

Charter Township of Shelby Macomb County, Michigan

**Financial Report
with Supplemental Information
December 31, 2011**

Charter Township of Shelby

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2011, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Shelby's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Charter Township of Shelby as of December 31, 2011 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, retirement system schedules of funding progress, and the 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.

To the Board of Trustees
Charter Township of Shelby

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Shelby's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

During the year, the Township implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, as discussed in Note 1 and Note 2. As a result of this required implementation, the Cable Television and 41st District Court Funds are now part of the General Fund. In addition, fund balance classifications in the governmental fund financial statements have been changed to reflect the five new classifications under GASB No. 54.

Plante & Morse, PLLC

June 5, 2012

Charter Township of Shelby

Management's Discussion and Analysis

Using this Annual Report

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

In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of December 31, 2011 to the prior year:

TABLE I

	Governmental Activities				Business-type Activities				Total			
	2011	2010	\$ Diff	% Diff	2011	2010	\$ Diff	% Diff	2011	2010	\$ Diff	% Diff
Assets												
Current assets	\$ 81.3	\$ 93.6	\$ (12.3)	-13.1%	\$ 47.7	\$ 47.4	\$ 0.3	0.6%	\$ 129.0	\$ 141.0	\$ (12.0)	-8.5%
Noncurrent assets:												
Restricted assets	-	-	-		6.8	3.1	3.7	119.4%	6.8	3.1	3.7	
Capital assets	<u>48.0</u>	<u>46.5</u>	<u>1.5</u>	3.2%	<u>118.7</u>	<u>120.3</u>	<u>(1.6)</u>	-1.3%	<u>166.7</u>	<u>166.8</u>	<u>(0.1)</u>	-0.1%
Total assets	129.3	140.1	(10.8)	-7.7%	173.2	170.8	2.4	1.4%	302.5	310.9	(8.4)	-2.7%
Liabilities												
Current liabilities	30.3	31.9	(1.6)	-5.0%	7.2	5.4	1.8	33.3%	37.5	37.3	0.2	0.5%
Long-term liabilities	<u>6.0</u>	<u>15.0</u>	<u>(9.0)</u>	-60.0%	<u>34.5</u>	<u>34.0</u>	<u>0.5</u>	1.5%	<u>40.5</u>	<u>49.0</u>	<u>(8.5)</u>	-17.3%
Total liabilities	<u>36.3</u>	<u>46.9</u>	<u>(10.6)</u>	-22.6%	<u>41.7</u>	<u>39.4</u>	<u>2.3</u>	5.8%	<u>78.0</u>	<u>86.3</u>	<u>(8.3)</u>	-9.6%
Net Assets												
Invested in capital assets -												
Net of related debt	47.9	46.5		0.0%	88.3	87.8		0.0%	136.2	134.3		0.0%
Restricted	32.7	33.7	(1.0)	-3.0%	2.3	2.5	(0.2)	-8.0%	35.0	36.2	(1.2)	-3.3%
Unrestricted	<u>12.4</u>	<u>13.0</u>	<u>(0.6)</u>	-4.6%	<u>40.9</u>	<u>41.1</u>	<u>(0.2)</u>	-0.5%	<u>53.3</u>	<u>54.1</u>	<u>(0.8)</u>	-1.5%
Total net assets	<u>\$ 93.0</u>	<u>\$ 93.2</u>	<u>\$ (0.2)</u>	<u>-0.2%</u>	<u>\$ 131.5</u>	<u>\$ 131.4</u>	<u>\$ 0.1</u>	<u>0.1%</u>	<u>\$ 224.5</u>	<u>\$ 224.6</u>	<u>\$ (0.1)</u>	<u>0.0%</u>

The Township's combined net assets decreased by \$0.1 million from a year ago, decreasing from \$224.6 million to \$224.5 million. A review of the governmental activities, separate from the business-type activities, shows a decrease of approximately \$0.2 million in net assets, or 0.2 percent, during 2011.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

Despite a decrease in total net assets, the Township's investment in capital assets increased in 2011. The Township continues a major infrastructure project to widen a main thoroughfare that connects Shelby Township with Sterling Heights and Washington Township - Van Dyke Avenue between 23 and 26 Mile Roads. The new police station on the Township campus was substantially completed in 2011 with a move-in date of May 2012. The Downtown Development Authority, with a budget based on tax capture from the Township district itself and other taxing entities, completed preliminary plans for a sewer extension along the southern corridor of Van Dyke Avenue. This will be a Special Assessment District initially financed by our Water and Sewer Fund and paid back by businesses and residents in the improvement zone. eSuites for Human Resources, vendors, and Township residents' use is installed. By the beginning of 2013, e Timesheet will be used throughout the Township. These technology tools streamline our information processing and paperless office goals.

The net assets of the business-type activities increased 0.1 percent to \$131.5 million. The increase of \$.1 million was derived from \$.6 million of net income from the Shelby Manor Fund which was offset by a net loss of \$.5 million from the Water and Sewer Fund.

The following table shows the changes in net assets (in millions of dollars) as of December 31, 2011 and the prior year:

TABLE 2

	Governmental Activities				Business-type Activities				Total			
	2011	2010	\$ Diff	% Diff	2011	2010	\$ Diff	% Diff	2011	2010	\$ Diff	% Diff
Revenue												
Program revenue:												
Charges for services	\$ 8.6	\$ 8.3	\$ 0.3	3.6%	\$ 21.6	\$ 20.1	\$ 1.5	7.5%	\$ 30.2	\$ 28.4	\$ 1.8	6.3%
Operating grants and contributions	1.0	1.4	(0.4)	-28.6%	-	-	-	0.0%	1.0	1.4	(0.4)	-28.6%
Capital grants and contributions	0.1	0.1	-	0.0%	0.8	1.7	(0.9)	-52.9%	0.9	1.8	(0.9)	-50.0%
General revenue:												
Property taxes	28.6	31.8	(3.2)	-10.1%	-	-	-	0.0%	28.6	31.8	(3.2)	-10.1%
State-shared revenue	5.5	4.1	1.4	34.1%	-	-	-	0.0%	5.5	4.1	1.4	34.1%
Interest	0.2	0.3	(0.1)	-33.3%	0.1	0.1	-	0.0%	0.3	0.4	(0.1)	-25.0%
Other	2.1	1.4	0.7	50.0%	-	-	-	0.0%	2.1	1.4	0.7	50.0%
Total revenue	46.1	47.4	(1.3)	-2.7%	22.5	21.9	0.6	2.7%	68.6	69.3	(0.7)	-1.0%
Program Expenses												
General government	8.3	8.1	0.2	2.5%	-	-	-	0.0%	8.3	8.1	0.2	2.5%
Public safety	29.9	31.6	(1.7)	-5.4%	-	-	-	0.0%	29.9	31.6	(1.7)	-53.8%
Public works	1.6	1.6	-	0.0%	-	-	-	0.0%	1.6	1.6	-	0.0%
41st District Court	1.9	2.8	(0.9)	-32.1%	-	-	-	0.0%	1.9	2.8	(0.9)	-32.1%
Recreation and culture	4.6	4.2	0.4	9.5%	-	-	-	0.0%	4.6	4.2	0.4	9.5%
Interest on long-term debt	-	-	-	0.0%	-	-	-	0.0%	-	-	-	0.0%
Shelby Manor senior housing	-	-	-	0.0%	1.2	1.3	(0.1)	7.7%	1.2	1.3	(0.1)	-7.7%
Water and sewer	-	-	-	0.0%	21.2	20.8	0.4	2.0%	21.2	20.8	0.4	1.9%
Total program expenses	46.3	48.3	(2.0)	-4.1%	22.4	22.1	0.3	1.4%	68.7	70.4	(1.7)	-2.4%
Transfers	-	(0.6)	0.6	-100.0%	-	0.6	(0.6)	-100.0%	-	-	-	0.0%
Change in Net Assets	(0.2)	(1.5)	1.3	-86.7%	0.1	0.4	(0.3)	-75.0%	(0.1)	(1.1)	1.0	-90.9%
Net Assets - Beginning of year	93.2	94.7	(1.5)	-1.6%	131.4	131.0	0.4	0.3%	224.6	225.7	(1.1)	-0.5%
Net Assets - End of year	\$ 93.0	\$ 93.2	\$ (0.2)	-0.2%	\$ 131.5	\$ 131.4	\$ 0.1	0.1%	\$ 224.5	\$ 224.6	\$ (0.1)	0.0%

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

Governmental Activities

The Township's total governmental revenue decreased by approximately \$1.3 million, or 2.7 percent, from the last year. An increase in state-shared revenue resulting from a population hike shown in the census results offset decreases in property taxes. Interest income continues to decline. The Township experienced 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.

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 2010, 2011, and 2012. Our assessing department prepared 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 inter-fund administrative service charges of \$1,171,879 for 2011.

Total governmental expenses decreased approximately \$2.0 million, or 4.1 percent, over the last year. General government expenses increased \$0.2 million, or approximately 2.5 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 Road Commission 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.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

During 2010 and 2011, the Township negotiated new collective bargaining agreements covering the majority of the Township's union employees. The new agreements incorporate various cost-containing and cost-cutting provisions such as pay freezes, reduction in paid benefit time, formula changes reducing the amount of individual retirement defined benefit payments, reductions in various pay categories, and increases in the employees' share of healthcare costs. These contract changes had a favorable impact on reducing 2011 costs and will have an even greater impact in 2012 and beyond.

In 2011, the U.S. Department of Energy Grant project was substantially complete. The balance in this grant will be used in YR 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 started in 2011 will be completed in 2012 and connect to the City of Utica. A large part of the equipment for the new police building is funded by federal grants received in YR 2010. The Township received a federal grant for a large drainage repair and improvement project in our southwest quadrant that will be completed in YR 2012.

Public safety expenditures decreased by 5.4 percent, or \$1.7 million. 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 9.5 percent increase in costs with the library, parks and recreation, and cable television being the largest departments in this category. This increase can be attributed to an increase in other postemployment benefit obligations.

The Township (through long-range planning) is able to participate in cost-sharing agreements with the Macomb County Road Commission. The Van Dyke Avenue widening project between 23 and 24 Mile Roads (a combined Township and County project supported in part by federal funding) is complete. The 24 Mile to 25 Mile Road project is in progress and agreements are in place for the 25 to 26 Mile Road phase. 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 to establish a Post Employment Health Care Trust Fund in accordance with GASB No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, implemented in 2008. In 2011, the recognition of the annual required contribution calculated by the actuary for retiree healthcare resulted in additional expense reported at the government-wide level of \$6,061,981 in the governmental activities and \$392,138 in the business-type activities. However, by contributing money accumulated in the Postemployment Benefits Special Revenue Fund to the OPEB Trust, the Township reduced the OPEB year-end obligation by approximately \$9 million.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

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 25,563 accounts. The Township also provides sewer service to 14,308 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.

The Township's business-type activities' revenue increased by 2.7 percent to \$22.5 million. The Shelby Manor Funds revenue increased 6.5 percent from 2010 to 2011 due to increases in maintenance fees and insurance reimbursement. The Water and Sewer Funds total revenue increased by \$0.4 million or 2.0 percent. Charges for sales and services increased by \$1.4 million, primarily due to an increase in water and sewer rates. Capital grants and contributions decreased by \$0.9 million; 2010 capital contributions included \$0.8 million from the Township's portion of forgiven debt related to the Oakland-Macomb Interceptor Drainage District's (OMID) loans from the State of Michigan Revolving Fund; and in addition, there were no capital contributions from developers realized in 2011. The business-type activities did not receive any operating transfers from other funds in 2011. The \$0.6 million transfer incurred in 2010 was the result of an adjustment of the Water and Sewer Funds prior year transfers to the Other Postemployment Benefit Fund for GASB No. 45 obligations.

Total expenses for the business-type activities increased by \$0.3 million, or 1.4 percent. Shelby Manor Fund expenses decreased about \$0.1 million due to decreases in capital improvements and repairs. The Water and Sewer Fund's operating expenses increased \$0.4 million. Increases in purchased water and sewer processing costs were offset in large part by decreases in labor and benefit costs.

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

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

During 2010 and 2011, the OMID and MIDD issued county bonds to acquire the OMI and MID and to improve and repair other facilities. This debt was assessed to the participating communities based on a three-year average facility usage. In 2011, the OMID gave the participating communities the option to pre-pay their portions of OMI Segment 2 costs in lieu of being assessed their portion of Segment 2 debt. Electing the prepayment option, the Township's Water and Sewer Fund paid its \$1.5 million allocated share in December 2011. Also during 2011, the MIDD assessed the Water and Sewer Fund \$2.8 million for its share of the bonds issued to finance improvements to the Clintondale pump station. The Water and Sewer Fund's allocated share of the costs of the OMI and MID facilities and related debt as of December 31, 2011 were \$22.0 million and \$17.7 million, respectively (see Note 8 for additional information). Approximately \$15.3 million of the Township's share of the MID facilities was in service in 2011. The recording of the Water and Sewer Fund's allocated share of the OMI and MID facilities as capital assets and the servicing of its allocated share of OMID and MIDD debt will increase the Water and Sewer Fund's depreciation and interest expenses in 2011 and beyond. However, these increases in both depreciation and interest expense will be offset by reductions in the monthly sewage processing charges billed to the Township.

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 will retire all the remaining \$8,160,000 of outstanding Series 1999, 2002, and 2003 bonds by July 1, 2012 (see Note 8 for additional information).

The Township's Funds

The presentation of the Township's major funds begins on page 15, 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 2011 include the General Fund, Police Fund, Fire Fund, Postemployment Benefits 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, are 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 2011 and acceleration of multi-year capital projects. The General Fund experienced a 6.7 percent increase in revenue from 2010. The most significant influence on revenue during 2011 was an increase in anticipated state-shared revenue and grants of approximately 21.9 percent. This increase is attributed to the increase in population to 73,804 from the 2000 U.S. census number of 65,159. The Township also experienced a 41.5 percent increase in building permits due to several large commercial projects and a small recovery in new housing starts. Interest income mirrored the financial markets with a decline of 30.5 percent from 2010.

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 \$12,486 in 2011 and an anticipated \$24,000 in 2012.

Property tax is the second largest source of revenue to the General Fund. Property tax decreased 9.8 percent from 2010 with a decrease of \$396,243. Fines and forfeitures saw a 2 percent decrease from 2010 to 2011. The General Fund ended the year with a favorable revenue budget variance of \$474,959.

The General Fund expenditure budget showed a favorable budget variance of \$161,733 and an increase over 2010 actual expenditures of 2.3 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 2011, the Michigan Tax Tribunal estimate for anticipated property tax refunds for General, Fire, Police, and the Downtown Development Authority resulted in increased expense of \$487,136.

When comparing the original 2011 General Fund revenue budget with the amended 2011 General Fund revenue budget, the original budget was increased by \$1,336,499. Significant increases were required in state-shared revenue and building permit fees. Significant 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 reduction was seen in general government due to a reduction in work force and related benefit costs. 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 2011, the Township's governmental and business activities combined had approximately \$241 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 \$18.8 million and \$16.4 million for 2011 and 2010, respectively. The Enterprise Funds' infrastructure for 2011 and 2010 (including construction in progress), net of depreciation, is \$104.8 million and \$106.4 million, respectively (see Note 5 for additional information). Additionally, the value of buildings and improvements for the governmental activities, net of depreciation, is \$10.1 million and \$7.1 million for 2011 and 2010, respectively. The Enterprise Funds' buildings and improvements, net of depreciation, are \$12.0 million for both 2011 and 2010.

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 assets (see Note 8 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 2012 that applied in 2011 (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 23.7 percent of the General Fund's amended revenue budget for 2012. The slowdown in growth and development in the Township, along with a decline in real estate market values, has decreased assessed value for all properties from \$3.105 billion to \$2.998 billion. Per the 2012 L 4022, residential assessed property value (the largest property component) dropped 6.5 percent from 2011 to 2012. Because of the uncertainty in the housing market and other economic factors facing the state, the Township is projecting negative growth in property tax revenue over the next several years. State-shared revenue represents approximately 33 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 11.16 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

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 Assets December 31, 2011

	Primary Government			Component Unit - DDA
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 4)	\$ 61,932,688	\$ 40,418,071	\$ 102,350,759	\$ 436,633
Receivables:				
Property taxes receivable	17,641,736	-	17,641,736	18,707
Customers	-	6,632,336	6,632,336	-
Accrued interest receivable - Special assessments	-	7,941	7,941	-
Other receivables	751,701	96,823	848,524	-
Due from other governmental units	920,059	12,243	932,302	-
Special assessments receivable	-	177,000	177,000	-
Allowance for doubtful accounts	(486,920)	-	(486,920)	-
Internal balances	(22,826)	22,826	-	-
Inventories	-	191,968	191,968	-
Prepaid costs and other assets	168,605	131,456	300,061	-
Restricted assets (Note 9)	-	6,798,929	6,798,929	-
Net pension asset (Note 12)	447,700	-	447,700	-
Capital assets:				
Assets not subject to depreciation (Note 5)	14,233,187	4,483,495	18,716,682	-
Assets subject to depreciation - Net (Note 5)	33,684,468	114,198,379	147,882,847	-
Total assets	129,270,398	173,171,467	302,441,865	455,340
Liabilities				
Accounts payable	1,140,322	2,116,304	3,256,626	4,600
Accrued and other liabilities	1,126,234	1,818,239	2,944,473	47
Unearned revenue (Note 7)	26,176,633	-	26,176,633	28,344
Payable from restricted assets (Note 9)	-	512,580	512,580	-
Due to fiduciary fund	778,708	800,150	1,578,858	-
Noncurrent liabilities (Note 8):				
Due within one year:				
Compensated absences	96,205	8,135	104,340	-
Provision for property tax refund	971,627	-	971,627	160,819
Current portion of long-term debt	-	1,974,559	1,974,559	-
Due in more than one year:				
Compensated absences	767,444	89,923	857,367	-
Unearned revenue (Note 7)	-	1,267,561	1,267,561	-
Other postemployment benefit obligations (Note 11)	5,206,923	677,565	5,884,488	-
Long-term debt - Net of current portion	-	32,437,272	32,437,272	-
Total liabilities	36,264,096	41,702,288	77,966,384	193,810
Net Assets				
Invested in capital assets - Net of related debt	47,917,655	88,243,601	136,161,256	-
Restricted for:				
Bond covenants (Note 9)	-	2,312,791	2,312,791	-
Police and fire	32,013,568	-	32,013,568	-
Community development	14,984	-	14,984	-
Street lighting	54,694	-	54,694	-
Grants	20,455	-	20,455	-
Forfeitures	409,327	-	409,327	-
Emergency response	196,285	-	196,285	-
Unrestricted	12,379,334	40,912,787	53,292,121	261,530
Total net assets	\$ 93,006,302	\$131,469,179	\$224,475,481	\$ 261,530

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
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 8,339,071	\$ 2,588,731	\$ 629,203	\$ 8,916
41A District Court	1,862,863	2,361,543	45,724	-
Public safety	29,951,963	2,758,635	88,454	40,919
Public works	1,638,121	257,138	229,625	-
Recreation and culture	4,525,498	675,051	44,961	-
Total governmental activities	46,317,516	8,641,098	1,037,967	49,835
Business-type activities				
Water and sewer	21,177,412	19,796,993	-	757,636
Shelby Manor senior housing	1,223,331	1,784,223	-	-
Total	22,400,743	21,581,216	-	757,636
Total primary government	<u>\$ 68,718,259</u>	<u>\$ 30,222,314</u>	<u>\$ 1,037,967</u>	<u>\$ 807,471</u>
Component Unit - Downtown Development Authority	<u>\$ 234,352</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenue:				
Property taxes				
State-shared revenue				
Investment income				
Cable franchise fees				
Other miscellaneous income				
Gain on sale of fixed assets				
Total general revenue				
Transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended December 31, 2011

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit - Downtown Development Authority
Governmental Activities	Business-type Activities	Total	
\$ (5,112,221)	\$ -	\$ (5,112,221)	\$ -
544,404	-	544,404	-
(27,063,955)	-	(27,063,955)	-
(1,151,358)	-	(1,151,358)	-
(3,805,486)	-	(3,805,486)	-
(36,588,616)	-	(36,588,616)	-
-	(622,783)	(622,783)	-
-	560,892	560,892	-
-	(61,891)	(61,891)	-
(36,588,616)	(61,891)	(36,650,507)	-
-	-	-	(234,352)
28,625,541	-	28,625,541	209,561
5,506,231	-	5,506,231	-
177,157	100,169	277,326	814
1,153,497	-	1,153,497	-
940,920	-	940,920	-
2,675	-	2,675	-
36,406,021	100,169	36,506,190	210,375
8,000	(8,000)	-	-
(174,595)	30,278	(144,317)	(23,977)
93,180,897	131,438,901	224,619,798	285,507
\$ 93,006,302	\$ 131,469,179	\$ 224,475,481	\$ 261,530

Charter Township of Shelby

Governmental Funds Balance Sheet December 31, 2011

	General Fund	Fire Fund	Police Fund	Postemployment Benefits	Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents (Note 4)	\$ 12,383,632	\$ 19,761,886	\$ 15,852,459	\$ -	\$ 13,934,711	\$ 61,932,688
Receivables:						
Taxes	2,224,187	7,140,191	8,277,358	-	-	17,641,736
Other receivables	472,148	228,906	45,713	-	4,934	751,701
Due from other governmental units	905,626	-	-	-	14,433	920,059
Allowance for doubtful accounts	(40,786)	(249,181)	(196,953)	-	-	(486,920)
Due from other funds (Note 6)	-	-	-	-	10,000	10,000
Prepaid expenses and other assets	86,519	24,273	36,362	-	21,451	168,605
Total assets	\$ 16,031,326	\$ 26,906,075	\$ 24,014,939	\$ -	\$ 13,985,529	\$ 80,937,869
Liabilities and Fund Balances						
Liabilities						
Vouchers payable	\$ 195,547	\$ 56,241	\$ 168,346	\$ -	\$ 720,188	\$ 1,140,322
Due to other funds (Note 6)	12,831	220	-	-	19,775	32,826
Accrued and other liabilities	291,671	411,385	293,421	-	-	996,477
Deferred revenue (Note 7)	4,276,138	10,576,215	12,400,797	-	3,479	27,256,629
Due to fiduciary fund	778,708	-	-	-	-	778,708
Provision for property tax refunds	126,716	387,111	457,800	-	-	971,627
Total liabilities	5,681,611	11,431,172	13,320,364	-	743,442	31,176,589
Fund Balances						
Nonspendable - Prepays	86,519	24,273	36,362	-	21,451	168,605
Restricted:						
Police and fire	-	15,450,630	10,658,213	-	6,451,502	32,560,345
Grants	-	-	-	-	20,455	20,455
Street lighting	-	-	-	-	54,694	54,694
Community development	-	-	-	-	14,984	14,984
Assigned:						
Subsequent year's budget	189,058	-	-	-	-	189,058
Public improvements	-	-	-	-	3,476,574	3,476,574
Equipment replacement	-	-	-	-	3,202,427	3,202,427
Capital improvements	3,000,000	-	-	-	-	3,000,000
Road construction	2,500,000	-	-	-	-	2,500,000
Retiree health care	1,000,000	-	-	-	-	1,000,000
Unassigned	3,574,138	-	-	-	-	3,574,138
Total fund balances	10,349,715	15,474,903	10,694,575	-	13,242,087	49,761,280
Total liabilities and fund balances	\$ 16,031,326	\$ 26,906,075	\$ 24,014,939	\$ -	\$ 13,985,529	\$ 80,937,869

Charter Township of Shelby

Governmental Funds **Reconciliation of the Balance Sheet to the Statement of Net Assets** **December 31, 2011**

Fund Balance Reported in Governmental Funds	\$ 49,761,280
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	47,917,655
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	1,079,996
Other liabilities that do not present a claim on current financial resources are not reported as fund liabilities	(129,757)
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	(863,649)
Net pension assets are not current financial resources and are not reported in the funds	447,700
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>(5,206,923)</u>
Net Assets of Governmental Activities	<u>\$ 93,006,302</u>

Charter Township of Shelby

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2011

	General Fund	Fire Fund	Police Fund	Postemployment Benefits	Nonmajor Governmental Funds	Total
Revenue						
Property taxes	\$ 3,639,564	\$ 11,500,818	\$ 13,485,159	\$ -	\$ -	\$ 28,625,541
Licenses and permits	907,760	-	-	-	-	907,760
Federal grants	-	38,614	33,688	-	277,708	350,010
State-shared revenue and grants	5,937,137	-	76,418	-	133,010	6,146,565
Charges for services:						
Charges to other funds	1,173,879	-	-	-	-	1,173,879
Charges for services to external parties	1,097,732	1,984,363	709,758	-	257,138	4,048,991
Fines and forfeitures	2,457,425	-	-	-	69,711	2,527,136
Investment income	118,289	30,462	25,444	-	2,962	177,157
Cable franchise fees	1,153,497	-	-	-	-	1,153,497
Other revenue	541,094	65,050	116,951	-	57,439	780,534
Total revenue	17,026,377	13,619,307	14,447,418	-	797,968	45,891,070
Expenditures						
Current:						
General government	6,126,922	-	-	3,024,039	107,313	9,258,274
District court	2,193,310	-	-	-	-	2,193,310
Public safety	-	11,867,767	14,177,787	10,124,028	175,613	36,345,195
Public works	430,928	-	-	-	529,654	960,582
Recreation and culture	3,637,966	-	-	-	10,967	3,648,933
Capital outlay	1,508,498	65,967	247,119	-	2,582,584	4,404,168
Total expenditures	13,897,624	11,933,734	14,424,906	13,148,067	3,406,131	56,810,462
Excess of Revenue Over (Under) Expenditures	3,128,753	1,685,573	22,512	(13,148,067)	(2,608,163)	(10,919,392)
Other Financing Sources (Uses)						
Proceeds from sale of capital assets	-	-	-	-	5,050	5,050
Transfers in (Note 6)	-	-	60,991	1,597,096	4,640,988	6,299,075
Transfers out (Note 6)	(3,561,750)	(602,241)	(668,584)	-	(1,458,500)	(6,291,075)
Total other financing sources (uses)	(3,561,750)	(602,241)	(607,593)	1,597,096	3,187,538	13,050
Net Change in Fund Balances	(432,997)	1,083,332	(585,081)	(11,550,971)	579,375	(10,906,342)
Fund Balances - As restated - Beginning of year (Note 2)	10,782,712	14,391,571	11,279,656	11,550,971	12,662,712	60,667,622
Fund Balances - End of year	\$ 10,349,715	\$ 15,474,903	\$ 10,694,575	\$ -	\$ 13,242,087	\$ 49,761,280

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, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (10,906,342)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	3,791,641
Depreciation expense	(2,235,535)
Net book value of assets disposed of	(92,109)

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	240,124
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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	(11,651)
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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	10,656
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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>9,028,621</u>
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Change in Net Assets of Governmental Activities \$ (174,595)

Charter Township of Shelby

Proprietary Funds Statement of Net Assets December 31, 2011

	Enterprise Funds		
	Enterprise Major		
	Fund - Water and Sewer	Enterprise Fund - Shelby Manor	Total
Assets			
Current assets:			
Cash and investments (Note 4)	\$ 40,054,752	\$ 363,319	\$ 40,418,071
Receivables:			
Special assessments receivable	30,615	-	30,615
Customers	6,632,336	-	6,632,336
Accrued interest receivable	7,941	-	7,941
Other receivables	28,307	68,516	96,823
Due from other governmental units	12,243	-	12,243
Due from other funds (Note 6)	32,826	-	32,826
Inventory	191,968	-	191,968
Prepaid expenses and other assets	128,507	2,949	131,456
Total current assets	47,119,495	434,784	47,554,279
Noncurrent assets:			
Restricted assets (Note 9)	6,798,929	-	6,798,929
Special assessment receivables	146,385	-	146,385
Capital assets:			
Assets not subject to depreciation (Note 5)	3,163,495	1,320,000	4,483,495
Assets subject to depreciation - Net (Note 5)	105,529,109	8,669,270	114,198,379
Total noncurrent assets	115,637,918	9,989,270	125,627,188
Total assets	162,757,413	10,424,054	173,181,467
Liabilities			
Current liabilities:			
Accounts payable	2,065,810	50,494	2,116,304
Due to other funds (Note 6)	10,000	-	10,000
Accrued liabilities and other	1,635,501	182,738	1,818,239
Payable from restricted assets (Note 9)	512,580	-	512,580
Due to fiduciary fund	800,150	-	800,150
Compensated absences (Note 8)	8,135	-	8,135
Current portion of long-term debt (Note 8)	1,183,979	790,580	1,974,559
Total current liabilities	6,216,155	1,023,812	7,239,967
Noncurrent liabilities:			
Compensated absences (Note 8)	89,923	-	89,923
Unearned revenue (Note 7)	1,267,561	-	1,267,561
Other postemployment benefit obligations (Note 11)	677,565	-	677,565
Long-term debt - Net of current portion (Note 8)	28,433,312	4,003,960	32,437,272
Total noncurrent liabilities	30,468,361	4,003,960	34,472,321
Total liabilities	36,684,516	5,027,772	41,712,288
Net Assets			
Invested in capital assets - Net of related debt	83,048,871	5,194,730	88,243,601
Restricted - Revenue bond reserves (Note 9)	2,312,791	-	2,312,791
Unrestricted	40,711,235	201,552	40,912,787
Total net assets	\$ 126,072,897	\$ 5,396,282	\$ 131,469,179

Charter Township of Shelby

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2011

	Enterprise Funds		
	Enterprise Major		
	Fund - Water and Sewer	Enterprise Fund - Shelby Manor	Total
Operating Revenue			
Sale of water	\$ 11,862,465	\$ -	\$ 11,862,465
Sewage disposal charges	6,161,496	-	6,161,496
Other sales to customers	1,753,440	-	1,753,440
Other miscellaneous income	19,592	33,522	53,114
Rental income	-	1,750,701	1,750,701
Total operating revenue	19,796,993	1,784,223	21,581,216
Operating Expenses			
Cost of water	9,577,721	-	9,577,721
Cost of sewage treatment	3,807,213	-	3,807,213
Other operation and maintenance	3,142,024	813,400	3,955,424
Billing and administrative costs	276,549	-	276,549
Depreciation	3,430,126	225,411	3,655,537
Total operating expenses	20,233,633	1,038,811	21,272,444
Operating (Loss) Income	(436,640)	745,412	308,772
Nonoperating Revenue (Expense)			
Investment income	99,503	666	100,169
Interest expense	(943,779)	(184,520)	(1,128,299)
Total nonoperating expense	(844,276)	(183,854)	(1,028,130)
(Loss) Income - Before contributions and transfers	(1,280,916)	561,558	(719,358)
Capital Contributions - Other capital contributions	757,636	-	757,636
Transfers Out (Note 6)	(8,000)	-	(8,000)
Change in Net Assets	(531,280)	561,558	30,278
Net Assets - Beginning of year	126,604,177	4,834,724	131,438,901
Net Assets - End of year	\$ 126,072,897	\$ 5,396,282	\$ 131,469,179

Charter Township of Shelby

Proprietary Funds Statement of Cash Flows Year Ended December 31, 2011

	Business-type Activities		
	Enterprise Major Fund - Water and Sewer	Enterprise Fund - Shelby Manor	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 18,971,887	\$ 1,682,185	\$ 20,654,072
Payments to suppliers	(13,654,664)	(775,870)	(14,430,534)
Payments to employees	(2,640,106)	-	(2,640,106)
Other receipts	19,592	33,522	53,114
Net cash provided by operating activities	2,696,709	939,837	3,636,546
Cash Flows from Noncapital Financing Activities - Transfers to other funds	(8,000)	-	(8,000)
Cash Flows from Capital and Related Financing Activities			
Special assessment collections	94,736	-	94,736
Purchase of capital assets	(317,361)	(241,224)	(558,585)
Principal and interest paid on capital debt	(2,026,727)	(995,100)	(3,021,827)
Collection of capital charges and front foot assessments	757,636	-	757,636
Pre-payment of OMID Segment 2	(1,489,551)	-	(1,489,551)
Net cash used in capital and related financing activities	(2,981,267)	(1,236,324)	(4,217,591)
Cash Flows from Investing Activities			
Interest received on investments	99,503	666	100,169
Net sales of investment securities	(30,222)	-	(30,222)
Net cash provided by investing activities	69,281	666	69,947
Net Decrease in Cash and Cash Equivalents	(223,277)	(295,821)	(519,098)
Cash and Cash Equivalents - Beginning of year	16,378,753	659,140	17,037,893
Cash and Cash Equivalents - End of year	<u>\$ 16,155,476</u>	<u>\$ 363,319</u>	<u>\$ 16,518,795</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 40,054,752	\$ 363,319	\$ 40,418,071
Restricted cash (Note 9)	2,825,371	-	2,825,371
Less amounts classified as investments	(26,724,647)	-	(26,724,647)
Total cash and cash equivalents	<u>\$ 16,155,476</u>	<u>\$ 363,319</u>	<u>\$ 16,518,795</u>

Charter Township of Shelby

Proprietary Funds Statement of Cash Flows (Continued) Year Ended December 31, 2011

	Business-type Activities		
	Enterprise Major Fund - Water and Sewer	Enterprise Fund - Shelby Manor	Total
	Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities		
Operating (loss) income	\$ (436,640)	\$ 745,412	\$ 308,772
Adjustments to reconcile operating (loss) income to net cash from operating activities:			
Depreciation and amortization	3,430,126	225,411	3,655,537
Changes in assets and liabilities:			
Receivables	(807,860)	(68,516)	(876,376)
Prepaid and other assets	38,282	(423)	37,859
Accounts payable	316,485	37,953	354,438
Due to other funds	(30,372)	-	(30,372)
Accrued and other liabilities	342,052	-	342,052
Unearned revenue	(155,364)	-	(155,364)
Net cash provided by operating activities	\$ 2,696,709	\$ 939,837	\$ 3,636,546

Noncash Transaction - During the year ended December 31, 2011, the Township recorded approximately \$3,630,000 of capital assets and related debt representing the Township's portion of the Oakland Macomb Interceptor Drainage District and Macomb Interceptor Drainage District projects.

Charter Township of Shelby

Fiduciary Funds Statement of Fiduciary Net Assets December 31, 2011

	Pension and Other Employee Benefit Trust Funds	Agency Funds
Assets		
Cash and cash equivalents (Note 4)	\$ 13,960,709	\$ 4,407,771
Investments (Note 4):		
Common stock	23,368,602	-
Short-term funds	838,418	-
Collective index and mutual funds	27,059,901	-
Receivables:		
Accrued interest receivable	90	-
Other receivables	-	101,157
Due from other governmental units	-	7,522
Due from primary government	-	778,708
Due from other funds	800,150	342,215
Prepaid expenses and other assets	351,722	10,916
Total assets	66,379,592	\$ 5,648,289
Liabilities		
Accounts payable	3,331	\$ 130,997
Due to other funds	-	342,215
Deposits	-	1,089,526
Accrued and other liabilities	19	492,347
Advance tax collections	-	3,593,204
Total liabilities	3,350	\$ 5,648,289
Net Assets Held in Trust for Pension and Other Employee Benefits	\$ 66,376,242	

Charter Township of Shelby

Fiduciary Funds Statement of Changes in Fiduciary Net Assets Year Ended December 31, 2011

	Pension and Other Employee Benefit Trust Funds
Additions	
Investment income:	
Interest and dividends	\$ 550,637
Net realized and unrealized gain on investments	204,935
Investment-related expenses	<u>(252,625)</u>
Net investment income	502,947
Contributions:	
Employer	20,943,099
Employee	<u>544,471</u>
Total contributions	<u>21,487,570</u>
Total additions	21,990,517
Deductions	
Benefit payments	6,273,121
Administrative expenses	<u>24,252</u>
Total deductions	<u>6,297,373</u>
Net Increase in Net Assets Held in Trust	15,693,144
Net Assets Held in Trust for Pension and Other Employee Benefits - Beginning of year	<u>50,683,098</u>
Net Assets Held in Trust for Pension and Other Employee Benefits - End of year	<u><u>\$ 66,376,242</u></u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2011

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

Notes to Financial Statements December 31, 2011

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

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. 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 1 - Nature of Business and Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred 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 Postemployment Benefit Fund accounted for resources accumulated for retiree health care, prior to the establishment of the Retiree Health Care Trust.

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.

Charter Township of Shelby

Notes to Financial Statements December 31, 2011

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

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.

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

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

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

Charter Township of Shelby

Notes to Financial Statements December 31, 2011

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

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

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 2010 taxable valuation of the Township totaled approximately \$3,083,000,000, 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 \$3,637,000 for general operations, \$11,906,000 for police protection, \$10,041,000 for fire operations, and \$3,083,000 for police and fire pension. These amounts are recorded in their respective funds as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less as of December 31, 2011. 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."

Charter Township of Shelby

Notes to Financial Statements December 31, 2011

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

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 - The revenue bonds of the enterprise funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets. Restricted assets also include the Township's share of unspent bond proceeds held by Oakland County.

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

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).

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

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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

Fund Equity - In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications - nonspendable, restricted, committed, assigned, and unassigned. The Township implemented Statement No. 54 during the year.

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

Charter Township of Shelby

Notes to Financial Statements December 31, 2011

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

- 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.
- Assigned: Intent to spend resources on specific purposes expressed by 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.

Note 2 - Accounting and Reporting Change

During the year, the Township adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. In order to conform the classifications of the funds to the appropriate fund types under these new definitions, beginning fund balance was restated as follows:

	<u>General Fund</u>
Fund balance - December 31, 2010 - As previously reported	\$ 9,055,801
Reclassifications under GASB Statement No. 54 - Cable Television Fund and 41st District Court Fund, previously reported as nonmajor special revenue funds, were merged into the General Fund	<u>1,726,911</u>
Fund balance - December 31, 2010 - As restated	<u>\$ 10,782,712</u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2011

Note 3 - 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, 2011			\$ (3,057,852)
Current year permit revenue			902,850
Related expenses:			
Direct costs	\$	971,451	
Estimated indirect costs		39,000	1,010,451
		<u> </u>	<u> </u>
Current year shortfall			(107,601)
Cumulative shortfall at December 31, 2011			<u>\$ (3,165,453)</u>

Note 4 - 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, 2011

Note 4 - 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 \$36,412,461 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	\$ 7,508,668	129 days
Agency bonds	14,412,409	307 days
Commercial paper	9,635,477	63 days
U.S. Treasury securities	14,871,965	97 days
Fixed Income Collective Index Fund (Pension Trust)	51,891	Less than 1 year
Fixed Income Collective Index Fund (Pension Trust)	9,271,116	1-5 years
Fixed Income Collective Index Fund (Pension Trust)	7,973,851	5-10 years

Charter Township of Shelby

Notes to Financial Statements December 31, 2011

Note 4 - 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	\$ 2,454,017	AAA	S&P
Bank investment pool	2,935,542	Aaa	Moody's
Bank investment pool	30,936,819	Not Rated	
Commercial paper	9,635,477	AI	S&P
Agency bonds	12,907,409	AAA	S&P
Agency bonds	1,505,000	Aaa	S&P
Short-term investment fund (Pension Trust)	838,418	AI	S&P
Fixed Income Collective Index Fund (Pension Trust)	17,296,858	AAI	S&P
Equity Collective Index Fund (Pension Trust)	9,763,043	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, 2011, 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, 2011

Note 5 - Capital Assets

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

	Balance January 1, 2011	Additions	Disposals	Balance December 31, 2011
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 11,128,458	\$ -	\$ -	\$ 11,128,458
Construction in progress	6,650,021	2,618,456	(6,163,748)	3,104,729
Subtotal	17,778,479	2,618,456	(6,163,748)	14,233,187
Capital assets being depreciated:				
Infrastructure	22,743,658	3,502,676	-	26,246,334
Buildings and improvements	14,753,328	3,337,768	-	18,091,096
Machinery and equipment	6,895,908	262,241	-	7,158,149
Vehicles	5,856,694	234,248	(433,117)	5,657,825
Library books	2,000,000	-	-	2,000,000
Subtotal	52,249,588	7,336,933	(433,117)	59,153,404
Accumulated depreciation:				
Infrastructure	6,319,139	1,109,043	-	7,428,182
Buildings and improvements	7,687,885	270,376	-	7,958,261
Machinery and equipment	4,455,896	432,588	-	4,888,484
Vehicles	4,111,489	423,528	(341,008)	4,194,009
Library books	1,000,000	-	-	1,000,000
Subtotal	23,574,409	2,235,535	(341,008)	25,468,936
Net capital assets being depreciated	28,675,179	5,101,398	(92,109)	33,684,468
Net capital assets	\$ 46,453,658	\$ 7,719,854	\$ (6,255,857)	\$ 47,917,655

Charter Township of Shelby

Notes to Financial Statements December 31, 2011

Note 5 - Capital Assets (Continued)

	Balance January 1, 2011	Additions	Disposals	Balance December 31, 2011
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 1,525,441	\$ -	\$ -	\$ 1,525,441
Construction in progress	1,301,591	1,670,985	(14,522)	2,958,054
Subtotal	2,827,032	1,670,985	(14,522)	4,483,495
Capital assets being depreciated:				
Buildings and improvements	17,166,500	241,223	-	17,407,723
Vehicles	606,301	-	-	606,301
Furniture and fixtures	1,008,106	-	-	1,008,106
Water systems	38,997,000	131,168	-	39,128,168
Sewer systems	104,972,310	2,107	-	104,974,417
Subtotal	162,750,217	374,498	-	163,124,715
Accumulated depreciation:				
Buildings and improvements	5,144,540	307,470	-	5,452,010
Vehicles	600,575	-	-	600,575
Furniture and fixtures	617,999	52,478	-	670,477
Water systems	13,577,902	988,731	-	14,566,633
Sewer systems	25,329,783	2,306,858	-	27,636,641
Subtotal	45,270,799	3,655,537	-	48,926,336
Net capital assets being depreciated	117,479,418	(3,281,039)	-	114,198,379
Net capital assets	<u>\$ 120,306,450</u>	<u>\$ (1,610,054)</u>	<u>\$ (14,522)</u>	<u>\$ 118,681,874</u>

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

Governmental activities:

General government	\$ 516,994
Public safety	713,943
Public works	677,539
Recreation and culture	317,147
41A District Court	9,912
Total governmental activities	<u>\$ 2,235,535</u>

Business-type activities:

Water and sewer	\$ 3,430,126
Shelby Manor	225,411
Total business-type activities	<u>\$ 3,655,537</u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2011

Note 5 - Capital Assets (Continued)

Construction Commitments - The Township has a substantially completed construction project, construction of new police facility, for which approximately \$2.2 million of costs have been incurred as of December 31, 2011. The Township has an outstanding commitment with contractors of approximately \$1,027,000.

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Water and Sewer Fund	General Fund	\$ 12,831
	Fire Fund	220
	Nonmajor governmental funds	19,775
	Total Water and Sewer Fund	32,826
Nonmajor governmental funds	Water and Sewer Fund	10,000
	Total	<u>\$ 42,826</u>

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

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

Fund Transferred From	Fund Transferred To	Amount
General Fund	Nonmajor governmental funds	\$ 3,174,488
	Postemployment Benefit Fund	326,271
	Police Special Revenue Fund	60,991
	Total General Fund	3,561,750
Fire Fund	Postemployment Benefit Fund	602,241
Police Fund	Postemployment Benefit Fund	668,584
Nonmajor governmental funds	Nonmajor governmental funds	1,456,500
	General Fund	2,000
	Total nonmajor governmental funds	1,458,500
Water and Sewer Fund	Nonmajor governmental funds	8,000
	Total	<u>\$ 6,299,075</u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2011

Note 7 - 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	\$ 899,736	\$ -
Property taxes	-	26,176,633
Other	180,260	-
Total	<u>\$ 1,079,996</u>	<u>\$ 26,176,633</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 8 - 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.

The Township has pledged substantially all revenue of the Water and Sewer Fund, net of operating expenses, to repay the water and sewer revenue bonds listed below. Proceeds from the bonds provided financing for the construction of water and sewer lines. The bonds are payable solely from the net revenue of the water and sewer system. The remaining principal and interest to be paid on the bonds total \$11,430,893. During the current year, net revenue of the system was \$3,839,961 compared to the annual debt requirements of \$1,213,060.

Charter Township of Shelby

Notes to Financial Statements December 31, 2011

Note 8 - Long-term Debt (Continued)

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	\$ 2,849,191
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	310,143
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	1,160,353
2010 MID Series 2010A:	
Amount of issue - \$7,721,197	
Maturing through - 2035	
Interest rate range - 1.25% - 5.38%	
Principal maturity range - \$240,000 - \$455,000	7,721,198
2010 N. Gratiot Drainage Assessment:	
Amount of issue - \$73,021	
Maturing through 2035	
Interest rate range - 1.00% - 6.35%	
Principal maturity range - \$1,500 - \$4,200	71,622
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	123,150
2008 N. Gratiot Drainage Assessment:	
Amount of issue - \$750,485	
Maturing through 2033	
Principal maturity range - \$17,224 - \$42,182	732,910
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	4,794,539
2006 B.A. Refunding Bonds:	
Amount of issue - \$3,730,000	
Maturing through 2024	
Interest rate range - 4.00% - 5.50%	
Principal maturity ranges - \$165,000 - \$300,000	3,145,000
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	4,861,225

Subtotal

25,769,331

Charter Township of Shelby

Notes to Financial Statements December 31, 2011

Note 8 - Long-term Debt (Continued)

Revenue Bonds:	
1999 Revenue Bonds:	
Amount of issue - \$4,555,000	
Maturing through 2013	
Interest rate range - 4.30% - 4.40%	
Principal maturity range - \$420,000 - \$460,000	\$ 900,000
2002 Revenue Bonds:	
Amount of issue - \$2,500,000	
Maturing through 2022	
Interest rate range - 3.75% - 4.80%	
Principal maturity range - \$100,000 - \$250,000	1,925,000
2003 Refunding Bonds:	
Amount of issue - \$8,000,000	
Maturing through 2022	
Interest rate range - 3.25% - 4.20%	
Principal maturity range - \$300,000 - \$700,000	<u>6,300,000</u>
Subtotal	<u>9,125,000</u>
Total business-type activity debt	<u>\$ 34,894,331</u>

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Compensated absences	\$ 851,998	\$ 11,651	\$ -	\$ 863,649	\$ 96,205
Business-type Activities					
General obligations	\$ 23,148,037	\$ 3,629,901	\$ 1,008,607	\$ 25,769,331	\$ 1,492,059
Special assessment bonds	95,000	-	95,000	-	-
Revenue bonds	9,945,000	-	820,000	9,125,000	965,000
Total bonds payable	<u>33,188,037</u>	<u>3,629,901</u>	<u>1,923,607</u>	<u>34,894,331</u>	<u>2,457,059</u>
Compensated absences	<u>86,309</u>	<u>11,749</u>	<u>-</u>	<u>98,058</u>	<u>8,135</u>
Total business-type activities	<u>\$ 33,274,346</u>	<u>\$ 3,641,650</u>	<u>\$ 1,923,607</u>	<u>\$ 34,992,389</u>	<u>\$ 2,465,194</u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2011

Note 8 - 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
2012	\$ 2,457,059	\$ 1,326,246	\$ 3,783,305
2013	2,476,878	1,250,812	3,727,690
2014	2,206,606	1,293,953	3,500,559
2015	2,253,186	1,233,804	3,486,990
2016	2,310,963	1,140,866	3,451,829
2017-2021	9,763,165	4,334,994	14,098,159
2022-2026	5,842,539	2,461,148	8,303,687
2027-2031	4,668,960	1,307,041	5,976,001
2032-2035	2,914,976	315,315	3,230,291
Total	<u>\$ 34,894,332</u>	<u>\$ 14,664,179</u>	<u>\$ 49,558,511</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 amount of bonds issued, the Townships' 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, 2011

Note 8 - Long-term Debt (Continued)

Oakland-Macomb Interceptor Drainage District (OMID)

	County Portion	Township Portion
	<u> </u>	<u> </u>
2010A (SRF)	\$ 24,356,397	\$ 1,160,353
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, 2011. 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, 2011, \$8,065,000 of bonds outstanding is considered defeased.

Subsequent Event - Subsequent to year end, the Township board authorized the advanced repayment in full of the three revenue bond issues noted above in the business-type activities, with amounts outstanding totaling \$9,125,000 at December 31, 2011. The advanced repayment is anticipated to take place by June 30, 2012.

Note 9 - Restricted Assets

Restricted assets at December 31, 2011 consist of cash and cash equivalents (including bank investment pools) and are reserved in accordance with revenue bond ordinance requirements. The following is the detail of restricted assets related to bond ordinances at December 31, 2011:

	Business-type Activities
	<u> </u>
Revenue bond requirements:	
Operations and maintenance	\$ 1,400,291
Bond reserve	912,500
Debt service:	
Principal	482,500
Interest	30,080
Current liabilities payable from restricted assets	<u>(512,580)</u>
Net assets restricted for revenue bond ordinances	<u><u>\$ 2,312,791</u></u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2011

Note 9 - Restricted Assets (Continued)

In addition, the Township has \$3,973,558 of restricted assets 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 8.

Note 10 - 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.

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	
	2011	2010
Unpaid claims - Beginning of year	\$ 636,040	\$ -
Incurred claims, including claims incurred but not reported	3,263,163	3,732,567
Claim payments	<u>(3,265,758)</u>	<u>(3,096,527)</u>
Unpaid claims - End of year	<u>\$ 633,445</u>	<u>\$ 636,040</u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2011

Note 11 - Other Postemployment Benefits

Plan Description - The Township provides healthcare benefits and life insurance benefits to all general employees who retire having a minimum of 15 years of continuous full-time service and having attained an age of 55 or above, which, when combined with the number of years of service, is greater than or equal to 75. The Township provides healthcare benefits and life insurance benefits to all court employees who retire at an age of 55 or above with 10 years of full-time service. The Township provides healthcare benefits to all police and fire employees retiring after 25 years of service, in accordance with labor contracts. The benefits provided cover the retired employee, as well as his or her spouse and any eligible dependents, and are paid in full by the Township until age 65. At age 65, the employee and spouse must apply for Medicare and the Township then supplies a complementary coverage policy to equal their prior benefits. Currently, 137 retirees are eligible.

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, 2011.

Funding Progress - For the year ended December 31, 2011, the Township has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of January 1, 2011. 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	\$ 6,431,625
Interest on the prior year's net OPEB obligation	679,884
Less adjustment to the annual required contribution	<u>(657,390)</u>
Annual OPEB cost	6,454,119
Amounts contributed:	
Payments of current premiums	(2,044,693)
Prefunding contribution	<u>(13,948,217)</u>
Decrease in net OPEB obligation	(9,538,791)
OPEB obligation - Beginning of year	<u>15,423,279</u>
OPEB obligation - End of year	<u>\$ 5,884,488</u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2011

Note 11 - Other Postemployment Benefits (Continued)

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
12/31/11	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
12/31/08	1/1/07	5,554,000	31.7	3,795,485

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
1/1/11	\$ -	\$ 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

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.

Note 11 - Other Postemployment Benefits (Continued)

In the January 1, 2011 actuarial valuation, the projected unit credit with linear proration to decrement method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses), which is the expected long-term investment return on plan assets, and an annual healthcare cost trend rate of 9.0 percent initially, reduced by decrements to an ultimate rate of 0.5 percent by 2020. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at January 1, 2011 was 28 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, 2011, the date of the most recent actuarial valuation, membership consisted of 90 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 130 current active employees. The plan does not issue a separate financial report.

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

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

Charter Township of Shelby

Notes to Financial Statements December 31, 2011

Note 12 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost and Net Pension Obligation (Asset)

Annual required contribution	\$ 4,937,379
Interest on net pension obligation	(34,964)
Adjustment to annual required contribution	<u>24,308</u>
Annual pension cost (APC)	4,926,723
Contributions made	<u>(4,937,379)</u>
Decrease in net pension obligation	(10,656)
Net pension asset - Beginning of year	<u>(437,044)</u>
Net pension asset - End of year	<u><u>\$ (447,700)</u></u>

Three-year Trend Information of Annual Pension Costs

	Fiscal Year Ended December 31		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Annual pension cost (APC)	\$ 4,926,723	\$ 4,600,364	\$ 3,590,629
Percentage of APC contributed	100.2 %	100.3 %	102.1 %
Net pension asset	\$ 447,700	\$ 437,044	\$ 425,338

Funding Status and Funding Progress - As of December 31, 2011, the most recent actuarial valuation date, the plan was 66.93 percent funded. The actuarial accrued liability for benefits was \$79,426,074, and the actuarial value of assets was \$53,157,554, resulting in an unfunded actuarial accrued liability of \$26,268,520. The covered payroll (annual payroll to active employees covered by the plan) was \$11,259,348, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 233 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.

Charter Township of Shelby

Notes to Financial Statements December 31, 2011

Note 12 - Defined Benefit Pension Plan (Continued)

Actuarial Methods and Assumptions - For the year ended December 31, 2011, the Township's contribution exceeded the annual pension cost of \$4,926,723 for the plan by \$10,656. 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 15 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	Reserved for Retiree Benefit Payments
Balance - January 1, 2011	\$ 6,282,254	\$ (512,098)	\$ 44,912,942
Additions	557,281	4,937,379	-
Earnings on investments	123,720	(2,792,470)	3,462,917
Transfers	(96,251)	(391,479)	487,730
Deductions	-	(315,471)	(4,228,428)
Balance - December 31, 2011	<u>\$ 6,867,004</u>	<u>\$ 925,861</u>	<u>\$ 44,635,161</u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2011

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
Statement of Net Assets		
Investments	\$ 52,079,563	\$ 13,148,067
Other assets	351,812	810,150
Liabilities	3,350	-
Net assets	<u>\$ 52,428,025</u>	<u>\$ 13,958,217</u>
Statement of Changes in Net Assets		
Investment income	\$ 502,947	\$ -
Contributions	5,494,660	15,677,925
Benefit payments	4,228,428	1,729,708
Other deductions	24,252	-
Net change in net assets	<u>\$ 1,744,927</u>	<u>\$ 13,948,217</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, police chief, and court employees are fully vested after 20 months of continuous service.

During the year ended December 31, 2011, the Township made contributions of \$757,432 and the plan members contributed \$418,505 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 2011, the Township recognized \$125,000 in revenue related to this lease, of which \$10,417 was deferred at year end.

Charter Township of Shelby

Notes to Financial Statements December 31, 2011

Note 15 - Future Minimum Lease Revenue (Continued)

Future annual minimum lease payments are as follows:

	Percent of Gross Revenue	Minimum Rent
2012-2015	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 - Upcoming Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB statements and interpretations, APB opinions, and accounting research bulletins of the AICPA Committee on Accounting Procedure. The Township is currently evaluating the impact this standard will have on the financial statements when adopted during the Township's 2012 fiscal year.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the Township's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

Charter Township of Shelby

Notes to Financial Statements December 31, 2011

Note 16 - Upcoming Accounting Pronouncements (Continued)

In March 2012, the GASB issued GASB 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 as of fiscal year 2012.

Required Supplemental Information

Charter Township of Shelby

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2011

	Original Budget	Amended Budget	Actual
Revenue			
Property taxes	\$ 3,654,400	\$ 3,638,318	\$ 3,639,564
Licenses and permits	484,500	786,100	907,760
State-shared revenue and grants	4,625,678	5,704,584	5,937,137
Charges for services	2,285,518	2,258,606	2,250,708
Fines and forfeitures	2,557,300	2,554,200	2,457,425
Investment income	200,000	104,720	116,731
Other revenue:			
Local donations	9,810	17,445	15,540
Other miscellaneous income	232,035	292,428	525,555
Total revenue	14,049,241	15,356,401	15,850,420
Expenditures			
Current:			
General government	6,997,473	6,708,023	6,125,582
Public works	371,500	450,500	430,928
Recreation and culture	3,534,162	3,450,542	3,019,994
Capital outlay	1,248,000	1,297,000	1,341,669
Total expenditures	12,151,135	11,906,065	10,918,173
Excess of Revenue Over Expenditures	1,898,106	3,450,336	4,932,247
Other Financing Sources (Uses)			
Transfers in	3,661	33,000	20,000
Transfers out	(3,049,352)	(3,033,353)	(3,882,197)
Total other financing uses	(3,045,691)	(3,000,353)	(3,862,197)
Net Change in Fund Balance	(1,147,585)	449,983	1,070,050
Fund Balance - Beginning of year	9,055,801	9,055,801	9,055,801
Fund Balance - End of year	\$ 7,908,216	\$ 9,505,784	\$ 10,125,851

Charter Township of Shelby

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Fire Fund Year Ended December 31, 2011

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>
Revenue			
Property taxes	\$ 11,551,216	\$ 11,504,429	\$ 11,500,818
Federal grants	13,000	35,518	38,614
Charges for services	1,466,350	2,096,110	1,984,363
Investment income	40,000	23,165	30,462
Other miscellaneous income	27,500	19,628	65,050
Total revenue	<u>13,098,066</u>	<u>13,678,850</u>	<u>13,619,307</u>
Expenditures			
Current - Public safety	12,628,934	12,581,172	11,867,767
Capital outlay	290,215	84,391	65,967
Total expenditures	<u>12,919,149</u>	<u>12,665,563</u>	<u>11,933,734</u>
Other Financing Uses - Transfers out	<u>(727,400)</u>	<u>(715,300)</u>	<u>(602,241)</u>
Net Change in Fund Balance	(548,483)	297,987	1,083,332
Fund Balance - Beginning of year	<u>14,391,571</u>	<u>14,391,571</u>	<u>14,391,571</u>
Fund Balance - End of year	<u><u>\$ 13,843,088</u></u>	<u><u>\$ 14,689,558</u></u>	<u><u>\$ 15,474,903</u></u>

Charter Township of Shelby

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Police Fund Year Ended December 31, 2011

	Original Budget	Amended Budget	Actual
Revenue			
Property taxes	\$ 13,548,051	\$ 13,478,470	\$ 13,485,159
Federal grants	-	700	33,688
State-shared revenue and grants	55,400	56,080	76,418
Charges for services	690,400	726,292	709,758
Investment income	45,000	25,095	25,444
Other revenue	80,500	118,432	116,951
Total revenue	14,419,351	14,405,069	14,447,418
Expenditures			
Current - Public safety	14,832,755	14,801,607	14,177,787
Capital outlay	277,600	407,030	247,119
Total expenditures	15,110,355	15,208,637	14,424,906
Excess of Revenue (Under) Over Expenditures	(691,004)	(803,568)	22,512
Other Financing Sources (Uses)			
Transfers in	45,000	35,000	60,991
Transfers out	(861,500)	(746,842)	(668,584)
Total other financing uses	(816,500)	(711,842)	(607,593)
Net Change in Fund Balance	(1,507,504)	(1,515,410)	(585,081)
Fund Balance - Beginning of year	11,279,656	11,279,656	11,279,656
Fund Balance - End of year	<u>\$ 9,772,152</u>	<u>\$ 9,764,246</u>	<u>\$ 10,694,575</u>

Charter Township of Shelby

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Postemployment Benefits Year Ended December 31, 2011

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>
Expenditures - Current			
General government - Governing body (Council, Board)	\$ -	\$ -	\$ 3,024,039
Public safety	-	-	10,124,028
Total expenditures	-	-	13,148,067
Other Financing Sources - Transfers in	<u>2,037,300</u>	<u>1,839,867</u>	<u>1,597,096</u>
Net Change in Fund Balance	2,037,300	1,839,867	(11,550,971)
Fund Balance - Beginning of year	<u>11,550,971</u>	<u>11,550,971</u>	<u>11,550,971</u>
Fund Balance - End of year	<u><u>\$ 13,588,271</u></u>	<u><u>\$ 13,390,838</u></u>	<u><u>\$ -</u></u>

Charter Township of Shelby

Required Supplemental Information Police and Fire Pension System Schedule of Funding Progress Year Ended December 31, 2011

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
12/31/05	\$ 38,357,722	\$ 62,956,557	\$ 24,598,835	60.9 %	\$ 9,684,107	254.0 %
12/31/06	43,117,908	64,829,302	21,711,394	66.5	9,888,910	219.6
12/31/07	47,295,651	70,215,213	22,919,562	67.4	10,447,198	219.4
12/31/08	47,537,521	76,296,538	28,759,017	62.3	10,815,600	265.9
12/31/09	48,968,765	79,494,112	30,525,347	61.6	10,939,120	279.0
12/31/10	51,181,336	82,216,041	31,034,705	62.3	10,915,185	284.3
12/31/11	53,157,554	79,426,074	26,268,520	66.9	11,259,348	233.3

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
12/31/06	12/31/04	\$ 3,091,200	105.9 %
12/31/07	12/31/05	3,422,222	102.6
12/31/08	12/31/06	3,292,075	112.5
12/31/09	12/31/07	3,600,027	102.1
12/31/10	12/31/08	4,611,275	100.2
12/31/11	12/31/09	4,937,379	100.2

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

Amortization method	Level percent of payroll
Amortization period (perpetual)	11 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	4.5% - 9.50%
* Includes inflation at	4.25%
Cost of living adjustments	None

Charter Township of Shelby

Note to Required Supplemental Information Year Ended December 31, 2011

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:

	Total Revenue and Transfers	Total Expenditures and Transfers
General Fund		
Amounts per operating statement	\$ 17,026,377	\$ 17,459,374
Cable Television Fund budgeted separately from the General Fund	<u>(1,175,957)</u>	<u>(2,679,004)</u>
Amounts per budget statement	<u>\$ 15,850,420</u>	<u>\$ 14,780,370</u>

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

	Budget	Actual	Variance
General Fund - Capital outlay	\$ 1,297,000	\$ 1,341,669	\$ (44,669)
General Fund - Transfers out	3,033,353	3,882,978	(849,625)
Postemployment Benefit Fund - Contribution to trust	-	13,148,067	(13,148,067)

Other Supplemental Information

Charter Township of Shelby

	Nonmajor Special Revenue Funds					
	Emergency Response	Street Lighting	Building Authority	Michigan Justice Training Grant	Community Block Grant	Federal Forfeiture
Assets						
Cash and investments	\$ 209,812	\$ 101,507	\$ 14,984	\$ 25,475	\$ 13,352	\$ 18,976
Receivables:						
Other receivables	-	824	-	-	-	-
Due from other governmental units	-	3,473	-	-	10,520	-
Due from other funds	-	-	-	-	-	-
Prepaid expenses and other assets	-	-	-	-	-	-
Total assets	\$ 209,812	\$ 105,804	\$ 14,984	\$ 25,475	\$ 23,872	\$ 18,976
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 13,527	\$ 47,631	\$ -	\$ 5,020	\$ 4,097	\$ -
Due to other funds	-	-	-	-	19,775	-
Deferred revenue	-	3,479	-	-	-	-
Total liabilities	13,527	51,110	-	5,020	23,872	-
Fund Balances						
Nonspendable - Prepays	-	-	-	-	-	-
Restricted:						
Police and fire	196,285	-	-	-	-	18,976
Grants	-	-	-	20,455	-	-
Street lighting	-	54,694	-	-	-	-
Community development	-	-	14,984	-	-	-
Assigned:						
Public improvement	-	-	-	-	-	-
Equipment replacement	-	-	-	-	-	-
Total fund balances	196,285	54,694	14,984	20,455	-	18,976
Total liabilities and fund balances	\$ 209,812	\$ 105,804	\$ 14,984	\$ 25,475	\$ 23,872	\$ 18,976

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2011**

Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds		Total Nonmajor Governmental Funds
Drug Forfeiture	Public Improvement	Equipment Replacement	
\$ 390,476	\$ 3,470,258	\$ 9,689,871	\$ 13,934,711
-	4,110	-	4,934
-	440	-	14,433
-	10,000	-	10,000
-	15,000	6,451	21,451
<u>\$ 390,476</u>	<u>\$ 3,499,808</u>	<u>\$ 9,696,322</u>	<u>\$ 13,985,529</u>
\$ 125	\$ 8,234	\$ 641,554	\$ 720,188
-	-	-	19,775
-	-	-	3,479
125	8,234	641,554	743,442
-	15,000	6,451	21,451
390,351	-	5,845,890	6,451,502
-	-	-	20,455
-	-	-	54,694
-	-	-	14,984
-	3,476,574	-	3,476,574
-	-	3,202,427	3,202,427
<u>390,351</u>	<u>3,491,574</u>	<u>9,054,768</u>	<u>13,242,087</u>
<u>\$ 390,476</u>	<u>\$ 3,499,808</u>	<u>\$ 9,696,322</u>	<u>\$ 13,985,529</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
Revenue							
Federal grants	\$ -	\$ -	\$ -	\$ -	\$ 48,083	\$ -	\$ -
State-shared revenue and grants	110,980	-	-	12,813	-	-	-
Charges for services	-	257,138	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-	69,711
Investment income	200	557	-	-	-	20	2,185
Other revenue	-	38	-	-	-	-	-
Total revenue	111,180	257,733	-	12,813	48,083	20	71,896
Expenditures							
Current:							
General government	-	-	-	-	5,000	-	-
Public safety	62,691	-	-	11,989	-	-	100,933
Public works	-	347,191	-	-	-	-	-
Recreation and culture	-	-	-	-	7,000	-	-
Capital outlay	-	-	-	-	36,083	-	-
Total expenditures	62,691	347,191	-	11,989	48,083	-	100,933
Excess of Revenue Over (Under) Expenditures	48,489	(89,458)	-	824	-	20	(29,037)
Other Financing Sources (Uses)							
Proceeds from sale of capital assets	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing sources	-	-	-	-	-	-	-
Net Change in Fund Balances	48,489	(89,458)	-	824	-	20	(29,037)
Fund Balances - Beginning of year	147,796	144,152	14,984	19,631	-	18,956	419,388
Fund Balances - End of year	\$ 196,285	\$ 54,694	\$ 14,984	\$ 20,455	\$ -	\$ 18,976	\$ 390,351

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes in
Fund Balances
Nonmajor Governmental Funds
Year Ended December 31, 2011

<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>
\$ 229,625	\$ -	\$ 277,708
-	9,217	133,010
-	-	257,138
-	-	69,711
-	-	2,962
<u>23,014</u>	<u>34,387</u>	<u>57,439</u>
252,639	43,604	797,968
78,805	23,508	107,313
-	-	175,613
182,463	-	529,654
-	3,967	10,967
<u>48,077</u>	<u>2,498,424</u>	<u>2,582,584</u>
<u>309,345</u>	<u>2,525,899</u>	<u>3,406,131</u>
(56,706)	(2,482,295)	(2,608,163)
-	5,050	5,050
2,114,488	2,526,500	4,640,988
<u>(1,458,500)</u>	<u>-</u>	<u>(1,458,500)</u>
<u>655,988</u>	<u>2,531,550</u>	<u>3,187,538</u>
599,282	49,255	579,375
<u>2,892,292</u>	<u>9,005,513</u>	<u>12,662,712</u>
<u>\$ 3,491,574</u>	<u>\$ 9,054,768</u>	<u>\$ 13,242,087</u>

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
Assets			
Cash and cash equivalents	\$ 812,642	\$ 13,148,067	\$ 13,960,709
Investments	51,266,921	-	51,266,921
Receivables:			
Accrued interest receivable	90	-	90
Other receivables	-	-	-
Due from other governmental units	-	-	-
Due from primary government	-	-	-
Due from other funds	-	800,150	800,150
Prepaid expenses and other assets	351,722	-	351,722
	<u>52,431,375</u>	<u>13,948,217</u>	<u>66,379,592</u>
Total assets			
Liabilities			
Accounts payable	3,331	-	3,331
Due to other funds	-	-	-
Refundable deposits, bonds, etc.	-	-	-
Accrued and other liabilities	19	-	19
Deferred revenue	-	-	-
	<u>3,350</u>	<u>-</u>	<u>3,350</u>
Total liabilities			
Net Assets Held in Trust for Pension and Other Employee Benefits	<u>\$ 52,428,025</u>	<u>\$ 13,948,217</u>	<u>\$ 66,376,242</u>

Other Supplemental Information
Combining Statement of Assets and Liabilities
Pension and Other Employee Benefit Trust Funds and Agency Funds
December 31, 2011

Agency Funds						
Trust and Agency	Treasurer's Agency	Current Tax Collection	41st District Court	Accounts Payable Imprest	Payroll Imprest	Total Agency Funds
\$ 808,748	\$ 3,975	\$ 3,601,693	\$ -	\$ 90	\$ (6,735)	\$ 4,407,771
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	101,157	-	-	-	-	101,157
-	-	-	-	-	7,522	7,522
-	-	-	778,708	-	-	778,708
-	342,215	-	-	-	-	342,215
-	-	-	10,916	-	-	10,916
\$ 808,748	\$ 447,347	\$ 3,601,693	\$ 789,624	\$ 90	\$ 787	\$ 5,648,289
-	-	17,260	112,860	90	787	130,997
-	-	-	342,215	-	-	342,215
799,977	-	-	289,549	-	-	1,089,526
-	447,347	-	45,000	-	-	492,347
8,771	-	3,584,433	-	-	-	3,593,204
\$ 808,748	\$ 447,347	\$ 3,601,693	\$ 789,624	\$ 90	\$ 787	\$ 5,648,289

Charter Township of Shelby

Other Supplemental Information Combining Statement of Changes in Fiduciary Net Assets Fiduciary Funds Year Ended December 31, 2011

	Police and Fire Retirement Systems Trust Fund	Retiree Health Care Trust	Total
Additions			
Investment income:			
Interest and dividends	\$ 550,637	\$ -	\$ 550,637
Net increase in fair value of investments	204,935	-	204,935
Investment-related expenses	(252,625)	-	(252,625)
Net investment income	502,947	-	502,947
Contributions:			
Employer	4,950,189	15,992,910	20,943,099
Employee	544,471	-	544,471
Net contributions	5,494,660	15,992,910	21,487,570
Total additions	5,997,607	15,992,910	21,990,517
Deductions			
Benefit payments	4,228,428	2,044,693	6,273,121
Administrative expenses	24,252	-	24,252
Total deductions	4,252,680	2,044,693	6,297,373
Net Increase in Net Assets Held in Trust	1,744,927	13,948,217	15,693,144
Net Assets Held in Trust for Pension and Other Employee Benefits - Beginning of year	50,683,098	-	50,683,098
Net Assets Held in Trust for Pension and Other Employee Benefits - End of year	<u>\$ 52,428,025</u>	<u>\$ 13,948,217</u>	<u>\$ 66,376,242</u>