

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

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**Financial Report  
with Supplemental Information  
December 31, 2012**

# Charter Township of Shelby

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# Charter Township of Shelby

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## Independent Auditor's Report

To the Board of Trustees  
Charter Township of Shelby

### **Report on the Financial Statements**

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, 2012 and the related notes to the financial statements, which collectively comprise the Charter Township of Shelby's basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Shelby as of December 31, 2012 and the respective changes in its financial position and, where applicable, cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees  
Charter Township of Shelby

### **Other Matters**

#### *Required Supplemental Information*

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

#### *Other Information*

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

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2013 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, grant agreements, and other matters. 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 an opinion 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* in considering the Charter Township of Shelby's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

May 31, 2013

# 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 position 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 position (in millions of dollars) as of December 31, 2012 to the prior year:

TABLE I

	Governmental Activities				Business-type Activities				Total			
	2012	2011	\$ Diff	% Diff	2012	2011	\$ Diff	% Diff	2012	2011	\$ Diff	% Diff
<b>Assets</b>												
Other assets	\$ 75.9	\$ 81.3	\$ (5.4)	-6.6%	\$ 47.2	\$ 47.7	\$ (0.5)	-1.0%	\$ 123.1	\$ 129.0	\$ (5.9)	-4.6%
Restricted assets	-	-	-		2.7	6.8	(4.1)	-60.3%	2.7	6.8	(4.1)	-60.3%
Capital assets	51.3	48.0	3.3	6.9%	117.6	118.7	(1.1)	-0.9%	168.9	166.7	2.2	1.3%
Total assets	127.2	129.3	(2.1)	-1.6%	167.5	173.2	(5.7)	-3.3%	294.7	302.5	(7.8)	-2.6%
<b>Liabilities</b>												
Current liabilities	29.1	30.3	(1.2)	-4.0%	6.3	7.2	(0.9)	-12.5%	35.4	37.5	(2.1)	-5.6%
Long-term liabilities	8.2	6.0	2.2	36.7%	24.8	34.5	(9.7)	-28.1%	33.0	40.5	(7.5)	-18.5%
Total liabilities	37.3	36.3	1.0	2.8%	31.1	41.7	(10.6)	-25.4%	68.4	78.0	(9.6)	-12.3%
<b>Net Position</b>												
Net investment in capital assets	51.3	47.9	3.4	7.1%	95.2	87.1	8.1	9.3%	146.5	135.0	11.5	8.5%
Restricted	27.6	32.7	(5.1)	-15.6%	0.8	3.5	(2.7)	-77.1%	28.4	36.2	(7.8)	-21.5%
Unrestricted	11.0	12.4	(1.4)	-11.3%	40.4	40.9	(0.5)	-1.2%	51.4	53.3	(1.9)	-3.6%
Total net position	\$ 89.9	\$ 93.0	\$ (3.1)	-3.3%	\$ 136.4	\$ 131.5	\$ 4.9	3.7%	\$ 226.3	\$ 224.5	\$ 1.8	0.8%

The Township's combined net position increased by \$1.8 million from a year ago, increasing from \$224.5 million to \$226.3 million. A review of the governmental activities, separate from the business-type activities, shows a decrease of approximately \$3.1 million in net position, or 3.3 percent, during 2012.

Despite a decrease in total net position, the Township's investment in capital assets increased in 2012. 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 Mile and 26 Mile roads. Major renovations began on Hayes and Auburn Roads. The Township's police department moved into its new location on the Township campus in May 2012. Starting in late November, renovations began on the lower level of the township hall including expanded counter space and a customer waiting area for assessing, renovation, and relocation of office space for finance, renovation of office space for the IT department, design of a large meeting room equipped with a smart board and data drops, and a workout area for police training.

The sewer extension along the southern corridor of Van Dyke Avenue servicing businesses from 21 Mile to 22 Mile road began in 2012, and was put into service in early 2013. This is a special assessment district initially financed by our Water and Sewer Fund and paid back by businesses and residents in the improvement zone.

# Charter Township of Shelby

## Management's Discussion and Analysis (Continued)

Restoration began on Chief Gene Shepherd Park in 2012 and will offer sports fields, walking and biking paths, and picnic shelters. eSuite for employees, vendors, and Township residents' use is installed. The Township's financial system has been expanded to include business analytics and personnel actions to enhance report writing and eliminate redundancies in workflow.

The net position of the business-type activities increased 3.7 percent to \$136.4 million. The increase of \$4.9 million was derived from \$2.4 million of net income from the Shelby Manor Fund and \$2.5 million from the Water and Sewer Fund. Shelby Manor suffered a fire in late 2012 to one of the three apartment buildings. This resulted in a gain from insurance proceeds (see Note 4 for further information).

The following table shows the changes in net position (in millions of dollars) as of December 31, 2012 and the prior year:

TABLE 2

	Governmental Activities				Business-type Activities				Total			
	2012	2011	\$ Diff	% Diff	2012	2011	\$ Diff	% Diff	2012	2011	\$ Diff	% Diff
<b>Revenue</b>												
Program revenue:												
Charges for services	\$ 8.7	\$ 8.6	\$ 0.1	1.2%	\$ 24.6	\$ 21.6	\$ 3.0	13.9%	\$ 33.3	\$ 30.2	\$ 3.1	10.3%
Operating grants and contributions	0.9	1.0	(0.1)	-10.0%	-	-	-	0.0%	0.9	1.0	(0.1)	-10.0%
Capital grants and contributions	0.3	0.1	0.2	200.0%	3.1	0.8	2.3	287.5%	3.4	0.9	2.5	277.8%
General revenue:												
Property taxes	26.5	28.6	(2.1)	-7.3%	-	-	-	0.0%	26.5	28.6	(2.1)	-7.3%
State-shared revenue	5.4	5.5	(0.1)	-1.8%	-	-	-	0.0%	5.4	5.5	(0.1)	-1.8%
Interest	0.1	0.2	(0.1)	-50.0%	0.1	0.1	-	0.0%	0.2	0.3	(0.1)	-33.3%
Other	2.5	2.1	0.4	19.0%	-	-	-	0.0%	2.5	2.1	0.4	19.0%
Extraordinary Item	-	-	-	0.0%	1.9	-	1.9	100.0%	1.9	-	1.9	0.0%
Total revenue	44.4	46.1	(1.7)	-3.7%	29.7	22.5	7.2	32.0%	74.1	68.6	5.5	8.0%
<b>Program Expenses</b>												
General government	8.7	8.3	0.4	4.8%	-	-	-	0.0%	8.7	8.3	0.4	4.8%
Public safety	29.6	29.9	(0.3)	-1.0%	-	-	-	0.0%	29.6	29.9	(0.3)	-1.0%
Public works	1.5	1.6	(0.1)	-6.3%	-	-	-	0.0%	1.5	1.6	(0.1)	-6.3%
41st District Court	2.5	1.9	0.6	31.6%	-	-	-	0.0%	2.5	1.9	0.6	31.6%
Recreation and culture	5.2	4.6	0.6	13.0%	-	-	-	0.0%	5.2	4.6	0.6	13.0%
Interest on long-term debt	-	-	-	0.0%	-	-	-	0.0%	-	-	-	0.0%
Shelby Manor senior housing	-	-	-	0.0%	1.4	1.2	0.2	16.7%	1.4	1.2	0.2	16.7%
Water and sewer	-	-	-	0.0%	23.4	21.2	2.2	10.4%	23.4	21.2	2.2	10.4%
Total program expenses	47.5	46.3	1.2	2.6%	24.8	22.4	2.4	10.7%	72.3	68.7	3.6	5.2%
Transfers	-	-	-	0.0%	-	-	-	0.0%	-	-	-	0.0%
<b>Change in Net Position</b>	(3.1)	(0.2)	(2.9)	1450.0%	4.9	0.1	4.8	4800.0%	1.8	(0.1)	1.9	-1900.0%
<b>Net Position - Beginning of year</b>	93.0	93.2	(0.2)	-0.2%	131.5	131.4	0.1	0.1%	224.5	224.6	(0.1)	0.0%
<b>Net Position - End of year</b>	<b>\$ 89.9</b>	<b>\$ 93.0</b>	<b>\$ (3.1)</b>	-3.3%	<b>\$ 136.4</b>	<b>\$ 131.5</b>	<b>\$ 4.9</b>	3.7%	<b>\$ 226.3</b>	<b>\$ 224.5</b>	<b>\$ 1.8</b>	0.8%

### Governmental Activities

The Township's total governmental revenue decreased by approximately \$1.7 million, or 3.7 percent, from last year. The decline in property tax is the driving factor in decreasing revenue. State-shared revenue declined slightly. Interest income remains weak. The Township continues to experience an increase in building permit revenues due to several large new commercial projects. Depressed prices may be enticing some home buyers and developers back into the market.

# Charter Township of Shelby

## Management's Discussion and Analysis (Continued)

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 revenue, 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 the years under appeal. Our assessing department maintains an inventory of properties under appeal and the Township continues to monitor the original estimates as cases are adjudicated, added, or withdrawn.

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 interfund administrative service charges of \$1,179,648 for 2012.

Total governmental expenses increased approximately \$1.2 million, or 2.6 percent, over last year. General government expenses increased \$.4 million, or approximately 4.8 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 offset these realized decreases. The continued emphasis on local road improvement and cost-sharing arrangements with the Macomb County Department of Roads for major thoroughfare improvements resulted in a sizable increase in capital outlay for general government.

Because of the successful cost-savings measures developed by a third-party operational review of our fire department, parks, recreation and maintenance department, Department of Public Works, and police department, cost savings and efficiencies in staffing, equipment replacement, and technology were implemented over the last several years. The success of those studies and their implementation can be seen in the reduction in operating costs in these large departments.

Over the past several years, the Township negotiated new collective bargaining agreements covering the majority of the Township's union employees. The new agreements incorporated 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 2012 costs.

# Charter Township of Shelby

## Management's Discussion and Analysis (Continued)

The balance of the U.S. Department of Energy Grant was used in 2012 for energy efficient renovations in the vacated police department area in the township hall. The Township continues to obtain grants for recreation and public safety. The Riverbends Park Bike Path will be connected to the Macomb Orchard Trail and the city of Utica using grant funding. A large part of the equipment for the new police building was funded by federal grants awarded in 2010. The Township received a federal grant for a large drainage repair and improvement project in Section 30 of our southwest quadrant that was completed in 2012.

Public safety expenditures decreased by 1 percent, or approximately \$300,000. Most of the decrease can be attributed to reductions in health care and other benefit costs and extending equipment years of service. 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.

Recreation and culture experienced a 13 percent increase in costs with the library, parks and recreation, and cable television being the largest departments in this category.

The Township (through long-range planning) is able to participate in cost-sharing agreements with the Macomb County Department of Roads. The last phase of the Van Dyke Avenue widening project between 25 Mile and 26 Mile roads (a combined Township and County project supported in part by federal funding) was started. Hayes Road widening is a joint project with Macomb Township and Macomb County. Auburn Road in our southwest corridor was in major need of repair. The Township board annually reviews the list of essential internal road repairs presented by the Township engineer and allocates resources based on safety issues and greatest good.

The Township board adopted Public Act 149 in 2011 to establish a Postemployment Health Care Trust Fund in accordance with GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, implemented in 2008. In 2012, the recognition of the annual required contribution calculated by the actuary for retiree health care resulted in additional expense reported at the government-wide level of \$4,822,220 in governmental activities and \$314,614 in business-type activities. The OPEB year-end obligation increased by \$1.4 million.

### 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 25,880 accounts. The Township also provides sewer service to 14,598 accounts. The sewage service is primarily provided by the DWSD. The Water and Sewer Fund also receives charges from the Oakland and Macomb Interceptor District (OMID) and the Macomb County Interceptor Drain District (MIDD) for its share of the operations and maintenance costs of major facilities in which the Water and Sewer Fund has a beneficial interest. The Macomb County Waste Water Disposal District (MCWWDD) acts as an intermediary for the DWSD, OMID, and MIDD.

# **Charter Township of Shelby**

## **Management's Discussion and Analysis (Continued)**

The Township's business-type activities' revenue increased by 32 percent to \$29.7 million. The Shelby Manor Fund's revenue increased by \$2 million from 2011 to 2012, due primarily to an extraordinary net gain on insurance proceeds of \$1.9 million. Building B suffered a fire in late November. The restoration is covered by insurance and most residents should be returning to their units in spring of 2013. The Water and Sewer Funds total revenue increased by \$5.2 million, or 25 percent. Charges for sales and services increased by \$2.8 million, primarily due to an increase in water and sewer rates and increase in the number of units sold. Capital grants and contributions increased by \$2.3 million due almost exclusively to the special assessments for the sewer extension along the southern corridor of Van Dyke Avenue serving the businesses from 21 Mile to 22 Mile roads.

Total expenses for the business-type activities increased by \$2.4 million, or 10.7 percent. Shelby Manor Fund expenses increased by \$.2 million, or 16.7 percent, primarily due to the roof renovation project. The Water and Sewer Fund's operating expenses increased by \$2.2 million. Purchased water and sewer processing costs increased by \$1.7 million due to both increases in rates and an increase in units purchased. Non-labor supply and maintenance costs increased by \$.5 million due to the initiation of a multiyear sewer main repair and relining project.

On April 3, 2012, the board approved the redemption of the callable outstanding Water Supply and Sewage Disposal System Revenue Bonds, Series 1999, 2002, and 2003. As a result, in addition to the regularly scheduled principal payments of \$965,000, the Water and Sewer Fund retired all the remaining \$8,160,000 of outstanding Series 1999, 2002, and 2003 bonds on June 25, 2012 (see Note 7 for additional information).

### **The Township's Funds**

The presentation of the Township's major funds begins on page 14, 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 2012 include the General Fund, Police Fund, Fire Fund, Water and Sewer Fund, and Shelby Manor Fund. Per GASB No. 54, as of 2011, the District Court and Cable Television Funds, formerly special revenue funds, were incorporated into the General Fund.

### **General Fund 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 2012 and acceleration of multiyear capital projects. The General Fund, including cable TV and District Court, experienced a 2.9 percent decrease in revenue from 2011. The most significant influence on revenue during 2012 was the decrease in property tax revenue of approximately 7.6 percent. The decline in property tax revenue was offset by a 26.8 percent increase in building permits due to several large commercial projects and a small recovery in new housing starts. Interest income declined 25.1 percent from 2011.

# **Charter Township of Shelby**

## **Management's Discussion and Analysis (Continued)**

The Township participated in the governor's Economic Vitality Incentive Program (EVIP) by complying with the reporting and filing requirements for accountability and transparency, consolidation of services, and employee compensation. This compliance generated additional state-shared revenue of \$38,350 in 2012 and an anticipated \$36,000 in 2013.

The General Fund ended the year with a favorable revenue budget variance of \$476,890.

The General Fund expenditure budget showed a favorable budget variance of \$117,997 and a decrease over 2011 actual expenditures of 6.4 percent. The cost savings resulting from reduced labor cost from contract negotiations, reduction in personnel through attrition, and reduction in healthcare costs were offset by increases in capital outlay for road improvements and transfers to capital project funds for future public works projects. For 2012, the Michigan tax tribunal estimate for anticipated property tax refunds for General, Fire, Police, and the Downtown Development Authority resulted in increased expense of \$652,577.

When comparing the original 2012 General Fund revenue budget with the amended 2012 General Fund revenue budget, the original budget increased by approximately \$600,000. Increases were required in state-shared revenue and building permit fees. Reductions were required in interest income. 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 increase was seen in capital outlay. The increase in capital outlay is due to major and interior road improvement projects. The Township board's commitment to road improvement is seen in the level of investment in highways, streets, and bridges. Most major street improvement costs are offset by cost-sharing projects with the County.

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

At the end of 2012, the Township's governmental and business activities combined had approximately \$249 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 such as 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 \$19.4 million and \$18.8 million for 2012 and 2011, respectively. The Enterprise Funds' infrastructure for 2012 and 2011 (including construction in progress), net of depreciation, is \$105.1 million and \$104.8 million, respectively (see Note 4 for additional information). Additionally, the value of buildings and improvements for the governmental activities, net of depreciation, is \$14.1 million and \$10.1 million for 2012 and 2011, respectively. The Enterprise Funds' buildings and improvements, net of depreciation, are \$10.8 million for 2012 and \$12 million for 2011.

# Charter Township of Shelby

## Management's Discussion and Analysis (Continued)

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 position (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 2013 that applied in 2012 (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 22.7 percent of the General Fund's amended revenue budget for 2013. The slowdown in growth and development in the Township, along with a decline in real estate market values, have decreased the ad valorem taxable value by approximately \$120 million, or 4.4 percent, between the 2011 and 2012 assessment years. However, based on recent increases in residential development and a recovery in the residential real estate market, the Township's ad valorem taxable value increased by approximately \$600,000, or 2.4 percent, between the 2012 and 2013 assessment years. State-shared revenue represents approximately 37.8 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.

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 3.87 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 revenue 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 maintaining revenue in excess of or equal to expenditures.

# **Charter Township of Shelby**

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## **Management's Discussion and Analysis (Continued)**

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 Position December 31, 2012

	Primary Government			Component Unit - DDA
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 59,655,108	\$ 35,752,333	\$ 95,407,441	\$ 319,560
Receivables:				
Property taxes receivable	13,937,052	-	13,937,052	-
Customers	-	6,768,558	6,768,558	-
Accrued interest receivable - Special assessments	-	3,524	3,524	-
Other receivables	843,120	2,459,729	3,302,849	-
Due from other governmental units	1,189,614	7,921	1,197,535	-
Special assessments receivable	-	2,139,796	2,139,796	-
Allowance for doubtful accounts	(485,231)	-	(485,231)	-
Internal balances	175,971	(175,971)	-	-
Inventories	-	191,968	191,968	-
Prepaid costs and other assets	174,716	53,729	228,445	-
Restricted assets (Note 8)	-	2,673,933	2,673,933	-
Net pension asset (Note 12)	427,272	-	427,272	-
Capital assets:				
Assets not subject to depreciation (Note 4)	11,882,935	3,607,556	15,490,491	-
Assets subject to depreciation - Net (Note 4)	39,369,105	114,047,028	153,416,133	-
Total assets	127,169,662	167,530,104	294,699,766	319,560
<b>Liabilities</b>				
Accounts payable	1,510,668	2,929,571	4,440,239	-
Due to other governmental units	475	-	475	-
Accrued and other liabilities	1,222,860	1,767,775	2,990,635	-
Unearned revenue (Note 6)	25,454,413	-	25,454,413	-
Due to fiduciary fund	2,268	91,610	93,878	-
Noncurrent liabilities (Note 7):				
Due within one year:				
Compensated absences	110,569	9,822	120,391	-
Provision for property tax refund	788,660	-	788,660	4,045
Current portion of long-term debt	-	1,491,878	1,491,878	-
Due in more than one year:				
Compensated absences	738,472	99,851	838,323	-
Provision for claims (Note 10)	1,000,000	-	1,000,000	-
Unearned revenue (Note 6)	-	1,090,885	1,090,885	-
Other postemployment benefit obligations (Note 11)	6,483,217	812,709	7,295,926	-
Long-term debt - Net of current portion	-	22,826,730	22,826,730	-
Total liabilities	37,311,602	31,120,831	68,432,433	4,045
<b>Net Position</b>				
Net investment in capital assets	51,252,040	95,172,634	146,424,674	-
Restricted for:				
Police and fire	27,101,285	-	27,101,285	-
Community development	14,984	-	14,984	-
Street lighting	14,475	-	14,475	-
Grants	11,673	-	11,673	-
Forfeitures	283,547	-	283,547	-
Emergency response	212,817	-	212,817	-
Assets held at County	-	837,275	837,275	-
Unrestricted	10,967,239	40,399,364	51,366,603	315,515
Total net position	\$ 89,858,060	\$ 136,409,273	\$ 226,267,333	\$ 315,515

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

# Charter Township of Shelby

	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 8,734,985	\$ 2,853,164	\$ 395,305	\$ -
41A District Court	2,511,447	2,198,665	45,724	-
Public safety	29,595,156	2,692,698	220,667	277,650
Public works	1,565,761	269,337	71,528	-
Recreation and culture	5,179,201	676,591	193,140	-
Total governmental activities	47,586,550	8,690,455	926,364	277,650
Business-type activities:				
Water and sewer	23,364,012	22,710,718	-	3,150,468
Shelby Manor senior housing	1,434,476	1,923,139	-	-
Total	24,798,488	24,633,857	-	3,150,468
Total primary government	<b>\$ 72,385,038</b>	<b>\$ 33,324,312</b>	<b>\$ 926,364</b>	<b>\$ 3,428,118</b>
Component unit - Downtown Development Authority	<b>\$ 6,496</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
General revenue:				
Property taxes				
State-shared revenue				
Investment income				
Cable franchise fees				
Other miscellaneous income				
Gain on sale of fixed assets				
Total general revenue				
<b>Extraordinary Items (Note 4)</b>				
<b>Transfers</b>				
<b>Change in Net Position</b>				
<b>Net Position - Beginning of year</b>				
<b>Net Position - End of year</b>				

## Statement of Activities Year Ended December 31, 2012

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit - Downtown Development Authority
Governmental Activities	Business-type Activities	Total	
\$ (5,486,516)	\$ -	\$ (5,486,516)	\$ -
(267,058)	-	(267,058)	-
(26,404,141)	-	(26,404,141)	-
(1,224,896)	-	(1,224,896)	-
(4,309,470)	-	(4,309,470)	-
(37,692,081)	-	(37,692,081)	-
-	2,497,174	2,497,174	-
-	488,663	488,663	-
-	2,985,837	2,985,837	-
(37,692,081)	2,985,837	(34,706,244)	-
-	-	-	(6,496)
26,490,046	-	26,490,046	59,949
5,420,282	-	5,420,282	-
131,840	56,226	188,066	532
1,201,026	-	1,201,026	-
1,286,620	-	1,286,620	-
6,025	-	6,025	-
34,535,839	56,226	34,592,065	60,481
-	1,906,031	1,906,031	-
8,000	(8,000)	-	-
(3,148,242)	4,940,094	1,791,852	53,985
93,006,302	131,469,179	224,475,481	261,530
<b>\$ 89,858,060</b>	<b>\$ 136,409,273</b>	<b>\$ 226,267,333</b>	<b>\$ 315,515</b>

# Charter Township of Shelby

## Governmental Funds Balance Sheet December 31, 2012

	General Fund	Fire Fund	Police Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 12,620,166	\$ 19,946,978	\$ 15,575,012	\$ 11,512,952	\$ 59,655,108
Receivables:					
Taxes	1,750,256	5,653,097	6,533,699	-	13,937,052
Other receivables	394,454	367,833	61,948	18,885	843,120
Due from other governmental units	1,149,802	-	-	39,812	1,189,614
Allowance for doubtful accounts	(35,500)	(250,758)	(198,973)	-	(485,231)
Due from other funds (Note 5)	-	-	-	176,815	176,815
Prepaid expenses and other assets	85,796	29,774	44,146	15,000	174,716
<b>Total assets</b>	<b>\$ 15,964,974</b>	<b>\$ 25,746,924</b>	<b>\$ 22,015,832</b>	<b>\$ 11,763,464</b>	<b>\$ 75,491,194</b>
<b>Liabilities</b>					
Accounts payable	\$ 778,325	\$ 123,227	\$ 225,453	\$ 383,663	\$ 1,510,668
Due to other governmental units	-	-	-	475	475
Due to other funds (Note 5)	206	638	-	-	844
Accrued and other liabilities	355,051	424,685	392,126	-	1,171,862
Deferred revenue (Note 6)	4,196,450	10,326,517	11,995,326	52,697	26,570,990
Due to fiduciary fund	-	-	-	2,268	2,268
Provision for property tax refunds	100,068	316,951	371,641	-	788,660
<b>Total liabilities</b>	<b>5,430,100</b>	<b>11,192,018</b>	<b>12,984,546</b>	<b>439,103</b>	<b>30,045,767</b>
<b>Fund Balances</b>					
Nonspendable - Prepays	85,796	29,774	44,146	15,000	174,716
Restricted:					
Police and fire	-	14,525,132	8,987,140	4,011,457	27,523,729
Grants	-	-	-	11,673	11,673
Street lighting	-	-	-	14,475	14,475
Community development	-	-	-	14,984	14,984
Assigned:					
Subsequent year's budget	598,000	-	-	-	598,000
Public improvements	-	-	-	4,123,766	4,123,766
Equipment replacement	-	-	-	3,133,006	3,133,006
Unassigned	9,851,078	-	-	-	9,851,078
<b>Total fund balances</b>	<b>10,534,874</b>	<b>14,554,906</b>	<b>9,031,286</b>	<b>11,324,361</b>	<b>45,445,427</b>
<b>Total liabilities and fund balances</b>	<b>\$ 15,964,974</b>	<b>\$ 25,746,924</b>	<b>\$ 22,015,832</b>	<b>\$ 11,763,464</b>	<b>\$ 75,491,194</b>

# Charter Township of Shelby

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## Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position December 31, 2012

<b>Fund Balance Reported in Governmental Funds</b>	\$ 45,445,427
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	51,252,040
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	1,116,577
Other liabilities that do not present a claim on current financial resources are not reported as fund liabilities	(50,998)
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	(849,041)
Net pension assets are not current financial resources and are not reported in the funds	427,272
Other long-term liabilities, such as claims and judgments, do not present a claim on current financial resources and are not reported as fund liabilities	(1,000,000)
Long-term liabilities, such as net OPEB obligations, are not due and payable in the current period and are not reported in the funds	<u>(6,483,217)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 89,858,060</u></b>

# Charter Township of Shelby

## Governmental Funds

### Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2012

	General Fund	Fire Fund	Police Fund	Nonmajor Governmental Funds	Total
<b>Revenue</b>					
Property taxes	\$ 3,363,270	\$ 10,649,099	\$ 12,477,677	\$ -	\$ 26,490,046
Licenses and permits	1,151,148	-	-	-	1,151,148
Federal grants	-	54,143	320,792	618,297	993,232
State-shared revenue and grants	5,705,468	-	279,761	123,673	6,108,902
Charges for services:					
Charges to other funds	1,179,648	-	-	-	1,179,648
Charges for services to external parties	1,131,870	2,059,458	552,461	269,337	4,013,126
Fines and forfeitures	2,279,417	-	-	80,779	2,360,196
Investment income	88,596	22,794	17,891	2,559	131,840
Cable franchise fees	1,201,026	-	-	-	1,201,026
Other revenue	394,927	138,808	173,488	51,315	758,538
<b>Total revenue</b>	<b>16,495,370</b>	<b>12,924,302</b>	<b>13,822,070</b>	<b>1,145,960</b>	<b>44,387,702</b>
<b>Expenditures</b>					
Current:					
General government	6,821,455	-	-	180,540	7,001,995
District court	2,341,395	-	-	-	2,341,395
Public safety	-	12,667,631	15,015,487	267,967	27,951,085
Public works	445,879	-	-	381,545	827,424
Recreation and culture	3,562,615	-	-	11,271	3,573,886
Capital outlay	1,831,159	1,176,668	493,294	3,520,674	7,021,795
<b>Total expenditures</b>	<b>15,002,503</b>	<b>13,844,299</b>	<b>15,508,781</b>	<b>4,361,997</b>	<b>48,717,580</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>1,492,867</b>	<b>(919,997)</b>	<b>(1,686,711)</b>	<b>(3,216,037)</b>	<b>(4,329,878)</b>
<b>Other Financing Sources (Uses)</b>					
Proceeds from sale of capital assets	-	-	-	6,025	6,025
Transfers in (Note 5)	30,547	-	23,422	1,537,833	1,591,802
Transfers out (Note 5)	(1,338,255)	-	-	(245,547)	(1,583,802)
<b>Total other financing (uses) sources</b>	<b>(1,307,708)</b>	<b>-</b>	<b>23,422</b>	<b>1,298,311</b>	<b>14,025</b>
<b>Net Change in Fund Balances</b>	<b>185,159</b>	<b>(919,997)</b>	<b>(1,663,289)</b>	<b>(1,917,726)</b>	<b>(4,315,853)</b>
<b>Fund Balances - Beginning of year</b>	<b>10,349,715</b>	<b>15,474,903</b>	<b>10,694,575</b>	<b>13,242,087</b>	<b>49,761,280</b>
<b>Fund Balances - End of year</b>	<b>\$ 10,534,874</b>	<b>\$ 14,554,906</b>	<b>\$ 9,031,286</b>	<b>\$ 11,324,361</b>	<b>\$ 45,445,427</b>

# 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, 2012**

**Net Change in Fund Balances - Total Governmental Funds** \$ (4,315,853)

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	5,736,130
Depreciation expense	(2,382,398)
Net book value of assets disposed of	(19,347)

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	36,581
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Other long-term liabilities, such as claims and judgments, do not present a claim on current financial resources and are not reported as fund liabilities	(921,241)
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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	14,608
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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	(20,428)
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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	<u>(1,276,294)</u>
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**Change in Net Position of Governmental Activities** \$ (3,148,242)

# Charter Township of Shelby

## Proprietary Funds Statement of Net Position December 31, 2012

	Enterprise Funds		
	Enterprise Major	Enterprise Fund -	Total
	Fund - Water and Sewer	Shelby Manor	
<b>Assets</b>			
Current assets:			
Cash and investments (Note 3)	\$ 34,995,878	\$ 756,455	\$ 35,752,333
Receivables:			
Special assessments receivable	226,610	-	226,610
Customers	6,768,558	-	6,768,558
Accrued interest receivable	3,524	-	3,524
Other receivables	29,729	2,430,000	2,459,729
Due from other governmental units	7,921	-	7,921
Due from other funds (Note 5)	844	-	844
Inventory	191,968	-	191,968
Prepaid expenses and other assets	50,421	3,308	53,729
Total current assets	42,275,453	3,189,763	45,465,216
Noncurrent assets:			
Restricted assets (Note 8)	2,673,933	-	2,673,933
Special assessment receivables	1,913,186	-	1,913,186
Capital assets:			
Assets not subject to depreciation (Note 4)	2,167,463	1,440,093	3,607,556
Assets subject to depreciation - Net (Note 4)	106,498,174	7,548,854	114,047,028
Total noncurrent assets	113,252,756	8,988,947	122,241,703
Total assets	155,528,209	12,178,710	167,706,919
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	2,872,868	56,703	2,929,571
Due to other funds (Note 5)	-	176,815	176,815
Accrued liabilities and other	1,618,126	149,649	1,767,775
Due to fiduciary fund	91,610	-	91,610
Compensated absences (Note 7)	9,822	-	9,822
Current portion of long-term debt (Note 7)	716,298	775,580	1,491,878
Total current liabilities	5,308,724	1,158,747	6,467,471
Noncurrent liabilities:			
Compensated absences (Note 7)	99,851	-	99,851
Unearned revenue (Note 6)	1,090,885	-	1,090,885
Other postemployment benefit obligations (Note 11)	812,709	-	812,709
Long-term debt - Net of current portion (Note 7)	19,598,350	3,228,380	22,826,730
Total noncurrent liabilities	21,601,795	3,228,380	24,830,175
Total liabilities	26,910,519	4,387,127	31,297,646
<b>Net Position</b>			
Net investment in capital assets	90,187,647	4,984,987	95,172,634
Restricted - Assets held at County	837,275	-	837,275
Unrestricted	37,592,768	2,806,596	40,399,364
Total net position	<b>\$ 128,617,690</b>	<b>\$ 7,791,583</b>	<b>\$ 136,409,273</b>

# Charter Township of Shelby

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended December 31, 2012

	Enterprise Funds		
	Enterprise Major Fund - Water and Sewer	Enterprise Fund - Shelby Manor	Total
<b>Operating Revenue</b>			
Sale of water	\$ 13,781,014	\$ -	\$ 13,781,014
Sewage disposal charges	6,830,374	-	6,830,374
Other sales to customers	2,062,882	-	2,062,882
Other miscellaneous income	36,448	42,837	79,285
Rental income	-	1,880,302	1,880,302
Total operating revenue	<u>22,710,718</u>	<u>1,923,139</u>	<u>24,633,857</u>
<b>Operating Expenses</b>			
Cost of water	10,991,303	-	10,991,303
Cost of sewage treatment	4,156,477	-	4,156,477
Other operation and maintenance	3,639,257	1,026,759	4,666,016
Billing and administrative costs	283,738	-	283,738
Depreciation	3,464,029	246,447	3,710,476
Total operating expenses	<u>22,534,804</u>	<u>1,273,206</u>	<u>23,808,010</u>
<b>Operating Income</b>	175,914	649,933	825,847
<b>Nonoperating Revenue (Expenses)</b>			
Investment income	55,619	607	56,226
Interest expense	(829,208)	(161,270)	(990,478)
Total nonoperating expenses	<u>(773,589)</u>	<u>(160,663)</u>	<u>(934,252)</u>
<b>(Loss) Income</b> - Before contributions, transfers, and extraordinary item	(597,675)	489,270	(108,405)
<b>Capital Contributions</b> - Other capital contributions	3,150,468	-	3,150,468
<b>Transfers Out</b> (Note 5)	(8,000)	-	(8,000)
<b>Extraordinary Items</b> (Note 4)	-	1,906,031	1,906,031
<b>Change in Net Position</b>	2,544,793	2,395,301	4,940,094
<b>Net Position</b> - Beginning of year	<u>126,072,897</u>	<u>5,396,282</u>	<u>131,469,179</u>
<b>Net Position</b> - End of year	<u>\$ 128,617,690</u>	<u>\$ 7,791,583</u>	<u>\$ 136,409,273</u>

# Charter Township of Shelby

## Proprietary Funds Statement of Cash Flows Year Ended December 31, 2012

	Business-type Activities		
	Enterprise Major Fund - Water and Sewer	Enterprise Fund - Shelby Manor	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 22,543,389	\$ 2,298,818	\$ 24,842,207
Payments to suppliers	(16,465,196)	(1,053,998)	(17,519,194)
Payments to employees	(2,617,231)	-	(2,617,231)
Internal activity - Payments from other funds	-	176,815	176,815
Other receipts	36,448	42,837	79,285
Net cash provided by operating activities	3,497,410	1,464,472	4,961,882
<b>Cash Flows from Noncapital Financing Activities - Transfers to other funds</b>	(8,000)	-	(8,000)
<b>Cash Flows from Capital and Related Financing Activities</b>			
Special assessment collections	(1,958,474)	-	(1,958,474)
Purchase of capital assets	(1,887,860)	(120,093)	(2,007,953)
Principal and interest paid on capital debt	(10,685,767)	(951,850)	(11,637,617)
Collection of capital charges and front foot assessments	3,102,827	-	3,102,827
Net cash used in capital and related financing activities	(11,429,274)	(1,071,943)	(12,501,217)
<b>Cash Flows from Investing Activities</b>			
Interest received on investments	55,619	607	56,226
Net sales of investment securities	10,043,978	-	10,043,978
Net cash provided by investing activities	10,099,597	607	10,100,204
<b>Net Increase in Cash and Cash Equivalents</b>	2,159,733	393,136	2,552,869
<b>Cash and Cash Equivalents - Beginning of year</b>	16,155,476	363,319	16,518,795
<b>Cash and Cash Equivalents - End of year</b>	<b>\$18,315,209</b>	<b>\$ 756,455</b>	<b>\$19,071,664</b>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>			
Cash and investments	\$ 34,995,878	\$ 756,455	\$ 35,752,333
Less amounts classified as investments	(16,680,669)	-	(16,680,669)
Total cash and cash equivalents	<b>\$18,315,209</b>	<b>\$ 756,455</b>	<b>\$19,071,664</b>

# Charter Township of Shelby

## Proprietary Funds Statement of Cash Flows (Continued) Year Ended December 31, 2012

	Business-type Activities		
	Enterprise		
	Major Fund - Water and Sewer	Enterprise Fund - Shelby Manor	Total
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>			
Operating income	\$ 175,914	\$ 649,933	\$ 825,847
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation and amortization	3,464,029	246,447	3,710,476
Changes in assets and liabilities:			
Receivables	(133,227)	418,516	285,289
Prepaid and other assets	78,086	(359)	77,727
Accounts payable	646,458	6,209	652,667
Due to other funds	31,982	176,815	208,797
Accrued and other liabilities	(589,156)	(33,089)	(622,245)
Unearned revenue	(176,676)	-	(176,676)
Net cash provided by operating activities	<u>\$ 3,497,410</u>	<u>\$ 1,464,472</u>	<u>\$ 4,961,882</u>

**Noncash Transactions** - During the year ended December 31, 2012, the Township recorded approximately \$41,000 of capital assets and related debt representing the Township's portion of the Oakland Macomb Interceptor Drainage District project. An additional \$15,000 of assets were constructed by the counties using bond proceeds recorded as debt in a previous year, \$47,000 was constructed using grant proceeds received by the district, and approximately \$160,000 was recorded as a current liability by the Township at December 31, 2012 as it was paid in full subsequent to year end (see Note 7).

# Charter Township of Shelby

## Fiduciary Funds Statement of Fiduciary Net Position December 31, 2012

	Pension and Other Employee Benefit Trust Funds	Agency Funds
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$ 17,268,865	\$ 6,233,070
Investments (Note 3):		
Common stock	24,470,986	-
Limited partnership	1,600,000	-
Short-term funds	921,020	-
Collective index and mutual funds	30,388,586	-
Receivables:		
Accrued interest receivable	5,261	-
Other receivables	-	10,000
Due from other governmental units	-	7,286
Due from primary government	91,610	2,268
Prepaid expenses and other assets	371,903	5,532
Total assets	75,118,231	\$ 6,258,156
<b>Liabilities</b>		
Accounts payable	13,837	\$ 136,000
Deposits	-	1,164,221
Accrued and other liabilities	-	316,430
Advance tax collections	-	4,641,505
Total liabilities	13,837	\$ 6,258,156
<b>Net Position Held in Trust for Pension and Other Employee Benefits</b>	<b>\$ 75,104,394</b>	

# Charter Township of Shelby

## Fiduciary Funds Statement of Changes in Fiduciary Net Position Year Ended December 31, 2012

	Pension and Other Employee Benefit Trust Funds
<b>Additions</b>	
Investment income:	
Interest and dividends	\$ 572,401
Net realized and unrealized gain on investments	5,818,867
Investment-related expenses	<u>(262,918)</u>
Net investment income	6,128,350
Contributions:	
Employer	8,283,576
Employee	<u>568,089</u>
Total contributions	<u>8,851,665</u>
Total additions	14,980,015
<b>Deductions</b>	
Benefit payments	6,193,791
Administrative expenses	<u>58,072</u>
Total deductions	<u>6,251,863</u>
<b>Net Increase in Net Position Held in Trust</b>	8,728,152
<b>Net Position Held in Trust for Pension and Other Employee Benefits -     Beginning of year</b>	<u>66,376,242</u>
<b>Net Position Held in Trust for Pension and Other Employee Benefits -     End of year</b>	<u><u>\$ 75,104,394</u></u>

# Charter Township of Shelby

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## Notes to Financial Statements December 31, 2012

### 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 were 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 were 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

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## Notes to Financial Statements December 31, 2012

### **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 position 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 revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to customers or applicants 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 accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit 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.

### **Note I - 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: state-shared revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred 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, and is financed primarily with a dedicated property tax millage.
- The Police Special Revenue Fund accounts for all the activities of the Township's police department, except for the purchase of equipment, and is financed primarily with a dedicated property tax millage.

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:

**Pension and Other Employee Benefit Trust Funds** - The pension and other employee benefits trust funds account for the activities of employee benefit plans, which accumulate resources for pension and other postemployment benefit payments to qualified employees.

### **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.

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

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When an expense is incurred for purposes for which both restricted and unrestricted net assets or fund balance are available, the Township's policy is to first apply unrestricted resources, except in the General Fund, where restricted resources are applied first. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the Township's policy to spend funds in this order:

- General Fund - Committed, assigned, unassigned
- All other funds - Unassigned, assigned, committed

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer 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 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.

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2012

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

#### 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.

The 2011 taxable valuation of the Township totaled approximately \$2,839,000,000, 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 \$3,340,000 for general operations, \$10,945,000 for police protection, \$9,230,000 for fire operations, and \$2,886,000 for police and fire pension. These amounts are recorded in their respective funds as tax revenue.

#### Assets, Liabilities, and Net Position 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, 2012. 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 trade and property tax receivables are shown at gross amounts with an allowance for uncollectible amounts shown separately when applicable.

**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 items in both government-wide and fund financial statements.

**Restricted Assets** - Restricted assets of the enterprise funds include the Township's share of unspent bond proceeds held by Oakland County and Macomb County and amounts paid in advance by the Township to Oakland County for drain projects.

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2012

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

**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.

Infrastructure, intangibles, 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 and Sick Leave)** - It is the Township's policy to permit 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 position. 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.

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

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

**Fund Equity** - In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the board for use for specific purposes. Commitments are made and can be rescinded only via resolution of the board of directors.
- **Assigned:** Intent to spend resources on specific purposes expressed by the Director of Finance who is authorized by board resolution to assign fund balance
- **Unassigned:** Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

**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.

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2012

### 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:

Shortfall at January 1, 2012			\$ (3,165,453)
Current year permit revenue			1,144,593
Related expenses:			
Direct costs	\$	993,289	
Estimated indirect costs		39,000	1,032,289
		<u>          </u>	<u>          </u>
Current year surplus			112,304
Cumulative shortfall at December 31, 2012			<u>\$ (3,053,149)</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 and OPEB Trust Funds are 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 14 banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments allowed by state statutory authority as listed above. The Township's deposits and investment policies are in accordance with statutory authority.

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2012

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

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

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$40,912,849 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy restricts investment maturities to less than one year unless the maturity is matched to a specific cash flow according to the policy. Commercial paper is restricted to purchases with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Non-2a7 like bank investment pool	\$ 6,917,890	241 days
Agency bonds	12,487,436	149 days
Commercial paper	5,458,621	55 days
U.S. Treasury securities	12,225,712	188 days
Fixed Income Collective Index Fund (Pension Trust)	20,113	Less than 1 year
Fixed Income Collective Index Fund (Pension Trust)	11,303,720	1-5 years
Fixed Income Collective Index Fund (Pension Trust)	8,789,547	5-10 years

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2012

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

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

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Bank investment pool	\$ 1,377,951	AAA	Moody's
Bank investment pool	3,075,310	Aaa	Moody's
Bank investment pool	41,996,802	Not rated	
Commercial paper	5,458,621	AI	S&P
Agency bonds	10,982,436	AAA	S&P
Agency bonds	1,505,000	Aaa	S&P
Short-term investment fund (Pension Trust)	921,020	AI	S&P
Fixed Income Collective Index Fund (Pension Trust)	20,113,381	AAI	S&P
Equity Collective Index Fund (Pension Trust)	10,275,205	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, 2012, there were no investments in a single issuer in excess of 50 percent of the Township's total portfolio. 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, 2012

### Note 4 - Capital Assets

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

	Balance January 1, 2012	Transfers	Additions	Disposals	Balance December 31, 2012
<b>Governmental Activities</b>					
Capital assets not being depreciated:					
Land	\$ 11,128,458	\$ -	\$ 333,370	\$ -	\$ 11,461,828
Construction in progress	3,104,729	(3,065,308)	381,686	-	421,107
Subtotal	14,233,187	(3,065,308)	715,056	-	11,882,935
Capital assets being depreciated:					
Infrastructure	26,246,334	-	1,756,699	-	28,003,033
Buildings and improvements	18,091,096	3,065,308	1,237,663	-	22,394,067
Machinery and equipment	7,158,149	-	379,665	-	7,537,814
Vehicles	5,657,825	-	1,647,047	(181,753)	7,123,119
Library books	2,000,000	-	-	-	2,000,000
Subtotal	59,153,404	3,065,308	5,021,074	(181,753)	67,058,033
Accumulated depreciation:					
Infrastructure	7,428,182	-	1,170,687	-	8,598,869
Buildings and improvements	7,958,261	-	335,281	-	8,293,542
Machinery and equipment	4,888,484	-	440,177	-	5,328,661
Vehicles	4,194,009	-	436,253	(162,406)	4,467,856
Library books	1,000,000	-	-	-	1,000,000
Subtotal	25,468,936	-	2,382,398	(162,406)	27,688,928
Net capital assets being depreciated	33,684,468	3,065,308	2,638,676	(19,347)	39,369,105
Net capital assets	\$ 47,917,655	\$ -	\$ 3,353,732	\$ (19,347)	\$ 51,252,040

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2012

### Note 4 - Capital Assets (Continued)

	Balance January 1, 2012	Transfers	Additions	Disposals	Balance December 31, 2012
<b>Business-type Activities</b>					
Capital assets not being depreciated:					
Land	\$ 1,525,441	\$ -	\$ -	\$ -	\$ 1,525,441
Construction in progress	2,958,054	(4,279,118)	3,427,864	(24,685)	2,082,115
Subtotal	4,483,495	(4,279,118)	3,427,864	(24,685)	3,607,556
Capital assets being depreciated:					
Buildings and improvements	17,407,723	-	-	(873,969)	16,533,754
Vehicles	606,301	-	-	-	606,301
Furniture and fixtures	1,008,106	-	7,068	-	1,015,174
Water systems	39,128,168	145,279	128,872	-	39,402,319
Sewer systems	104,974,417	4,133,839	18,036	-	109,126,292
Subtotal	163,124,715	4,279,118	153,976	(873,969)	166,683,840
Accumulated depreciation:					
Buildings and improvements	5,452,010	-	328,504	-	5,780,514
Vehicles	600,575	-	-	-	600,575
Furniture and fixtures	670,477	-	51,214	-	721,691
Water systems	14,566,633	-	982,055	-	15,548,688
Sewer systems	27,636,641	-	2,348,703	-	29,985,344
Subtotal	48,926,336	-	3,710,476	-	52,636,812
Net capital assets being depreciated	114,198,379	4,279,118	(3,556,500)	(873,969)	114,047,028
Net capital assets	<u>\$ 118,681,874</u>	<u>\$ -</u>	<u>\$ (128,636)</u>	<u>\$ (898,654)</u>	<u>\$ 117,654,584</u>

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

#### Governmental activities:

General government	\$ 524,236
Public safety	808,256
Public works	738,337
Recreation and culture	300,908
41A District Court	10,661
Total governmental activities	<u>\$ 2,382,398</u>

#### Business-type activities:

Water and sewer	\$ 3,464,029
Shelby Manor	246,447
Total business-type activities	<u>\$ 3,710,476</u>

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2012

### Note 4 - Capital Assets (Continued)

The extraordinary item reported in the business-type activities and Shelby Manor enterprise fund include an impairment loss of \$873,969 due to a fire that occurred during the year, significantly damaging a building. This loss is reported net of estimated insurance recoveries totaling \$2,780,000.

### Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Water and Sewer Fund	General Fund	\$ 206
	Fire Fund	638
	Total Water and Sewer Fund	844
Nonmajor governmental funds	Shelby Manor Fund	176,815
	Total	<u>\$ 177,659</u>

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

Transfers provided funding for capital projects, capital acquisitions, 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	\$ 1,314,833
	Police Special Revenue Fund	23,422
	Total General Fund	1,338,255
Nonmajor governmental funds	Nonmajor governmental funds	215,000
	General Fund	30,547
	Total nonmajor governmental funds	245,547
Water and Sewer Fund	Nonmajor governmental funds	8,000
	Total	<u>\$ 1,591,802</u>

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2012

### 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 revenue	\$ 936,317	\$ -
Property taxes	-	25,454,413
Other	180,260	-
Total	<u>\$ 1,116,577</u>	<u>\$ 25,454,413</u>

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

### Note 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.

#### Business-type Activities

##### General obligations:

2010 Clintondale Pump Station Debt:	
Amount of issue - \$2,849,191	
Maturing through 2031	
Interest rate - 5.00%	
Principal maturity range - \$65,000 - \$230,000	\$ 2,784,437
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	299,424
2010 OMID Series 2010A (SRF):	
Amount of issue - \$1,160,353	
Maturing through 2031	
Interest rate - 2.50%	
Principal maturity range - \$48,000 - \$78,000	1,153,286
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	7,480,162

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2012

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

#### Business-type Activities (Continued)

General obligations (Continued):

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

\$ 69,384

2009 State Revolving Fund (SRF) Clean Water:

General Obligation Bond - Project 5343-01:

Amount of issue - \$128,150

Maturing through 2029

Interest rate - 2.50%

Principal maturity range - \$5,000 - \$10,000

118,150

2008 N. Gratiot Drainage Assessment:

Amount of issue - \$750,485

Maturing through 2033

Principal maturity range - \$17,224 - \$42,182

715,334

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

4,003,960

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

2,985,000

2010 MID Series 2010A (Garfield Interceptor):

Amount of issue - \$4,861,225

Maturing through 2035

Interest rate range - 1.25% - 5.38%

Principal maturity range - \$151,000 - \$285,000

4,709,471

Total business-type activity debt

\$ 24,318,608

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Compensated absences	\$ 863,649	\$ -	\$ 14,608	\$ 849,041	\$ 110,569
Provision for claims	-	1,110,000	-	1,110,000	-
Total governmental activities	\$ 863,649	\$ 1,110,000	\$ 14,608	\$ 1,959,041	\$ 110,569
<b>Business-type Activities</b>					
General obligations	\$ 25,769,331	\$ 41,336	\$ 1,492,059	\$ 24,318,608	\$ 1,491,878
Revenue bonds	9,125,000	-	9,125,000	-	-
Total bonds payable	34,894,331	41,336	10,617,059	24,318,608	1,491,878
Compensated absences	98,058	11,615	-	109,673	9,822
Total business-type activities	\$ 34,992,389	\$ 52,951	\$ 10,617,059	\$ 24,428,281	\$ 1,501,700

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2012

### 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
2013	\$ 1,491,878	\$ 734,581	\$ 2,226,459
2014	1,581,608	809,128	2,390,736
2015	1,603,186	774,839	2,378,025
2016	1,660,964	709,781	2,370,745
2017	1,661,776	637,825	2,299,601
2018-2022	4,843,322	2,540,395	7,383,717
2023-2027	4,738,456	1,594,145	6,332,601
2028-2032	4,535,567	712,309	5,247,876
2033-2035	2,201,851	95,565	2,297,416
Total	<u>\$ 24,318,608</u>	<u>\$ 8,608,568</u>	<u>\$ 32,927,176</u>

The Macomb Interceptor Drainage District (MID) is a construction and rehabilitation project that began in 2010 and is projected to continue through 2014. The MID issued county bonds that were used to acquire the MID Interceptor system and to assume amounts owed related to the Garfield Interceptor. Additional county bonds were issued to improve and repair the North Gratiot Interceptor and Clintondale Pump Station. 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 Oakland-Macomb Interceptor Drainage District (OMID) is also a construction and rehabilitation project that began in 2010 and is projected to continue through 2014.

The total original amount of bonds issued, the Township's share, and expected tax credit payments, where applicable, are as follows:

#### Macomb Interceptor Drainage District (MID)

	County Portion	Township Portion	Tax Credit
MID Series 2010A	\$ 95,955,000	\$ 12,582,423	\$ 1,899,080
North Gratiot Interceptor 2010	16,965,000	73,021	26,000
North Gratiot Interceptor 2008	22,340,000	750,487	-
Clintondale Pump Station 2011	30,800,000	2,849,191	-

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2012

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

#### Oakland-Macomb Interceptor Drainage District (OMID)

	County Portion	Township Portion
2010A (SRF)	\$ 25,181,792	\$ 1,199,686
2010B	6,700,000	319,195

The OMID 2010A project is funded through the Michigan State Revolving Loan Fund Program (SRF), with total anticipated loans of \$26 million after \$16 million of debt forgiveness which was recorded in 2010. The amount disclosed represents principal and interest for the current expenditures incurred as of December 31, 2012. The principal and interest schedule will be finalized upon completion of the project.

**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, 2012, \$7,150,000 of bonds outstanding is considered defeased.

**Subsequent Event** - Subsequent to year end, the Township board authorized the advanced payment in full of the Township's portion of the OMID Segment 3 costs totaling \$3,254,000. The payment is anticipated to take place by June 25, 2013.

### Note 8 - Restricted Assets

The Township has \$1,836,658 of restricted assets at December 31, 2012 related to unspent bond proceeds which are held by Macomb and Oakland counties in connection with the OMID, North Gratiot, and Clintondale Pump Station Interceptor projects described in Note 7. The remaining \$837,275 of restricted assets relates to a prepayment made to the counties for the Township's portion of OMID Segment 2.

### 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, 2012

### 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	
	2012	2011
Unpaid claims - Beginning of year	\$ 633,445	\$ 636,040
Incurred claims, including claims incurred but not reported	3,794,744	3,263,163
Claim payments	<u>(3,694,653)</u>	<u>(3,265,758)</u>
Unpaid claims - End of year	<u>\$ 733,536</u>	<u>\$ 633,445</u>

### Note 10 - Contingent Liabilities

Through the course of operations, the Township is the defendant in multiple litigation matters that were ongoing at year end. One of the suits, involving breach of contract, was ruled against the Township subsequent to year end. Another, involving multiple claims, was settled subsequent to year end. A suit alleging breach of contract and civil rights violations is still ongoing. A total of \$1,000,000 has been accrued at December 31, 2012 to cover potential loss to the Township related to litigation matters. Additional losses may be incurred, but cannot be estimated at this time due to the nature of the damages and the progress of the outstanding case to date.

### Note 11 - Other Postemployment Benefits

**Plan Description** - The Township provides healthcare benefits and life insurance benefits to all general employees and court 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 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, 146 retirees are eligible.

**Funding Policy** - The Township has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). As shown below, the Township has made contributions to advance-fund a portion of these benefits as of December 31, 2012.

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2012

### Note 11 - Other Postemployment Benefits (Continued)

**Funding Progress** - For the year ended December 31, 2012, the Township has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of January 1, 2012. 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	\$ 5,079,690
Interest on the prior year's net OPEB obligation	382,493
Less adjustment to the annual required contribution	<u>(325,349)</u>
Annual OPEB cost	5,136,834
Amounts contributed:	
Payments of current premiums	(1,839,739)
Prefunding contribution	<u>(1,885,657)</u>
Increase in net OPEB obligation	1,411,438
OPEB obligation - Beginning of year	<u>5,884,488</u>
OPEB obligation - End of year	<u><u>\$ 7,295,926</u></u>

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

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
12/31/12	1/1/12	\$ 5,079,690	73.3	\$ 7,295,926
12/31/11	1/1/11	6,431,625	248.6	5,884,488
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

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
1/1/12	\$ 13,948,217	\$ 70,380,755	\$ 56,432,538	19.8	\$ 16,179,279	348.8
1/1/11	-	84,004,736	84,004,736	-	16,719,112	502.4
1/1/09	-	90,096,921	90,096,921	-	16,431,686	548.3
1/1/07	-	58,959,000	58,959,000	-	14,674,606	401.8

### **Note 11 - Other Postemployment Benefits (Continued)**

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

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

In the January 1, 2012 actuarial valuation, the projected unit credit with linear proration to decrement method was used. The actuarial assumptions included a 6.5 percent investment rate of return (net of administrative expenses), which is a blended rate consisting of the expected long-term investment return on plan assets and that of employer assets, and an annual healthcare cost trend rate of 9.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent by 2021. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at January 1, 2012 was 30 years.

### **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, 2012, the date of the most recent actuarial valuation, membership consisted of 95 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 124 current active employees. The plan does not issue a separate financial report.

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2012

### Note 12 - Defined Benefit Pension Plan (Continued)

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

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

#### Annual Pension Cost and Net Pension Obligation (Asset)

Annual required contribution	\$ 4,558,181
Interest on net pension obligation	(33,578)
Adjustment to annual required contribution	<u>54,005</u>
Annual pension cost (APC)	4,578,608
Contributions made	<u>(4,558,180)</u>
Increase in net pension asset	20,428
Net pension asset - Beginning of year	<u>(447,700)</u>
Net pension asset - End of year	<u>\$ (427,272)</u>

#### Three-year Trend Information of Annual Pension Costs

	Fiscal Year Ended December 31		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual pension cost (APC)	\$ 4,578,608	\$ 4,926,723	\$ 4,600,364
Percentage of APC contributed	99.6 %	100.2 %	100.3 %
Net pension asset	\$ 427,272	\$ 447,700	\$ 437,044

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2012

### Note 12 - Defined Benefit Pension Plan (Continued)

**Funding Status and Funding Progress** - As of December 31, 2012, the most recent actuarial valuation date, the plan was 70.05 percent funded. The actuarial accrued liability for benefits was \$84,149,619 and the actuarial value of assets was \$58,945,340, resulting in an unfunded actuarial accrued liability of \$25,204,279. The covered payroll (annual payroll to active employees covered by the plan) was \$10,940,963 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 230 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, 2012, the Township's contribution exceeded the annual pension cost of \$4,550,099 for the plan by \$8,081. The annual required contribution was determined as part of an actuarial valuation at December 31, 2011, 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, and (c) 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 14 years.

**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	Reserve for Retiree Benefit Payments
Balance - January 1, 2012	\$ 6,867,004	\$ 925,861	\$ 44,635,161
Additions	568,089	4,558,181	-
Earnings on investments	132,412	2,837,142	3,406,738
Transfers	-	(126,095)	126,095
Deductions	(92)	(320,901)	(4,354,052)
Balance - December 31, 2012	<u>\$ 7,567,413</u>	<u>\$ 7,874,188</u>	<u>\$ 43,813,942</u>

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2012

### Note 13 - Pension and Other Employee Benefit Trust Funds

The following are condensed financial statements for the individual pension and postemployment healthcare plans:

	Police and Fire Retirement System	Retiree Healthcare Trust
<b>Statement of Net Position</b>		
Investments	\$ 58,892,216	\$ 15,757,241
Other assets	377,164	91,610
Liabilities	13,837	-
Net assets	<u>\$ 59,255,543</u>	<u>\$ 15,848,851</u>
<b>Statement of Changes in Net Position</b>		
Investment income	\$ 6,113,373	\$ 14,977
Contributions	5,126,269	3,725,396
Benefit payments	4,354,052	1,839,739
Other deductions	58,072	-
Net change in net position	<u>\$ 6,827,518</u>	<u>\$ 1,900,634</u>

### Note 14 - 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 and court employees are fully vested after 20 months of continuous service.

During the year ended December 31, 2012, the Township made contributions of \$732,129 and the plan members contributed \$401,873 to the plan.

### Note 15 - 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 2012, the Township recognized \$125,000 in revenue related to this lease.

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2012

### Note 15 - Future Minimum Lease Revenue (Continued)

Future annual minimum lease payments are as follows:

<u>Year</u>	<u>Percent of Gross Revenue</u>	<u>Minimum Rent</u>
2013-2015	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 16 - Change in Accounting

During the current year, the Township adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. As a result, “net assets” have now been relabeled “net position.”

### Note 17 - Upcoming Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the Township during fiscal year 2013.

### **Note 17 - Upcoming Accounting Pronouncements (Continued)**

In June 2012, the GASB issued two new pension standards, GASB Statement No. 67, *Financial Reporting for Pension Plans*, and No. 68, *Accounting and Financial Reporting for Pensions*. These new standards significantly revise the current accounting and reporting for pensions, both from an employer perspective as well as from a plan perspective. Employers providing defined benefit pensions to its employees must now, under these new standards, recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised and expanded note disclosures and required supplemental information (RSI). Statement No. 67 is required to be adopted for December 31, 2014 and Statement No. 68 one year later.

## **Required Supplemental Information**

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# Charter Township of Shelby

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2012

	Original Budget	Amended Budget	Actual
<b>Revenue</b>			
Property taxes	\$ 3,415,398	\$ 3,362,608	\$ 3,363,270
Licenses and permits	648,600	922,500	1,151,148
State-shared revenue and grants	5,076,224	5,596,492	5,705,468
Charges for services	2,174,649	2,203,429	2,253,798
Fines and forfeitures	2,559,200	2,386,057	2,279,417
Investment income	105,000	60,000	87,369
Other revenue:			
Local donations	16,426	17,610	24,140
Other miscellaneous income	209,560	222,260	367,832
Total revenue	14,205,057	14,770,956	15,232,442
<b>Expenditures</b>			
Current:			
General government	7,102,589	7,174,590	6,821,455
Public works	691,500	698,000	445,879
Recreation and culture	3,076,664	3,033,235	2,886,674
Capital outlay	809,745	1,476,685	1,776,859
Total expenditures	11,680,498	12,382,510	11,930,867
<b>Excess of Revenue Over Expenditures</b>	2,524,559	2,388,446	3,301,575
<b>Other Financing Sources (Uses)</b>			
Transfers in	20,000	25,480	40,884
Transfers out	(2,733,567)	(2,823,654)	(3,157,300)
Total other financing uses	(2,713,567)	(2,798,174)	(3,116,416)
<b>Net Change in Fund Balance</b>	(189,008)	(409,728)	185,159
<b>Fund Balance - Beginning of year</b>	10,125,851	10,125,851	10,125,851
<b>Fund Balance - End of year</b>	<b>\$ 9,936,843</b>	<b>\$ 9,716,123</b>	<b>\$ 10,311,010</b>

# Charter Township of Shelby

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Fire Fund Year Ended December 31, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>
<b>Revenue</b>			
Property taxes	\$ 10,791,711	\$ 10,651,855	\$ 10,649,099
Federal grants	-	142,823	54,143
Charges for services	1,967,350	2,005,603	2,059,458
Investment income	23,000	19,000	22,794
Other miscellaneous income	6,500	50,983	138,808
Total revenue	<u>12,788,561</u>	<u>12,870,264</u>	<u>12,924,302</u>
<b>Expenditures</b>			
Current - Public safety	13,235,886	13,153,390	12,667,631
Capital outlay	1,280,830	1,395,600	1,176,668
Total expenditures	<u>14,516,716</u>	<u>14,548,990</u>	<u>13,844,299</u>
<b>Net Change in Fund Balance</b>	(1,728,155)	(1,678,726)	(919,997)
<b>Fund Balance - Beginning of year</b>	<u>15,474,903</u>	<u>15,474,903</u>	<u>15,474,903</u>
<b>Fund Balance - End of year</b>	<u>\$ 13,746,748</u>	<u>\$ 13,796,177</u>	<u>\$ 14,554,906</u>

# Charter Township of Shelby

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Police Fund Year Ended December 31, 2012

	Original Budget	Amended Budget	Actual
<b>Revenue</b>			
Property taxes	\$ 12,647,271	\$ 12,481,471	\$ 12,477,677
Federal grants	200,700	394,233	320,792
State-shared revenue and grants	56,200	278,507	279,761
Charges for services	550,449	548,449	552,461
Investment income	25,000	16,000	17,891
Other revenue	80,500	107,400	173,488
Total revenue	13,560,120	13,826,060	13,822,070
<b>Expenditures</b>			
Current - Public safety	15,374,624	15,496,450	15,015,487
Capital outlay	196,000	499,025	493,294
Total expenditures	15,570,624	15,995,475	15,508,781
<b>Excess of Expenditures Over Revenue</b>	(2,010,504)	(2,169,415)	(1,686,711)
<b>Other Financing Sources - Transfers in</b>	35,000	60,000	23,422
<b>Net Change in Fund Balance</b>	(1,975,504)	(2,109,415)	(1,663,289)
<b>Fund Balance - Beginning of year</b>	10,694,575	10,694,575	10,694,575
<b>Fund Balance - End of year</b>	<u>\$ 8,719,071</u>	<u>\$ 8,585,160</u>	<u>\$ 9,031,286</u>

# Charter Township of Shelby

## Required Supplemental Information Police and Fire Pension System Schedule of Funding Progress Year Ended December 31, 2012

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
12/31/07	\$ 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
12/31/10	51,181,336	75,889,038	24,707,702	67.4	10,915,185	226.4
12/31/11	53,157,554	79,426,074	26,268,520	66.9	11,259,348	233.3
12/31/12	58,945,340	84,149,619	25,204,279	70.0	10,940,963	230.4

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
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
12/31/11	12/31/09	4,937,379	100.2
12/31/12	12/31/10	4,558,181	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2012, the latest actuarial valuation, follows:

Amortization method	Level percent of payroll
Amortization period	14 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	4.25% - 9.50%
* Includes inflation at	4.25%
Cost of living adjustments	None

# Charter Township of Shelby

## Note to Required Supplemental Information Year Ended December 31, 2012

**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.

A reconciliation of the budgetary comparison schedules to the fund-based statement of changes in fund balance is as follows:

	<u>Total Revenue and Transfers</u>	<u>Total Expenditures and Transfers</u>
<b>General Fund</b>		
Amounts per operating statement	\$ 16,525,917	\$ 16,368,927
Cable Television Fund budgeted separately from the General Fund	<u>(1,252,591)</u>	<u>(1,252,591)</u>
Amounts per budget statement	<u>\$ 15,273,326</u>	<u>\$ 15,116,336</u>

In the current year, the Township's expenditures in the following categories exceeded the budgeted amounts:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund - Capital outlay	\$ 1,476,685	\$ 1,776,859	\$ (300,174)
General Fund - Transfers out	2,823,654	3,157,300	(333,646)

## **Other Supplemental Information**

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# Charter Township of Shelby

	Nonmajor Special Revenue Funds						
	Emergency Response	Street Lighting	Building Authority	Michigan Justice Training Grant	Community Block Grant	Federal Forfeiture	Drug Forfeiture
<b>Assets</b>							
Cash and investments	\$ 226,278	\$ 37,024	\$ 14,984	\$ 13,478	\$ -	\$ 18,896	\$ 265,051
Receivables:							
Other receivables	-	-	-	-	-	-	-
Due from other governmental units	-	33,812	-	-	6,000	-	-
Due from other funds	-	-	-	-	-	-	-
Prepaid expenses and other assets	-	-	-	-	-	-	-
<b>Total assets</b>	<b>226,278</b>	<b>70,836</b>	<b>14,984</b>	<b>13,478</b>	<b>6,000</b>	<b>18,896</b>	<b>265,051</b>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities</b>							
Accounts payable	\$ 13,461	\$ 22,549	\$ -	\$ 1,805	\$ 3,732	\$ -	\$ 400
Due to other governmental units	-	-	-	-	-	-	-
Deferred revenue	-	33,812	-	-	-	-	-
Due to fiduciary fund	-	-	-	-	2,268	-	-
<b>Total liabilities</b>	<b>13,461</b>	<b>56,361</b>	<b>-</b>	<b>1,805</b>	<b>6,000</b>	<b>-</b>	<b>400</b>
<b>Fund Balances</b>							
Nonspendable - Prepaids	-	-	-	-	-	-	-
Restricted:							
Police and fire	212,817	-	-	-	-	18,896	264,651
Grants	-	-	-	11,673	-	-	-
Street lighting	-	14,475	-	-	-	-	-
Community development	-	-	14,984	-	-	-	-
Assigned:							
Public improvement	-	-	-	-	-	-	-
Equipment replacement	-	-	-	-	-	-	-
<b>Total fund balances</b>	<b>212,817</b>	<b>14,475</b>	<b>14,984</b>	<b>11,673</b>	<b>-</b>	<b>18,896</b>	<b>264,651</b>
<b>Total liabilities and fund balances</b>	<b>\$ 226,278</b>	<b>\$ 70,836</b>	<b>\$ 14,984</b>	<b>\$ 13,478</b>	<b>\$ 6,000</b>	<b>\$ 18,896</b>	<b>\$ 265,051</b>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
December 31, 2012**

Nonmajor Capital Projects Funds

<u>Public Improvement</u>	<u>Equipment Replacement</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 4,160,881	\$ 6,776,360	\$ 11,512,952
18,885	-	18,885
-	-	39,812
176,815	-	176,815
15,000	-	15,000
<u>4,371,581</u>	<u>6,776,360</u>	<u>11,763,464</u>
\$ 213,455	\$ 128,261	\$ 383,663
475	-	475
18,885	-	52,697
-	-	2,268
<u>232,815</u>	<u>128,261</u>	<u>439,103</u>
15,000	-	15,000
-	3,515,093	4,011,457
-	-	11,673
-	-	14,475
-	-	14,984
4,123,766	-	4,123,766
<u>-</u>	<u>3,133,006</u>	<u>3,133,006</u>
<u>4,138,766</u>	<u>6,648,099</u>	<u>11,324,361</u>
<u>\$ 4,371,581</u>	<u>\$ 6,776,360</u>	<u>\$ 11,763,464</u>

# Charter Township of Shelby

	Nonmajor Special Revenue Funds						
			Michigan				
	Emergency Response	Street Lighting	Building Authority	Justice Training Grant	Community Block Grant	Federal Forfeiture	Drug Forfeiture
<b>Revenue</b>							
Federal grants	\$ -	\$ -	\$ -	\$ -	\$ 546,769	\$ -	\$ -
State-shared revenue and grants	109,262	-	-	12,621	-	-	-
Charges for services	-	269,337	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-	80,779
Investment income	177	457	-	-	-	20	1,515
Other revenue	-	5	-	-	-	-	10,200
<b>Total revenue</b>	<b>109,439</b>	<b>269,799</b>	<b>-</b>	<b>12,621</b>	<b>546,769</b>	<b>20</b>	<b>92,494</b>
<b>Expenditures</b>							
Current:							
General government	-	-	-	-	-	-	-
Public safety	92,907	-	-	21,403	-	-	153,657
Public works	-	310,018	-	-	-	100	-
Recreation and culture	-	-	-	-	10,000	-	-
Capital outlay	-	-	-	-	536,769	-	64,537
<b>Total expenditures</b>	<b>92,907</b>	<b>310,018</b>	<b>-</b>	<b>21,403</b>	<b>546,769</b>	<b>100</b>	<b>218,194</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>16,532</b>	<b>(40,219)</b>	<b>-</b>	<b>(8,782)</b>	<b>-</b>	<b>(80)</b>	<b>(125,700)</b>
<b>Other Financing Sources (Uses)</b>							
Proceeds from sale of capital assets	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
<b>Total other financing sources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>16,532</b>	<b>(40,219)</b>	<b>-</b>	<b>(8,782)</b>	<b>-</b>	<b>(80)</b>	<b>(125,700)</b>
<b>Fund Balances - Beginning of year</b>	<b>196,285</b>	<b>54,694</b>	<b>14,984</b>	<b>20,455</b>	<b>-</b>	<b>18,976</b>	<b>390,351</b>
<b>Fund Balances - End of year</b>	<b>\$ 212,817</b>	<b>\$ 14,475</b>	<b>\$ 14,984</b>	<b>\$ 11,673</b>	<b>\$ -</b>	<b>\$ 18,896</b>	<b>\$ 264,651</b>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes in**  
**Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended December 31, 2012**

<u>Nonmajor Capital Projects Funds</u>		Total Nonmajor
<u>Public</u>	<u>Equipment</u>	<u>Governmental</u>
<u>Improvement</u>	<u>Replacement</u>	<u>Funds</u>
\$ 71,528	\$ -	\$ 618,297
-	1,790	123,673
-	-	269,337
-	-	80,779
390	-	2,559
14,000	27,110	51,315
<u>85,918</u>	<u>28,900</u>	<u>1,145,960</u>
151,089	29,451	180,540
-	-	267,967
71,427	-	381,545
-	1,271	11,271
256,043	2,663,325	3,520,674
<u>478,559</u>	<u>2,694,047</u>	<u>4,361,997</u>
(392,641)	(2,665,147)	(3,216,037)
-	6,025	6,025
1,039,833	498,000	1,537,833
-	(245,547)	(245,547)
<u>1,039,833</u>	<u>258,478</u>	<u>1,298,311</u>
647,192	(2,406,669)	(1,917,726)
<u>3,491,574</u>	<u>9,054,768</u>	<u>13,242,087</u>
<b><u>\$ 4,138,766</u></b>	<b><u>\$ 6,648,099</u></b>	<b><u>\$ 11,324,361</u></b>

# Charter Township of Shelby

	<u>Pension and Other Employee Benefit Trust Funds</u>		
	Police and Fire		
	Retirement		
	Systems Trust	Retiree Health	Total Pension
	Fund	Care Trust	and OPEB
<b>Assets</b>			
Cash and cash equivalents	\$ 1,511,624	\$ 15,757,241	\$ 17,268,865
Investments	57,380,592	-	57,380,592
Receivables:			
Accrued interest receivable	5,261	-	5,261
Other receivables	-	-	-
Due from other governmental units	-	-	-
Due from other funds	-	91,610	91,610
Prepaid expenses and other assets	371,903	-	371,903
	<u>59,269,380</u>	<u>15,848,851</u>	<u>75,118,231</u>
Total assets			
<b>Liabilities</b>			
Accounts payable	13,837	-	13,837
Refundable deposits, bonds, etc.	-	-	-
Accrued and other liabilities	-	-	-
Deferred revenue	-	-	-
	<u>13,837</u>	<u>-</u>	<u>13,837</u>
Total liabilities			
<b>Net Position Held in Trust for Pension and Other Employee Benefits</b>	<b><u>\$ 59,255,543</u></b>	<b><u>\$ 15,848,851</u></b>	<b><u>\$ 75,104,394</u></b>

**Other Supplemental Information  
Combining Statement of Assets and Liabilities  
Pension and Other Employee Benefit Trust Funds and Agency Funds  
December 31, 2012**

Agency Funds						
Trust and Agency	Treasurer's Agency	Current Tax Collection	41st District Court	Accounts Payable Imprest	Payroll Imprest	Total Agency Funds
\$ 1,022,112	\$ 249,581	\$ 4,646,299	\$ 317,537	\$ -	\$ (2,459)	\$ 6,233,070
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	10,000	-	-	-	-	10,000
-	-	-	-	-	7,286	7,286
-	2,268	-	-	-	-	2,268
-	-	-	5,532	-	-	5,532
<b>\$ 1,022,112</b>	<b>\$ 261,849</b>	<b>\$ 4,646,299</b>	<b>\$ 323,069</b>	<b>\$ -</b>	<b>\$ 4,827</b>	<b>\$ 6,258,156</b>
\$ 500	\$ -	\$ 14,880	\$ 119,011	\$ -	\$ 1,609	\$ 136,000
1,011,526	-	-	152,695	-	-	1,164,221
-	261,849	-	51,363	-	3,218	316,430
10,086	-	4,631,419	-	-	-	4,641,505
<b>\$ 1,022,112</b>	<b>\$ 261,849</b>	<b>\$ 4,646,299</b>	<b>\$ 323,069</b>	<b>\$ -</b>	<b>\$ 4,827</b>	<b>\$ 6,258,156</b>

# Charter Township of Shelby

## Other Supplemental Information Combining Statement of Changes in Fiduciary Net Position Fiduciary Funds Year Ended December 31, 2012

	Police and Fire Retirement Systems Trust Fund	Retiree Health Care Trust	Total
<b>Additions</b>			
Investment income:			
Interest and dividends	\$ 557,424	\$ 14,977	\$ 572,401
Net increase in fair value of investments	5,818,867	-	5,818,867
Investment-related expenses	(262,918)	-	(262,918)
Net investment income	6,113,373	14,977	6,128,350
Contributions:			
Employer	4,558,180	3,725,396	8,283,576
Employee	568,089	-	568,089
Net contributions	5,126,269	3,725,396	8,851,665
Total additions	11,239,642	3,740,373	14,980,015
<b>Deductions</b>			
Benefit payments	4,354,052	1,839,739	6,193,791
Administrative expenses	58,072	-	58,072
Total deductions	4,412,124	1,839,739	6,251,863
<b>Net Increase in Net Position Held in Trust</b>	6,827,518	1,900,634	8,728,152
<b>Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year</b>	52,428,025	13,948,217	66,376,242
<b>Net Position Held in Trust for Pension and Other Employee Benefits - End of year</b>	<b>\$ 59,255,543</b>	<b>\$ 15,848,851</b>	<b>\$ 75,104,394</b>