main repair increased by \$.3 million. This included a \$270 thousand project in which sections of the sewer system were repaired and enhanced by a cured-in place pipe lining program. This project was financed by a loan from the State's Revolving Fund Clean Water program and a grant emanating from the State's share of economic stimulus funds. As previously stated, the cost allocated for support service provided by the General Fund for administrative functions increased by approximately \$.2 million.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

In the past, rates charged by the Water and Sewer Fund for water and sewer services were increased at the same level of rate increases as those received by the Township from the DWSD and the MCWWDD. Generally, Water and Sewer Fund rate changes were made effective with billings after July 31. In 2007, the Water and Sewer Fund commenced a comprehensive study of its rate-setting process and rate design alternatives which would yield the most fair and equitable rates while maintaining financial stability and water and sewer system reliability, safety, and integrity. Despite consistent and significant annual rate increases received from the DWSD, there had been no change in the Water and Sewer Fund's retail water and sewer rates since August 1, 2006, until the board's approval of a final rate design recommendation and implementation date of August 1, 2009.

In light of the board's broader goal and commitment to control charges to the Township's residents and businesses for all Township programs and services, the board evaluated the Water and Sewer Fund's actual cash balances in comparison to prudent and required cash reserves for debt service, equipment replacement and repair, operations, and maintenance. As a result of this analysis and review, it was determined that there was an excess of actual cash balances over required reserves. A program was then initiated whereby any true cost of service rate increase over 9 percent would be decreased to 9 percent or lower by funding a portion of the full cost of service with the excess cash balances. This was accomplished by excluding a significant portion of depreciation expense (a non-cash expense representing the systematic amortization of capital assets over their useful lives) from the net cost of services to be recovered through charges for water and sewer services. In summary, surpluses and cash balances built up and accumulated over prior years (i.e., prior accounting periods) were used in 2009 and will be used in 2010 to fund a portion of the costs of providing water and sewer services. As a result, revenues derived from charges for water and sewer services and recorded in 2009 are less than the 2009 recorded costs of providing those services. Since depreciation was the cost component excluded from the cost of service charges, the resulting operating loss for 2009 is essentially equal to depreciation expense.

As previously stated, water and sewer rates were changed effective August 1, 2009. The water rate was changed from \$2.773 to \$2.636 per 100 cubic feet and sewer rates were changed from \$2.506 to \$2.725 per 100 cubic feet. Rates were also changed for fiscal year 2010 for services delivered after January 1, 2010. The water rate was increased to \$2.873 per 100 cubic feet and the sewer rate was increased to \$2.97 per 100 cubic feet.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

The Township and the DWSD have negotiated a new long-term contract for water services. As a key change under the terms of the new contract, it will be the Township that determines and provides critical variables that have a significant impact on the Township's rates, such as maximum daily flow (max day), peak hourly flow, and annual flow, that have a significant impact on the Township's rates. The Township's ability and effectiveness in managing and reducing these critical flow rates and volumes can result in reduced charges to the Township. The single most significant action the Township can take to manage and control max day and peak hour flow rates, and therefore control a portion of DWSD costs, would be to have customers shift their watering schedules to non-peak night-time hours. An immediate benefit to the Township's approving the new contract is a lower rate than the one that would have been implemented July 1, 2010 under the current (i.e., "old") contract. The new contract has lower max day and peak hour flow rates. In addition, the new contract eliminates a \$.12 per thousand cubic feet construction surcharge. To date, in addition to the Township, 66 other wholesale customers out of 88 have approved the new form of water service contract.

Pursuing additional means to manage and control maximum day and peak hour flow rates, the board has authorized the Township engineer to investigate the cost and effectiveness of water storage facilities. The engineer's initial report is expected in June 2010.

The Township's Funds

Our analysis of the Township's major funds begins on page 17, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Township's major funds for 2009 include the General Fund, the Police Fund, and the Fire Fund.

General Fund Budgetary Highlights

Over the course of the year, the Township board and administration monitor and amend the budget to take into account unanticipated events that occur during fiscal year 2009 and acceleration of multiyear capital projects. The General Fund experienced a 3.7 percent decrease in revenues from 2008. The most significant influence on the revenue budget during fiscal year 2009 was a decrease in anticipated state-shared revenue of approximately 13 percent. This reduction is attributed to a state-wide downturn in the economy. The Township also experienced a 40.7 percent decrease in permit fees, a 40.7 percent decrease in planning fees, and an 8.5 percent decrease in fines and forfeitures that reflect downturns in the housing and building markets as well as other economic conditions. Interest income mirrored the financial markets with a decline of 65.8 percent from 2008. Property tax increased 17.4 percent from 2008 primarily because of a reallocation of .18 mills from the Fire Fund to the General Fund. The value of one mill remained substantially flat from 2008 to 2009. Property tax is the second largest source of revenue to the General Fund.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

The General Fund expenditure budget showed a favorable variance of \$1,273,217 and an overall decrease over 2008 actual expenditures of 16 percent. The majority of this fluctuation involved the multiyear Van Dyke widening project between 23 and 24 Mile Roads, delaying of sidewalk and other capital projects, reduction in the work force through retirements and elimination of temporary labor, and changes in employee healthcare coverage.

When comparing the original 2009 budget with the amended 2009 budget, on the revenue side, the largest adjustments occurred in interest income, licenses and permits, fines and forfeitures, and state-shared revenue. These budget reductions mirror the economic fluctuations cited above.

On the expense side, the largest budget reductions were seen in general government due to reduction in work force and related benefit costs. In the public works function, sidewalk projects were deferred. In capital outlay, Township buildings and parks were pared down considerably with enhancements deferred, focusing only on necessary repairs. Most capital equipment was also deferred. Use of the Equipment Replacement Fund replaced General Fund resources for equipment that was necessary for essential operations.

Capital Assets and Debt Administration

At the end of fiscal year 2009, the Township's governmental and business activities combined had approximately \$221.7 million in historical cost invested in a wide range of capital assets, including land, buildings, fire equipment, computer equipment, water and sewer lines, and library books. These capital assets include Township infrastructure that includes roads and bridges in which it has invested since 1980. The infrastructure represents a usage right to these assets. The value of the infrastructure assets for governmental funds, net of depreciation contained in this report, is \$16.0 million and \$15.4 million for fiscal years 2009 and 2008, respectively. The Enterprise Funds' infrastructure for 2009 and 2008 (including construction in progress), net of depreciation, is \$99.8 million and \$102.4 million, respectively (see Note 3 for additional information). Additionally, the value of buildings and improvements for the governmental activities, net of depreciation, is \$7.3 million and \$8.0 million for fiscal years 2009 and 2008, respectively. The Enterprise Funds' buildings and improvements, net of depreciation, are \$12.4 million and \$12.7 million for 2009 and 2008, respectively.

Debt reported in these financial statements is related to the construction of the above-mentioned buildings and infrastructure and is reported as a liability on the statement of net assets (see Note 6 for additional information).

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

The Charter Township of Shelby will maintain the same property tax millage rate for 2010 that applied in 2009, or 9.2999, to determine 2010 revenues as a result of the Headlee Amendment. Strong expenditure controls, past growth in the Township's tax base, and the Township board's philosophy of no new taxes have avoided millage rate increases for operations. Property taxes make up approximately 27.7 percent of the General Fund budgeted revenues for 2010. The slowdown in growth and development in the Township, along with a decline in real estate market values, has decreased taxable value for all properties from \$3.485 billion to \$3.446 billion. Because of the uncertainty in the housing market, a drop in residential assessed property value (the largest property component) of 8 percent (from 2008 to 2009, affecting 2010 property tax revenue) and other economic factors facing the State, the Township is projecting negative growth in property tax revenue over the next several years. State-shared revenue represents approximately 26.9 percent of the General Fund budgeted revenues in tax year 2010. The General Fund budget was prepared on the assumption that state-shared revenue was likely to decrease due to state cutbacks and less in sales tax receipts at the state level.

On the expense side, the Township continues to control personnel costs through attrition and labor negotiations with the goal of maintaining essential services and an efficient labor force. Our General Employee Pension Fund is fully funded. Our Police and Fire Pension Fund is funded at a level slightly above the annual actuarial recommendation. Although pension fund contributions are affected by the fluctuations in the stock and bond market and these fluctuations may require additional funding in the future, in 2002, the Township restructured its property tax component to provide additional funding for the Police and Fire Pension Fund. This fund's millage rate increased from .5 to 1, which was accomplished by changing the Police Fund millage to ad valorem from special assessment. The restructuring of the millage components doubled property tax revenue to the Pension Fund. The reduction in the Police Fund property tax rate was offset by increased revenues through historical growth and personal property tax collections. The Township board aggressively pursues a permanent solution to pension and healthcare funding to spare future taxpayers the cost of funding present benefits. Through labor negotiations, the Township implemented changes in certain healthcare cost components that are anticipated to result in significant healthcare cost savings. The savings will offset the overall increase in insurance rates of .06 percent. The Township board accelerated the budget review process by completing the first quarter review of 2010 budgets in May 2010. Preliminary review of 2011 budgets is scheduled for mid-June 2010. The budget process usually begins in late summer, with budget sessions in October of each year. The escalation of the budget calendar is in preparation for anticipated weakness in revenues and corresponding further expenditure cuts. The Township's General Fund anticipates a 12.9 percent increase in costs between actual year 2009 and budgeted year 2010 primarily due to the timing of the Van Dyke Widening between 23 and 24 Mile Roads. The Township board continues to focus on and weigh difficult choices between capital projects and staffing. We will adjust expenses to mirror the revenue base, having as a goal the continuation of the trend of excess revenues over expenses experienced since 1992.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

The Township continues to enjoy a strong bond rating of Aa3 from Moody's and AA from S&P on its latest water and sewer revenue bond and an AA+ rating on its GO-backed debt. This, of course, reduces the interest rate costs when seeking financing in the bond market and gives the Township flexibility in planning for its many capital projects.

Contacting the Township's 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 any questions about this report or need additional information, we invite you to contact the Charter Township of Shelby finance department.

Charter Township of Shelby

Statement of Net Assets December 31, 2009

| | Primary Government | | | Component Unit - DDA |
|---|----------------------------|-----------------------------|----------------|-------------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Assets | | | | |
| Cash and investments (Note 2) | \$ 74,641,497 | \$ 40,402,619 | \$ 115,044,116 | \$ 225,978 |
| Receivables: | | | | |
| Property taxes receivable | 16,845,094 | - | 16,845,094 | 83,332 |
| Special assessments receivable | - | 188,955 | 188,955 | - |
| Customers | - | 5,757,484 | 5,757,484 | - |
| Accrued interest receivable - Special assessments | - | 4,807 | 4,807 | - |
| Other receivables | 616,835 | 26,768 | 643,603 | - |
| Due from other governmental units | 822,958 | - | 822,958 | - |
| Allowance for doubtful accounts | (484,297) | - | (484,297) | - |
| Internal balances | 754,559 | (754,559) | - | - |
| Inventories | - | 191,968 | 191,968 | - |
| Prepaid costs and other assets | 695,779 | 176,435 | 872,214 | - |
| Restricted assets (Note 7) | - | 2,804,875 | 2,804,875 | - |
| Net pension asset (Note 11) | 425,338 | - | 425,338 | - |
| Capital assets: | | | | |
| Assets not subject to depreciation (Note 3) | 16,072,716 | 2,748,247 | 18,820,963 | - |
| Assets subject to depreciation - Net (Note 3) | 28,301,145 | 111,071,091 | 139,372,236 | - |
| Total assets | 138,691,624 | 162,618,690 | 301,310,314 | 309,310 |
| Liabilities | | | | |
| Accounts payable | 886,759 | 1,780,126 | 2,666,885 | 1,206 |
| Accrued and other liabilities | 1,954,167 | 1,724,236 | 3,678,403 | 53 |
| Unearned revenue (Note 5) | 31,709,860 | - | 31,709,860 | 162,225 |
| Payable from restricted assets (Note 7) | - | 375,000 | 375,000 | - |
| Due from fiduciary fund | 135,202 | - | 135,202 | - |
| Noncurrent liabilities (Note 6): | | | | |
| Due within one year: | | | | |
| Compensated absences | 102,322 | 9,006 | 111,328 | - |
| Current portion of long-term debt | - | 1,671,849 | 1,671,849 | - |
| Due in more than one year: | | | | |
| Compensated absences | 756,221 | 84,657 | 840,878 | - |
| Unearned revenue (Note 5) | - | 1,479,750 | 1,479,750 | - |
| Other postemployment benefit obligations | 8,494,045 | 719,161 | 9,213,206 | - |
| Long-term debt - Net of current portion | - | 23,726,019 | 23,726,019 | - |
| Total liabilities | 44,038,576 | 31,569,804 | 75,608,380 | 163,484 |
| Net Assets | | | | |
| Invested in capital assets - Net of related debt | 44,373,861 | 88,421,470 | 132,795,331 | - |
| Restricted for: | | | | |
| Bond covenants (Note 7) | - | 2,429,875 | 2,429,875 | - |
| Special assessments (Note 6) | - | 327,354 | 327,354 | - |
| Police and fire | 44,312,622 | - | 44,312,622 | - |
| Street lighting | 203,888 | - | 203,888 | - |
| Grants | 21,060 | - | 21,060 | - |
| Forfeitures | 383,224 | - | 383,224 | - |
| Emergency response | 178,802 | - | 178,802 | - |
| Unrestricted | 5,179,591 | 39,870,187 | 45,049,778 | 145,826 |
| Total net assets | \$ 94,653,048 | \$ 131,048,886 | \$ 225,701,934 | \$ 145,826 |

Charter Township of Shelby

| Functions/Programs | Program Revenues | | | |
|--|----------------------|----------------------|------------------------------------|----------------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary government: | | | | |
| Governmental activities: | | | | |
| General government | \$ 7,684,133 | \$ 2,122,132 | \$ 760,904 | \$ 117,149 |
| Public safety | 28,822,243 | 2,052,862 | 99,734 | 10,922 |
| Public works | 1,290,553 | 224,429 | 620 | - |
| Recreation and culture | 5,026,729 | 616,044 | 15,987 | - |
| 41A District Court | 2,679,794 | 2,409,496 | 45,724 | - |
| Total governmental activities | 45,503,452 | 7,424,963 | 922,969 | 128,071 |
| Business-type activities: | | | | |
| Water and sewer | 20,105,900 | 16,052,777 | - | 697,449 |
| Shelby Manor senior housing | 1,158,715 | 1,660,659 | - | - |
| Total business-type activities | 21,264,615 | 17,713,436 | - | 697,449 |
| Total primary government | <u>\$ 66,768,067</u> | <u>\$ 25,138,399</u> | <u>\$ 922,969</u> | <u>\$ 825,520</u> |
| Component Unit - Downtown Development Authority | <u>\$ 75,258</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| General revenues: | | | | |
| Property taxes | | | | |
| State-shared revenue | | | | |
| Unrestricted investment income | | | | |
| Cable franchise fees | | | | |
| Other | | | | |
| Total general revenues | | | | |
| Transfers | | | | |
| Change in Net Assets | | | | |
| Net Assets - Beginning of year | | | | |
| Net Assets - End of year | | | | |

Statement of Activities
Year Ended December 31, 2009

| Primary Government | | | Component Unit - Downtown Development Authority |
|----------------------------|-----------------------------|-----------------------|---|
| Governmental Activities | Business-type Activities | Total | |
| \$ (4,683,948) | \$ - | \$ (4,683,948) | \$ - |
| (26,658,725) | - | (26,658,725) | - |
| (1,065,504) | - | (1,065,504) | - |
| (4,394,698) | - | (4,394,698) | - |
| (224,574) | - | (224,574) | - |
| (37,027,449) | - | (37,027,449) | - |
| - | (3,355,674) | (3,355,674) | - |
| - | 501,944 | 501,944 | - |
| - | (2,853,730) | (2,853,730) | - |
| (37,027,449) | (2,853,730) | (39,881,179) | - |
| - | - | - | (75,258) |
| 32,135,846 | - | 32,135,846 | 188,593 |
| 4,275,999 | - | 4,275,999 | - |
| 497,070 | 334,567 | 831,637 | 332 |
| 998,877 | - | 998,877 | - |
| 623,180 | - | 623,180 | 5,520 |
| 38,530,972 | 334,567 | 38,865,539 | 194,445 |
| 94,200 | (94,200) | - | - |
| 1,597,723 | (2,613,363) | (1,015,640) | 119,187 |
| 93,055,325 | 133,662,249 | 226,717,574 | 26,639 |
| \$ 94,653,048 | \$ 131,048,886 | \$ 225,701,934 | \$ 145,826 |

Charter Township of Shelby

Governmental Funds Balance Sheet December 31, 2009

| | General Fund | Fire Fund | Police Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|----------------------|----------------------|----------------------|-----------------------------------|--------------------------------|
| Assets | | | | | |
| Cash and investments (Note 2) | \$ 11,086,528 | \$ 21,156,475 | \$ 19,594,978 | \$ 22,803,516 | \$ 74,641,497 |
| Receivables: | | | | | |
| Taxes | 2,128,406 | 6,799,194 | 7,917,494 | - | 16,845,094 |
| Allowance for doubtful accounts | (44,761) | (226,990) | (212,546) | - | (484,297) |
| Other receivables | 109,360 | 223,953 | 3,688 | 279,834 | 616,835 |
| Due from other governmental units | 766,079 | - | - | 56,879 | 822,958 |
| Due from other funds (Note 4) | 22,474 | - | - | 768,000 | 790,474 |
| Prepaid costs and other assets | 77,878 | 145,414 | 193,589 | 278,898 | 695,779 |
| Total assets | \$ 14,145,964 | \$ 28,098,046 | \$ 27,497,203 | \$ 24,187,127 | \$ 93,928,340 |
| Liabilities and Fund Balances | | | | | |
| Liabilities | | | | | |
| Vouchers payable | \$ 231,275 | \$ 392,392 | \$ 78,442 | \$ 184,650 | \$ 886,759 |
| Due to other funds (Note 4) | 12,636 | 748 | - | 22,531 | 35,915 |
| Accrued and other liabilities | 193,518 | 377,212 | 1,121,873 | 11,564 | 1,704,167 |
| Deferred revenue (Note 5) | 4,912,664 | 12,730,792 | 15,006,679 | 29,523 | 32,679,658 |
| Due from fiduciary fund | 135,202 | - | - | - | 135,202 |
| Total liabilities | 5,485,295 | 13,501,144 | 16,206,994 | 248,268 | 35,441,701 |
| Fund Balances | | | | | |
| Reserved for: | | | | | |
| Prepaid expenses | 77,878 | 145,414 | 193,589 | 278,898 | 695,779 |
| Public safety expenditures | - | - | - | 15,049,361 | 15,049,361 |
| Unreserved, reported in: | | | | | |
| General Fund: | | | | | |
| Designated (Note 9) | 4,837,850 | - | - | - | 4,837,850 |
| Undesignated | 3,744,941 | - | - | - | 3,744,941 |
| Special Revenue Funds: | | | | | |
| Designated (Note 9) | - | 10,976,306 | 7,133,723 | 50,000 | 18,160,029 |
| Undesignated | - | 3,475,182 | 3,962,897 | 5,064,179 | 12,502,258 |
| Capital Projects Funds - Designated (Note 9) | - | - | - | 3,496,421 | 3,496,421 |
| Total fund balances | 8,660,669 | 14,596,902 | 11,290,209 | 23,938,859 | 58,486,639 |
| Total liabilities and fund balances | \$ 14,145,964 | \$ 28,098,046 | \$ 27,497,203 | \$ 24,187,127 | \$ 93,928,340 |

Charter Township of Shelby

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets December 31, 2009

| | |
|---|-----------------------------|
| Fund Balance Reported in Governmental Funds | \$ 58,486,639 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds | 44,373,861 |
| Grants and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds | 969,798 |
| Other liabilities that do not present a claim on current financial resources are not reported as fund liabilities | (250,000) |
| Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities | (858,543) |
| Net pension assets are not current financial resources and are not reported in the funds | 425,338 |
| Long-term liabilities, such as net OPEB obligations, are not due and payable in the current period and are not reported in the funds | (8,494,045) |
| Net Assets of Governmental Activities | <u>\$ 94,653,048</u> |

Charter Township of Shelby

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2009

| | General Fund | Fire Fund | Police Fund | Nonmajor Governmental Funds | Total |
|--|----------------------------|-----------------------------|-----------------------------|-----------------------------------|-----------------------------|
| Revenue | | | | | |
| Property taxes | \$ 4,095,751 | \$ 12,906,763 | \$ 15,133,332 | \$ - | \$ 32,135,846 |
| Licenses and permits | 455,323 | - | - | - | 455,323 |
| Federal grants | 50,824 | 8,685 | 2,237 | 152,076 | 213,822 |
| State-shared revenue and grants | 4,426,198 | - | 86,234 | 107,280 | 4,619,712 |
| Other local donations and grants | 601,773 | - | - | 1,000 | 602,773 |
| Charges for services | 1,061,977 | 1,449,716 | 516,023 | 245,827 | 3,273,543 |
| Interfund administrative charges | 1,098,133 | - | - | - | 1,098,133 |
| Fines and forfeitures | 2,510,841 | - | - | 87,123 | 2,597,964 |
| Interest | 378,299 | 51,217 | 56,930 | 10,624 | 497,070 |
| Other revenue | 491,320 | 27,747 | 101,115 | 1,001,875 | 1,622,057 |
| Total revenue | <u>15,170,439</u> | <u>14,444,128</u> | <u>15,895,871</u> | <u>1,605,805</u> | <u>47,116,243</u> |
| Expenditures | | | | | |
| General government | 6,884,323 | - | - | 12,875 | 6,897,198 |
| 41A District Court | - | - | - | 2,178,200 | 2,178,200 |
| Public safety | - | 10,981,392 | 13,610,756 | 156,593 | 24,748,741 |
| Public works | 333,001 | - | - | 349,419 | 682,420 |
| Recreation and culture | 3,210,257 | - | - | 677,765 | 3,888,022 |
| Capital outlay | 244,321 | 2,086,252 | 206,030 | 1,004,822 | 3,541,425 |
| Total expenditures | <u>10,671,902</u> | <u>13,067,644</u> | <u>13,816,786</u> | <u>4,379,674</u> | <u>41,936,006</u> |
| Excess of Revenue Over (Under) Expenditures | 4,498,537 | 1,376,484 | 2,079,085 | (2,773,869) | 5,180,237 |
| Other Financing Sources (Uses) | | | | | |
| Transfers in (Note 4) | - | - | 40,000 | 4,874,573 | 4,914,573 |
| Transfers out (Note 4) | (2,820,973) | (602,200) | (1,292,400) | (104,800) | (4,820,373) |
| Net Change in Fund Balances | 1,677,564 | 774,284 | 826,685 | 1,995,904 | 5,274,437 |
| Fund Balances - Beginning of year | <u>6,983,105</u> | <u>13,822,618</u> | <u>10,463,524</u> | <u>21,942,955</u> | <u>53,212,202</u> |
| Fund Balances - End of year | <u><u>\$ 8,660,669</u></u> | <u><u>\$ 14,596,902</u></u> | <u><u>\$ 11,290,209</u></u> | <u><u>\$ 23,938,859</u></u> | <u><u>\$ 58,486,639</u></u> |

Charter Township of Shelby

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2009

| | | |
|---|-----------|-------------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ | 5,274,437 |
| 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 | | 3,828,646 |
| Depreciation expense | | (1,985,095) |
| Net book value of assets disposed | | (756,907) |
| Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end | | (109,268) |
| Decrease in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources and, therefore, are not reported in the fund statements until they come due for payment | | 137,552 |
| Changes in other items, such as net pension assets, reported in the statement of activities do not represent current resources and, therefore, are not reported in the fund statements | | 75,510 |
| Net other postemployment benefit obligations reported in the statement of activities do not require the use of current resources and, therefore, are not reported in the fund statements | | (4,867,152) |
| Change in Net Assets of Governmental Activities | \$ | <u>1,597,723</u> |

Charter Township of Shelby

Proprietary Funds - Enterprise Funds Statement of Net Assets December 31, 2009

| | Business-type Activities | | |
|---|---------------------------------|------------------------------|----------------|
| | Major Fund - Water and Sewer | Major Fund - Shelby Manor | Total |
| Assets | | | |
| Current assets: | | | |
| Cash and investments (Note 2) | \$ 39,491,591 | \$ 911,028 | \$ 40,402,619 |
| Receivables: | | | |
| Special assessments | 121,392 | - | 121,392 |
| Customers | 5,757,484 | - | 5,757,484 |
| Accrued interest receivable | 4,807 | - | 4,807 |
| Other receivables | 26,638 | 130 | 26,768 |
| Due from other funds (Note 4) | 13,441 | - | 13,441 |
| Inventories | 191,968 | - | 191,968 |
| Prepaid costs and other assets | 175,450 | 985 | 176,435 |
| Total current assets | 45,782,771 | 912,143 | 46,694,914 |
| Noncurrent assets: | | | |
| Restricted assets (Note 7) | 2,804,875 | - | 2,804,875 |
| Special assessment receivables - Net of current portion | 67,563 | - | 67,563 |
| Capital assets: | | | |
| Assets not subject to depreciation - Net (Note 3) | 1,428,247 | 1,320,000 | 2,748,247 |
| Assets subject to depreciation (Note 3) | 102,173,001 | 8,898,090 | 111,071,091 |
| Total noncurrent assets | 106,473,686 | 10,218,090 | 116,691,776 |
| Total assets | 152,256,457 | 11,130,233 | 163,386,690 |
| Liabilities | | | |
| Current liabilities: | | | |
| Vouchers payable | 1,773,282 | 6,844 | 1,780,126 |
| Due to other funds (Note 4) | 768,000 | - | 768,000 |
| Accrued and other liabilities | 1,547,449 | 176,787 | 1,724,236 |
| Payable from restricted assets (Note 7) | 375,000 | - | 375,000 |
| Compensated absences (Note 6) | 9,006 | - | 9,006 |
| Current portion of long-term debt (Note 6) | 836,269 | 835,580 | 1,671,849 |
| Total current liabilities | 5,309,006 | 1,019,211 | 6,328,217 |
| Noncurrent liabilities: | | | |
| Compensated absences (Note 6) | 84,657 | - | 84,657 |
| Unearned revenue (Note 5) | 1,479,750 | - | 1,479,750 |
| Other postemployment benefit obligations | 719,161 | - | 719,161 |
| Long-term debt - Net of current portion (Note 6) | 18,120,899 | 5,605,120 | 23,726,019 |
| Total noncurrent liabilities | 20,404,467 | 5,605,120 | 26,009,587 |
| Total liabilities | 25,713,473 | 6,624,331 | 32,337,804 |
| Net Assets | | | |
| Invested in capital assets - Net of related debt | 84,644,080 | 3,777,390 | 88,421,470 |
| Restricted: | | | |
| Revenue bond reserves (Note 7) | 2,429,875 | - | 2,429,875 |
| Special assessment debt repayment (Note 6) | 327,354 | - | 327,354 |
| Unrestricted | 39,141,675 | 728,512 | 39,870,187 |
| Total net assets | \$ 126,542,984 | \$ 4,505,902 | \$ 131,048,886 |

Charter Township of Shelby

Proprietary Funds - Enterprise Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2009

| | Business-type Activities | | |
|---|---------------------------------|------------------------------|-----------------------|
| | Major Fund - Water and Sewer | Major Fund - Shelby Manor | Total |
| Operating Revenue | | | |
| Charges for sales and service | \$ 16,014,292 | \$ - | \$ 16,014,292 |
| Rental income | - | 1,602,781 | 1,602,781 |
| Other miscellaneous revenues | 38,485 | 57,878 | 96,363 |
| Total operating revenue | 16,052,777 | 1,660,659 | 17,713,436 |
| Operating Expenses | | | |
| Cost of water and sewage disposal | 11,625,112 | - | 11,625,112 |
| Other operation and maintenance | 4,029,582 | 686,962 | 4,716,544 |
| General and administrative | 247,004 | - | 247,004 |
| Depreciation | 3,218,685 | 244,633 | 3,463,318 |
| Total operating expenses | 19,120,383 | 931,595 | 20,051,978 |
| Operating (Loss) Income | (3,067,606) | 729,064 | (2,338,542) |
| Nonoperating Revenue (Expense) | | | |
| Investment income | 333,924 | 643 | 334,567 |
| Interest expense | (985,517) | (227,120) | (1,212,637) |
| (Loss) Income - Before contributions | (3,719,199) | 502,587 | (3,216,612) |
| Capital Contributions | | | |
| Lines constructed by developers | 271,505 | - | 271,505 |
| Grant revenue | 108,000 | - | 108,000 |
| Capital charges and front foot assessments | 317,944 | - | 317,944 |
| Total capital contributions | 697,449 | - | 697,449 |
| Transfers to Other Funds (Note 4) | (94,200) | - | (94,200) |
| Change in Net Assets | (3,115,950) | 502,587 | (2,613,363) |
| Net Assets - Beginning of year | 129,658,934 | 4,003,315 | 133,662,249 |
| Net Assets - End of year | <u>\$ 126,542,984</u> | <u>\$ 4,505,902</u> | <u>\$ 131,048,886</u> |

Charter Township of Shelby

Proprietary Funds - Enterprise Funds Statement of Cash Flows Year Ended December 31, 2009

| | Business-type Activities | | |
|---|---------------------------------|------------------------------|----------------------|
| | Major Fund - Water and Sewer | Major Fund - Shelby Manor | Total |
| Cash Flows from Operating Activities | | | |
| Receipts from customers | \$ 15,464,348 | \$ 1,679,277 | \$ 17,143,625 |
| Payments to suppliers | (13,088,681) | (680,914) | (13,769,595) |
| Payments to employees | (3,193,266) | - | (3,193,266) |
| Other receipts | 38,485 | 57,878 | 96,363 |
| Net cash (used in) provided by operating activities | (779,114) | 1,056,241 | 277,127 |
| Cash Flows from Noncapital Financing Activities - Transfers to other funds | (94,200) | - | (94,200) |
| Cash Flows from Capital and Related Financing Activities | | | |
| Issuance of bonds | 92,328 | - | 92,328 |
| Receipt of capital grants | 108,000 | - | 108,000 |
| Special assessment collections | 131,139 | - | 131,139 |
| Purchase of capital assets | (233,398) | - | (233,398) |
| Principal and interest paid on capital debt | (2,159,491) | (882,700) | (3,042,191) |
| Collection of capital charges and front foot assessments | 317,944 | - | 317,944 |
| Net cash used in capital and related financing activities | (1,743,478) | (882,700) | (2,626,178) |
| Cash Flows from Investment Activities | | | |
| Interest received on investments | 333,924 | 643 | 334,567 |
| Net purchases of investment securities | 3,510,627 | - | 3,510,627 |
| Net cash provided by investing activities | 3,844,551 | 643 | 3,845,194 |
| Net Increase in Cash and Cash Equivalents | 1,227,759 | 174,184 | 1,401,943 |
| Cash and Cash Equivalents - Beginning of year | 25,903,149 | 736,844 | 26,639,993 |
| Cash and Cash Equivalents - End of year | <u>\$ 27,130,908</u> | <u>\$ 911,028</u> | <u>\$ 28,041,936</u> |
| Balance Sheet Classification of Cash and Cash Equivalents | | | |
| Cash and investments | \$ 39,491,591 | \$ 911,028 | \$ 40,402,619 |
| Restricted assets (Note 7) | 2,804,875 | - | 2,804,875 |
| Less amounts classified as investments | (15,165,558) | - | (15,165,558) |
| Total cash and cash equivalents | <u>\$ 27,130,908</u> | <u>\$ 911,028</u> | <u>\$ 28,041,936</u> |
| Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities | | | |
| Operating (loss) income | \$ (3,067,606) | \$ 729,064 | \$ (2,338,542) |
| Adjustments to reconcile operating (loss) income to net cash from operating activities: | | | |
| Depreciation and amortization | 3,218,685 | 244,633 | 3,463,318 |
| Changes in assets and liabilities: | | | |
| Receivables | (549,944) | (130) | (550,074) |
| Due from other funds | - | 76,626 | 76,626 |
| Prepaid and other assets | 27,259 | 1,471 | 28,730 |
| Accounts payable | (499,328) | 6,844 | (492,484) |
| Due to other funds | (7,630) | - | (7,630) |
| Accrued and other liabilities | 338,909 | (2,267) | 336,642 |
| Unearned revenue | (239,459) | - | (239,459) |
| Net cash (used in) provided by operating activities | <u>\$ (779,114)</u> | <u>\$ 1,056,241</u> | <u>\$ 277,127</u> |

Noncash Investing, Capital, and Related Financing Activities - During the year ended December 31, 2009, developers constructed water and sewer lines with an estimated value of \$272,000 and donated them to the Township Water and Sewer Fund.

Charter Township of Shelby

Fiduciary Funds Statement of Fiduciary Net Assets December 31, 2009

| | Police and Fire Retirement System Trust Fund | Agency Funds |
|---|---|--------------|
| Assets | | |
| Cash and cash equivalents (Note 2) | \$ 642,131 | \$ 1,864,166 |
| Investments (Note 2): | | |
| Common stock | 20,184,381 | - |
| Short-term funds | 311,267 | - |
| Collective index and mutual funds | 22,567,568 | - |
| Receivables | 24 | 37,318 |
| Due from primary government | - | 135,203 |
| Deposits and prepaid benefits | 350,527 | 33,972 |
| Total assets | 44,055,898 | \$ 2,070,659 |
| Liabilities | | |
| Vouchers payable | - | \$ 136,790 |
| Due to primary government | - | 17,402 |
| Deposits | - | 648,453 |
| Accrued and other liabilities | 1,953 | 40,469 |
| Advance tax collections | - | 1,227,545 |
| Total liabilities | 1,953 | \$ 2,070,659 |
| Net Assets Held in Trust for Pension and Other Employee Benefits | \$ 44,053,945 | |

Charter Township of Shelby

Fiduciary Funds Statement of Changes in Fiduciary Net Assets Year Ended December 31, 2009

| | Police and Fire Retirement System Trust Fund |
|--|---|
| Additions | |
| Investment income (expense): | |
| Interest and dividends | \$ 404,264 |
| Net realized and unrealized gain on investments | 6,843,957 |
| Investment-related expenses | <u>(173,820)</u> |
| Net investment income | 7,074,401 |
| Contributions: | |
| Employer | 3,666,139 |
| Employee | <u>574,081</u> |
| Total contributions | <u>4,240,220</u> |
| Total additions | 11,314,621 |
| Deductions | |
| Benefit payments | 4,090,025 |
| Administrative expenses | <u>134,350</u> |
| Total deductions | <u>4,224,375</u> |
| Net Increase in Net Assets Held in Trust | 7,090,246 |
| Net Assets Held in Trust for Pension Benefits - Beginning of year | <u>36,963,699</u> |
| Net Assets Held in Trust for Pension Benefits - End of year | <u><u>\$ 44,053,945</u></u> |

Charter Township of Shelby

Notes to Financial Statements December 31, 2009

Note I - Summary of Significant Accounting Policies

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

Reporting Entity

The Township was organized on November 20, 1978 under the provisions of Act 359 of P.A. 1947, as amended (Charter Township Act). The Township is governed by an elected seven-member board of trustees composed of the supervisor, clerk, treasurer, and four other trustees. The Township provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, water and sewer, culture, recreation, public improvements, planning and zoning, and general administrative services.

Blended Component Units - The following component units are reported as if they were parts of the primary government in the financial statements:

- a. The Police and Fire Retirement System (the "System") has been blended into the Township's financial statements. The System is governed by a five-member pension board, which includes the treasurer of the Township's board, two members elected individually by the police officers and firefighters, and two members appointed by the board of trustees. The System is reported as if it was part of the primary government because of the fiduciary responsibility that the Township retains relative to the operations of the retirement system.
- b. The Shelby Township Building Authority is governed by a five-member board that is appointed by the Township's board of trustees. Although it is legally separate from the Township, it is reported as if it was part of the primary government because its primary purpose is to provide certain facilities necessary for the operation of the Township's government and to finance and construct the Township's public buildings.

Discretely Presented Component Unit - The Shelby Township Downtown Development Authority (the "Authority") is governed by a board that is appointed by the Township's board of trustees. The Authority's budget is subject to approval by the board of trustees. The Authority does not issue its own financial statements.

Charter Township of Shelby

Notes to Financial Statements December 31, 2009

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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.

Charter Township of Shelby

Notes to Financial Statements December 31, 2009

Note I - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: property taxes, state-shared revenue, and interest associated with the current fiscal period. All other revenue items are considered to be available only when cash is received by the Township. 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 revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

- The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Fire Special Revenue Fund accounts for all of the activities of the Township's fire department, except for the purchase of equipment.
- The Police Special Revenue Fund accounts for all of the activities of the Township's police department, except for the purchase of equipment.

The Township reports the following major proprietary funds:

- The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.
- The Shelby Manor Senior Housing Fund accounts for the activities of the Township's senior housing apartment complex.

Additionally, the Township reports the following fiduciary funds:

Police and Fire Retirement System Trust Fund - The Police and Fire Retirement System Trust Fund accounts for the activities of the police and fire employees' retirement system, which accumulates resources for pension benefit payments to qualified employees and for medical benefits provided to employees during retirement.

Charter Township of Shelby

Notes to Financial Statements December 31, 2009

Note I - Summary of Significant Accounting Policies (Continued)

Agency Funds - The Agency Funds account for assets held by the Township in a trustee capacity or as an agent for individuals, organizations, and other governments. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activity.

As a general rule, the effect of interfund activity and the General Fund reimbursement for administrative expenses have been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

When an expense has been incurred for purposes for which both restricted and unrestricted net assets are available, the Township's policy is to first apply restricted resources.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of capital charges 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 the 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.

Property Tax Revenue

Properties are assessed as of December 31. The related property taxes become a lien and are billed on December 1 of the following year. These taxes are due on February 28 with the final collection date of March 1 before they are added to the county tax rolls. Property taxes billed during the month of December will be used to finance the following year's operations. As such, these taxes are recorded as deferred revenue in each respective fund at December 31.

Charter Township of Shelby

Notes to Financial Statements December 31, 2009

Note I - Summary of Significant Accounting Policies (Continued)

The 2008 taxable valuation of the Township totaled approximately \$3,466,000,000, on which ad valorem taxes levied consisted of 1.1800 mills for the Township's operating purposes, 3.8624 mills for police protection, 3.2575 mills for fire operating purposes, and 1.0000 mill for police and fire pension. The ad valorem taxes raised approximately \$4,090,000 for general operations, \$13,388,000 for police protection, \$11,291,000 for fire operations, and \$3,466,000 for police and fire pension. These amounts are recorded in their respective funds as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less as of December 31, 2009. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All customer and property tax receivables are shown as net of an allowance for uncollectible amounts.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

Restricted Assets - The revenue bonds of the enterprise fund require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., amounts paid to the Road Commission for the intangible right to use the roads), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Charter Township of Shelby

Notes to Financial Statements December 31, 2009

Note I - Summary of Significant Accounting Policies (Continued)

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

| | |
|----------------------------|-------------|
| Infrastructure | 20-35 years |
| Water system | 50 years |
| Sewer systems | 50 years |
| Buildings and improvements | 20-50 years |
| Machinery equipment | 5-20 years |
| Vehicles | 8 years |
| Furniture and fixtures | 5-20 years |
| Library books | 8 years |

Compensated Absences - The Township allows employees to accumulate earned but unused sick, vacation, and personal pay benefits. The government-wide and proprietary statements accrue all vacation pay as it is earned and sick and personal pay as it is vested. A liability for these amounts is reported in governmental funds as they come due for payment (when the time is taken off or employees terminate).

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 assets. Bond premiums and discounts, as well as issuance costs, 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 reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. When an expense has been incurred for purposes for which both restricted and unrestricted net assets are available, the Township's policy is to first apply restricted resources.

Charter Township of Shelby

Notes to Financial Statements December 31, 2009

Note I - Summary of Significant Accounting Policies (Continued)

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

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.

Construction Code Act - The Township tracks the results of building department operation in the General Fund in accordance with Michigan Public Act 245 of 1999. The Township is required to maintain an accounting system that separately accumulates revenues and expenditures related to the building department function. As required under the provision of the Act, the Township adopted this accounting treatment effective January 1, 2000. A summary of the activity since January 1, 2000 is as follows:

| | | |
|---|------------------|-----------------------|
| Cumulative expenditures over revenue - January 1, 2009 | | \$ (1,621,241) |
| 2009 building department activity: | | |
| Permit revenue | \$ 450,942 | |
| Expenditures | <u>1,286,087</u> | |
| Excess of expenditures over revenue | | <u>(835,145)</u> |
| Cumulative expenditures over revenue - December 31, 2009 | | <u>\$ (2,456,386)</u> |

Charter Township of Shelby

Notes to Financial Statements December 31, 2009

Note 1 - Summary of Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncement - The Governmental Accounting Standards Board (GASB) has recently issued Statement Number 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. The new pronouncement is effective for the year ending December 31, 2010. The Township's management is currently evaluating the impact of the pronouncement on its government-wide financial statements.

Upcoming Accounting Pronouncement - The Governmental Accounting Standards Board (GASB) has recently issued Statement Number 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The new pronouncement clarifies existing governmental fund definitions and changes fund balance classifications. The new pronouncement is effective for the year ending December 31, 2011. The Township's management is currently evaluating the impact of the pronouncement on its government-wide financial statements.

Note 2 - Cash and Investments

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

The Pension Trust Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Township has designated 13 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 all investments allowed by state statutory authority as listed above. The Township's deposits and investment policies are in accordance with statutory authority.

Charter Township of Shelby

Notes to Financial Statements December 31, 2009

Note 2 - Cash and Investments (Continued)

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$28,146,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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 restricts investment maturities to less than one year unless the maturity is matched to a specific cash flow according to the policy. Commercial paper is restricted to purchases with a 270-day maturity. At year end, the average maturities of investments are as follows:

| | <u>Fair Value</u> | <u>Weighted Average Maturity</u> |
|--|-------------------|--------------------------------------|
| Non-2a7 like bank investment pool | \$ 8,049,532 | 146 days |
| Agency bonds | 27,302,116 | 38 days |
| Commercial paper | 7,611,132 | 54 days |
| U.S. Treasury securities | 5,978,900 | 147 days |
| Fixed Income Collective Index Fund (Pension Trust) | 57,997 | Less than 1 year |
| Fixed Income Collective Index Fund (Pension Trust) | 6,466,647 | 1-5 years |
| Fixed Income Collective Index Fund (Pension Trust) | 7,974,564 | 5-10 years |

Charter Township of Shelby

Notes to Financial Statements December 31, 2009

Note 2 - Cash 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:

| | <u>Fair Value</u> | <u>Rating</u> | <u>Rating Organization</u> |
|--|-------------------|---------------|----------------------------|
| Bank investment pool | \$ 6,112,439 | AAA | S&P |
| | 36,167,471 | Not rated | |
| Commercial paper | 7,611,132 | AI | S&P |
| Agency bonds | 27,302,116 | AAA | S&P |
| Short-term investment fund (Pension Trust) | 311,267 | AI | S&P |
| Fixed Income Collective Index Fund (Pension Trust) | 14,499,208 | AAI | S&P |
| Equity Collective Index Fund (Pension Trust) | 8,068,360 | Not rated | |

Concentration of Credit Risk - The Township limits the amount the Township may invest in any one issuer to 50 percent of the Township's total portfolio. At December 31, 2009, there were no investments in a single issuer in excess of 50 percent of the Township's total portfolio. However, more than 5 percent of the Township's investments were in Federal National Mortgage Association (FNMA) agency securities; these investments are 11.3 percent of the Township's total investments. There were no individual investments greater than or equal to 5 percent of the Township's total portfolio.

Charter Township of Shelby

Notes to Financial Statements December 31, 2009

Note 3 - Capital Assets

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

| | Balance January 1, 2009 | Additions | Disposals and Adjustments | Balance December 31, 2009 |
|---------------------------------------|-------------------------------|--------------|------------------------------|---------------------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 11,128,458 | \$ - | \$ - | \$ 11,128,458 |
| Construction in progress | 3,281,938 | 2,814,688 | (1,152,368) | 4,944,258 |
| Subtotal | 14,410,396 | 2,814,688 | (1,152,368) | 16,072,716 |
| Capital assets being depreciated: | | | | |
| Infrastructure | 19,998,084 | 1,561,136 | (195,140) | 21,364,080 |
| Buildings and improvements | 15,214,830 | - | (461,502) | 14,753,328 |
| Vehicles | 5,720,169 | 221,824 | (413,690) | 5,528,303 |
| Library books | 2,000,000 | - | - | 2,000,000 |
| Machinery and equipment | 6,318,467 | 383,366 | (160,094) | 6,541,739 |
| Subtotal | 49,251,550 | 2,166,326 | (1,230,426) | 50,187,450 |
| Accumulated depreciation: | | | | |
| Infrastructure | 4,599,717 | 918,372 | (171,819) | 5,346,270 |
| Buildings and improvements | 7,169,319 | 259,316 | - | 7,428,635 |
| Vehicles | 3,804,636 | 451,453 | (179,167) | 4,076,922 |
| Library books | 1,000,000 | - | - | 1,000,000 |
| Machinery and equipment | 3,801,057 | 355,954 | (122,533) | 4,034,478 |
| Subtotal | 20,374,729 | 1,985,095 | (473,519) | 21,886,305 |
| Net capital assets being depreciated | 28,876,821 | 181,231 | (756,907) | 28,301,145 |
| Net capital assets | \$ 43,287,217 | \$ 2,995,919 | \$ (1,909,275) | \$ 44,373,861 |

Charter Township of Shelby

Notes to Financial Statements December 31, 2009

Note 3 - Capital Assets (Continued)

| Business-type Activities | Balance January 1, 2009 | Additions | Disposals and Adjustments | Balance December 31, 2009 |
|---------------------------------------|-------------------------------|-----------------------|------------------------------|---------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,525,441 | \$ - | \$ - | \$ 1,525,441 |
| Construction in progress | 1,104,730 | 351,418 | (233,342) | 1,222,806 |
| Subtotal | 2,630,171 | 351,418 | (233,342) | 2,748,247 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 17,166,500 | - | - | 17,166,500 |
| Vehicles | 593,102 | 4,221 | - | 597,323 |
| Furniture, fixtures, and equipment | 721,698 | 2,410 | - | 724,108 |
| Water systems | 38,621,703 | 265,747 | - | 38,887,450 |
| Sewer systems | 95,189,804 | 114,449 | - | 95,304,253 |
| Subtotal | 152,292,807 | 386,827 | - | 152,679,634 |
| Accumulated depreciation: | | | | |
| Buildings and improvements | 4,491,157 | 326,692 | - | 4,817,849 |
| Vehicles | 581,719 | 9,878 | - | 591,597 |
| Furniture and fixtures | 553,288 | 24,949 | - | 578,237 |
| Water systems | 11,568,486 | 1,010,729 | - | 12,579,215 |
| Sewer systems | 20,950,575 | 2,091,070 | - | 23,041,645 |
| Subtotal | 38,145,225 | 3,463,318 | - | 41,608,543 |
| Net capital assets being depreciated | 114,147,582 | (3,076,491) | - | 111,071,091 |
| Net capital assets | <u>\$ 116,777,753</u> | <u>\$ (2,725,073)</u> | <u>\$ (233,342)</u> | <u>\$ 113,819,338</u> |

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

Governmental activities:

| | |
|-------------------------------|---------------------|
| General government | \$ 349,975 |
| Public safety | 697,352 |
| Public works | 608,133 |
| Recreation and culture | 324,099 |
| 41A District Court | 5,536 |
| Total governmental activities | <u>\$ 1,985,095</u> |

Business-type activities:

| | |
|--------------------------------|---------------------|
| Water and sewer | \$ 3,218,685 |
| Shelby Manor | 244,633 |
| Total business-type activities | <u>\$ 3,463,318</u> |

Charter Township of Shelby

Notes to Financial Statements December 31, 2009

Note 3 - Capital Assets (Continued)

Construction Commitments - The Township has an active construction project, renovation of the 23 Mile Fire Station, for which approximately \$2.0 million of costs have been incurred as of December 31, 2009. The Township has an outstanding commitment with contractors of approximately \$1,200,000.

Note 4 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

| Receivable Fund | Payable Fund | Amount |
|--------------------------------|-----------------------------|-------------------|
| Due to/from Other Funds | | |
| General Fund | Nonmajor governmental funds | \$ 22,474 |
| Water and Sewer Fund | General Fund | 12,636 |
| | Fire Special Revenue Fund | 748 |
| | Nonmajor governmental funds | <u>57</u> |
| | Total Water and Sewer Fund | 13,441 |
| Nonmajor governmental funds | Water and Sewer Fund | <u>768,000</u> |
| | Total | <u>\$ 803,915</u> |

Interfund balances represent routine and temporary cash flow assistance until amounts are transferred from investment accounts.

Transfers provided funding for capital projects, capital acquisitions, postemployment benefits, and debt service. Interfund transfers reported in the fund financial statements are comprised of the following:

| Fund Transferred From | Fund Transferred To | Amount |
|-----------------------------|-----------------------------|---------------------|
| General Fund | Nonmajor governmental funds | \$ 2,780,973 |
| | Police Special Revenue Fund | <u>40,000</u> |
| | Total General Fund | 2,820,973 |
| Fire Fund | Nonmajor governmental funds | 602,200 |
| Police Fund | Nonmajor governmental funds | 1,292,400 |
| Nonmajor governmental funds | Nonmajor governmental funds | 104,800 |
| Water and Sewer Fund | Nonmajor governmental funds | <u>94,200</u> |
| | Total | <u>\$ 4,914,573</u> |

Charter Township of Shelby

Notes to Financial Statements December 31, 2009

Note 5 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At the end of the current fiscal year, the various components of deferred revenue of the governmental funds are as follows:

| | <u>Unavailable</u> | <u>Unearned</u> |
|-----------------------|--------------------|----------------------|
| State-shared revenues | \$ 748,523 | \$ - |
| Property taxes | - | 31,709,860 |
| Other | 221,275 | - |
| Total | <u>\$ 969,798</u> | <u>\$ 31,709,860</u> |

Unearned revenue in the Water and Sewer Fund represents redeemable certificates issued to developers to be applied as payment on future capital charges.

Note 6 - 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. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received. At December 31, 2009, the Township has \$330,716 set aside in the Water and Sewer Fund for repayment of these bonds. In addition, \$188,955 of special assessments is receivable in the future; the amount of receivables delinquent at December 31, 2009 is not significant.

The Township has pledged substantially all revenue of the Water and Sewer Fund, net of operating expenses, to repay the water and sewer revenue bonds listed below. Proceeds from the bonds provided financing for the construction of water and sewer lines. The bonds are payable solely from the net revenues of the water and sewer system. The remaining principal and interest to be paid on the bonds total \$13,816,743. During the current year, net revenues of the system were \$779,031 compared to the annual debt requirements of \$1,179,107.

Charter Township of Shelby

Notes to Financial Statements December 31, 2009

Note 6 - Long-term Debt (Continued)

The Township has pledged all future special assessment collections of the Water and Sewer Fund to repay the water and sewer special assessment bonds listed below. Proceeds from the bonds provided financing for the construction of water and sewer lines. The remaining principal and interest to be paid on the bonds total \$330,716. During the current year, special assessment collections were \$131,139 compared to the annual debt requirements of \$235,360.

The Township financed a portion of a State-mandated project to construct water pollution control facilities through the Michigan State Revolving Loan Fund Program (SRF). A principal and interest payment schedule will be finalized upon completion of the project for the loan. The preliminary principal and interest payment schedule is used up to the amount of advances as of December 31, 2010. As a result, the payment schedule for the balance of the 20-year repayment period will increase as the funds are advanced.

Business-type Activities

General obligations:

| | |
|---|-------------------|
| 2009 State Revolving Fund (SRF) Clean Water General Obligation Bond - Project 5343-01: Amount of issue - \$92,328 Maturing through 2029 Interest rate - 2.50% | |
| Principal maturity range - \$5,000 - \$10,000 | \$ 92,328 |
| 2008 B.A. Refunding Bonds: Amount of issue - \$7,325,000 Plus bond premium of \$355,000 Maturing through 2017 Interest rate range - 3.00% - 5.50% | |
| Principal maturity range - \$620,000 - \$810,000 | 6,440,700 |
| 2006 B.A. Refunding Bonds: Amount of issue - \$3,730,000 Maturing through 2024 Interest rate range - 4.00% - 5.50% | |
| Principal maturity ranges - \$140,000 - \$300,000 | 3,450,000 |
| 1999 Garfield Interceptor Debt: Amount of issue - \$5,546,764 Maturing through 2031 Interest rate range - 7.50% | |
| Principal maturity range - \$26,000 - \$389,000 | 4,784,840 |
| Subtotal | <u>14,767,868</u> |

Charter Township of Shelby

Notes to Financial Statements December 31, 2009

Note 6 - Long-term Debt (Continued)

Business-type Activities (Continued)

| | | | |
|---|--|----|-------------------|
| Special Assessment Bonds - 2001 Special Assessment Bonds: | | | |
| Amount of issue - \$2,095,000 | | | |
| Maturing through 2008 | | | |
| Interest rate range - 3.90% - 5.50% | | | |
| Principal maturity range - \$95,000 - \$215,000 | | \$ | 310,000 |
| Revenue Bonds: | | | |
| 1999 Revenue Bonds: | | | |
| Amount of issue - \$4,555,000 | | | |
| Maturing through 2013 | | | |
| Interest rate range - 3.95% - 4.40% | | | |
| Principal maturity range - \$350,000 - \$460,000 | | | 1,670,000 |
| 2002 Revenue Bonds: | | | |
| Amount of issue - \$2,500,000 | | | |
| Maturing through 2022 | | | |
| Interest rate range - 3.00% - 4.80% | | | |
| Principal maturity range - \$100,000 - \$250,000 | | | 2,125,000 |
| 2003 Refunding Bonds: | | | |
| Amount of issue - \$8,000,000 | | | |
| Maturing through 2022 | | | |
| Interest rate range - 2.25% - 4.20% | | | |
| Principal maturity range - \$300,000 - \$700,000 | | | <u>6,900,000</u> |
| Subtotal | | | <u>10,695,000</u> |
| Total business-type activity debt | | \$ | <u>25,772,868</u> |

Long-term debt activity can be summarized as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|---------------------------------|------------------------------|------------------|-------------------|-----------------------|--------------------------------|
| Governmental Activities | | | | | |
| Compensated absences | \$ 996,095 | \$ - | \$ (137,552) | \$ 858,543 | \$ 102,322 |
| Business-type Activities | | | | | |
| General obligations | \$ 15,565,094 | \$ 92,328 | \$ (889,554) | \$ 14,767,868 | \$ 1,081,849 |
| Special assessment bonds | 520,000 | - | (210,000) | 310,000 | 215,000 |
| Revenue bonds | 11,425,000 | - | (730,000) | 10,695,000 | 750,000 |
| Total | \$ 27,510,094 | \$ 92,328 | \$ (1,829,554) | \$ 25,772,868 | \$ 2,046,849 |
| Compensated absences | \$ 113,188 | \$ - | \$ (19,525) | \$ 93,663 | \$ 9,006 |

Charter Township of Shelby

Notes to Financial Statements December 31, 2009

Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above business-type bond and note obligations are as follows:

| | Business-type Activities | | |
|-----------|--------------------------|----------------------|----------------------|
| | Principal | Interest | Total |
| 2010 | \$ 2,046,849 | \$ 1,181,551 | \$ 3,228,400 |
| 2011 | 2,004,711 | 1,104,361 | 3,109,072 |
| 2012 | 2,038,183 | 1,028,588 | 3,066,771 |
| 2013 | 2,052,313 | 951,781 | 3,004,094 |
| 2014 | 1,772,151 | 884,097 | 2,656,248 |
| 2015-2019 | 8,264,140 | 3,210,926 | 11,475,066 |
| 2020-2024 | 5,509,203 | 1,455,104 | 6,964,307 |
| 2025-2029 | 1,814,983 | 466,280 | 2,281,263 |
| 2030-2031 | 270,335 | 11,344 | 281,679 |
| Total | <u>\$ 25,772,868</u> | <u>\$ 10,294,032</u> | <u>\$ 36,066,900</u> |

Advance and Current Refundings - In prior years, the Township defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At December 31, 2009, \$9,895,000 of bonds outstanding is considered defeased.

Note 7 - Restricted Assets

Restricted assets at December 31, 2009 consist of cash and cash equivalents (including bank investment pools) and are reserved in accordance with revenue bond ordinance requirements. The following is the detail of restricted assets at December 31, 2009:

| | |
|--|---------------------|
| Revenue bond requirements: | |
| Operations and maintenance | \$ 1,325,142 |
| Bond reserve | 1,069,500 |
| Debt service: | |
| Principal | 375,000 |
| Interest | 35,233 |
| Assets restricted for revenue bond requirements | 2,804,875 |
| Current liabilities payable from restricted assets | 375,000 |
| Net assets restricted for revenue bond ordinances | <u>\$ 2,429,875</u> |

Charter Township of Shelby

Notes to Financial Statements December 31, 2009

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 all claims. 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 - Designated Fund Balances

Fund balances have been designated for the following purposes:

| | General Fund | Fire Fund Major Special Revenue Fund | Police Fund Major Special Revenue Fund | Nonmajor Special Revenue Funds | Nonmajor Capital Projects Funds |
|--------------------------------|---------------------|---|---|---|--|
| Capital improvements | \$ 3,851,850 | \$ 8,763,849 | \$ 6,133,723 | \$ 50,000 | \$ 3,496,421 |
| Equipment | - | - | - | - | - |
| Building improvements | - | - | - | - | - |
| Van Dyke Road widening project | 986,000 | - | - | - | - |
| Fire Station I completion | - | 1,212,457 | - | - | - |
| Retiree benefits | - | 1,000,000 | 1,000,000 | - | - |
| Total | <u>\$ 4,837,850</u> | <u>\$ 10,976,306</u> | <u>\$ 7,133,723</u> | <u>\$ 50,000</u> | <u>\$ 3,496,421</u> |

Note 10 - Other Postemployment Benefits

Plan Description - The Township provides healthcare benefits and life insurance benefits to all general employees who retire having a minimum of 15 years of continuous full-time service and having attained an age of 55 or above, which, when combined with the number of years of service, is greater than or equal to 75. The Township provides healthcare benefits and life insurance benefits to all court employees who retire at an age of 55 or above with 10 years of full-time service. The Township provides healthcare benefits to all police and fire employees retiring after 25 years of service, in accordance with labor contracts. The benefits provided cover the retired employee, as well as his or her spouse and any eligible dependents, and are paid in full by the Township until age 65. At age 65, the employee and spouse must apply for Medicare and the Township then supplies a complementary coverage policy to equal their prior benefits. Currently, 132 retirees are eligible.

Funding Policy - 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). As shown below, the Township has made no contributions to advance-fund these benefits as of December 31, 2009.

Charter Township of Shelby

Notes to Financial Statements December 31, 2009

Note 10 - Other Postemployment Benefits (Continued)

Funding Progress - For the year ended December 31, 2009, the Township has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of January 1, 2009. The valuation computes an annual required contribution, which 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. This valuation's computed contribution and actual funding are summarized as follows:

| | |
|---|---------------------|
| Annual required contribution/ OPEB cost | \$ 7,552,905 |
| Interest on the prior year's net OPEB obligation | 170,797 |
| Less adjustment to the annual required contribution | <u>(161,775)</u> |
| Annual OPEB cost | 7,561,927 |
| Amounts contributed - Payments of current premiums | <u>(2,144,206)</u> |
| Increase in net OPEB obligation | 5,417,721 |
| OPEB obligation - Beginning of year | <u>3,795,485</u> |
| OPEB obligation - End of year | <u>\$ 9,213,206</u> |

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the current and prior year were as follows:

| Fiscal Year Ended | Actuarial Valuation Date | Annual Required Contribution * | Percentage Contributed | Net OPEB Obligation |
|-------------------|--------------------------|--------------------------------|------------------------|---------------------|
| 12/31/09 | 1/1/09 | \$ 7,552,905 | 28.4 | \$ 9,213,206 |
| 12/31/08 | 1/1/07 | 5,554,000 | 31.7 | 3,795,485 |

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

The funding progress of the plan is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (Percent) (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll |
|--------------------------|-------------------------------|-------------------------------|---------------------------|------------------------------|---------------------|---|
| 1/1/09 | \$ - | \$ 90,096,921 | \$ 90,096,921 | \$ - | \$ 16,431,686 | 548.3 |
| 1/1/07 | - | 58,959,000 | 58,959,000 | - | 14,674,606 | 401.8 |

Note 10 - Other Postemployment Benefits (Continued)

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The 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.

In the January 1, 2009 actuarial valuation, the projected unit credit with linear proration to decrement method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses), which is the expected long-term investment return on plan assets, and an annual healthcare cost trend rate of 9.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent by 2019. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2009 was 29 years.

Note 11 - Retirement Plans

Defined Benefit Pension Plan

Plan Description - The Shelby Township Police and Fire Pension Plan is a single-employer defined benefit pension plan that is the administrator of a single-employer public employees' retirement plan that covers all police and fire employees of the Township. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2009, the date of the most recent actuarial valuation, membership consisted of 92 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 128 current active employees. The plan does not issue a separate financial report.

Charter Township of Shelby

Notes to Financial Statements December 31, 2009

Note 11 - Retirement Plans (Continued)

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Plan members are required to contribute 5 percent of their annual covered salary, except for most command officers who pay 4 percent under an expired collective bargaining agreement currently being negotiated. The Charter Township of Shelby is required to contribute at an actuarially determined rate. The obligation to contribute to and maintain the plan for these employees was established by Act No. 345 of the Public Acts of 1937, as amended, and modified by the collective bargaining agreements. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost and Net Pension Obligation

The plan's annual pension cost and net pension obligation for the current year were as follows:

| | |
|--|---------------------|
| Annual required contribution | \$ 3,600,027 |
| Interest on net pension obligation | (27,986) |
| Adjustment to annual required contribution | <u>18,588</u> |
| Annual pension cost | 3,590,629 |
| Contributions made | <u>3,666,139</u> |
| Increase in net pension asset | (75,510) |
| Net pension asset - Beginning of year | <u>(349,828)</u> |
| Net pension asset - End of year | <u>\$ (425,338)</u> |

Funding Status and Funding Progress

| | Actuarial Valuation as of December 31, 2009 |
|---|--|
| Actuarial value of assets | \$ 48,968,765 |
| Actuarial accrued liability (entry age) | \$ (79,494,112) |
| Unfunded AAL | \$ (30,525,347) |
| Funded ratio | 61.6% |
| Covered payroll | \$ 10,939,120 |
| UAAL as a percentage of covered payroll | 279.0% |

Charter Township of Shelby

Notes to Financial Statements December 31, 2009

Note 11 - Retirement Plans (Continued)

The schedule of funding progress, presented as required supplemental information following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

For the year ended December 31, 2009, the Township's contribution exceeded the annual pension cost of \$3,590,629 for the plan by \$75,510. The annual required contribution was determined as part of an actuarial valuation at December 31, 2007, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 5.5 percent to 8.5 percent per year, (c) additional projected salary increases of 0 percent to 3 percent per year, attributable to seniority/merit, and (d) no postretirement benefit increases. Both (a) and (b) include an inflation component of 5.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 12 years.

Three-year Trend Information of Annual Pension Costs

| | Fiscal Year Ended December 31 | | |
|--------------------------------|-------------------------------|--------------|--------------|
| | 2009 | 2008 | 2007 |
| Annual pension cost (APC) | \$ 3,590,629 | \$ 3,293,781 | \$ 3,426,574 |
| Percentage of APC contributed | 102.1 % | 112.5 % | 102.6 % |
| Net pension (asset) obligation | \$ (425,338) | \$ (349,828) | \$ 60,875 |

Reserves

State law requires employee contributions to be segregated and interest to be added annually. In addition, amounts must be set aside determined by the actuary to fund benefits to retirees currently approved to receive benefits. The reserves for the police and fire retirement plan are as follows:

| | Reserve for Employee Contributions | Reserve for Employer Contributions | Reserved for Retiree Benefit Payments |
|------------------------------------|--|--|---|
| Balance - January 1, 2009 | \$ 5,633,065 | \$ (8,412,202) | \$ 39,743,415 |
| Additions | 574,081 | 3,666,139 | - |
| Earnings on investments | 101,316 | 3,744,008 | 3,402,317 |
| Transfers | (373,597) | (4,456,958) | 4,830,555 |
| Deductions | (30,517) | (248,744) | (4,118,933) |
| Balance - December 31, 2009 | <u>\$ 5,904,348</u> | <u>\$ (5,707,757)</u> | <u>\$ 43,857,354</u> |

Charter Township of Shelby

Notes to Financial Statements December 31, 2009

Note 12 - Defined Contribution Pension Plan

The Township provides pension benefits to all of its full-time employees, except those employees covered by the police and fire retirement system, through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The benefits are provided under collective bargaining agreements. The collective bargaining agreements require a contribution of 10 percent and 5 percent from the Township and employees, respectively, of the employees' base salaries each month. An employee may elect to contribute additional voluntary amounts. The Township's contributions for each employee (plus investment income allocated to the employee's account) are fully vested after 60 months of continuous service. The Township's board of trustees is fully vested after 20 months of continuous service.

During the year ended December 31, 2009, the Township made contributions of \$820,115 and the plan members contributed \$463,774 to the plan.

Note 13 - Future Minimum Lease Revenue

The Township leases a portion of its land to a private operator through the year 2044 for use as a golf course. During 2009, the Township recognized \$125,000 in revenue related to this lease.

Future annual minimum lease payments are as follows:

| | Percentage of Gross Revenue | Minimum Rent |
|-----------|-----------------------------------|--------------|
| 2010-2014 | 4 | \$ 175,000 |
| 2015-2019 | 4 | 200,000 |
| 2020-2024 | 4 | 225,000 |
| 2025-2034 | 5 | 250,000 |
| 2035-2044 | 7 | 300,000 |

Required Supplemental Information

Charter Township of Shelby

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2009

| | Original Budget | Amended Budget | Actual |
|--|--------------------|-------------------|--------------|
| Revenue | | | |
| Property taxes | \$ 4,109,311 | \$ 4,081,120 | \$ 4,095,751 |
| Licenses and permits | 652,600 | 434,050 | 455,323 |
| Federal grants | - | 50,000 | 50,824 |
| State-shared revenue and grants | 4,900,269 | 4,423,265 | 4,426,198 |
| Other local donations and grants | 612,301 | 558,250 | 601,773 |
| Charges for services | 1,057,463 | 1,052,141 | 1,061,977 |
| Interfund administrative charges | 517,000 | 1,098,133 | 1,098,133 |
| Fines and forfeitures | 2,900,500 | 2,521,829 | 2,510,841 |
| Interest | 900,000 | 250,000 | 378,299 |
| Other revenue | 694,145 | 515,418 | 491,320 |
| Total revenue | 16,343,589 | 14,984,206 | 15,170,439 |
| Expenditures | | | |
| General government | 7,864,944 | 7,266,690 | 6,884,323 |
| Public works | 624,500 | 370,500 | 333,001 |
| Recreation and culture | 3,397,638 | 3,385,305 | 3,210,257 |
| Capital outlay | 1,138,504 | 900,396 | 244,321 |
| Total expenditures | 13,025,586 | 11,922,891 | 10,671,902 |
| Excess of Revenue Over Expenditures | 3,318,003 | 3,061,315 | 4,498,537 |
| Other Financing Sources (Uses) | | | |
| Transfers in | 5,000 | 3,650 | - |
| Transfers out | (2,759,438) | (2,843,201) | (2,820,973) |
| Net Change in Fund Balance | 563,565 | 221,764 | 1,677,564 |
| Fund Balance - Beginning of year | 6,983,105 | 6,983,105 | 6,983,105 |
| Fund Balance - End of year | \$ 7,546,670 | \$ 7,204,869 | \$ 8,660,669 |

Charter Township of Shelby

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Fire Fund Year Ended December 31, 2009

| | Original Budget | Amended Budget | Actual |
|---|----------------------|----------------------|----------------------|
| Revenue | | | |
| Property taxes | \$ 12,985,358 | \$ 12,900,085 | \$ 12,906,763 |
| Federal grants | - | 8,685 | 8,685 |
| Charges for services | 1,183,275 | 1,268,784 | 1,449,716 |
| Interest | 300,000 | 125,000 | 51,217 |
| Other revenue | 9,100 | 8,019 | 27,747 |
| Total revenue | 14,477,733 | 14,310,573 | 14,444,128 |
| Expenditures | | | |
| Public safety | 11,283,990 | 11,229,305 | 10,981,392 |
| Capital outlay | 4,732,540 | 3,321,364 | 2,086,252 |
| Total expenditures | 16,016,530 | 14,550,669 | 13,067,644 |
| Other Financing Uses - Transfers out | (595,000) | (602,200) | (602,200) |
| Net Change in Fund Balance | (2,133,797) | (842,296) | 774,284 |
| Fund Balance - Beginning of year | 13,822,618 | 13,822,618 | 13,822,618 |
| Fund Balance - End of year | <u>\$ 11,688,821</u> | <u>\$ 12,980,322</u> | <u>\$ 14,596,902</u> |

Charter Township of Shelby

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Police Fund Year Ended December 31, 2009

| | Original Budget | Amended Budget | Actual |
|--|----------------------|----------------------|----------------------|
| Revenue | | | |
| Property taxes | \$ 15,230,202 | \$ 15,125,846 | \$ 15,133,332 |
| Federal grants | - | - | 2,237 |
| State-shared revenue and grants | 47,000 | 74,234 | 86,234 |
| Charges for services | 655,500 | 556,278 | 516,023 |
| Interest | 300,000 | 125,000 | 56,930 |
| Other revenue | 46,300 | 93,735 | 101,115 |
| Total revenue | 16,279,002 | 15,975,093 | 15,895,871 |
| Expenditures | | | |
| Public safety | 14,571,727 | 13,771,525 | 13,610,756 |
| Capital outlay | 308,856 | 344,856 | 206,030 |
| Total expenditures | 14,880,583 | 14,116,381 | 13,816,786 |
| Excess of Revenue Over Expenditures | 1,398,419 | 1,858,712 | 2,079,085 |
| Other Financing Sources (Uses) | | | |
| Transfers in | 75,000 | 50,000 | 40,000 |
| Transfers out | (1,297,678) | (1,292,400) | (1,292,400) |
| Net Change in Fund Balance | 175,741 | 616,312 | 826,685 |
| Fund Balance - Beginning of year | 10,463,524 | 10,463,524 | 10,463,524 |
| Fund Balance - End of year | <u>\$ 10,639,265</u> | <u>\$ 11,079,836</u> | <u>\$ 11,290,209</u> |

Charter Township of Shelby

Required Supplemental Information Police and Fire Pension System Schedule of Funding Progress Year Ended December 31, 2009

The schedule of funding progress is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (Percent) (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll |
|--------------------------|-------------------------------|---------------------------------------|---------------------------|------------------------------|---------------------|---|
| 12/31/04 | \$ 36,115,074 | \$ 59,537,567 | \$ 23,422,493 | 60.7 | \$ 8,741,884 | 267.9 |
| 12/31/05 | 38,357,722 | 62,956,557 | 24,598,835 | 60.9 | 9,684,107 | 254.0 |
| 12/31/06 | 43,117,908 | 64,829,302 | 21,711,394 | 66.5 | 9,888,910 | 219.6 |
| 12/31/07 | 47,295,651 | 70,215,213 | 22,919,562 | 67.4 | 10,447,198 | 219.4 |
| 12/31/08 | 47,537,521 | 76,296,538 | 28,759,017 | 62.3 | 10,815,600 | 265.9 |
| 12/31/09 | 48,968,765 | 79,494,112 | 30,525,347 | 61.6 | 10,939,120 | 279.0 |

The schedule of employer contributions is as follows:

| Fiscal Year Ended | Actuarial Valuation Date | Annual Required Contribution | Percentage Contributed |
|-------------------|--------------------------|------------------------------|------------------------|
| 12/31/04 | 12/31/02 | \$ 2,645,299 | 123.4 |
| 12/31/05 | 12/31/03 | 2,977,121 | 103.8 |
| 12/31/06 | 12/31/04 | 3,091,200 | 105.9 |
| 12/31/07 | 12/31/05 | 3,422,222 | 102.6 |
| 12/31/08 | 12/31/06 | 3,292,075 | 112.5 |
| 12/31/09 | 12/31/07 | 3,600,027 | 102.1 |

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2009, the latest actuarial valuation, follows:

| | |
|-------------------------------|--------------------------|
| Amortization method | Level percent of payroll |
| Remaining amortization period | 12 years |
| Asset valuation method | 4-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return | 7.5% |
| Projected salary increases | 4.25% - 9.50% |
| Includes inflation at | 4.25% |
| Cost of living adjustments | None |

Charter Township of Shelby

Note to Required Supplemental Information Year Ended December 31, 2009

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds. The budget is amended by the board throughout the year as deemed necessary.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Other Supplemental Information

Charter Township of Shelby

| | Nonmajor Special Revenue Funds | | | | | |
|--|--------------------------------|-------------------|--------------------|---------------------|---------------------|---------------------------------|
| | Emergency Response | Street Lighting | Building Authority | 41st District Court | Cable Television | Michigan Justice Training Grant |
| Assets | | | | | | |
| Cash and investments | \$ 191,577 | \$ 226,999 | \$ 14,984 | \$ - | \$ 1,204,551 | \$ 21,760 |
| Receivables - Other | - | 29,907 | - | - | 249,927 | - |
| Due from other funds | - | - | - | - | - | - |
| Prepaid costs and other assets | 207 | - | - | - | 2,516 | - |
| Total assets | \$ 191,784 | \$ 256,906 | \$ 14,984 | \$ - | \$ 1,456,994 | \$ 21,760 |
| Liabilities and Fund Balances | | | | | | |
| Liabilities | | | | | | |
| Vouchers payable | \$ 12,982 | \$ 23,495 | \$ - | \$ - | \$ 37,386 | \$ 700 |
| Due to other funds | - | - | - | - | - | - |
| Accrued and other liabilities | - | - | - | - | 11,564 | - |
| Deferred revenue | - | 29,523 | - | - | - | - |
| Total liabilities | 12,982 | 53,018 | - | - | 48,950 | 700 |
| Fund Balances | | | | | | |
| Reserved for: | | | | | | |
| Prepaid expenses | 207 | - | - | - | 2,516 | - |
| Public safety expenditures | - | - | - | - | - | - |
| Unreserved, reported in: | | | | | | |
| Special Revenue Funds: | | | | | | |
| Designated | - | - | - | - | 50,000 | - |
| Undesignated | 178,595 | 203,888 | 14,984 | - | 1,355,528 | 21,060 |
| Capital Projects Funds - Designated | - | - | - | - | - | - |
| Total fund balances | 178,802 | 203,888 | 14,984 | - | 1,408,044 | 21,060 |
| Total liabilities and fund balances | \$ 191,784 | \$ 256,906 | \$ 14,984 | \$ - | \$ 1,456,994 | \$ 21,760 |

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2009**

| Nonmajor Special Revenue Funds | | | | Nonmajor Capital Projects Funds | | Total Nonmajor Governmental Funds |
|--------------------------------|-----------------------|--------------------|----------------------------|------------------------------------|--------------------------|--|
| Community Block Grant | Federal Forfeiture | Drug Forfeiture | Postemployment Benefits | Public Improvement | Equipment Replacement | |
| \$ - | \$ 18,258 | \$ 364,966 | \$ 9,975,778 | \$ 2,761,365 | \$ 8,023,278 | \$ 22,803,516 |
| 56,879 | - | - | - | - | - | 336,713 |
| - | - | - | 493,000 | - | 275,000 | 768,000 |
| - | - | - | - | 276,175 | - | 278,898 |
| \$ 56,879 | \$ 18,258 | \$ 364,966 | \$ 10,468,778 | \$ 3,037,540 | \$ 8,298,278 | \$ 24,187,127 |
| \$ 34,405 | \$ - | \$ - | \$ - | \$ 68,151 | \$ 7,531 | \$ 184,650 |
| 22,474 | - | - | - | 57 | - | 22,531 |
| - | - | - | - | - | - | 11,564 |
| - | - | - | - | - | - | 29,523 |
| 56,879 | - | - | - | 68,208 | 7,531 | 248,268 |
| - | - | - | - | 276,175 | - | 278,898 |
| - | - | - | 7,561,878 | 1,458,500 | 6,028,983 | 15,049,361 |
| - | - | - | - | - | - | 50,000 |
| - | 18,258 | 364,966 | 2,906,900 | - | - | 5,064,179 |
| - | - | - | - | 1,234,657 | 2,261,764 | 3,496,421 |
| - | 18,258 | 364,966 | 10,468,778 | 2,969,332 | 8,290,747 | 23,938,859 |
| \$ 56,879 | \$ 18,258 | \$ 364,966 | \$ 10,468,778 | \$ 3,037,540 | \$ 8,298,278 | \$ 24,187,127 |

Charter Township of Shelby

| | Nonmajor Special Revenue Funds | | | | | |
|--|--------------------------------|-------------------|--------------------|---------------------|---------------------|---------------------------------|
| | Emergency Response | Street Lighting | Building Authority | 41st District Court | Cable Television | Michigan Justice Training Grant |
| Revenue | | | | | | |
| Federal grants | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| State-shared revenue and grants | 93,780 | - | - | - | - | 13,500 |
| Other local donations and grants | - | - | - | - | - | - |
| Other charges for services | - | 224,429 | - | - | 21,398 | - |
| Fines and forfeitures | - | - | - | - | - | - |
| Interest | 63 | 3,185 | 1 | - | 1,786 | - |
| Other | - | 6 | - | - | 998,877 | - |
| Total revenue | 93,843 | 227,620 | 1 | - | 1,022,061 | 13,500 |
| Expenditures | | | | | | |
| General government | - | - | 75 | - | - | - |
| 41A District Court | - | - | - | 2,178,200 | - | - |
| Public safety | 68,547 | - | - | - | - | 9,598 |
| Public works | - | 264,070 | - | - | - | - |
| Recreation and culture | - | - | - | - | 670,285 | - |
| Capital outlay | - | - | - | 22,842 | 63,669 | - |
| Total expenditures | 68,547 | 264,070 | 75 | 2,201,042 | 733,954 | 9,598 |
| Excess of Revenue Over (Under) Expenditures | 25,296 | (36,450) | (74) | (2,201,042) | 288,107 | 3,902 |
| Other Financing Sources (Uses) | | | | | | |
| Transfers in | - | - | - | 2,285,842 | - | - |
| Transfers out | - | - | - | (84,800) | (20,000) | - |
| Total other financing sources (uses) | - | - | - | 2,201,042 | (20,000) | - |
| Net Change in Fund Balances | 25,296 | (36,450) | (74) | - | 268,107 | 3,902 |
| Fund Balances (Deficit) - Beginning of year | 153,506 | 240,338 | 15,058 | - | 1,139,937 | 17,158 |
| Fund Balances - End of year | \$ 178,802 | \$ 203,888 | \$ 14,984 | \$ - | \$ 1,408,044 | \$ 21,060 |

**Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances (Deficit)
Nonmajor Governmental Funds
Year Ended December 31, 2009**

| Nonmajor Special Revenue Funds | | | | Nonmajor Capital Projects Fund | | Total Nonmajor Governmental Funds |
|--------------------------------|-----------------------|--------------------|----------------------------|-----------------------------------|--------------------------|---|
| Community Block Grant | Federal Forfeiture | Drug Forfeiture | Postemployment Benefits | Public Improvement | Equipment Replacement | |
| \$ 152,076 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 152,076 |
| - | - | - | - | - | - | 107,280 |
| - | - | - | - | - | 1,000 | 1,000 |
| - | - | - | - | - | - | 245,827 |
| - | 1,330 | 85,793 | - | - | - | 87,123 |
| - | 13 | 5,576 | - | - | - | 10,624 |
| - | - | - | - | - | 2,992 | 1,001,875 |
| <u>152,076</u> | <u>1,343</u> | <u>91,369</u> | <u>-</u> | <u>-</u> | <u>3,992</u> | <u>1,605,805</u> |
| 12,800 | - | - | - | - | - | 12,875 |
| - | - | - | - | - | - | 2,178,200 |
| - | - | 78,448 | - | - | - | 156,593 |
| 85,054 | - | - | - | 295 | - | 349,419 |
| 7,000 | - | - | - | - | 480 | 677,765 |
| - | - | - | - | 557,486 | 360,825 | 1,004,822 |
| <u>104,854</u> | <u>-</u> | <u>78,448</u> | <u>-</u> | <u>557,781</u> | <u>361,305</u> | <u>4,379,674</u> |
| 47,222 | 1,343 | 12,921 | - | (557,781) | (357,313) | (2,773,869) |
| - | - | - | 1,844,900 | 168,020 | 575,811 | 4,874,573 |
| - | - | - | - | - | - | (104,800) |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>1,844,900</u> | <u>168,020</u> | <u>575,811</u> | <u>4,769,773</u> |
| 47,222 | 1,343 | 12,921 | 1,844,900 | (389,761) | 218,498 | 1,995,904 |
| <u>(47,222)</u> | <u>16,915</u> | <u>352,045</u> | <u>8,623,878</u> | <u>3,359,093</u> | <u>8,072,249</u> | <u>21,942,955</u> |
| <u>\$ -</u> | <u>\$ 18,258</u> | <u>\$ 364,966</u> | <u>\$ 10,468,778</u> | <u>\$ 2,969,332</u> | <u>\$ 8,290,747</u> | <u>\$ 23,938,859</u> |

Charter Township of Shelby

Other Supplemental Information Combining Statement of Assets and Liabilities Fiduciary Funds - Agency Funds December 31, 2009

| | Trust and Agency | Treasurer's Agency | Current Tax Collection | 41st District Court | Accounts Payable Imprest | Payroll Imprest | Total Agency Funds |
|-----------------------------------|---------------------|-----------------------|---------------------------|------------------------|--------------------------------|--------------------|-----------------------|
| Assets | | | | | | | |
| Cash and cash equivalents | \$ 570,201 | \$ - | \$ 1,211,343 | \$ 82,622 | \$ - | \$ - | \$ 1,864,166 |
| Receivables: | | | | | | | |
| Other receivables | - | - | - | 605 | - | - | 605 |
| Due from other governmental units | - | - | - | - | - | 19,311 | 19,311 |
| Due from other fiduciary fund | 17,402 | - | - | - | - | - | 17,402 |
| Due from primary government | - | - | - | 135,203 | - | - | 135,203 |
| Deposits | - | - | - | 26,948 | - | 7,024 | 33,972 |
| Total assets | <u>\$ 587,603</u> | <u>\$ -</u> | <u>\$ 1,211,343</u> | <u>\$ 245,378</u> | <u>\$ -</u> | <u>\$ 26,335</u> | <u>\$ 2,070,659</u> |
| Liabilities | | | | | | | |
| Accounts payable | \$ 960 | \$ - | \$ 18,601 | \$ 108,296 | \$ - | \$ 8,933 | \$ 136,790 |
| Due to other fiduciary fund | - | - | - | - | - | 17,402 | 17,402 |
| Refundable deposits, bonds, etc. | 551,840 | - | - | 96,613 | - | - | 648,453 |
| Accrued and other liabilities | - | - | - | 40,469 | - | - | 40,469 |
| Advance tax collections | 34,803 | - | 1,192,742 | - | - | - | 1,227,545 |
| Total liabilities | <u>\$ 587,603</u> | <u>\$ -</u> | <u>\$ 1,211,343</u> | <u>\$ 245,378</u> | <u>\$ -</u> | <u>\$ 26,335</u> | <u>\$ 2,070,659</u> |