

Charter Township of Shelby Macomb County, Michigan

**Financial Report
with Supplemental Information
December 31, 2010**

Charter Township of Shelby

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-12
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14-15
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	16
Reconciliation of the Balance Sheet to the Statement of Net Assets	17
Statement of Revenue, Expenditures, and Changes in Fund Balances	18
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Proprietary Funds:	
Statement of Net Assets	20
Statement of Revenue, Expenses, and Changes in Net Assets	21
Statement of Cash Flows	22-23
Fiduciary Funds:	
Statement of Fiduciary Net Assets	24
Statement of Changes in Fiduciary Net Assets	25
Notes to Financial Statements	26-50
Required Supplemental Information	51
Budgetary Comparison Schedule - General Fund	52
Budgetary Comparison Schedule - Major Special Revenue Funds	
Police and Fire Pension System Schedule of Funding Progress	55
Note to Required Supplemental Information	56

Charter Township of Shelby

Contents (Continued)

Other Supplemental Information	57
Nonmajor Governmental Funds:	
Combining Balance Sheet	58-59
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	60-61
Fiduciary Funds - Statement of Assets and Liabilities	62

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Shelby (the "Township") as of and for the year ended December 31, 2010, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Shelby as of December 31, 2010 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, retirement system schedule of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2011 on our consideration of the Charter Township of Shelby's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Morse, PLLC

June 8, 2011

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, 2010 to the prior year:

TABLE I

	Governmental Activities				Business-type Activities				Total			
	2010	2009	\$ Diff	% Diff.	2010	2009	\$ Diff	% Diff.	2010	2009	\$ Diff	% Diff.
Assets												
Current assets	\$ 93.6	\$ 94.3	\$ (0.7)	-0.7%	\$ 47.4	\$ 46.0	\$ 1.4	3.0%	\$ 141.0	\$ 140.3	\$ 0.7	0.5%
Noncurrent assets:												
Restricted assets	-	-	-	-	3.1	2.8	0.3	10.7%	3.1	2.8	0.3	10.7%
Capital assets	46.5	44.4	2.1	4.7%	120.3	113.8	6.5	5.7%	166.8	158.2	8.6	5.4%
Total assets	140.1	138.7	1.4	1.0%	170.8	162.6	8.2	5.0%	310.9	301.3	9.6	3.2%
Liabilities												
Current liabilities	31.9	34.8	(2.9)	-8.3%	5.4	5.6	(0.2)	-3.6%	37.3	40.4	(3.1)	-7.7%
Long-term liabilities	15.0	9.2	5.8	63.0%	34.0	26.0	8.0	30.8%	49.0	35.2	13.8	39.2%
Total liabilities	46.9	44.0	2.9	6.6%	39.4	31.6	7.8	24.7%	86.3	75.6	10.7	14.2%
Net Assets												
Invested in capital assets -												
Net of related debt	46.5	44.4	2.1	4.7%	87.8	88.4	(0.6)	-0.7%	134.3	132.8	1.5	1.1%
Restricted	33.7	35.9	(2.2)	-6.1%	2.5	2.7	(0.2)	-7.4%	36.2	38.6	(2.4)	-6.2%
Unrestricted	13.0	14.4	(1.4)	-9.7%	41.1	39.9	1.2	3.0%	54.1	54.3	(0.2)	-0.4%
Total net assets	<u>\$ 93.2</u>	<u>\$ 94.7</u>	<u>\$ (1.5)</u>	<u>-1.6%</u>	<u>\$ 131.4</u>	<u>\$ 131.0</u>	<u>\$ 0.4</u>	<u>0.3%</u>	<u>\$ 224.6</u>	<u>\$ 225.7</u>	<u>\$ (1.1)</u>	<u>-0.5%</u>

The Township's combined net assets decreased by .5 percent from a year ago, decreasing from \$225.7 million to \$224.6 million. A review of the governmental activities, separate from the business-type activities, shows a decrease of approximately \$1.5 million in net assets, or 1.6 percent, during 2010. This decrease was the result of a reduction in property tax receivable and an increase in other postemployment benefit obligations.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

Despite a decrease in total net assets, the Township's investment in capital assets increased in 2010. The Township continues a major infrastructure project to widen a main thoroughfare that connects Shelby Township with Sterling Heights and Washington Township - Van Dyke Avenue between 23 and 25 Mile Roads. Fire Station I renovation was completed and plans for a new police building were finalized by year end. 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. The final stages of the Township's software migration were completed in March 2010 with conversion to the fixed assets module that was used for the first time for the 2009 audit. E-Suites for human resources, vendors, and Township residents' use will be completed by mid-year 2011.

The net assets of the business-type activities increased .3 percent to \$131.4 million. The increase of \$.4 million was derived from \$.3 million of net income from the Shelby Manor Fund and from net income of \$.1 million from the Water and Sewer Fund.

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, 2010 and the prior year:

TABLE 2

	Governmental Activities				Business-Type Activities				Total			
	2010	2009	\$ Diff	% Diff.	2010	2009	\$ Diff	% Diff.	2010	2009	\$ Diff	% Diff.
Revenue												
Program revenue:												
Charges for services	\$ 8.3	\$ 7.4	\$ 0.9	12.2%	\$ 20.1	\$ 17.7	\$ 2.4	13.6%	\$ 28.4	\$ 25.1	\$ 3.3	13.1%
Operating grants and contributions	1.4	1.0	0.4	40.0%	-	-	-	0.0%	1.4	1.0	0.4	40.0%
Capital grants and contributions	0.1	0.1	-	-	1.7	0.7	1.0	142.9%	1.8	0.8	1.0	125.0%
General revenue:												
Property taxes	31.8	32.1	(0.3)	-0.9%	-	-	-	-	31.8	32.1	(0.3)	-0.9%
State-shared revenue	4.1	4.3	(0.2)	-4.7%	-	-	-	-	4.1	4.3	(0.2)	-4.7%
Interest	0.3	0.5	(0.2)	-40.0%	0.1	0.3	(0.2)	-66.7%	0.4	0.8	(0.4)	-50.0%
Other	1.4	1.6	(0.2)	-12.5%	-	-	-	-	1.4	1.6	(0.2)	-12.5%
Total revenue	47.4	47.0	0.4	0.9%	21.9	18.7	3.2	17.1%	69.3	65.7	3.6	5.5%
Program Expenses												
General government	8.1	7.7	0.4	5.2%	-	-	-	-	8.1	7.7	0.4	5.2%
Public safety	31.6	28.8	2.8	9.7%	-	-	-	-	31.6	28.8	2.8	9.7%
Public works	1.6	1.3	0.3	23.1%	-	-	-	-	1.6	1.3	0.3	23.1%
41st District Court	2.8	2.7	0.1	3.7%	-	-	-	-	2.8	2.7	0.1	3.7%
Recreation and culture	4.2	5.0	(0.8)	-16.0%	-	-	-	-	4.2	5.0	(0.8)	-16.0%
Interest on long-term debt	-	-	-	-	-	-	-	-	-	-	-	-
Shelby Manor	-	-	-	-	1.3	1.2	0.1	8.3%	1.3	1.2	0.1	8.3%
Water and sewer	-	-	-	-	20.8	20.1	0.7	3.5%	20.8	20.1	0.7	3.5%
Total program expenses	48.3	45.5	2.8	6.2%	22.1	21.3	0.8	3.8%	70.4	66.8	3.6	5.4%
Transfers	(0.6)	0.1	(0.7)	-700.0%	0.6	(0.1)	0.7	-700.0%	-	-	-	-
Change in Net Assets	(1.5)	1.6	(3.1)	-193.8%	0.4	(2.7)	3.1	-114.8%	(1.1)	(1.1)	-	-
Net Assets - Beginning of year	94.7	93.1	1.6	1.7%	131.0	133.7	(2.7)	-2.0%	225.7	226.8	(1.1)	-0.5%
Net Assets - End of year	\$ 93.2	\$ 94.7	\$ (1.5)	-1.6%	\$ 131.4	\$ 131.0	\$ 0.4	0.3%	\$ 224.6	\$ 225.7	\$ (1.1)	-0.5%

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

Governmental Activities

The Township's total governmental revenues remained substantially flat, increasing by approximately \$.4 million, or .9 percent, from the last year. Decreases in major revenue categories included property tax, state-shared revenue, and interest. These decreases were more than offset 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 changes to state-shared revenue 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 years that may affect property tax revenue, 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 as well as discussions regarding future capital projects.

The Township also prepared for the anticipated effect of assessment appeals before the Michigan Tax Tribunal by estimating a worst case scenario for 2010 as well as 2011. Our assessing department prepared an inventory of properties under appeal and will monitor the original estimates as cases are adjudicated, added, or withdrawn.

Because of the successful cost-savings measures developed by a third-party operational review of our fire department in 2009, the Township board authorized a study of our Parks, Recreation and Maintenance Department and Department of Public Works. This study resulted in cost savings and efficiencies in staffing, equipment replacement, and technology. The Township board initiated an operational review of the Township police department that will be completed in 2011. This study is anticipated to result in recommendations for operations, staffing, and five-year capital equipment replacement budgeting.

The cost allocation system developed in 2009 continues to be used to assess the value of services of the General Fund to our other major funds. This cost allocation resulted in inter-fund administrative service charges of \$1,360,184 for 2010.

During 2010, the Township negotiated new collective bargaining agreements covering the majority of the Township's union employees. The new agreements incorporate various cost-containing and cost-cutting provisions such as pay freezes, reduction in paid benefit time, formula changes reducing the amount of individual retirement defined benefit payments, reductions in various pay categories, and increases in the employees' share of healthcare costs. These contract changes had a favorable impact on reducing 2010 costs and will have an even greater impact in 2011 and beyond.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

Total government expenses increased approximately \$2.8 million, or 6.2 percent, over the last year. General government expenses increased \$.4 million, or approximately 5.2 percent. Although nearly every functional governmental 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, the increase in other postemployment benefit obligations offsets these realized decreases. The continued emphasis on local road improvement and cost-sharing arrangements with the Macomb County Road Commission for major thoroughfare improvements resulted in a sizable increase in capital outlay for general government.

At the end of 2009, the Township was awarded a grant from the U.S. Department of Energy. Energy efficient renovations to the Township Hall were completed by the end of 2010. The project included HVAC upgrades, replacement of 5,200 square feet of existing windows with low-E tempered efficiency windows, solar roof panels, and lighting upgrades.

Public safety expenditures increased by 9.7 percent, or \$2.8 million. Most of the increase can be attributed to an increase in other postemployment benefit obligations and retiree pension contributions. 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 2010, the Fire Fund completed the renovation of our main fire station. This renovation alleviated the problems associated with an ancient building structure and enhanced operating efficiency by providing increased response time through equipment management and storage and provided a training and meeting center for CPR programs, fire prevention seminars, and community outreach programs as well as space for an additional voter precinct. Funding for this multi-year renovation came from Fire Fund reserve balances.

The Township board approved plans in late 2010 for a police building with construction on the Township campus to start in early 2011. This new facility will alleviate severe overcrowding in the police department, eliminate the use of a trailer to house the detective bureau, and enhance efficiency through improved technology in the new building. Funding for the construction was accumulated over the past 10 years in a Capital Project Fund and grants are anticipated for furnishing and equipment.

Recreation and culture experienced a 16 percent decrease in costs with the library, parks and recreation, and cable television being the largest departments in this category. This decrease can be attributed to retirements, changes in healthcare benefits, and a dedicated effort to analyze and reduce all operating expenditures.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

The Township (through long-range planning) is able to participate in cost-sharing agreements with the Macomb County Road Commission. The majority of the Van Dyke Avenue widening project between 23 and 24 Mile Roads (a combined Township and County project supported in part by federal funding) was completed in 2010 and will continue to 25 Mile Road in 2011. Cost-sharing agreements are in the 2011 budget for improvements to more main Township roads. 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. In addition, the Township has also entered into a service-sharing agreement with Rochester Hills to share building department resources.

The Township continues to set aside funds in a Special Revenue Fund for other post-employment benefits in anticipation of a final decision on funding options available for GASB No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, implemented in 2008. In 2010, the recognition of the cost of providing retiree health care resulted in additional expense reported at the government-wide level of \$5,741,499 in the governmental activities and \$468,574 in the business-type activities. This new reporting requirement caused increased fluctuation in expenditures between 2009 and 2010.

Business-type Activities

The Township's business-type activities are recorded in the Water and Sewer Fund and Shelby Manor Fund. The Water and Sewer Fund provides water, which is purchased from the City of Detroit Water and Sewerage Department (DWSD), to 25,325 accounts. The Township also provides sewer service to 14,091 accounts. The sewage service is also provided by the DWSD with the Macomb County Waste Water Disposal District (MCWWDD) acting as an intermediary.

Revenue of the Township's business-type activities increased by 17.1 percent to \$21.9 million. The Shelby Manor Fund revenue increased .9 percent from 2009 to 2010 due to a continued effort to achieve and maintain full occupancy. The Water and Sewer Fund's total revenue increased by \$3.1 million or 18.5 percent. Charges for sales and services increased by \$2.4 million, due to a combination of both an increase in rates and increases in the number of units sold. Capital contributions increased by \$1.0 million; \$.2 million was from special assessments related to a new sewer project and an additional \$.8 million from the Township's portion of forgiven debt related to the Oakland-Macomb Interceptor Drainage District's (OMID) loans from the Michigan State Revolving Fund (see Note 7 for additional information).

The business-type activities \$.7 million increase in net transfers is the result of the reversal of the Water and Sewer Fund's prior year transfers to the Other Postemployment Benefit Fund for pre-GASB No. 45 obligations. After the reversal of these transfers, the Water and Sewer Fund (as of December 31, 2010) has recorded an actuarially determined other postemployment benefit obligation of \$1,187,735, of which \$468,574 was recorded and charged to operating expenses in 2010.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

Total expenses for the business-type activities increased by \$.8 million, or 3.8 percent. Shelby Manor Fund expenses increased about \$.1 million due to increases in maintenance costs, capital repairs, and the cost allocation to the General Fund. The Water and Sewer Fund's operating expenses increased \$.7 million. Increases in the cost of water purchased and depreciation were offset by decreases in labor and benefit costs and expenses related to sewer inspection and repair. The cost of water purchased increased due to increases in rates and the number of units purchased. The increase in units purchased and subsequently sold was due to the drier and hotter weather experienced in 2010.

In 2009, Macomb and Oakland Counties jointly established the OMID to acquire, operate, and maintain the Oakland Macomb Interceptor (OMI) which was transferred from the City of Detroit. In addition, Macomb County created the Macomb Interceptor Drainage District (MIDD) to acquire, operate, and maintain the Macomb Interceptor Drain (MID).

During 2010, the OMID and MIDD issued county bonds to acquire the OMI and MID and to improve and repair other facilities. This debt was assessed to the participating communities based on a three-year average facility usage. The Township's allocated share of the costs of the OMI and MID facilities and related debt as of December 31, 2010 was \$9.2 million (see Note 7 for additional information). Approximately \$8.4 million of the Township's share of the MID facilities was in service in 2010 and, as a result, depreciation expense increased by \$.2 million. The recording of the Township's allocated share of the OMI and MID facilities as capital assets and the servicing of the Township's allocated share of OMID and MIDD debt will increase the Water and Sewer Fund's depreciation and interest expense in 2011 and beyond. However, these increases in both depreciation and interest expense will be offset by reductions in the monthly sewage processing charges billed to the Township.

The Township's Funds

Our analysis of the Township's major funds begins on page 16, 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 2010 include the General Fund, Police Fund, Fire Fund, Water and Sewer Fund, and Shelby Manor Fund.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

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 2010 and acceleration of multi-year capital projects. The General Fund experienced a 2 percent decrease in revenue from 2009. The most significant influence on the revenue budget during 2010 was a decrease in anticipated state-shared revenue and grants of approximately 2.9 percent. This reduction is attributed to a state-wide downturn in the economy. The Township also experienced a 9 percent decrease in planning fees. Interest income mirrored the financial markets with a decline of 55.6 percent from 2009.

The Township did enjoy an increase in building fees attributed to a significant increase in single and multi-family residential construction. During 2010, commercial construction declined, but this decline was overshadowed by the recovery in residential. The overall value of construction increased from \$38 million to nearly \$55 million. Property tax is the second largest source of revenue to the General Fund. Property tax remained flat with a slight decrease of \$60,000. Fines and forfeitures also remained flat from 2009 to 2010. Increases of 17 percent in other local donations and 23.8 percent in administrative fees to other funds mitigated the weakness in our larger sources of revenue. The General Fund ended the year with a favorable revenue budget variance of \$28,767.

The General Fund expenditure budget showed a favorable variance of \$977,168 and an increase over 2009 actual expenditures of 7.2 percent. The majority of this fluctuation involved the multi-year Van Dyke widening project between 23 and 24 Mile Roads and the continuation of that project to 25 Mile Road. The Michigan Tax Tribunal estimate for anticipated property tax refunds also contributed to the increase over 2009.

When comparing the original 2010 budget with the amended 2010 budget, on the revenue side, the original budget was increased by \$209,630. Increases were required in state-shared revenue, building permit fees, recreation programs, and transfers in. Reductions were required in interest income and fines and forfeitures. The Township board is extremely conservative with revenue estimates and continues to respond through the budget process to the economic fluctuations cited above.

On the expense side, the largest budget reductions were seen in general government due to a reduction in work force and related benefit costs. 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. The Township board's commitment to road improvement is seen in the increase over the original budget of \$445,000 in highways, streets, and bridges to incorporate additional cost-sharing projects with the County.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

At the end of 2010, the Township's governmental and business activities combined had approximately \$235.6 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 \$16.4 million and \$16 million for 2010 and 2009, respectively. The Enterprise Funds' infrastructure for 2010 and 2009 (including construction in progress), net of depreciation, is \$106.4 million and \$99.8 million, respectively (see Note 4 for additional information). Additionally, the value of buildings and improvements for the governmental activities, net of depreciation, is \$7.1 million and \$7.3 million for 2010 and 2009, respectively. The Enterprise Funds' buildings and improvements, net of depreciation, are \$12.0 million and \$12.4 million for 2010 and 2009, 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 7 for additional information).

Economic Factors and Next Year's Budgets and Rates

The Charter Township of Shelby will maintain the same property tax millage rate for 2011 that applied in 2010 (9.2999). 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 27.2 percent of the General Fund's amended revenue budget 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 \$3.446 billion to \$3.105 billion. Per the L 4022, residential assessed property value (the largest property component) dropped 14.7 percent from 2010 to 2011. Because of the uncertainty in the housing market 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 27.3 percent of the General Fund budgeted revenue. 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.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

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 Police and Fire Pension Fund is funded at 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 was doubled from .5 to 1, which was accomplished by changing the Police Fund millage to ad valorem from special assessment, thereby increasing 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 5.9 percent.

The Township budget process usually begins in late summer, with budget sessions in October of each year. During the year, the budget is monitored for anticipated weakness in revenues that could require corresponding expenditure cuts. 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.

The Township enjoys a strong bond rating of Aa2 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 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, 2010

	Primary Government			Component Unit - DDA
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 76,447,073	\$ 40,928,024	\$ 117,375,097	\$ 444,678
Receivables:				
Property taxes receivable	15,006,580	-	15,006,580	65,919
Customers	-	5,826,444	5,826,444	-
Accrued interest receivable - Special assessments	-	5,432	5,432	-
Other receivables	876,428	26,637	903,065	-
Due from other governmental units	1,106,202	26,990	1,133,192	-
Special assessments receivable	-	256,989	256,989	-
Allowance for doubtful accounts	(429,746)	-	(429,746)	-
Internal balances	7,546	(7,546)	-	-
Inventories	-	191,968	191,968	-
Prepaid costs and other assets	166,956	169,315	336,271	-
Restricted assets (Note 8)	-	3,130,775	3,130,775	-
Net pension asset (Note 12)	437,044	-	437,044	-
Capital assets:				
Assets not subject to depreciation (Note 4)	17,778,479	2,827,032	20,605,511	-
Assets subject to depreciation - Net (Note 4)	28,675,179	117,479,418	146,154,597	-
Total assets	140,071,741	170,861,478	310,933,219	510,597
Liabilities				
Accounts payable	746,731	1,760,298	2,507,029	-
Accrued and other liabilities	2,138,947	1,777,273	3,916,220	98,692
Unearned revenue (Note 6)	28,377,600	-	28,377,600	126,398
Payable from restricted assets (Note 8)	-	409,998	409,998	-
Due to fiduciary fund	540,024	-	540,024	-
Noncurrent liabilities (Note 7):				
Due within one year:				
Compensated absences	104,850	4,463	109,313	-
Current portion of long-term debt	-	1,513,609	1,513,609	-
Due in more than one year:				
Compensated absences	747,148	81,846	828,994	-
Unearned revenue (Note 6)	-	1,422,925	1,422,925	-
Other postemployment benefit obligations (Note 11)	14,235,544	1,187,735	15,423,279	-
Long-term debt - Net of current portion	-	31,264,430	31,264,430	-
Total liabilities	46,890,844	39,422,577	86,313,421	225,090
Net Assets				
Invested in capital assets - Net of related debt	46,453,658	87,854,892	134,308,550	-
Restricted for:				
Bond covenants (Note 8)	-	2,394,296	2,394,296	-
Special assessment (Note 7)	-	99,157	99,157	-
Police and fire	32,987,730	-	32,987,730	-
Street lighting	144,152	-	144,152	-
Grants	19,631	-	19,631	-
Forfeitures	438,344	-	438,344	-
Emergency response	147,796	-	147,796	-
Unrestricted	12,989,586	41,090,556	54,080,142	285,507
Total net assets	\$ 93,180,897	\$131,438,901	\$224,619,798	\$ 285,507

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

Charter Township of Shelby

Functions/Programs	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 8,110,453	\$ 2,511,246	\$ 779,231	\$ 3,222
41A District Court	2,809,687	2,398,551	45,724	-
Public safety	31,545,191	2,464,184	175,993	115,940
Public works	1,634,117	241,743	362,901	-
Recreation and culture:				
Library	-	71,346	-	-
Parks and recreation	4,118,818	615,761	19,388	-
Cable television production	48,817	-	-	-
Total governmental activities	48,267,083	8,302,831	1,383,237	119,162
Business-type activities:				
Water and Sewer	20,782,232	18,393,620	-	1,737,039
Shelby Manor senior housing	1,348,100	1,675,833	-	-
Total business-type activities:	22,130,332	20,069,453	-	1,737,039
Total primary government	<u>\$ 70,397,415</u>	<u>\$ 28,372,284</u>	<u>\$ 1,383,237</u>	<u>\$ 1,856,201</u>
Component Unit - Downtown Development Authority	<u>\$ 129,997</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenue:				
Property taxes				
State-shared revenue				
Investment income				
Cable franchise fees				
Other miscellaneous income				
Total general revenue				
Transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended December 31, 2010

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit - Downtown Development Authority
Governmental Activities	Business-type Activities	Total	
\$ (4,816,754)	\$ -	\$ (4,816,754)	\$ -
(365,412)	-	(365,412)	-
(28,789,074)	-	(28,789,074)	-
(1,029,473)	-	(1,029,473)	-
71,346	-	71,346	-
(3,483,669)	-	(3,483,669)	-
(48,817)	-	(48,817)	-
(38,461,853)	-	(38,461,853)	-
-	(651,573)	(651,573)	-
-	327,733	327,733	-
-	(323,840)	(323,840)	-
(38,461,853)	(323,840)	(38,785,693)	-
-	-	-	(129,997)
31,755,655	-	31,755,655	268,956
4,148,079	-	4,148,079	-
252,904	122,655	375,559	722
1,063,332	-	1,063,332	-
360,932	-	360,932	-
37,580,902	122,655	37,703,557	269,678
(591,200)	591,200	-	-
(1,472,151)	390,015	(1,082,136)	139,681
94,653,048	131,048,886	225,701,934	145,826
\$ 93,180,897	\$ 131,438,901	\$ 224,619,798	\$ 285,507

Charter Township of Shelby

Governmental Funds Balance Sheet December 31, 2010

	General Fund	Fire Fund	Police Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 11,692,589	\$ 20,515,720	\$ 18,713,712	\$ 25,525,052	\$ 76,447,073
Receivables:					
Taxes	1,901,892	6,063,978	7,040,710	-	15,006,580
Other receivables	140,987	280,022	-	455,419	876,428
Due from other governmental units	738,840	-	-	367,362	1,106,202
Allowance for doubtful accounts	(44,098)	(209,570)	(176,078)	-	(429,746)
Due from other funds (Note 5)	-	-	-	10,000	10,000
Prepaid costs and other assets	78,996	27,107	36,085	24,768	166,956
Total assets	\$ 14,509,206	\$ 26,677,257	\$ 25,614,429	\$ 26,382,601	\$ 93,183,493
Liabilities and Fund Balances					
Liabilities					
Vouchers payable	\$ 130,102	\$ 60,248	\$ 160,656	\$ 395,725	\$ 746,731
Due to other funds (Note 5)	2,365	89	-	-	2,454
Accrued and other liabilities	392,895	754,490	730,247	11,315	1,888,947
Deferred revenue (Note 6)	4,388,019	11,470,859	13,443,870	34,967	29,337,715
Due to fiduciary fund	540,024	-	-	-	540,024
Total liabilities	5,453,405	12,285,686	14,334,773	442,007	32,515,871
Fund Balances					
Reserved for:					
Prepaid expenses	78,996	27,107	36,085	24,768	166,956
Public safety expenditures	-	-	-	8,196,809	8,196,809
Unreserved, reported in:					
General Fund:					
Designated (Note 10)	5,326,841	-	-	-	5,326,841
Undesignated	3,649,964	-	-	-	3,649,964
Special Revenue Funds:					
Designated (Note 10)	-	10,980,560	7,286,569	50,000	18,317,129
Undesignated	-	3,383,904	3,957,002	13,986,050	21,326,956
Capital Projects Funds - Designated (Note 10)	-	-	-	3,682,967	3,682,967
Total fund balances	9,055,801	14,391,571	11,279,656	25,940,594	60,667,622
Total liabilities and fund balances	\$ 14,509,206	\$ 26,677,257	\$ 25,614,429	\$ 26,382,601	\$ 93,183,493

Charter Township of Shelby

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets December 31, 2010

Fund Balance Reported in Governmental Funds	\$ 60,667,622
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	46,453,658
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	960,115
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	(851,998)
Net pension assets are not current financial resources and are not reported in the funds	437,044
Long-term liabilities, such as net OPEB obligations, are not due and payable in the current period and are not reported in the funds	(14,235,544)
Net Assets of Governmental Activities	<u>\$ 93,180,897</u>

Charter Township of Shelby

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2010

	General Fund	Fire Fund	Police Fund	Nonmajor Governmental Funds	Total
Revenue					
Property taxes	\$ 4,035,807	\$ 12,759,475	\$ 14,960,373	\$ -	\$ 31,755,655
Licenses and permits	641,471	-	-	-	641,471
Federal grants	-	114,290	109,126	378,123	601,539
State-shared revenue and grants	4,868,675	-	54,985	117,574	5,041,234
Charges for services:					
Charges to other funds	1,360,184	-	-	-	1,360,184
Charges for services to external parties	1,053,779	1,804,926	548,758	275,605	3,683,068
Fines and forfeitures	2,507,608	-	-	110,500	2,618,108
Investment income	167,843	41,313	38,561	5,187	252,904
Other revenue	199,203	63,888	106,181	1,072,380	1,441,652
	<u>14,834,570</u>	<u>14,783,892</u>	<u>15,817,984</u>	<u>1,959,369</u>	<u>47,395,815</u>
Expenditures					
Current:					
General government	6,807,304	-	-	5,000	6,812,304
District court	-	-	-	2,347,456	2,347,456
Public safety	-	12,259,331	14,516,439	161,518	26,937,288
Public works	326,711	-	-	669,853	996,564
Recreation and culture	3,098,989	-	-	689,243	3,788,232
Capital outlay	1,211,111	1,848,575	190,999	491,103	3,741,788
	<u>11,444,115</u>	<u>14,107,906</u>	<u>14,707,438</u>	<u>4,364,173</u>	<u>44,623,632</u>
Excess of Revenue Over (Under) Expenditures	3,390,455	675,986	1,110,546	(2,404,804)	2,772,183
Other Financing Sources (Uses)					
Transfers in (Note 5)	29,064	10,325	57,424	5,275,863	5,372,676
Transfers out (Note 5)	(3,024,387)	(891,642)	(1,178,523)	(869,324)	(5,963,876)
Net Change in Fund Balances	395,132	(205,331)	(10,553)	2,001,735	2,180,983
Fund Balances - Beginning of year	8,660,669	14,596,902	11,290,209	23,938,859	58,486,639
Fund Balances - End of year	<u>\$ 9,055,801</u>	<u>\$14,391,571</u>	<u>\$11,279,656</u>	<u>\$25,940,594</u>	<u>\$60,667,622</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, 2010

Net Change in Fund Balances - Total Governmental Funds	\$ 2,180,983
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	4,204,986
Depreciation expense	(2,072,219)
Net book value of assets disposed of	(52,970)
Revenue is recorded in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	(9,683)
Changes 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	6,545
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	11,706
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	(5,741,499)
Change in Net Assets of Governmental Activities	<u>\$ (1,472,151)</u>

Charter Township of Shelby

Proprietary Funds Statement of Net Assets December 31, 2010

	Enterprise Funds		
	Enterprise Major Fund - Water and Sewer	Enterprise Fund - Shelby Manor	Total
Assets			
Current assets:			
Cash and cash investments (Note 3)	\$ 40,268,884	\$ 659,140	\$ 40,928,024
Receivables:			
Special assessments receivable	61,604	-	61,604
Customers	5,826,444	-	5,826,444
Accrued interest receivable	5,432	-	5,432
Other receivables	26,637	-	26,637
Due from other governmental units	26,990	-	26,990
Due from other funds (Note 5)	2,454	-	2,454
Inventory	191,968	-	191,968
Prepaid expenses and other assets	166,789	2,526	169,315
Total current assets	46,577,202	661,666	47,238,868
Noncurrent assets:			
Restricted assets (Note 8)	3,130,775	-	3,130,775
Special assessment receivables	195,385	-	195,385
Capital assets:			
Assets not subject to depreciation (Note 4)	1,507,032	1,320,000	2,827,032
Assets subject to depreciation - Net (Note 4)	108,825,961	8,653,457	117,479,418
Total noncurrent assets	113,659,153	9,973,457	123,632,610
Total assets	160,236,355	10,635,123	170,871,478
Liabilities			
Current liabilities:			
Accounts payable	1,747,114	13,184	1,760,298
Due to other funds (Note 5)	10,000	-	10,000
Accrued liabilities and other	1,595,178	182,095	1,777,273
Payable from restricted assets (Note 8)	409,998	-	409,998
Compensated absences (Note 7)	4,463	-	4,463
Current portion of long-term debt (Note 7)	703,029	810,580	1,513,609
Total current liabilities	4,469,782	1,005,859	5,475,641
Noncurrent liabilities:			
Compensated absences (Note 7)	81,846	-	81,846
Unearned revenue (Note 6)	1,422,925	-	1,422,925
Other postemployment benefit obligations (Note 11)	1,187,735	-	1,187,735
Long-term debt - Net of current portion (Note 7)	26,469,890	4,794,540	31,264,430
Total noncurrent liabilities	29,162,396	4,794,540	33,956,936
Total liabilities	33,632,178	5,800,399	39,432,577
Net Assets			
Invested in capital assets - Net of related debt	83,486,555	4,368,337	87,854,892
Restricted:			
Revenue bond reserves (Note 8)	2,394,296	-	2,394,296
Special assessment (Note 7)	38,747	-	38,747
Unrestricted	40,684,579	466,387	41,150,966
Total net assets	<u>\$ 126,604,177</u>	<u>\$ 4,834,724</u>	<u>\$ 131,438,901</u>

Charter Township of Shelby

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2010

	Enterprise Funds		
	Enterprise Major		
	Fund - Water and Sewer	Enterprise Fund - Shelby Manor	Total
Operating Revenue			
Sale of water	\$ 11,160,346	\$ -	\$ 11,160,346
Sewage disposal charges	5,558,961	-	5,558,961
Other sales to customers	1,658,512	-	1,658,512
Other miscellaneous revenues	15,801	21,471	37,272
Rental income	-	1,654,362	1,654,362
	<hr/>	<hr/>	<hr/>
Total operating revenue	18,393,620	1,675,833	20,069,453
Operating Expenses			
Cost of water	8,894,028	-	8,894,028
Cost of sewage treatment	3,676,881	-	3,676,881
Other operation and maintenance	3,532,951	894,947	4,427,898
Billing and administrative costs	306,404	-	306,404
Depreciation	3,417,623	244,633	3,662,256
	<hr/>	<hr/>	<hr/>
Total operating expenses	19,827,887	1,139,580	20,967,467
Operating (Loss) Income	(1,434,267)	536,253	(898,014)
Nonoperating Revenue (Expense)			
Investment income	121,566	1,089	122,655
Interest expense	(954,345)	(208,520)	(1,162,865)
	<hr/>	<hr/>	<hr/>
Total nonoperating expense	(832,779)	(207,431)	(1,040,210)
(Loss) Income - Before contributions	(2,267,046)	328,822	(1,938,224)
Capital Contributions			
Special assessments	218,925	-	218,925
Lines donated by developers	126,744	-	126,744
Other capital contributions	1,391,370	-	1,391,370
	<hr/>	<hr/>	<hr/>
Total capital contributions	1,737,039	-	1,737,039
Transfers In (Note 5)	601,200	-	601,200
Transfers Out (Note 5)	(10,000)	-	(10,000)
Change in Net Assets	61,193	328,822	390,015
Net Assets - Beginning of year	126,542,984	4,505,902	131,048,886
	<hr/>	<hr/>	<hr/>
Net Assets - End of year	\$ 126,604,177	\$ 4,834,724	\$ 131,438,901

Charter Township of Shelby

Proprietary Funds Statement of Cash Flows Year Ended December 31, 2010

	Business-type Activities		
	Enterprise Major Fund - Water and Sewer	Enterprise Fund - Shelby Manor	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 18,112,451	\$ 1,654,492	\$ 19,766,943
Payments to suppliers	(13,080,977)	(884,840)	(13,965,817)
Payments to employees	(3,040,483)	-	(3,040,483)
Other receipts	15,801	21,471	37,272
Net cash provided by operating activities	2,006,792	791,123	2,797,915
Cash Flows from Noncapital Financing Activities - Transfers to other funds	(10,000)	-	(10,000)
Cash Flows from Capital and Related Financing Activities			
Issuance of bonds	40,823	-	40,823
Receipt of capital grants	218,925	-	218,925
Special assessment collections	100,760	-	100,760
Purchase of capital assets	(267,692)	-	(267,692)
Principal and interest paid on capital debt	(2,064,345)	(1,044,100)	(3,108,445)
Collection of capital charges and front foot assessments	629,883	-	629,883
Net cash used in capital and related financing activities	(1,341,646)	(1,044,100)	(2,385,746)
Cash Flows from Investment Activities			
Interest received on investments	121,566	1,089	122,655
Net sales of investment securities	576,369	-	576,369
Net cash provided by investing activities	697,935	1,089	699,024
Net Increase (Decrease) in Cash and Cash Equivalents	1,353,081	(251,888)	1,101,193
Cash and Cash Equivalents - Beginning of year	27,130,908	911,028	28,041,936
Cash and Cash Equivalents - End of year	\$ 28,483,989	\$ 659,140	\$ 29,143,129
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 40,268,884	\$ 659,140	\$ 40,928,024
Restricted cash (Note 8)	2,804,294	-	2,804,294
Less amounts classified as investments	(14,589,189)	-	(14,589,189)
Total cash and cash equivalents	\$ 28,483,989	\$ 659,140	\$ 29,143,129

Charter Township of Shelby

Proprietary Funds Statement of Cash Flows (Continued) Year Ended December 31, 2010

	Business-type Activities		
	Enterprise Major Fund - Water and Sewer	Enterprise Fund - Shelby Manor	Total
	Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities		
Operating (loss) income	\$ (1,434,267)	\$ 536,253	\$ (898,014)
Adjustments to reconcile operating (loss) income to net cash from operating activities:			
Depreciation and amortization	3,417,623	244,633	3,662,256
Changes in assets and liabilities:			
Receivables	(265,368)	130	(265,238)
Prepaid and other assets	8,661	(1,541)	7,120
Accounts payable	(23,957)	6,340	(17,617)
Due to other funds	(145,813)	-	(145,813)
Accrued and other liabilities	506,738	5,308	512,046
Unearned revenue	(56,825)	-	(56,825)
Net cash provided by operating activities	\$ 2,006,792	\$ 791,123	\$ 2,797,915

Noncash Transaction - During the year ended December 31, 2010, developers constructed water and sewer lines with an estimated value of \$127,000 and donated them to the Township Water and Sewer Fund. In addition, the Township recorded approximately \$10,000,000 of capital assets and related debt representing the Township's portion of the Oakland Macomb Interceptor Drainage District and Macomb Interceptor Drainage District projects. Of this amount, \$700,000 was subsidized by the federal government and is recorded as a capital contribution.

Charter Township of Shelby

Fiduciary Funds Statement of Fiduciary Net Assets December 31, 2010

	Police and Fire Retirement Systems Trust Fund	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$ 622,482	\$ 6,953,169
Investments (Note 3):		
Common stock	23,868,566	-
Short-term funds	892,927	-
Collective index and mutual funds	24,959,436	-
Receivables:		
Other receivables	118	-
Due from other governmental units	-	4,203
Due from primary government	-	540,024
Prepaid expenses and other assets	346,120	16,354
Total assets	50,689,649	\$ 7,513,750
Liabilities		
Accounts payable	6,551	\$ 125,686
Due to primary government	-	206,631
Deposits	-	925,588
Accrued and other liabilities	-	48,403
Advance tax collections	-	6,207,442
Total liabilities	6,551	\$ 7,513,750
Net Assets Held in Trust for Pension Benefits	\$ 50,683,098	

Charter Township of Shelby

Fiduciary Funds Statement of Changes in Fiduciary Net Assets Year Ended December 31, 2010

	Police and Fire Retirement Systems Trust Fund
Additions	
Investment income:	
Interest and dividends	\$ 446,726
Net realized and unrealized gain on investments	5,492,602
Investment-related expenses	<u>(226,663)</u>
Net investment income	5,712,665
Contributions:	
Employer	4,612,070
Employee	<u>595,574</u>
Total contributions	<u>5,207,644</u>
Total additions	10,920,309
Deductions	
Benefit payments	4,224,738
Administrative expenses	<u>66,418</u>
Total deductions	<u>4,291,156</u>
Net Increase in Net Assets Held in Trust	6,629,153
Net Assets Held in Trust for Pension Benefits - Beginning of year	<u>44,053,945</u>
Net Assets Held in Trust for Pension Benefits - End of year	<u>\$ 50,683,098</u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2010

Note I - Nature of Business and 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 Units - 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, 2010

Note I - Nature of Business and 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 segment. Program revenue includes: (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, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

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, 2010

Note 1 - Nature of Business and 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 revenue to be available if it is 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 activities:

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.

Charter Township of Shelby

Notes to Financial Statements December 31, 2010

Note 1 - Nature of Business and 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 revenue 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, 2010

Note I - Nature of Business and Significant Accounting Policies (Continued)

The 2009 taxable valuation of the Township totaled approximately \$3,427,000,000, 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 \$4,044,000 for general operations, \$13,235,000 for police protection, \$11,163,000 for fire operations, and \$3,426,000 for police and fire pension. These amounts are recorded in their respective funds as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less as of December 31, 2010. 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 Items - 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. Restricted assets also include the Township's share of unspent bond proceeds held by Oakland County.

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, 2010

Note I - Nature of Business and Significant Accounting Policies (Continued)

Infrastructure, 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 (Vacation, Sick, and Personal Leave) - 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.

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.

Charter Township of Shelby

Notes to Financial Statements December 31, 2010

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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.

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

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Township 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:

Surplus (shortfall) at January 1, 2010		\$ (2,456,386)
Current year permit revenue		636,320
Related expenses:		
Direct costs	1,198,786	
Estimated indirect costs	39,000	1,237,786
		<u> </u>
Current year shortfall		<u>(601,466)</u>
Cumulative shortfall at December 31, 2010		<u>\$ (3,057,852)</u>

Note 3 - Deposits and Investments

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

The 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.

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 \$33,352,414 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.

Charter Township of Shelby

Notes to Financial Statements December 31, 2010

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy 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:

Investment	Fair Value	Weighted Average Maturity
Non-2a7 like bank investment pool	\$ 6,874,825	108 days
Agency bonds	22,443,647	39 days
Commercial paper	9,616,864	54 days
U.S. Treasury securities	10,712,961	147 days
Fixed Income Collective Index Fund (Pension Trust)	62,427	Less than 1 year
Fixed Income Collective Index Fund (Pension Trust)	7,163,528	1-5 years
Fixed Income Collective Index Fund (Pension Trust)	8,380,859	5-10 years

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

Investment	Fair Value	Rating	Rating Organization
Bank investment pool	\$ 6,153,630	AAA	S&P
Bank investment pools	37,439,755	Not rated	
Commercial paper	9,616,864	A1	S&P
Agency bonds	22,443,647	AAA	S&P
Short-term investment fund (Pension Trust)	892,927	A1	S&P
Fixed Income Collective Index Fund (Pension Trust)	15,606,814	AA1	S&P
Equity Collective Index Fund (Pension Trust)	9,352,622	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, 2010, 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 Home Loan Bank (FHLB) agency securities; these investments are 5.6 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, 2010

Note 4 - Capital Assets

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

Governmental Activities	Balance January 1, 2010	Additions	Disposals	Balance December 31, 2010
Capital assets not being depreciated:				
Land	\$ 11,128,458	\$ -	\$ -	\$ 11,128,458
Construction in progress	4,944,258	1,705,763	-	6,650,021
Subtotal	16,072,716	1,705,763	-	17,778,479
Capital assets being depreciated:				
Infrastructure	21,364,080	1,379,578	-	22,743,658
Buildings and improvements	14,753,328	-	-	14,753,328
Machinery and equipment	6,541,739	354,169	-	6,895,908
Vehicles	5,528,303	765,476	(437,085)	5,856,694
Library books	2,000,000	-	-	2,000,000
Subtotal	50,187,450	2,499,223	(437,085)	52,249,588
Accumulated depreciation:				
Infrastructure	5,346,270	972,869	-	6,319,139
Buildings and improvements	7,428,635	259,250	-	7,687,885
Machinery and equipment	4,034,478	421,418	-	4,455,896
Vehicles	4,076,922	418,682	(384,115)	4,111,489
Library books	1,000,000	-	-	1,000,000
Subtotal	21,886,305	2,072,219	(384,115)	23,574,409
Net capital assets being depreciated	28,301,145	427,004	(52,970)	28,675,179
Net capital assets	<u>\$ 44,373,861</u>	<u>\$ 2,132,767</u>	<u>\$ (52,970)</u>	<u>\$ 46,453,658</u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2010

Note 4 - Capital Assets (Continued)

Business-type Activities	Balance January 1, 2010	Additions	Disposals	Balance December 31, 2010
Capital assets not being depreciated:				
Land	\$ 1,525,441	\$ -	\$ -	\$ 1,525,441
Construction in progress	1,222,806	1,470,045	(1,391,260)	1,301,591
Subtotal	2,748,247	1,470,045	(1,391,260)	2,827,032
Capital assets being depreciated:				
Buildings and improvements	17,166,500	-	-	17,166,500
Vehicles	597,323	8,978	-	606,301
Furniture and fixtures	724,108	283,998	-	1,008,106
Water systems	38,887,450	109,550	-	38,997,000
Sewer systems	95,304,253	9,668,057	-	104,972,310
Subtotal	152,679,634	10,070,583	-	162,750,217
Accumulated depreciation:				
Buildings and improvements	4,817,849	326,691	-	5,144,540
Vehicles	591,597	8,978	-	600,575
Furniture and fixtures	578,237	39,762	-	617,999
Water systems	12,579,215	998,687	-	13,577,902
Sewer systems	23,041,645	2,288,138	-	25,329,783
Subtotal	41,608,543	3,662,256	-	45,270,799
Net capital assets being depreciated	<u>111,071,091</u>	<u>6,408,327</u>	<u>-</u>	<u>117,479,418</u>
Net capital assets	<u>\$ 113,819,338</u>	<u>\$ 7,878,372</u>	<u>\$ (1,391,260)</u>	<u>\$ 120,306,450</u>

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

Governmental activities:	
General government	\$ 332,006
Public safety	684,322
Public works	637,554
Recreation and culture	410,528
41A District Court	7,809
Total governmental activities	<u>\$ 2,072,219</u>
Business-type activities:	
Water and Sewer	\$ 3,417,623
Shelby Manor	244,633
Total business-type activities	<u>\$ 3,662,256</u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2010

Note 4 - Capital Assets (Continued)

Construction Commitments - The Township has a substantially completed construction project, renovation of the 23 Mile Fire Station, for which approximately \$3.3 million of costs have been incurred as of December 31, 2010. The Township has an outstanding commitment with contractors of approximately \$30,000. Subsequent to year end, the Township entered into a contract totaling approximately \$3,227,000 for construction of a new police facility.

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water and Sewer Fund	General Fund	\$ 2,365
	Fire Fund	89
	Total Water and Sewer Fund	2,454
Other governmental funds	Water and Sewer Fund	10,000
	Total	<u>\$ 12,454</u>

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

Charter Township of Shelby

Notes to Financial Statements December 31, 2010

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

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	\$ 2,956,638
	Fire Special Revenue Fund	10,325
	Police Special Revenue Fund	57,424
	Total General Fund	3,024,387
Fire Fund	Nonmajor governmental funds	891,642
Police Fund	Nonmajor governmental funds	1,178,523
Nonmajor governmental funds	Water and Sewer Fund	601,200
	Nonmajor governmental Funds	239,060
	General Fund	29,064
	Total nonmajor governmental funds	869,324
Water and Sewer Fund	Nonmajor governmental funds	10,000
	Total	\$ 5,973,876

Note 6 - Receivables and 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:

	Governmental Funds	
	Unavailable	Unearned
State-shared revenues	\$ 738,840	\$ -
Property taxes	-	28,377,600
Other	221,275	-
Total	\$ 960,115	\$ 28,377,600

Charter Township of Shelby

Notes to Financial Statements December 31, 2010

Note 6 - Receivables and Deferred Revenue (Continued)

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

Note 7 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. Installment purchase agreements are also general obligations of the government. 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, 2010, the Township has \$100,226 set aside in the Water and Sewer Fund for repayment of these bonds. In addition, \$256,989 of special assessments is receivable in the future; the amount of receivables delinquent at December 31, 2010 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 revenue of the water and sewer system. The remaining principal and interest to be paid on the bonds total \$12,643,953. During the current year, net revenue of the system was \$3,482,019 compared to the annual debt requirements of \$1,172,790.

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 \$100,226. During the current year, special assessment collections were \$100,760 compared to the annual debt requirements of \$230,490.

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.

Charter Township of Shelby

Notes to Financial Statements December 31, 2010

Note 7 - Long-term Debt (Continued)

Business-type Activities:

General Obligations:

2010 OMID Series 2010B	
Amount of issue - \$319,195	
Maturing through - 2030	
Interest rate range - 1.15% - 5.90%	
Principal maturity range - \$9,000 - \$24,000	\$ 319,195
2010 OMDI Series SRF	
Amount of issue - \$379,643	
Maturing through 2031	
Interest rate - 2.50%	
Principal maturity range - \$48,000 - \$78,000	379,643
2010 MID Series 2010A	
Amount of issue - \$7,721,197	
Maturing through - 2035	
Interest rate range - 1.25% - 5.38%	
Principal maturity range - \$240,000 - \$455,000	7,721,198
2010 N. Gratiot Drainage Assessment	
Amount of issue - \$73,021	
Maturing through 2035	
Interest rate range - 1.00% - 6.35%	
Principal maturity range - \$1,500 - \$4,200	73,021
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	128,150
2008 N. Gratiot Drainage Assessment	
Amount of issue - \$750,485	
Maturing through 2033	
Principal maturity range - \$17,224 - \$42,182	750,485
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 - \$775,000 - \$810,000	5,605,120
2006 B.A. Refunding Bonds:	
Amount of issue - \$3,730,000	
Maturing through 2024	
Interest rate range - 4.00% - 5.50%	
Principal maturity ranges - \$165,000 - \$300,000	3,310,000
2010 MID Series 2010A	
Amount of issue - \$4,861,225	
Maturing through - 2035	
Interest rate range - 1.25% - 5.38%	
Principal maturity range - \$151,000 - \$285,000	4,861,225
Subtotal	23,148,037

Charter Township of Shelby

Notes to Financial Statements December 31, 2010

Note 7 - Long-term Debt (Continued)

Special Assessment Bonds:

2001 Special Assessment Bonds:

Amount of issue - \$2,095,000

Maturing through 2011

Interest rate - 5.50%

Principal maturity - \$95,000

\$ 95,000

Revenue Bonds:

1999 Revenue Bonds:

Amount of issue - \$4,555,000

Maturing through 2013

Interest rate range - 4.30% - 4.40%

Principal maturity range - \$420,000 - \$460,000

1,320,000

2002 Revenue Bonds:

Amount of issue - \$2,500,000

Maturing through 2022

Interest rate range - 3.75% - 4.80%

Principal maturity range - \$100,000 - \$250,000

2,025,000

2003 Refunding Bonds:

Amount of issue - \$8,000,000

Maturing through 2022

Interest rate range - 3.25% - 4.20%

Principal maturity range - \$300,000 - \$700,000

6,600,000

Subtotal

9,945,000

Total business-type activity debt

\$ 33,188,037

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Compensated absences	\$ 858,543	\$ -	\$ 6,545	\$ 851,998	\$ 104,850
Business-type Activities					
General obligations	\$ 14,767,868	\$ 9,360,749	\$ 980,580	\$ 23,148,037	\$ 1,008,607
Special assessment bonds	310,000	-	215,000	95,000	95,000
Revenue bonds	10,695,000	-	750,000	9,945,000	820,000
Total bonds payable	25,772,868	9,360,749	1,945,580	33,188,037	1,923,607
Compensated absences	93,663	-	7,354	86,309	4,463
Total business-type activities	\$ 25,866,531	\$ 9,360,749	\$ 1,952,934	\$ 33,274,346	\$ 1,928,070

Charter Township of Shelby

Notes to Financial Statements December 31, 2010

Note 7 - Long-term Debt (Continued)

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

Years Ending December 31	Business-type Activities		
	Principal	Interest	Total
2011	\$ 1,923,607	\$ 1,291,326	\$ 3,214,933
2012	2,392,307	1,306,727	3,699,034
2013	2,402,873	1,231,294	3,634,167
2014	2,127,976	1,163,713	3,291,689
2015	2,169,930	1,096,063	3,265,993
2016-2020	9,443,320	4,181,896	13,625,216
2021-2025	5,861,143	2,412,002	8,273,145
2026-2030	3,261,290	1,375,036	4,636,326
2031-2035	3,605,591	490,070	4,095,661
Total	<u>\$ 33,188,037</u>	<u>\$ 14,548,127</u>	<u>\$ 47,736,164</u>

During the year, the Macomb Interceptor Drainage District (MID) issued county bonds in the amount of \$95,955,000, of which \$12,582,423 is the Township's share. The MID Series 2010A bond proceeds were used to acquire the MID Interceptor system and to assume amounts owed related to the Garfield Interceptor. Additional county bonds were issued in the amount of \$16,965,000 to improve and repair the North Gratiot Interceptor. Shelby Township's share of the debt totals \$823,506. These bonds were issued as Federally Taxable Recovery Zone Economic Development Bonds and are eligible to recover tax credit payments from the United States Treasury equal to 45 percent (for the North Gratiot bond) and 35 percent (for the MID Bond) of the interest payable on the bonds. The Township's total tax credit for both bonds over the next 20 years will be \$2,007,579.

Also during the year, the Oakland-Macomb Interceptor Drainage District (OMID) issued county bonds in the amount of \$6.7 million, of which \$319,195 is the Township's share. The OMID Series 2010B bond proceeds are being used to improve and repair the OMID Interceptor. The OMID was also approved for approximately \$42 million of loans, of which approximately \$16 million of the debt will be forgiven and \$26 million are loans from the Michigan State Revolving Fund (SRF) (OMID Series 2010A). The Township's portion of the forgiven debt has been recognized as contributed capital in the amount of \$760,000. As of year end, the Township's portion of the draws from the SRF was \$380,000.

Charter Township of Shelby

Notes to Financial Statements December 31, 2010

Note 7 - Long-term Debt (Continued)

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, 2010, \$8,985,000 of bonds outstanding is considered defeased.

Note 8 - Restricted Assets

Restricted assets at December 31, 2010 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 related to bond ordinances at December 31, 2010:

	<u>Business-type Activities</u>
Revenue bond requirements:	
Operations and maintenance	\$ 1,367,041
Bond reserve	994,500
Debt service:	
Principal	409,998
Interest	32,755
Current liabilities payable from restricted assets	<u>(409,998)</u>
Net assets restricted for revenue bond ordinances	<u>\$ 2,394,296</u>

In addition, the Township has \$326,481 of restricted assets related to unspent bond proceeds which are held by Macomb and Oakland counties in connection with the OMID and North Gratiot interceptor projects described in Note 7.

Note 9 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for all claims except for medical benefits. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. Effective February 1, 2010, the Township has an administrative services contract with Blue Cross Blue Shield of Michigan to provide third-party administration of employee and retiree healthcare claims with stop-loss coverage above certain limits.

Charter Township of Shelby

Notes to Financial Statements December 31, 2010

Note 9 - Risk Management (Continued)

The Township estimates the liability for health claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past fiscal year were as follows:

	Medical Claims	
	2010	2009
Incurred claims, including claims incurred but not reported	\$ 3,732,567	\$ -
Claim payments	<u>(3,096,527)</u>	<u>-</u>
Unpaid claims - End of year	<u>\$ 636,040</u>	<u>\$ -</u>

Note 10 - Designations

Fund balances have been designated for the following purposes:

	General Fund	Fire Fund	Police Fund	Nonmajor	Nonmajor
		Revenue Fund	Major Special Revenue Fund	Special Revenue Funds	Capital Projects Funds
Capital improvements	\$ 4,082,841	\$ 8,980,560	\$ 2,059,469	\$ 50,000	\$ 3,682,967
Van Dyke Road widening project	1,244,000	-	-	-	-
Police Building Construction	-	-	3,227,100	-	-
Retiree benefits	<u>-</u>	<u>2,000,000</u>	<u>2,000,000</u>	<u>-</u>	<u>-</u>
Total designated	<u>\$ 5,326,841</u>	<u>\$ 10,980,560</u>	<u>\$ 7,286,569</u>	<u>\$ 50,000</u>	<u>\$ 3,682,967</u>

Note 11 - 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, 137 retirees are eligible.

Charter Township of Shelby

Notes to Financial Statements December 31, 2010

Note 11 - Other Postemployment Benefits (Continued)

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, 2010.

Funding Progress - For the year ended December 31, 2010, 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	\$ 7,552,905
Interest on the prior year's net OPEB obligation	414,594
Less adjustment to the annual required contribution	<u>(161,775)</u>
Annual OPEB cost	7,805,724
Amounts contributed - Payments of current premiums	<u>(1,595,651)</u>
Increase in net OPEB obligation	6,210,073
OPEB obligation - Beginning of year	<u>9,213,206</u>
OPEB obligation - End of year	<u>\$ 15,423,279</u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the current and two preceding years were as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed	Net OPEB Obligation
12/31/10	1/1/09	\$ 7,552,905	21.1	\$ 15,428,154
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.

Charter Township of Shelby

Notes to Financial Statements December 31, 2010

Note 11 - Other Postemployment Benefits (Continued)

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
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

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 January 1, 2009 was 30 years.

Charter Township of Shelby

Notes to Financial Statements December 31, 2010

Note 12 - 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.

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

Annual required contribution	\$ 4,611,275
Interest on net pension obligation	(34,027)
Adjustment to annual required contribution	<u>23,116</u>
Annual pension cost (APC)	4,600,364
Contributions made	<u>(4,612,070)</u>
Decrease in net pension obligation	(11,706)
Net pension obligation - Beginning of year	<u>(425,338)</u>
Net pension obligation - End of year	<u>\$ (437,044)</u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2010

Note 12 - Defined Benefit Pension Plan (Continued)

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	\$ 425,338	\$ 349,828	\$ 60,875

Funding Status and Funding Progress - As of December 31, 2009, the most recent actuarial valuation date, the plan was 62.3 percent funded. The actuarial accrued liability for benefits was \$79,494,112, and the actuarial value of assets was \$48,968,765, resulting in an unfunded actuarial accrued liability of \$30,525,347. The covered payroll (annual payroll to active employees covered by the plan) was \$10,939,120, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 279 percent.

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

Actuarial Methods and Assumptions - For the year ended December 31, 2010, the Township's contribution exceeded the annual pension cost of \$4,600,364 for the plan by \$11,706. The annual required contribution was determined as part of an actuarial valuation at December 31, 2008, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 4.25 to 9.5 percent per year, (c) additional projected salary increases of 0 to 3 percent per year, attributable to seniority/merit, and (d) no postretirement benefit increases. Both (a) and (b) include an inflation component of 4.25 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 11 years.

Charter Township of Shelby

Notes to Financial Statements December 31, 2010

Note 12 - Defined Benefit Pension Plan (Continued)

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, 2010	\$ 5,904,348	\$ (5,707,757)	\$ 43,857,354
Additions	590,191	4,612,070	5,383
Earnings on investments	111,498	2,344,872	3,482,958
Transfers	(323,783)	(1,468,202)	1,791,985
Deductions	-	(293,081)	(4,224,738)
Balance - December 31, 2010	<u>\$ 6,282,254</u>	<u>\$ (512,098)</u>	<u>\$ 44,912,942</u>

Note 13 - 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 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, police chief, and court employees are fully vested after 20 months of continuous service.

During the year ended December 31, 2010, the Township made contributions of \$791,847 and the plan members contributed \$442,867 to the plan.

Charter Township of Shelby

Notes to Financial Statements December 31, 2010

Note 14 - 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 2010, the Township recognized \$125,000 in revenue related to this lease.

Future annual minimum lease payments are as follows:

	Percent of Gross Revenue	Minimum Rent
2011-2015	4	\$ 125,000
2016	4	145,000
2017	4	165,000
2018	4	185,000
2019	4	205,000
2020-2024	4	225,000
2025-2034	5	250,000
2035-2044	7	300,000

Note 15 - Upcoming Accounting Pronouncements

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.

Required Supplemental Information

Charter Township of Shelby

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2010

	Original Budget	Amended Budget	Actual
Revenue			
Property taxes	\$ 4,056,295	\$ 4,031,749	\$ 4,035,807
Licenses and permits	435,600	560,825	641,471
State-shared revenue and grants	4,501,279	4,700,681	4,868,675
Charges for services	2,470,482	2,505,388	2,413,963
Fines and forfeitures	2,623,800	2,554,345	2,507,608
Investment income	250,000	200,000	167,843
Other revenue:			
Local donations	5,810	15,656	20,164
Other miscellaneous income	278,310	233,223	179,039
Total revenue	<u>14,621,576</u>	<u>14,801,867</u>	<u>14,834,570</u>
Expenditures			
Current:			
General government	7,322,722	7,331,925	6,807,304
Public works	311,500	333,500	326,711
Recreation and culture	3,447,447	3,306,167	3,098,989
Capital outlay	996,100	1,424,100	1,211,111
Total expenditures	<u>12,077,769</u>	<u>12,395,692</u>	<u>11,444,115</u>
Excess of Revenue Over Expenditures	2,543,807	2,406,175	3,390,455
Other Financing Sources (Uses)			
Transfers in	3,661	33,000	29,064
Transfers out	<u>(2,873,415)</u>	<u>(3,049,978)</u>	<u>(3,024,387)</u>
Total other financing uses	<u>(2,869,754)</u>	<u>(3,016,978)</u>	<u>(2,995,323)</u>
Net Change in Fund Balance	(325,947)	(610,803)	395,132
Fund Balance - Beginning of year	<u>8,660,669</u>	<u>8,660,669</u>	<u>8,660,669</u>
Fund Balance - End of year	<u>\$ 8,334,722</u>	<u>\$ 8,049,866</u>	<u>\$ 9,055,801</u>

Charter Township of Shelby

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Fire Fund Year Ended December 31, 2010

	Original Budget	Amended Budget	Actual
Revenue			
Property taxes	\$ 12,816,283	\$ 12,752,244	\$ 12,759,475
Federal grants	507,982	507,982	114,290
Charges for services	1,268,400	621,149	1,804,926
Investment income	125,000	40,000	41,313
Other miscellaneous income	5,500	22,531	63,888
Total revenue	<u>14,723,165</u>	<u>13,943,906</u>	<u>14,783,892</u>
Expenditures			
Current - Public safety	12,105,404	12,481,648	12,259,331
Capital outlay	1,145,036	2,189,551	1,848,575
Total expenditures	<u>13,250,440</u>	<u>14,671,199</u>	<u>14,107,906</u>
Excess of Revenue Over (Under) Expenditures	1,472,725	(727,293)	675,986
Other Financing Sources (Uses)			
Transfers in	-	10,325	10,325
Transfers out	(650,300)	(663,400)	(891,642)
Total other financing uses	<u>(650,300)</u>	<u>(653,075)</u>	<u>(881,317)</u>
Net Change in Fund Balance	822,425	(1,380,368)	(205,331)
Fund Balance - Beginning of year	<u>14,596,902</u>	<u>14,596,902</u>	<u>14,596,902</u>
Fund Balance - End of year	<u><u>\$ 15,419,327</u></u>	<u><u>\$ 13,216,534</u></u>	<u><u>\$ 14,391,571</u></u>

Charter Township of Shelby

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Police Fund Year Ended December 31, 2010

	Original Budget	Amended Budget	Actual
Revenue			
Property taxes	\$ 15,026,673	\$ 14,931,279	\$ 14,960,373
Federal grants	-	507,982	109,126
State-shared revenue and grants	55,400	55,400	54,985
Charges for services	572,400	621,149	548,758
Investment income	125,000	45,000	38,561
Other revenue	80,500	80,500	106,181
Total revenue	<u>15,859,973</u>	<u>16,241,310</u>	<u>15,817,984</u>
Expenditures			
Current - Public safety	14,691,006	15,210,018	14,516,439
Capital outlay	<u>293,480</u>	<u>317,443</u>	<u>190,999</u>
Total expenditures	<u>14,984,486</u>	<u>15,527,461</u>	<u>14,707,438</u>
Excess of Revenue Over Expenditures	875,487	713,849	1,110,546
Other Financing Sources (Uses)			
Transfers in	45,000	30,546	57,424
Transfers out	<u>(867,100)</u>	<u>(1,121,220)</u>	<u>(1,178,523)</u>
Total other financing uses	<u>(822,100)</u>	<u>(1,090,674)</u>	<u>(1,121,099)</u>
Net Change in Fund Balance	53,387	(376,825)	(10,553)
Fund Balance - Beginning of year	<u>11,290,209</u>	<u>11,290,209</u>	<u>11,290,209</u>
Fund Balance - End of year	<u><u>\$ 11,343,596</u></u>	<u><u>\$ 10,913,384</u></u>	<u><u>\$ 11,279,656</u></u>

Charter Township of Shelby

Required Supplemental Information Police and Fire Pension System Schedule of Funding Progress Year Ended December 31, 2010

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
12/31/05	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
12/31/10	12/31/08	4,611,275	100.2

*

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2010, the latest actuarial valuation, follows:

Amortization method	Level percent of payroll
Amortization period (perpetual)	11 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	4.5% - 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, 2010

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	Community Block Grant
Assets							
Cash and cash equivalents	\$ 161,179	\$ 166,305	\$ 14,984	\$ -	\$ 1,461,138	\$ 20,606	\$ -
Receivables:							
Other receivables	-	-	-	-	275,419	-	-
Due from other governmental units	-	33,478	-	-	-	-	8,000
Due from other funds	-	-	-	-	-	-	-
Prepaid expenses and other assets	-	-	-	-	6,739	-	-
Total assets	\$ 161,179	\$ 199,783	\$ 14,984	\$ -	\$ 1,743,296	\$ 20,606	\$ 8,000
Liabilities and Fund Balances							
Liabilities							
Vouchers payable	\$ 13,383	\$ 22,153	\$ -	\$ -	\$ 5,070	\$ 975	\$ 8,000
Accrued and other liabilities	-	-	-	-	11,315	-	-
Deferred revenue	-	33,478	-	-	-	-	-
Total liabilities	13,383	55,631	-	-	16,385	975	8,000
Fund Balances							
Reserved for:							
Prepaid expenses	-	-	-	-	6,739	-	-
Public safety expenditures	-	-	-	-	-	-	-
Unreserved, reported in:							
Special Revenue Funds:							
Designated	-	-	-	-	50,000	-	-
Undesignated	147,796	144,152	14,984	-	1,670,172	19,631	-
Capital Projects Funds -							
Designated	-	-	-	-	-	-	-
Total fund balances	147,796	144,152	14,984	-	1,726,911	19,631	-
Total liabilities and fund balances	\$ 161,179	\$ 199,783	\$ 14,984	\$ -	\$ 1,743,296	\$ 20,606	\$ 8,000

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2010**

Nonmajor Special Revenue Funds			Nonmajor Capital Projects Funds		Total Nonmajor Governmental Funds
Federal Forfeiture	Drug Forfeiture	Postemployment Benefits	Public Improvement	Equipment Replacement	
\$ 18,956	\$ 419,388	\$ 11,550,971	\$ 2,708,293	\$ 9,003,232	\$ 25,525,052
-	-	-	180,000	-	455,419
-	-	-	325,884	-	367,362
-	-	-	10,000	-	10,000
-	-	-	11,579	6,450	24,768
\$ 18,956	\$ 419,388	\$ 11,550,971	\$ 3,235,756	\$ 9,009,682	\$ 26,382,601
\$ -	\$ -	\$ -	\$ 341,975	\$ 4,169	\$ 395,725
-	-	-	-	-	11,315
-	-	-	1,489	-	34,967
-	-	-	343,464	4,169	442,007
-	-	-	11,579	6,450	24,768
-	-	-	1,458,500	6,738,309	8,196,809
-	-	-	-	-	50,000
18,956	419,388	11,550,971	-	-	13,986,050
-	-	-	1,422,213	2,260,754	3,682,967
18,956	419,388	11,550,971	2,892,292	9,005,513	25,940,594
\$ 18,956	\$ 419,388	\$ 11,550,971	\$ 3,235,756	\$ 9,009,682	\$ 26,382,601

Charter Township of Shelby

	Nonmajor Special Revenue Funds						
	Emergency		Building	41st District	Cable	Michigan	Community
	Response	Street Lighting	Authority	Court	Television	Justice Training Grant	Block Grant
Revenue							
Federal grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,222
State-shared revenue and grants	102,042	-	-	-	-	13,532	-
Charges for services	-	241,743	-	-	33,862	-	-
Fines and forfeitures	-	-	-	-	-	-	-
Investment income	48	651	-	-	1,407	-	-
Other revenue	-	7	-	-	1,063,332	-	-
Total revenue	102,090	242,401	-	-	1,098,601	13,532	15,222
Expenditures							
Current:							
General government	-	-	-	-	-	-	5,000
District court	-	-	-	2,347,456	-	-	-
Public safety	133,096	-	-	-	-	14,961	-
Public works	-	302,137	-	-	-	-	3,222
Recreation and culture	-	-	-	-	682,243	-	7,000
Capital outlay	-	-	-	2,273	48,479	-	-
Total expenditures	133,096	302,137	-	2,349,729	730,722	14,961	15,222
Excess of Revenue (Under) Over Expenditures	(31,006)	(59,736)	-	(2,349,729)	367,879	(1,429)	-
Other Financing Sources (Uses)							
Transfers in	-	-	-	2,437,614	-	-	-
Transfers out	-	-	-	(87,885)	(49,012)	-	-
Total other financing sources (uses)	-	-	-	2,349,729	(49,012)	-	-
Net Change in Fund Balances	(31,006)	(59,736)	-	-	318,867	(1,429)	-
Fund Balances - Beginning of year	178,802	203,888	14,984	-	1,408,044	21,060	-
Fund Balances - End of year	<u>\$ 147,796</u>	<u>\$ 144,152</u>	<u>\$ 14,984</u>	<u>\$ -</u>	<u>\$ 1,726,911</u>	<u>\$ 19,631</u>	<u>\$ -</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes in
Fund Balances
Nonmajor Governmental Funds
Year Ended December 31, 2010

Nonmajor Special Revenue Funds			Nonmajor Capital Projects Funds		Total Nonmajor Governmental Funds
Federal Forfeiture	Drug Forfeiture	Postemployment Benefits	Public Improvement	Equipment Replacement	
\$ -	\$ -	\$ -	\$ 362,901	\$ -	\$ 378,123
-	-	-	-	2,000	117,574
-	-	-	-	-	275,605
672	109,828	-	-	-	110,500
26	3,055	-	-	-	5,187
-	-	-	-	9,041	1,072,380
698	112,883	-	362,901	11,041	1,959,369
-	-	-	-	-	5,000
-	-	-	-	-	2,347,456
-	13,461	-	-	-	161,518
-	-	-	364,494	-	669,853
-	-	-	-	-	689,243
-	45,000	-	185,648	209,703	491,103
-	58,461	-	550,142	209,703	4,364,173
698	54,422	-	(187,241)	(198,662)	(2,404,804)
-	-	1,683,393	229,776	925,080	5,275,863
-	-	(601,200)	(119,575)	(11,652)	(869,324)
-	-	1,082,193	110,201	913,428	4,406,539
698	54,422	1,082,193	(77,040)	714,766	2,001,735
18,258	364,966	10,468,778	2,969,332	8,290,747	23,938,859
\$ 18,956	\$ 419,388	\$ 11,550,971	\$ 2,892,292	\$ 9,005,513	\$ 25,940,594

Charter Township of Shelby

Other Supplemental Information Statement of Assets and Liabilities Fiduciary Funds December 31, 2010

	Agency Funds						Total Agency Funds
	Trust and Agency	Treasurer's Agency	Current Tax Collection	41st District Court	Accounts Payable Imprest	Payroll Imprest	
Assets							
Cash and cash equivalents	\$ 748,719	\$ 2,360	\$ 6,202,090	\$ -	\$ -	\$ -	\$ 6,953,169
Receivables:							
Due from other governmental units	-	-	-	-	-	4,203	4,203
Due from primary government	-	-	-	540,024	-	-	540,024
Prepaid expenses and other assets	-	-	-	7,256	-	9,098	16,354
Total assets	\$ 748,719	\$ 2,360	\$ 6,202,090	\$ 547,280	\$ -	\$ 13,301	\$ 7,513,750
Liabilities							
Accounts payable	\$ 2,712	\$ -	\$ 9,794	\$ 108,293	\$ -	\$ 4,887	\$ 125,686
Due to primary government	-	-	-	198,217	-	8,414	206,631
Refundable deposits, bonds, etc.	730,861	-	-	194,727	-	-	925,588
Accrued and other liabilities	-	2,360	-	46,043	-	-	48,403
Deferred revenue	15,146	-	6,192,296	-	-	-	6,207,442
Total liabilities	\$ 748,719	\$ 2,360	\$ 6,202,090	\$ 547,280	\$ -	\$ 13,301	\$ 7,513,750