

Charter Township of Shelby Macomb County, Michigan

**Financial Report
with Supplemental Information
December 31, 2013**

Charter Township of Shelby

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Independent Auditor's Report

To the Board of Directors
Charter Township of Shelby

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Shelby (the "Township") as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Charter Township of Shelby's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Shelby as of December 31, 2013 and the respective changes in its financial position and, where applicable, cash flows, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Charter Township of Shelby

Emphasis of Matter

As discussed in Note 15 to the basic financial statements, the Township adopted new accounting guidance related to transactions previously reported as assets and liabilities. As a result, the Township now reports deferred inflows of resources for property taxes levied for the next year's budget and for governmental fund revenue that is not available. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

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

Other Information

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

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

Plante & Moran, PLLC

June 6, 2014

Charter Township of Shelby

Management's Discussion and Analysis

Using this Annual Report

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

In a condensed format, the table below shows the comparison of net position (in millions of dollars) as of December 31, 2012 to the prior year:

Table I

	Governmental Activities				Business-type Activities				Total			
	2013	2012	\$ Diff	% Diff	2013	2012	\$ Diff	% Diff	2013	2012	\$ Diff	% Diff
Assets												
Other assets	\$ 74.6	\$ 75.9	\$ (1.3)	-1.7%	\$ 43.5	\$ 47.2	\$ (3.7)	-7.8%	\$ 118.1	\$ 123.1	\$ (5.0)	-4.1%
Restricted assets	-	-	-		4.3	2.7	1.6	59.3%	4.3	2.7	1.6	59.3%
Capital assets	<u>50.4</u>	<u>51.3</u>	<u>(0.9)</u>	-1.8%	<u>119.5</u>	<u>117.6</u>	<u>1.9</u>	1.6%	<u>169.9</u>	<u>168.9</u>	<u>1.0</u>	0.6%
Total assets	125.0	127.2	(2.2)	-1.7%	167.3	167.5	(0.2)	-0.1%	292.3	294.7	(2.4)	-0.8%
Liabilities												
Current liabilities	2.0	3.6	(1.6)	-44.4%	7.2	6.3	0.9	14.3%	9.2	9.9	(0.7)	-7.1%
Long-term liabilities	<u>8.0</u>	<u>8.2</u>	<u>(0.2)</u>	-2.4%	<u>23.1</u>	<u>24.8</u>	<u>(1.7)</u>	-6.9%	<u>31.1</u>	<u>33.0</u>	<u>(1.9)</u>	-5.8%
Total liabilities	10.0	11.8	(1.8)	-15.3%	30.3	31.1	(0.8)	-2.6%	40.3	42.9	(2.6)	-6.1%
Deferred Inflows of Resources	26.0	25.5	0.5	2.0%	-	-	-	0.0%	26.0	25.5	0.5	2.0%
Net Position												
Net investment in capital assets	50.4	51.3	(0.9)	-1.8%	97.8	95.2	2.6	2.7%	148.2	146.5	1.7	1.2%
Restricted	25.5	27.6	(2.1)	-7.6%	3.2	0.8	2.4	300.0%	28.7	28.4	0.3	1.1%
Unrestricted	<u>13.1</u>	<u>11.0</u>	<u>2.1</u>	19.1%	<u>36.0</u>	<u>40.4</u>	<u>(4.4)</u>	-10.9%	<u>49.1</u>	<u>51.4</u>	<u>(2.3)</u>	-4.5%
Total net position	<u>\$ 89.0</u>	<u>\$ 89.9</u>	<u>\$ (0.9)</u>	-1.0%	<u>\$ 137.0</u>	<u>\$ 136.4</u>	<u>\$ 0.6</u>	0.4%	<u>\$ 226.0</u>	<u>\$ 226.3</u>	<u>\$ (0.3)</u>	-0.1%

The Township's combined net position decreased by \$0.3 million from a year ago, decreasing from \$226.3 million to \$226 million. A review of the governmental activities, separate from the business-type activities, shows a decrease of approximately \$0.9 million in net position, or 1 percent, during 2013. This decrease is directly related to the Township's investment in capital assets as depreciation and disposals for 2013 outpaced capital asset additions. Unrestricted net position (the portion of net position available to finance day-to-day operations and future growth of the Township) increased \$2.1 million, or 19.1 percent, to \$13.1 million as money that was previously restricted for specific uses was made available for a more general purpose. The business-type activities net position remained fairly consistent, increasing \$0.6 million, or 0.4 percent. Available assets in 2013 were used to pay down debt and invest in capital assets as a decrease in other assets of \$3.7 million was offset by a decrease of long-term liabilities by \$1.7 million and an increase in capital assets of \$1.9 million, highlighted by the completion of the restoration of one of the buildings at Shelby Manor that was damaged in a November 2012 fire. The business-type activities restricted net position increased \$2.4 million. This is attributable to a 2013 prepayment by the Township's Department of Public Works to project funds which were not significantly utilized during 2013 for the Oakland and Macomb Interceptor District's Segment 3 rehabilitation.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

The following table shows the changes in net position (in millions of dollars) as of December 31, 2013 and the prior year:

Table 2

	Governmental Activities				Business-type Activities				Total			
	2013	2012	\$ Diff	% Diff	2013	2012	\$ Diff	% Diff	2013	2012	\$ Diff	% Diff
Revenue												
Program revenue:												
Charges for services	\$ 9.0	\$ 8.7	\$ 0.3	3.4%	\$ 23.6	\$ 24.6	\$ (1.0)	-4.1%	\$ 32.6	\$ 33.3	\$ (0.7)	-2.1%
Operating grants and contributions	0.7	0.9	(0.2)	-22.2%	-	-	-	0.0%	0.7	0.9	(0.2)	-22.2%
Capital grants and contributions	0.3	0.3	-	0.0%	1.7	3.1	(1.4)	-45.2%	2.0	3.4	(1.4)	-41.2%
General revenue:												
Property taxes	25.9	26.5	(0.6)	-2.3%	-	-	-	0.0%	25.9	26.5	(0.6)	-2.3%
State-shared revenue	5.5	5.4	0.1	1.9%	-	-	-	0.0%	5.5	5.4	0.1	1.9%
Interest	0.1	0.1	-	0.0%	0.1	0.1	-	0.0%	0.2	0.2	-	0.0%
Other	2.7	2.5	0.2	8.0%	-	-	-	0.0%	2.7	2.5	0.2	8.0%
Extraordinary item	-	-	-	0.0%	0.2	1.9	(1.7)	-89.5%	0.2	1.9	(1.7)	-89.5%
Total revenue	44.2	44.4	(0.2)	-0.5%	25.6	29.7	(4.1)	-13.8%	69.8	74.1	(4.3)	-5.8%
Program Expenses												
General government	7.7	8.7	(1.0)	-11.5%	-	-	-	0.0%	7.7	8.7	(1.0)	-11.5%
Public safety	29.6	29.6	-	0.0%	-	-	-	0.0%	29.6	29.6	-	0.0%
Public works	1.5	1.5	-	0.0%	-	-	-	0.0%	1.5	1.5	-	0.0%
41st District Court	2.5	2.5	-	0.0%	-	-	-	0.0%	2.5	2.5	-	0.0%
Recreation and culture	3.8	5.2	(1.4)	-26.9%	-	-	-	0.0%	3.8	5.2	(1.4)	-26.9%
Interest on long-term debt	-	-	-	0.0%	-	-	-	0.0%	-	-	-	0.0%
Shelby Manor senior housing	-	-	-	0.0%	2.2	1.4	0.8	57.1%	2.2	1.4	0.8	57.1%
Water and sewer	-	-	-	0.0%	22.8	23.4	(0.6)	-2.6%	22.8	23.4	(0.6)	-2.6%
Total program expenses	45.1	47.5	(2.4)	-5.1%	25.0	24.8	0.2	0.8%	70.1	72.3	(2.2)	-3.0%
Transfers	-	-	-	0.0%	-	-	-	0.0%	-	-	-	0.0%
Change in Net Position	(0.9)	(3.1)	2.2	-71.0%	0.6	4.9	(4.3)	-87.8%	(0.3)	1.8	(2.1)	-116.7%
Net Position - Beginning of year	89.9	93.0	(3.1)	-3.3%	136.4	131.5	4.9	3.7%	226.3	224.5	1.8	0.8%
Net Position - End of year	<u>\$ 89.0</u>	<u>\$ 89.9</u>	<u>\$ (0.9)</u>	-1.0%	<u>\$ 137.0</u>	<u>\$ 136.4</u>	<u>\$ 0.6</u>	0.4%	<u>\$ 226.0</u>	<u>\$ 226.3</u>	<u>\$ (0.3)</u>	-0.1%

Governmental Activities

The Township's total governmental revenue decreased by approximately \$0.2 million, or .5 percent, from last year. A slight increase in state-shared revenue of \$0.1 million, or 1.9 percent, and an increase in charges for services of \$0.3 million, or 3.4 percent, due to an increase in building permits was more than offset by a decrease in property tax revenue of \$0.6 million as taxable values throughout the Township continued to decrease.

Total governmental expenses decreased approximately \$2.4 million, or 5.1 percent, reaching levels that had not been experienced since 2008. The Township has been proactive in reducing expenses in the wake of consistently declining revenues. Cost reductions due to retirements, changes in employee benefits, and a dedicated effort to analyze and reduce all operating expenditures have all contributed to the decrease in expenses. The emphasis on local road improvement and cost-sharing arrangements with the Macomb County Department of Roads for major thoroughfare continued in 2013 as the Township continued the widening of Van Dyke and began the process of widening Hayes Road between 21 and 23 Mile.

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 26,202 accounts. The Township also provides sewer service to 14,916 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 decreased by 13.8 percent to \$25.6 million. The Water and Sewer Fund's 2013 revenue decreased compared to 2012 due to a reduction in 2013 seasonal water sales. In addition, capital grants and contributions decreased due to the special assessments for the sewer extension along the southern corridor of Van Dyke Avenue, which were recorded in 2012. The Shelby Manor Fund's operating revenue increased primarily as a result of the receipt of insurance proceeds received that were used to offset increased expenses resulting from the fire that occurred in November 2012 while total revenue decreased due to a decrease in the amount of extraordinary gain realized from 2012 to 2013 as a result of the fire.

Expenses for 2013 increased 0.8 percent to \$25.0 million. The Water and Sewer Fund's expenses decreased by \$0.6 million. This decrease is primarily attributable to a reduction in water purchases and efficiencies reducing employee wages and benefits. The Shelby Manor Fund's expenses increased by \$0.8 million due to costs associated with its recovery from the fire damage incurred in 2012.

The Township's Funds

The presentation of the Township's major funds begins on page 11, 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 2013 include the General Fund, Police Fund, Fire Fund, Water and Sewer Fund, and Shelby Manor Fund. Per GASB Statement No. 54, as of 2011, the District Court and Cable Television Funds, formerly special revenue funds, were incorporated into the General Fund.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the Township board and administration monitor and amend the budget to take into account unanticipated events that occur during 2013 and acceleration of multiyear capital projects. The General Fund experienced a 1.9 percent increase in revenue from 2012. The most significant influence on revenue during 2013 was an increase in other miscellaneous income of over \$330,000, or 90.3 percent. This increase was largely driven by an accounting change whereby the General Fund pays for all fuel costs and is reimbursed from other funds based on their usage. Other major changes were a 23.86 percent increase in licenses and permits due to additional development as a result of an improving economy and a 35.85 percent decrease in interest income.

The General Fund ended the year with a favorable revenue budget variance of \$411,039.

The General Fund experienced a 9.6 percent decrease in expenditures from 2012. The most significant influence on expenditures during 2013 was a decrease in capital outlay of over \$1,550,000, or 87.68 percent. While the Township paid out over \$1,100,000 for capital outlay in 2013 for road repairs and the widening of Hayes Road between 21 and 23 Mile, the majority of these payments were reclassified as prepaid expenses, as a substantial portion of the work was not completed in 2013.

The General Fund ended the year with a favorable expenditure budget variance of \$451,643.

When comparing the 2013 original General Fund budget with the 2013 amended budget, the amended budget increased revenue by approximately \$800,000. Large increases were required in licenses and permits and other miscellaneous income. On the expenditure side, the amended budget increased expenditures by approximately \$600,000. The largest increase can be seen in the general government category.

Capital Assets and Debt Administration

At the end of 2013, the Township's governmental and business activities combined had approximately \$256 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 \$20.0 million and \$19.4 million for 2013 and 2012, respectively. The Enterprise Funds' infrastructure for 2013 and 2012 (including construction in progress), net of depreciation, is \$104.3 million and \$105.1 million, respectively. Additionally, the value of buildings and improvements for the governmental activities, net of depreciation, is \$12.1 million and \$14.1 million for 2013 and 2012, respectively. The Enterprise Funds' buildings and improvements, net of depreciation, are \$13.4 million for 2013 and \$10.8 million for 2012. See Note 4 for additional information.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

Debt reported in these financial statements is related to the construction of the above-mentioned buildings and infrastructure and is reported as a liability on the statement of net position (see Note 7 for additional information).

Economic Factors and Next Year's Budgets and Rates

The Charter Township of Shelby will maintain the same property tax millage rate for 2014 that applied in 2013 (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 21.3 percent of the General Fund's amended revenue budget for 2013. As the Township is slowly recovering from the economic downturn that occurred over the last several years, the ad valorem taxable value experienced an increase of approximately \$70 million, or 2.5 percent, between the 2012 and 2013 assessment years. State-shared revenue represented approximately 38.1 percent of the 2013 amended revenue budget. In preparing the 2014 budget, it was assumed that state-shared revenue would remain flat.

On the expenditure 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. It is anticipated that due to recently settled contracts, personnel costs will experience a slight increase in 2014 as the majority of the settled contracts included a wage increase for the first time since 2009. Our Police and Fire Pension Fund is funded at the annual actuarial recommendation. The Township board aggressively pursues a permanent solution to pension and healthcare funding to spare future taxpayers the cost of funding present benefits. In addition to recent benefit adjustments and reductions in future retiree benefits, the Township is also currently working on a way to fully fund the unfunded liability in the Police and Fire Pension system with the hope that there will be a resolution sometime prior to the end of 2014.

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.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have any questions about this report or need additional information, we invite you to contact the Charter Township of Shelby Finance Department.

Charter Township of Shelby

Statement of Net Position December 31, 2013

	Primary Government			Component Unit - DDA
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 58,302,880	\$ 33,356,250	\$ 91,659,130	\$ 303,021
Receivables:				
Property taxes receivable	12,894,697	-	12,894,697	-
Customers	-	7,086,710	7,086,710	-
Accrued interest receivable - Special assessment	-	10,797	10,797	-
Other receivables	1,140,432	1,103,887	2,244,319	-
Due from other governmental units	981,639	32,787	1,014,426	-
Special assessments receivable	-	1,834,264	1,834,264	-
Allowance for doubtful accounts	(362,151)	-	(362,151)	-
Internal balances	295,989	(295,989)	-	-
Inventories	-	140,365	140,365	-
Prepaid costs and other assets	893,250	169,656	1,062,906	-
Restricted assets (Note 8)	-	4,297,966	4,297,966	-
Net pension asset (Note 11)	420,297	-	420,297	-
Capital assets:				
Assets not subject to depreciation (Note 4)	12,163,632	1,701,441	13,865,073	-
Assets subject to depreciation - Net (Note 4)	38,279,949	117,812,501	156,092,450	-
Total assets	125,010,614	167,250,635	292,261,249	303,021
Liabilities				
Accounts payable	703,745	3,432,652	4,136,397	1,943
Accrued and other liabilities	1,174,043	2,031,025	3,205,068	-
Unearned revenue	-	6,528	6,528	-
Due to fiduciary fund	-	137,693	137,693	-
Noncurrent liabilities (Note 7):				
Due within one year:				
Compensated absences	97,810	5,479	103,289	-
Provision for property tax refund	38,244	-	38,244	-
Current portion of long-term debt	10,510	1,581,607	1,592,117	-
Due in more than one year:				
Compensated absences:	725,774	49,130	774,904	-
Unearned revenue (Note 6)	-	870,671	870,671	-
Other postemployment benefit obligations (Note 10)	7,249,068	858,627	8,107,695	-
Long-term debt - Net of current portion	31,530	21,285,709	21,317,239	-
Total liabilities	10,030,724	30,259,121	40,289,845	1,943
Deferred Inflows of Resources -				
Property taxes levied for the following year	26,023,101	-	26,023,101	-
Net Position				
Net investment in capital assets	50,401,541	97,796,547	148,198,088	-
Restricted for:				
Police and fire	25,503,737	-	25,503,737	-
Community development	14,984	-	14,984	-
Street lighting	14,933	-	14,933	-
Grants	12,132	-	12,132	-
Assets held at County	-	3,148,045	3,148,045	-
Unrestricted	13,009,462	36,046,922	49,056,384	301,078
Total net position	<u>\$ 88,956,789</u>	<u>\$ 136,991,514</u>	<u>\$ 225,948,303</u>	<u>\$ 301,078</u>

Charter Township of Shelby

	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 7,747,550	\$ 2,768,699	\$ 440,697	\$ 146,151
41A District Court	2,500,716	2,204,560	45,724	-
Public safety	29,626,592	2,831,230	157,326	166,579
Public works	1,547,401	556,848	-	-
Recreation and culture	3,819,825	660,794	30,886	-
Total governmental activities	45,242,084	9,022,131	674,633	312,730
Business-type activities:				
Water and sewer	22,792,242	21,065,281	-	1,695,719
Shelby Manor senior housing	2,156,107	2,567,711	-	-
Total	24,948,349	23,632,992	-	1,695,719
Total primary government	<u>\$ 70,190,433</u>	<u>\$ 32,655,123</u>	<u>\$ 674,633</u>	<u>\$ 2,008,449</u>
Component unit - Downtown Development Authority	<u>\$ 14,807</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenue:				
Property taxes				
State-shared revenue				
Investment income				
Cable franchise fees				
Other miscellaneous income				
Total general revenue				
Extraordinary Items (Note 4)				
Transfers				
Change in Net Position				
Net Position - Beginning of year				
Net Position - End of year				

Statement of Activities
Year Ended December 31, 2013

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit - Downtown Development Authority
Governmental Activities	Business-type Activities	Total	
\$ (4,392,003)	\$ -	\$ (4,392,003)	\$ -
(250,432)	-	(250,432)	-
(26,471,457)	-	(26,471,457)	-
(990,553)	-	(990,553)	-
(3,128,145)	-	(3,128,145)	-
(35,232,590)	-	(35,232,590)	-
-	(31,242)	(31,242)	-
-	411,604	411,604	-
-	380,362	380,362	-
(35,232,590)	380,362	(34,852,228)	-
-	-	-	(14,807)
25,880,925	-	25,880,925	-
5,538,000	-	5,538,000	-
96,583	50,123	146,706	370
1,247,860	-	1,247,860	-
1,539,864	-	1,539,864	-
34,303,232	50,123	34,353,355	370
-	179,843	179,843	-
28,087	(28,087)	-	-
(901,271)	582,241	(319,030)	(14,437)
89,858,060	136,409,273	226,267,333	315,515
\$ 88,956,789	\$ 136,991,514	\$ 225,948,303	\$ 301,078

Charter Township of Shelby

Governmental Funds Balance Sheet December 31, 2013

	General Fund	Fire Fund	Police Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 13,358,674	\$ 20,371,640	\$ 14,657,357	\$ 9,915,209	\$ 58,302,880
Receivables:					
Taxes	1,637,605	5,199,119	6,057,973	-	12,894,697
Other receivables	561,255	324,850	200,000	54,327	1,140,432
Due from other governmental units	947,300	-	-	34,339	981,639
Allowance for doubtful accounts	(47,645)	(162,346)	(152,160)	-	(362,151)
Advances to other funds	-	-	-	296,741	296,741
Prepaid expenses and other assets	793,705	14,985	20,603	63,957	893,250
Total assets	\$ 17,250,894	\$ 25,748,248	\$ 20,783,773	\$ 10,364,573	\$ 74,147,488
Liabilities					
Accounts payable	\$ 374,537	\$ 53,823	\$ 124,964	\$ 150,421	\$ 703,745
Due to other funds (Note 5)	223	529	-	-	752
Accrued and other liabilities	302,073	420,739	401,992	-	1,124,804
Provision for property tax refunds	4,905	15,338	18,001	-	38,244
Total liabilities	681,738	490,429	544,957	150,421	1,867,545
Deferred Inflows of Resources					
Unavailable revenue	1,084,074	27,799	200,000	88,666	1,400,539
Property taxes levied for the following year	3,301,636	10,458,454	12,263,011	-	26,023,101
Total deferred inflows of resources	4,385,710	10,486,253	12,463,011	88,666	27,423,640
Fund Balances					
Nonspendable - Prepays	793,705	14,985	20,603	63,957	893,250
Restricted:					
Police and fire	-	14,756,581	7,755,202	2,902,805	25,414,588
Grants	-	-	-	12,132	12,132
Street lighting	-	-	-	14,933	14,933
Community development	-	-	-	14,984	14,984
Assigned:					
Subsequent year's budget	300,520	-	-	-	300,520
Public improvement	-	-	-	4,425,905	4,425,905
Equipment replacement	-	-	-	2,690,770	2,690,770
Unassigned	11,089,221	-	-	-	11,089,221
Total fund balances	12,183,446	14,771,566	7,775,805	10,125,486	44,856,303
Total liabilities, deferred inflows of resources, and fund balances	\$ 17,250,894	\$ 25,748,248	\$ 20,783,773	\$ 10,364,573	\$ 74,147,488

Charter Township of Shelby

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position December 31, 2013

Fund Balance Reported in Governmental Funds	\$ 44,856,303
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	50,443,581
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	1,400,539
Installment purchase agreement is not due and payable in the current period and is not reported in the funds	(42,040)
Other liabilities that do not present a claim on current financial resources are not reported as fund liabilities	(49,239)
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	(823,584)
Net pension assets are not current financial resources and are not reported in the funds	420,297
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>(7,249,068)</u>
Net Position of Governmental Activities	<u>\$ 88,956,789</u>

Charter Township of Shelby

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2013

	General Fund	Fire Fund	Police Fund	Nonmajor Governmental Funds	Total
Revenue					
Property taxes	\$ 3,283,350	\$ 10,401,736	\$ 12,195,839	\$ -	\$ 25,880,925
Licenses and permits	1,425,825	-	-	-	1,425,825
Federal grants	-	166,579	73,600	156,901	397,080
State-shared revenue and grants	5,889,481	-	71,213	142,233	6,102,927
Charges for services:					
Charges to other funds	916,240	-	-	-	916,240
Charges for services to external parties	1,015,192	2,220,652	573,895	276,995	4,086,734
Fines and forfeitures	2,286,579	-	-	36,683	2,323,262
Investment income	56,699	21,816	16,321	1,747	96,583
Cable franchise fees	1,247,860	-	-	-	1,247,860
Other revenue	724,031	130,442	640,073	54,782	1,549,328
Total revenue	16,845,257	12,941,225	13,570,941	669,341	44,026,764
Expenditures					
Current:					
General government	7,553,625	-	-	95,049	7,648,674
District court	2,312,669	-	-	-	2,312,669
Public safety	-	12,580,939	15,224,551	394,312	28,199,802
Public works	456,271	-	-	276,770	733,041
Recreation and culture	3,517,389	-	-	8,541	3,525,930
Capital outlay	288,069	143,626	14,092	1,822,112	2,267,899
Total expenditures	14,128,023	12,724,565	15,238,643	2,596,784	44,688,015
Excess of Revenue Over (Under) Expenditures	2,717,234	216,660	(1,667,702)	(1,927,443)	(661,251)
Other Financing Sources (Uses)					
Proceeds from installment purchase agreement	-	-	-	42,040	42,040
Proceeds from sale of capital assets	-	-	-	2,000	2,000
Transfers in (Note 5)	304,008	-	412,221	2,025,905	2,742,134
Transfers out (Note 5)	(1,372,670)	-	-	(1,341,377)	(2,714,047)
Total other financing (uses) sources	(1,068,662)	-	412,221	728,568	72,127
Net Change in Fund Balances	1,648,572	216,660	(1,255,481)	(1,198,875)	(589,124)
Fund Balances - Beginning of year	10,534,874	14,554,906	9,031,286	11,324,361	45,445,427
Fund Balances - End of year	\$ 12,183,446	\$ 14,771,566	\$ 7,775,805	\$ 10,125,486	\$ 44,856,303

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, 2013

Net Change in Fund Balances - Total Governmental Funds \$ (589,124)

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	1,880,593
Depreciation expense	(2,685,883)
Net book value of adjustments and assets disposed of	(3,169)

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	283,962
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Installment note proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets	(42,040)
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Other liabilities do not present a claim on current financial resources and are not reported as fund liabilities	1,001,759
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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	25,457
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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	(6,975)
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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>(765,851)</u>
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Change in Net Position of Governmental Activities \$ (901,271)

Charter Township of Shelby

Proprietary Funds Statement of Net Position December 31, 2013

	Enterprise Funds		
	Water and Sewer	Shelby Manor	Total
Assets			
Current assets:			
Cash and investments (Note 3)	\$ 33,041,114	\$ 315,136	\$ 33,356,250
Receivables:			
Special assessments receivable	212,773	-	212,773
Customers	7,086,710	-	7,086,710
Accrued interest receivable	10,797	-	10,797
Other receivables	27,915	1,075,972	1,103,887
Due from other governmental units	32,787	-	32,787
Due from other funds (Note 5)	17,262	-	17,262
Inventory	140,365	-	140,365
Prepaid expenses and other assets	38,300	131,356	169,656
Total current assets	40,608,023	1,522,464	42,130,487
Noncurrent assets:			
Restricted assets (Note 8)	4,297,966	-	4,297,966
Special assessment receivables	1,621,491	-	1,621,491
Capital assets:			
Assets not subject to depreciation (Note 4)	381,441	1,320,000	1,701,441
Assets subject to depreciation (Note 4)	107,538,663	10,273,838	117,812,501
Total noncurrent assets	113,839,561	11,593,838	125,433,399
Total assets	154,447,584	13,116,302	167,563,886
Liabilities			
Current liabilities:			
Accounts payable	2,464,268	968,384	3,432,652
Due to other funds (Note 5)	-	16,510	16,510
Accrued liabilities and other	1,814,809	216,216	2,031,025
Unearned revenue	-	6,528	6,528
Due to fiduciary fund	137,693	-	137,693
Compensated absences (Note 7)	5,479	-	5,479
Current portion of long-term debt (Note 7)	736,027	845,580	1,581,607
Total current liabilities	5,158,276	2,053,218	7,211,494
Noncurrent liabilities:			
Advances from other funds	-	296,741	296,741
Compensated absences (Note 7)	49,130	-	49,130
Unearned revenue (Note 6)	870,671	-	870,671
Other postemployment benefit obligations (Note 10)	858,627	-	858,627
Long-term debt - Net of current portion (Note 7)	18,902,909	2,382,800	21,285,709
Total noncurrent liabilities	20,681,337	2,679,541	23,360,878
Total liabilities	25,839,613	4,732,759	30,572,372
Net Position			
Net investment in capital assets	89,431,089	8,365,458	97,796,547
Restricted - Assets held at County	3,148,045	-	3,148,045
Unrestricted	36,028,837	18,085	36,046,922
Total net position	<u>\$ 128,607,971</u>	<u>\$ 8,383,543</u>	<u>\$ 136,991,514</u>

Charter Township of Shelby

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended December 31, 2013

	Enterprise Funds		
	Water and Sewer	Shelby Manor	Total
Operating Revenue			
Sale of water	\$ 11,955,319	\$ -	\$ 11,955,319
Sewage disposal charges	7,241,991	-	7,241,991
Other sales to customers	1,802,030	-	1,802,030
Other miscellaneous income	65,941	702,897	768,838
Rental income	-	1,864,814	1,864,814
Total operating revenue	21,065,281	2,567,711	23,632,992
Operating Expenses			
Cost of water	10,556,410	-	10,556,410
Cost of sewage treatment	4,636,454	-	4,636,454
Other operation and maintenance	3,209,676	1,745,298	4,954,974
Billing and administrative costs	253,753	-	253,753
Depreciation	3,562,857	246,856	3,809,713
Total operating expenses	22,219,150	1,992,154	24,211,304
Operating (Loss) Income	(1,153,869)	575,557	(578,312)
Nonoperating Revenue (Expenses)			
Investment income	49,610	513	50,123
Interest expense	(573,092)	(163,953)	(737,045)
Total nonoperating expenses	(523,482)	(163,440)	(686,922)
(Loss) Income - Before contributions, transfers, and extraordinary item	(1,677,351)	412,117	(1,265,234)
Capital Contributions	1,695,719	-	1,695,719
Transfers Out (Note 5)	(28,087)	-	(28,087)
Extraordinary Items (Note 4)	-	179,843	179,843
Change in Net Position	(9,719)	591,960	582,241
Net Position - Beginning of year	128,617,690	7,791,583	136,409,273
Net Position - End of year	\$ 128,607,971	\$ 8,383,543	\$ 136,991,514

Charter Township of Shelby

Proprietary Funds Statement of Cash Flows Year Ended December 31, 2013

	Business-type Activities		
	Water and Sewer	Shelby Manor	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 20,675,729	\$ 1,846,349	\$ 22,522,078
Payments to suppliers	(16,543,213)	(961,665)	(17,504,878)
Payments to employees	(2,460,968)	-	(2,460,968)
Internal activity - Payments from other funds	-	136,436	136,436
Other receipts	65,941	769,124	835,065
Net cash provided by operating activities	1,737,489	1,790,244	3,527,733
Cash Flows from Noncapital Financing Activities - Transfers to other funds	(28,087)	-	(28,087)
Cash Flows from Capital and Related Financing Activities			
Special assessment collections	280,666	-	280,666
Purchase of capital assets	(850,302)	(2,943,004)	(3,793,306)
Principal and interest paid on capital debt	(1,289,390)	(914,200)	(2,203,590)
Insurance proceeds	-	1,625,128	1,625,128
Collection of capital charges and front foot assessments	1,238,375	-	1,238,375
Pre-payment of OMID Segment 3	(3,093,125)	-	(3,093,125)
Net cash used in capital and related financing activities	(3,713,776)	(2,232,076)	(5,945,852)
Cash Flows from Investing Activities			
Interest received on investments	49,610	513	50,123
Net sales of investment securities	2,208,223	-	2,208,223
Net cash provided by investing activities	2,257,833	513	2,258,346
Net Increase (Decrease) in Cash and Cash Equivalents	253,459	(441,319)	(187,860)
Cash and Cash Equivalents - Beginning of year	18,315,209	756,455	19,071,664
Cash and Cash Equivalents - End of year	<u>\$18,568,668</u>	<u>\$ 315,136</u>	<u>\$18,883,804</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 33,041,114	\$ 315,136	\$ 33,356,250
Less amounts classified as investments	(14,472,446)	-	(14,472,446)
Total cash and cash equivalents	<u>\$18,568,668</u>	<u>\$ 315,136</u>	<u>\$18,883,804</u>

Charter Township of Shelby

Proprietary Funds Statement of Cash Flows (Continued) Year Ended December 31, 2013

	Business-type Activities		
	Water and Sewer	Shelby Manor	Total
	Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities		
Operating (loss) income	\$ (1,153,869)	\$ 575,557	\$ (578,312)
Adjustments to reconcile operating (loss) income to net cash from operating activities:			
Depreciation and amortization	3,562,857	246,856	3,809,713
Changes in assets and liabilities:			
Receivables	(323,611)	-	(323,611)
Inventories	51,603	-	51,603
Prepaid and other assets	12,121	(128,048)	(115,927)
Accounts payable	(408,600)	911,681	503,081
Due to other funds	(16,418)	136,436	120,018
Accrued and other liabilities	233,620	47,762	281,382
Unearned revenue	(220,214)	-	(220,214)
Net cash provided by operating activities	\$ 1,737,489	\$ 1,790,244	\$ 3,527,733

Noncash Transactions - During the year ended December 31, 2013, developers constructed water and sewer lines with an estimated value of \$457,000 and donated them to the Township Water and Sewer Fund. In addition, the Township recorded approximately \$1,500,000 of capital assets representing the Township's portion of the Oakland Macomb Interceptor Drainage District project. An additional \$41,000 of assets were constructed by the counties using bond proceeds recorded as debt in a previous year.

Charter Township of Shelby

Fiduciary Funds Statement of Fiduciary Net Position December 31, 2013

	Pension and Other Employee Benefit Trust Funds	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$ 2,473,386	\$ 8,804,521
Investments (Note 3):		
Common stock	48,711,383	-
Limited partnership	1,833,748	-
Short-term funds	3,060,505	-
Collective index and mutual funds	32,152,255	-
Receivables:		
Accrued interest receivable	38,532	-
Other receivables	182	10,000
Due from other governmental units	-	7,425
Due from primary government	137,693	-
Prepaid expenses and other assets	399,869	2,952
Total assets	88,807,553	\$ 8,824,898
Liabilities		
Accounts payable	11,003	\$ 116,958
Refundable deposits, bonds, etc.	-	1,217,092
Accrued and other liabilities	-	602,997
Advance tax collections	-	6,887,851
Total liabilities	11,003	\$ 8,824,898
Net Position Held in Trust for Pension and Other Employee Benefits	\$88,796,550	

Charter Township of Shelby

Fiduciary Funds Statement of Changes in Fiduciary Net Position Year Ended December 31, 2013

	Pension and Other Employee Benefit Trust Funds
Additions	
Investment income:	
Interest and dividends	\$ 963,907
Net realized and unrealized gain on investments	10,859,493
Investment-related expenses	<u>(314,418)</u>
Net investment income	11,508,982
Contributions:	
Employer	8,514,083
Employee	<u>581,521</u>
Total contributions	<u>9,095,604</u>
Total additions	20,604,586
Deductions	
Benefit payments	6,842,750
Administrative expenses	<u>69,680</u>
Total deductions	<u>6,912,430</u>
Net Increase in Net Position Held in Trust	13,692,156
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	<u>75,104,394</u>
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	<u><u>\$ 88,796,550</u></u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2013

Note I - Summary of Significant Accounting Policies

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

Reporting Entity

The Township was organized on November 20, 1978 under the provisions of Act 359 of P.A. 1947, as amended (Charter Township Act). The Township is governed by an elected seven-member board of trustees composed of the supervisor, clerk, treasurer, and four other trustees. The Township provides the following services as authorized by its charter: Public safety (police and fire), highway and streets, sanitation, water and sewer, culture, recreation, public improvements, planning and zoning, and general administrative services. The accompanying financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the Township's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Township (see discussion below for description).

Blended Component Units - The following component units are reported as if they were part 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 of the board of trustees. The Authority does not issue its own financial statements.

Charter Township of Shelby

Notes to Financial Statements December 31, 2013

Note I - Summary of Significant Accounting Policies (Continued)

Accounting and Reporting Principles

The Township follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board.

Report Presentation

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues 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. Taxes and other items not properly included among program revenues are reported instead as general revenue.

For the most part, the effect of interfund activity has been removed from these 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.

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

Basis of Accounting

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

Note I - Summary of Significant Accounting Policies (Continued)

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare related costs, or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

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

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

Fund Accounting

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

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

- The General Fund, which is the primary operating fund because it accounts for all financial resources used to provide general government services, other than those specifically assigned to another fund.
- The Fire Special Revenue Fund, which accounts for all 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, which 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.

Note I - Summary of Significant Accounting Policies (Continued)

Proprietary funds include enterprise funds, which provide goods or services to users in exchange for charges or fees. The Township reports the following funds as “major” enterprise funds:

- The Water and Sewer Fund provides water to customers, and disposes of sanitary sewage in exchange for quarterly user charges.
- The Shelby Manor Senior Housing Fund accounts for the activities of the Township's senior housing apartment complex.

Fiduciary funds include amounts held in a fiduciary capacity for others. These amounts will not be used to operate our government's programs. Activities that are reported as fiduciary include:

- The pension and other employee benefits trust fund accounts for the activities of employee benefit plans, which accumulate resources for pension and other postemployment benefit payments to qualified employees.
- 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.

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

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

Charter Township of Shelby

Notes to Financial Statements December 31, 2013

Note I - Summary of Significant Accounting Policies (Continued)

Specific Balances and Transactions

Cash, Cash Equivalents, 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, 2013. Investments are stated at fair value.

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

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

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 five years. 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:

<u>Capital Asset Class</u>	<u>Lives</u>
Infrastructure	20-35 years
Water system	50 years
Buildings and improvements	20-50 years
Machinery and equipment	5-20 years
Vehicles	8 years
Furniture and fixtures	5-20 years
Library books	8 years

Note I - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method; bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as an "other financing source," as well as bond premiums and discounts. The General Fund is generally used to liquidate governmental long-term debt.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two items that qualify for reporting in this category. The deferred inflows of resources related to unavailable revenues are reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from various sources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The government also has property taxes levied before the period budgeted. These property taxes are shown as deferred inflows of resources on both the governmental funds balance sheet as well as the statement of net position. Those property taxes will be recognized as revenue next year, as those amounts were levied for the subsequent year's budgeted operations.

Net Position Flow Assumption

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

Note I - Summary of Significant Accounting Policies (Continued)

Fund Balance Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. 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

Fund Balance Policies

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

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

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Township board of trustees has by resolution authorized the director of finance to assign fund balance. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Charter Township of Shelby

Notes to Financial Statements December 31, 2013

Note I - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

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

The 2012 taxable valuation of the Township totaled approximately \$2,728,000,000 on which ad valorem taxes levied consisted of 1.1800 mills for operating purposes, 3.8624 mills for police protection, 3.8624 mills for services, 3.2575 mills for fire operating purposes, and 1.0000 mill for police and fire pension. The ad valorem taxes raised approximately \$3,217,000 for general operations, \$10,529,000 for police protection, \$8,880,000 for fire operations, and \$2,726,000 for police and fire pension. These amounts are recorded in their respective funds as tax revenues.

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.

Compensated Absences (Vacation, Sick, and Personal 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 the governmental funds as they come due for payment (when the time is taken off or employees terminate).

Proprietary Funds Operating Classification - Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Fund and Shelby Manor Fund are charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of capital charges intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Charter Township of Shelby

Notes to Financial Statements December 31, 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Note 2 - Stewardship, Compliance, and Accountability

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

Shortfall at January 1, 2013		\$ (3,053,149)
Current year permit revenue		1,430,579
Related expenses:		
Direct costs	\$ 987,303	
Estimated indirect costs	193,353	1,180,656
		<u>249,923</u>
Current year surplus		<u>249,923</u>
Cumulative shortfall at December 31, 2013		<u>\$ (2,803,226)</u>

Note 3 - Deposits and Investments

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

Charter Township of Shelby

Notes to Financial Statements December 31, 2013

Note 3 - Deposits and Investments (Continued)

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.

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 \$41,247,094 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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

Investment	Fair Value	Weighted Average Maturity
Non-2a7 like bank investment pool	\$ 6,555,356	259 days
Agency bonds	6,390,260	201 days
Commercial paper	12,427,204	94 days
U.S. Treasury securities	10,075,782	137 days
Fixed Income Collective Index Fund (Pension Trust)	18,934,366	7.2 years

Charter Township of Shelby

Notes to Financial Statements December 31, 2013

Note 3 - Deposits and Investments (Continued)

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

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Bank investment pool	\$ 3,133,778	Aaa	Moody's
Bank investment pool	38,514,827	Not rated	
Commercial paper	12,427,204	AI	S&P
Agency bonds	6,390,260	AAA	S&P
Short-term investment fund (Pension Trust)	3,060,505	AI	S&P
Fixed Income Collective Index Fund (Pension Trust)	18,934,366	AA1/AA2	S&P
Equity Collective Index Fund (Pension Trust)	13,217,889	Not rated	
Mutual funds (Other Postemployment Benefits Trust)	17,280,076	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, 2013, there were no investments in a single issuer in excess of 50 percent of the Township's total portfolio. The Township is invested in the CI End Equity Vanguard S&P Exchange Trade Fund which is greater than 5 percent of the Township's total portfolio.

Charter Township of Shelby

Notes to Financial Statements December 31, 2013

Note 4 - Capital Assets

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

	Balance January 1, 2013	Transfers/ Adjustments	Additions	Disposals	Balance December 31, 2013
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 11,461,828	\$ -	\$ -	\$ -	\$ 11,461,828
Construction in progress	421,107	(109,657)	390,354	-	701,804
Subtotal	11,882,935	(109,657)	390,354	-	12,163,632
Capital assets being depreciated:					
Infrastructure	28,003,033	5,009,173	250,567	-	33,262,773
Buildings and improvements	22,394,067	(5,262,444)	182,966	-	17,314,589
Machinery and equipment	7,537,814	364,819	521,869	(29,662)	8,394,840
Vehicles	7,123,119	(3)	534,837	(323,510)	7,334,443
Library books	2,000,000	-	-	-	2,000,000
Subtotal	67,058,033	111,545	1,490,239	(353,172)	68,306,645
Accumulated depreciation:					
Infrastructure	8,598,869	3,457,830	1,246,475	-	13,303,174
Buildings and improvements	8,293,542	(3,458,252)	407,249	-	5,242,539
Machinery and equipment	5,328,661	(2)	455,067	(29,662)	5,754,064
Vehicles	4,467,856	(2)	577,092	(318,027)	4,726,919
Library books	1,000,000	-	-	-	1,000,000
Subtotal	27,688,928	(426)	2,685,883	(347,689)	30,026,696
Net capital assets being depreciated	39,369,105	111,971	(1,195,644)	(5,483)	38,279,949
Net capital assets	\$ 51,252,040	\$ 2,314	\$ (805,290)	\$ (5,483)	\$ 50,443,581

Charter Township of Shelby

Notes to Financial Statements December 31, 2013

Note 4 - Capital Assets (Continued)

	Balance January 1, 2013	Transfers	Additions	Disposals	Balance December 31, 2013
Business-type Activities					
Capital assets not being depreciated:					
Land	\$ 1,525,441	\$ -	\$ -	\$ -	\$ 1,525,441
Construction in progress	2,082,115	(4,021,818)	2,122,541	(6,838)	176,000
Subtotal	3,607,556	(4,021,818)	2,122,541	(6,838)	1,701,441
Capital assets being depreciated:					
Buildings and improvements	16,533,754	120,093	2,943,004	(91,256)	19,505,595
Vehicles	606,301	-	87,171	-	693,472
Furniture and fixtures	1,015,174	-	3,746	-	1,018,920
Water systems	39,402,319	-	409,531	-	39,811,850
Sewer systems	109,126,292	3,901,725	201,164	-	113,229,181
Subtotal	166,683,840	4,021,818	3,644,616	(91,256)	174,259,018
Accumulated depreciation:					
Buildings and improvements	5,780,506	-	328,922	-	6,109,428
Vehicles	600,575	-	5,448	-	606,023
Furniture and fixtures	721,691	-	51,778	-	773,469
Water systems	15,548,688	-	979,955	-	16,528,643
Sewer systems	29,985,344	-	2,443,610	-	32,428,954
Subtotal	52,636,804	-	3,809,713	-	56,446,517
Net capital assets being depreciated	114,047,036	4,021,818	(165,097)	(91,256)	117,812,501
Net capital assets	<u>\$ 117,654,592</u>	<u>\$ -</u>	<u>\$ 1,957,444</u>	<u>\$ (98,094)</u>	<u>\$ 119,513,942</u>

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

Governmental activities:

General government	\$ 554,094
Public safety	1,013,007
Public works	814,360
Recreation and culture	291,513
41A District Court	12,909
Total governmental activities	<u>\$ 2,685,883</u>

Business-type activities:

Water and sewer	\$ 3,562,857
Shelby Manor	246,856
Total business-type activities	<u>\$ 3,809,713</u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2013

Note 4 - Capital Assets (Continued)

The extraordinary item reported in the business-type activities and Shelby Manor enterprise fund included a change in estimated impairment loss of \$91,256 related to a building which was significantly damaged by fire during 2012. As a result of this change in estimate, total impairment loss recognized on the building is \$965,225. This additional loss is reported net of estimated insurance recoveries totaling \$271,099, resulting in a reported net gain of \$179,843.

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from Other Funds		
Water and Sewer Fund	General Fund	\$ 223
	Fire Fund	529
	Shelby Manor Fund	<u>16,510</u>
	Total	<u>\$ 17,262</u>
<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Advances to/from Other Funds		
Nonmajor governmental funds	Shelby Manor Fund	<u>\$ 296,741</u>

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

Charter Township of Shelby

Notes to Financial Statements December 31, 2013

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

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

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Amount</u>
General Fund	Nonmajor governmental funds	\$ 1,335,449
	Police Fund	37,221
	Total General Fund	1,372,670
Nonmajor governmental funds	Nonmajor governmental funds	662,369
	Police Fund	375,000
	General Fund	304,008
	Total nonmajor governmental funds	1,341,377
Water and Sewer Fund	Nonmajor governmental funds	28,087
	Total	<u>\$ 2,742,134</u>

Note 6 - Unearned Revenue

Unearned revenue in the Water and Sewer Fund represents redeemable certificates issued to developers to be applied as payment on future capital charges. Unearned revenue in the Shelby Manor Housing Fund represents 2014 rent payments made by residents during 2013.

Note 7 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. Installment purchase agreements are also general obligations of the government. Compensated absences attributable to the governmental activities will be liquidated primarily by the General Fund, Police Fund, Fire Fund, or other nonmajor fund from which the individual employee's salaries are paid. The net pension obligation has generally been liquidated from the Police Fund and Fire Fund. The net OPEB obligation has generally been liquidated from the General Fund, Police Fund, and Fire Fund from which the individual employee's benefits are paid.

Charter Township of Shelby

Notes to Financial Statements December 31, 2013

Note 7 - Long-term Debt (Continued)

Description	Amount
Governmental Activities:	
General obligations - Installment purchase agreement - Computer software	\$ 42,040
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	\$ 2,710,432
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	288,466
2010 OMID Series 2010A (SRF):	
Amount of issue - \$1,242,276	
Maturing through 2031	
Interest rate - 2.50%	
Principal maturity range - \$48,000 - \$78,000	1,144,088
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	7,236,704
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	67,146
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	113,150
2008 N. Gratiot Drainage Assessment:	
Amount of issue - \$750,485	
Maturing through 2033	
Principal maturity range - \$17,224 - \$42,182	697,758
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	3,228,380
2006 B.A. Refunding Bonds:	
Amount of issue - \$3,730,000	
Maturing through 2024	
Interest rate range - 4.00% - 5.50%	
Principal maturity ranges - \$165,000 - \$300,000	2,825,000

Charter Township of Shelby

Notes to Financial Statements December 31, 2013

Note 7 - Long-term Debt (Continued)

Business-type Activities (Continued)

General obligations (Continued):

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

\$ 4,556,192

Total business-type activity debt

\$ 22,867,316

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Installment purchase agreement	\$ -	\$ 42,040	\$ -	\$ 42,040	\$ 10,510
Compensated absences	849,041	-	25,457	823,584	97,810
Provision for claims	1,110,000	-	1,110,000	-	-
Total governmental activities	\$ 1,959,041	\$ 42,040	\$ 1,135,457	\$ 865,624	\$ 108,320
Business-type Activities					
General obligations	\$ 24,318,608	\$ 40,587	\$ 1,491,879	\$ 22,867,316	\$ 1,581,607
Compensated absences	109,673	-	55,064	54,609	5,479
Total business-type activities	\$ 24,428,281	\$ 40,587	\$ 1,546,943	\$ 22,921,925	\$ 1,587,086

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

Years Ending December 31	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ 10,510	\$ -	\$ 10,510	\$ 1,581,607	\$ 809,128	\$ 2,390,735
2015	10,510	-	10,510	1,603,186	774,839	2,378,025
2016	10,510	-	10,510	1,660,964	709,781	2,370,745
2017	10,510	-	10,510	1,661,776	637,825	2,299,601
2018	-	-	-	900,330	568,273	1,468,603
2019-2023	-	-	-	5,011,726	2,369,767	7,381,493
2024-2028	-	-	-	4,594,145	1,417,176	6,011,321
2029-2033	-	-	-	4,388,667	549,397	4,938,064
2034-2035	-	-	-	1,464,915	37,800	1,502,715
	\$ 42,040	\$ -	\$ 42,040	\$22,867,316	\$ 7,873,986	\$30,741,302

Charter Township of Shelby

Notes to Financial Statements December 31, 2013

Note 7 - Long-term Debt (Continued)

The Macomb Interceptor Drainage District (MID) projects are construction and rehabilitation projects which began in 2010 and are ongoing. 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 up to 45 percent (for the North Gratiot Bond), up to 35 percent (for the MID Bond), and up to 45 percent (for the OMID Series 2010B 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 ongoing.

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

Macomb Interceptor Drainage District (MID)

	County Portion	Township Portion	Tax Credit
MID Series 2010A	\$ 95,955,000	\$ 12,582,422	\$ 1,899,080
North Gratiot Interceptor 2010	16,965,000	73,021	26,000
North Gratiot Interceptor 2008	22,340,000	750,485	-
Clintondale Pump Station 2011	30,800,000	2,849,191	-

Oakland-Macomb Interceptor Drainage District (OMID)

	County Portion	Township Portion	Tax Credit
2010A (SRF)	\$ 26,076,000	\$ 1,242,276	\$ -
2010B	6,700,000	319,195	140,000

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, 2013, \$6,240,000 of bonds outstanding is considered defeased.

Charter Township of Shelby

Notes to Financial Statements December 31, 2013

Note 8 - Restricted Assets

The Township has \$1,149,921 of restricted assets at December 31, 2013 related to unspent bond proceeds which are held by Macomb and Oakland counties in connection with the OMID, North Gratiot, and Clintondale Pump Station Interceptor projects described in Note 7. The remaining \$3,148,045 of restricted assets relates to prepayments made to the counties for the Township's portion of OMID Segments 2 and 3.

Note 9 - Risk Management

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

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	
	2013	2012
Unpaid claims - Beginning of year	\$ 733,536	\$ 633,445
Incurred claims, including claims incurred but not reported	3,822,729	3,794,744
Claim payments	(3,804,401)	(3,694,653)
Unpaid claims - End of year	<u>\$ 751,864</u>	<u>\$ 733,536</u>

Note 10 - Other Postemployment Benefits

Plan Description - The Township provides healthcare benefits to the following classes of employees under the following criteria:

Note 10 - Other Postemployment Benefits (Continued)

General Employees - Employees hired on or before February 5, 2007 who retire having a minimum of 10 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 are eligible for healthcare and life insurance benefits. Employees hired between February 5, 2007 and September 1, 2010 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 are eligible for healthcare and life insurance benefits. Employees hired on or after September 1, 2010 are eligible for life insurance benefits only.

Supervisory/Department Heads - Employees hired on or before November 21, 2006 who retire having a minimum of 10 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 are eligible for healthcare and life insurance benefits. Employees hired between November 21, 2006 and September 1, 2010 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 are eligible for healthcare and life insurance benefits. Employees hired on or after September 1, 2010 are eligible for life insurance benefits only.

Patrol Officers - Employees hired on or before April 1, 2014 retiring after 25 years of service or under the provisions of Act 345 are eligible for healthcare benefits only. Employees hired after April 1, 2014 are not eligible for any retiree coverage.

Firefighters - Employees hired on or before August 18, 2010 retiring after 25 years of service or under the provisions of Act 345 are eligible for healthcare benefits only paid in full by the Township. Employees hired after August 18, 2010 retiring after 25 years of service or under the provisions of Act 345 are eligible for healthcare benefits of which the Township is responsible for 50 percent of the premium costs for the retiree and the retiree is responsible for all other costs relating to coverage.

Command Officers - Employees retiring after 25 years of service or under the provisions of Act 345 are eligible for healthcare benefits only.

Note 10 - Other Postemployment Benefits (Continued)

911 Dispatch - Employees hired on or before July 31, 2008 who retire having a minimum of 10 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 are eligible for healthcare benefits only paid in full by the Township. Employees hired between July 31, 2008 and January 2, 2011 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 are eligible for healthcare benefits only paid in full by the Township. Employees hired on or after January 2, 2011 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 are eligible for healthcare benefits only of which the Township is responsible for 50 percent of the premium costs for the retiree and the retiree is responsible for all other costs relating to coverage.

41A District Court - Employees hired on or before October 31, 2010 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 are eligible for healthcare and life insurance benefits. Employees hired after October 31, 2010 are eligible for life insurance benefits only.

Healthcare benefits provided cover the retired employee, as well as his or her spouse and any eligible dependents. All benefits listed are paid in full by the Township until a covered person is eligible for Medicare coverage. Upon eligibility for Medicare coverage, the covered person must apply for Medicare and the Township then supplies a complementary coverage policy per the applicable bargaining unit. Currently, 160 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, 2013.

Charter Township of Shelby

Notes to Financial Statements December 31, 2013

Note 10 - Other Postemployment Benefits (Continued)

Funding Progress - For the year ended December 31, 2013, the Township has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of January 1, 2012. The valuation computes an annual required contribution which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution	\$ 5,079,690
Interest on the prior year's net OPEB obligation	474,235
Less adjustment to the annual required contribution	<u>(325,350)</u>
Annual OPEB cost	5,228,575
Amounts contributed:	
Payments of current premiums	(2,138,527)
Prefunding contribution	<u>(2,278,279)</u>
Increase in net OPEB obligation	811,769
OPEB obligation - Beginning of year	<u>7,295,926</u>
OPEB obligation - End of year	<u><u>\$ 8,107,695</u></u>

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

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
12/31/13	1/1/12	\$ 5,079,690	87.0	\$ 8,107,695
12/31/12	1/1/12	5,079,690	73.3	7,295,926
12/31/11	1/1/11	6,431,625	248.6	5,884,488
12/31/10	1/1/09	7,552,905	21.1	15,428,154
12/31/09	1/1/09	7,552,905	26.7	9,213,206

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
1/1/12	\$ 13,948,217	\$ 70,380,755	\$ 56,432,538	19.8	\$ 16,179,279	348.8
1/1/11	-	84,004,736	84,004,736	-	16,719,112	502.4
1/1/09	-	90,096,921	90,096,921	-	16,431,686	548.3
1/1/07	-	58,959,000	58,959,000	-	14,674,606	401.8

Note 10 - Other Postemployment Benefits (Continued)

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

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

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

Note 11 - 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, 2013, the date of the most recent actuarial valuation, membership consisted of 99 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 124 current active employees. The plan does not issue a separate financial report.

Charter Township of Shelby

Notes to Financial Statements December 31, 2013

Note 11 - Defined Benefit Pension Plan (Continued)

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

Plan members are required to contribute 5 percent of their annual covered salary, except for command officers who contribute either 6 percent or 7 percent based on date of hire. The Charter Township of Shelby is required to contribute at an actuarially determined rate. The obligation to contribute to and maintain the plan for these employees was established by Act No. 345 of the Public Acts of 1937, as amended, and modified by the collective bargaining agreements. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost and Net Pension Obligation (Asset)

Annual required contribution	\$ 4,097,277
Interest on net pension obligation	(32,046)
Adjustment to annual required contribution	<u>39,021</u>
Annual pension cost (APC)	4,104,252
Contributions made	<u>(4,097,277)</u>
Decrease in net pension asset	6,975
Net pension asset - Beginning of year	<u>(427,272)</u>
Net pension asset - End of year	<u>\$ (420,297)</u>

Three-year Trend Information of Annual Pension Costs

	Fiscal Year Ended December 31		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual pension cost (APC)	\$ 4,104,252	\$ 4,578,608	\$ 4,926,723
Percentage of APC contributed	99.8 %	99.6 %	100.2 %
Net pension asset	\$ 420,297	\$ 427,272	\$ 447,700

Charter Township of Shelby

Notes to Financial Statements December 31, 2013

Note 11 - Defined Benefit Pension Plan (Continued)

Funding Status and Funding Progress - As of December 31, 2013, the most recent actuarial valuation date, the plan was 72.9 percent funded. The actuarial accrued liability for benefits was \$88,915,677 and the actuarial value of assets was \$64,799,508, resulting in an unfunded actuarial accrued liability of \$24,116,169. The covered payroll (annual payroll to active employees covered by the plan) was \$10,962,530 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 220 percent.

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

Actuarial Methods and Assumptions - For the year ended December 31, 2013, the Township's contribution was equal to the annual required contribution of \$4,097,277. The annual required contribution was determined as part of an actuarial valuation at December 31, 2013, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 4.25 to 9.5 percent per year, and (c) no postretirement benefit increases. Both (a) and (b) include an inflation component of 4.25 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 14 years.

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

	Reserve for Employee Contributions	Reserve for Employer Contributions	Reserve for Retiree Benefit Payments
Balance - January 1, 2013	\$ 7,567,413	\$ 7,874,188	\$ 43,813,942
Additions	581,521	4,097,277	-
Earnings on investments	135,530	6,266,536	3,649,478
Transfers	(510,236)	(3,719,068)	4,229,304
Deductions	-	(340,982)	(4,704,223)
Balance - December 31, 2013	<u>\$ 7,774,228</u>	<u>\$ 14,177,951</u>	<u>\$ 46,988,501</u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2013

Note 12 - 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 Position		
Investments	\$ 68,517,171	\$ 19,714,106
Other assets	434,512	141,764
Liabilities	<u>(11,003)</u>	<u>-</u>
Net position	<u>\$ 68,940,680</u>	<u>\$ 19,855,870</u>
Statement of Changes in Net Position		
Investment income	\$ 9,780,242	\$ 1,728,740
Contributions	4,678,798	4,416,806
Benefit payments	(4,704,223)	(2,138,527)
Other deductions	<u>(69,680)</u>	<u>-</u>
Net change in net position	<u>\$ 9,685,137</u>	<u>\$ 4,007,019</u>

Note 13 - Defined Contribution Pension Plan

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

During the year ended December 31, 2013, the Township made contributions of \$715,717 and the plan members contributed \$395,609 to the plan.

Note 14 - Future Minimum Lease Revenue

The Township leases a portion of its land to a private operator through the year 2053 for use as a golf course. During 2013, the Township recognized no revenue related to this lease.

Charter Township of Shelby

Notes to Financial Statements December 31, 2013

Note 14 - Future Minimum Lease Revenue (Continued)

Future annual minimum lease payments are as follows:

Year	Percent of Gross Revenue	Minimum Rent
2013-2020	- %	\$ -
2021-2024	4.5	225,000
2025-2034	5.5	250,000
2035-2045	5.5	300,000
2046-2053	5.5	250,000

Note 15 - Change in Accounting

During the current year, the Township adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead to classify them as deferred inflows of resources, deferred outflows of resources, or outflows of resources.

As a result of implementing this statement, the following assets and liabilities have been reclassified, as indicated:

Item	Amount	Prior Reporting Classification/Treatment	New Classification After Adoption of GASB Statement No. 65
Property taxes billed, but which were levied for next year's budget	\$ 26,023,101	Liability	Deferred inflow of resources
Revenue in governmental funds not collected within 60 days of year end	\$ 1,400,539	Liability	Deferred inflow of resources

Note 16 - Upcoming Accounting Pronouncements

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

Required Supplemental Information

Charter Township of Shelby

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2013

	Original Budget	Amended Budget	Actual
Revenue			
Property taxes	\$ 3,194,389	\$ 3,215,993	\$ 3,283,350
Licenses and permits	666,000	1,189,148	1,425,825
State-shared revenue and grants	5,558,724	5,765,414	5,889,481
Charges for services	1,968,322	1,904,329	1,866,993
Fines and forfeitures	2,390,000	2,354,388	2,286,579
Investment income	60,000	60,000	56,047
Other revenue:			
Local donations	12,210	14,038	20,156
Other miscellaneous income	418,935	614,072	699,990
Total revenue	<u>14,268,580</u>	<u>15,117,382</u>	<u>15,528,421</u>
Expenditures			
Current:			
General government	7,070,673	7,656,835	7,229,342
Public works	499,750	571,700	456,271
Recreation and culture	3,092,834	3,085,636	2,881,595
Capital outlay	<u>1,215,559</u>	<u>1,190,889</u>	<u>218,981</u>
Total expenditures	<u>11,878,816</u>	<u>12,505,060</u>	<u>10,786,189</u>
Excess of Revenue Over Expenditures	2,389,764	2,612,322	4,742,232
Other Financing Sources (Uses)			
Transfers in	17,000	1,062,849	319,349
Transfers out	<u>(3,004,864)</u>	<u>(3,495,172)</u>	<u>(3,413,010)</u>
Total other financing uses	<u>(2,987,864)</u>	<u>(2,432,323)</u>	<u>(3,093,661)</u>
Net Change in Fund Balance	(598,100)	179,999	1,648,571
Fund Balance - Beginning of year	<u>10,311,010</u>	<u>10,311,010</u>	<u>10,311,010</u>
Fund Balance - End of year	<u>\$ 9,712,910</u>	<u>\$ 10,491,009</u>	<u>\$ 11,959,581</u>

Charter Township of Shelby

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Fire Fund Year Ended December 31, 2013

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>
Revenue			
Property taxes	\$ 10,092,428	\$ 10,182,251	\$ 10,401,736
Federal grants	-	161,554	166,579
Charges for services	2,046,900	2,173,560	2,220,652
Investment income	19,000	16,000	21,816
Other miscellaneous income	18,800	70,885	130,442
Total revenue	<u>12,177,128</u>	<u>12,604,250</u>	<u>12,941,225</u>
Expenditures			
Current - Public safety	12,293,214	12,007,629	11,719,633
Capital outlay	255,184	129,531	143,626
Total expenditures	<u>12,548,398</u>	<u>12,137,160</u>	<u>11,863,259</u>
Other Financing Uses - Transfers out	<u>(882,800)</u>	<u>(907,400)</u>	<u>(861,306)</u>
Net Change in Fund Balance	(1,254,070)	(440,310)	216,660
Fund Balance - Beginning of year	<u>14,554,906</u>	<u>14,554,906</u>	<u>14,554,906</u>
Fund Balance - End of year	<u><u>\$ 13,300,836</u></u>	<u><u>\$ 14,114,596</u></u>	<u><u>\$ 14,771,566</u></u>

Charter Township of Shelby

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Police Fund Year Ended December 31, 2013

	Original Budget	Amended Budget	Actual
Revenue			
Property taxes	\$ 11,799,946	\$ 11,940,585	\$ 12,195,839
Federal grants	-	73,600	73,600
State-shared revenue and grants	55,000	56,000	71,213
Charges for services	576,446	575,746	573,895
Investment income	16,000	16,000	16,321
Other revenue	91,300	419,110	640,073
Total revenue	<u>12,538,692</u>	<u>13,081,041</u>	<u>13,570,941</u>
Expenditures			
Current - Public safety	13,661,074	14,845,441	14,402,716
Capital outlay	90,100	90,100	14,092
Total expenditures	<u>13,751,174</u>	<u>14,935,541</u>	<u>14,416,808</u>
Excess of Expenditures Over Revenue	(1,212,482)	(1,854,500)	(845,867)
Other Financing Sources (Uses)			
Transfers in	60,000	420,000	412,221
Transfers out	(877,900)	(885,700)	(821,835)
Net Change in Fund Balance	(2,030,382)	(2,320,200)	(1,255,481)
Fund Balance - Beginning of year	<u>9,031,286</u>	<u>9,031,286</u>	<u>9,031,286</u>
Fund Balance - End of year	<u>\$ 7,000,904</u>	<u>\$ 6,711,086</u>	<u>\$ 7,775,805</u>

Charter Township of Shelby

Required Supplemental Information Police and Fire Pension System Schedule of Funding Progress Year Ended December 31, 2013

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
12/31/08	\$ 47,537,521	\$ 76,296,538	\$ 28,759,017	62.3	\$ 10,815,600	265.9
12/31/09	48,968,765	79,494,112	30,525,347	61.6	10,939,120	279.0
12/31/10	51,181,336	75,889,038	24,707,702	67.4	10,915,185	226.4
12/31/11	53,157,554	79,426,074	26,268,520	66.9	11,259,348	233.3
12/31/12	58,945,340	84,149,619	25,204,279	70.0	10,940,963	230.4
12/31/13	64,799,508	88,915,677	24,116,169	72.9	10,962,530	220.0

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
12/31/08	12/31/06	\$ 3,292,075	112.1
12/31/09	12/31/07	3,600,027	101.8
12/31/10	12/31/08	4,611,275	100.0
12/31/11	12/31/09	4,937,379	100.0
12/31/12	12/31/10	4,558,181	100.0
12/31/13	12/31/11	4,097,277	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2013, the latest actuarial valuation, follows:

Amortization method	Level percent of payroll
Amortization period	13 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	4.25% - 9.50%
* Includes inflation at	4.25%
Cost of living adjustments	None

Charter Township of Shelby

Required Supplemental Information OPEB System Schedule of Funding Progress Year Ended December 31, 2013

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

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
12/31/13	1/1/12	\$ 5,079,690	87.0
12/31/12	1/1/12	5,079,690	73.3
12/31/11	1/1/11	6,431,625	248.6

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

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

Amortization method	Level percent
Amortization period	30-year closed
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return	6.5%
Projected salary increases*	3.0%
*Includes inflation at	3.0%
Cost of living adjustments	None

Charter Township of Shelby

Note to Required Supplemental Information Year Ended December 31, 2013

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all special revenue funds, except for contributions to the OPEB system, which are budgeted as transfers between funds instead of contributions. The budget is amended by the board throughout the year as deemed necessary.

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

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

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

	<u>Total Revenue and Transfers</u>	<u>Total Expenditures and Transfers</u>
General Fund		
Amounts per operating statement	\$ 17,149,265	\$ 15,500,693
Cable Television Fund budgeted separately from the General Fund	<u>(1,301,495)</u>	<u>(1,301,494)</u>
Amounts per budget statement	<u>\$ 15,847,770</u>	<u>\$ 14,199,199</u>

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 cash equivalents	\$ 199,983	\$ 59,681	\$ 14,984	\$ 12,272	\$ -	\$ 1
Receivables:						
Other receivables	-	-	-	-	-	-
Due from other governmental units	-	34,339	-	-	-	-
Advances to other funds	-	-	-	-	-	-
Prepaid expenses and other assets	53,561	-	-	-	-	-
Total assets	\$ 253,544	\$ 94,020	\$ 14,984	\$ 12,272	\$ -	\$ 1
Liabilities - Accounts payable	\$ 16,731	\$ 44,748	\$ -	\$ 140	\$ -	\$ -
Deferred Inflows of Resources -						
Unavailable revenue	-	34,339	-	-	-	-
Fund Balances						
Nonspendable - Prepaids	53,561	-	-	-	-	-
Restricted:						
Police and fire	183,252	-	-	-	-	1
Grants	-	-	-	12,132	-	-
Street lighting	-	14,933	-	-	-	-
Community development	-	-	14,984	-	-	-
Assigned:						
Public improvement	-	-	-	-	-	-
Equipment replacement	-	-	-	-	-	-
Total fund balances	236,813	14,933	14,984	12,132	-	1
Total liabilities, deferred inflows of resources, and fund balances	\$ 253,544	\$ 94,020	\$ 14,984	\$ 12,272	\$ -	\$ 1

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2013**

Nonmajor Capital Projects Funds			Total Nonmajor Governmental Funds
Drug Forfeiture	Public Improvement	Equipment Replacement	
\$ 46,389	\$ 4,131,604	\$ 5,450,295	\$ 9,915,209
-	54,327	-	54,327
-	-	-	34,339
-	296,741	-	296,741
-	10,396	-	63,957
\$ 46,389	\$ 4,493,068	\$ 5,450,295	\$ 10,364,573
\$ 1,694	\$ 2,440	\$ 84,668	\$ 150,421
-	54,327	-	88,666
-	10,396	-	63,957
44,695	-	2,674,857	2,902,805
-	-	-	12,132
-	-	-	14,933
-	-	-	14,984
-	4,425,905	-	4,425,905
-	-	2,690,770	2,690,770
44,695	4,436,301	5,365,627	10,125,486
\$ 46,389	\$ 4,493,068	\$ 5,450,295	\$ 10,364,573

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	\$ -	\$ -	\$ -	\$ -	\$ 146,151	\$ -	\$ -
State-shared revenue and grants	129,720	-	-	12,513	-	-	-
Charges for services	-	276,995	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-	36,683
Investment income	185	230	-	-	-	25	790
Other revenue	-	3	-	-	-	-	-
Total revenue	129,905	277,228	-	12,513	146,151	25	37,473
Expenditures							
Current:							
General government	-	-	-	-	-	-	-
Public safety	105,909	-	-	12,054	-	18,920	257,429
Public works	-	276,770	-	-	-	-	-
Recreation and culture	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	146,151	-	-
Total expenditures	105,909	276,770	-	12,054	146,151	18,920	257,429
Excess of Revenue Over (Under) Expenditures	23,996	458	-	459	-	(18,895)	(219,956)
Other Financing Sources (Uses)							
Proceeds from installment purchase agreement	-	-	-	-	-	-	-
Proceeds from sale of capital assets	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing sources	-	-	-	-	-	-	-
Net Change in Fund Balances	23,996	458	-	459	-	(18,895)	(219,956)
Fund Balances - Beginning of year	212,817	14,475	14,984	11,673	-	18,896	264,651
Fund Balances - End of year	\$ 236,813	\$ 14,933	\$ 14,984	\$ 12,132	\$ -	\$ 1	\$ 44,695

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes in
Fund Balances
Nonmajor Governmental Funds
Year Ended December 31, 2013

<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>
\$ 10,750	\$ -	\$ 156,901
-	-	142,233
-	-	276,995
-	-	36,683
517	-	1,747
<u>25,642</u>	<u>29,137</u>	<u>54,782</u>
36,909	29,137	669,341
59,428	35,621	95,049
-	-	394,312
-	-	276,770
-	8,541	8,541
<u>404,978</u>	<u>1,270,983</u>	<u>1,822,112</u>
<u>464,406</u>	<u>1,315,145</u>	<u>2,596,784</u>
(427,497)	(1,286,008)	(1,927,443)
-	42,040	42,040
-	2,000	2,000
1,887,401	138,504	2,025,905
<u>(1,162,369)</u>	<u>(179,008)</u>	<u>(1,341,377)</u>
<u>725,032</u>	<u>3,536</u>	<u>728,568</u>
297,535	(1,282,472)	(1,198,875)
<u>4,138,766</u>	<u>6,648,099</u>	<u>11,324,361</u>
<u>\$ 4,436,301</u>	<u>\$ 5,365,627</u>	<u>\$ 10,125,486</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	\$ 39,356	\$ 2,434,030	\$ 2,473,386
Investments	68,477,815	17,280,076	85,757,891
Receivables:			
Accrued interest receivable	34,461	4,071	38,532
Other receivables	182	-	182
Due from other governmental units	-	-	-
Due from primary government	-	137,693	137,693
Prepaid expenses and other assets	399,869	-	399,869
	<u>68,951,683</u>	<u>19,855,870</u>	<u>88,807,553</u>
Total assets			
Liabilities			
Accounts payable	11,003	-	11,003
Refundable deposits, bonds, etc.	-	-	-
Accrued and other liabilities	-	-	-
Advance tax collections	-	-	-
	<u>11,003</u>	<u>-</u>	<u>11,003</u>
Total liabilities			
Net Position Held in Trust for Pension and Other Employee Benefits	<u>\$ 68,940,680</u>	<u>\$ 19,855,870</u>	<u>\$ 88,796,550</u>

Other Supplemental Information
Statement of Assets and Liabilities
Fiduciary Funds
December 31, 2013

Agency Funds

Trust and Agency	Treasurer's Agency	Current Tax Collection	41st District Court	Accounts Payable Imprest	Payroll Imprest	Total Agency Funds
\$ 1,079,176	\$ 535,728	\$ 6,911,984	\$ 280,321	\$ -	\$ (2,688)	\$ 8,804,521
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	10,000	-	-	-	-	10,000
-	-	-	-	-	7,425	7,425
-	-	-	-	-	-	-
-	-	-	2,952	-	-	2,952
<u>\$ 1,079,176</u>	<u>\$ 545,728</u>	<u>\$ 6,911,984</u>	<u>\$ 283,273</u>	<u>\$ -</u>	<u>\$ 4,737</u>	<u>\$ 8,824,898</u>
\$ 651	\$ -	\$ 24,133	\$ 87,437	\$ -	\$ 4,737	\$ 116,958
1,078,525	-	-	138,567	-	-	1,217,092
-	545,728	-	57,269	-	-	602,997
-	-	6,887,851	-	-	-	6,887,851
<u>\$ 1,079,176</u>	<u>\$ 545,728</u>	<u>\$ 6,911,984</u>	<u>\$ 283,273</u>	<u>\$ -</u>	<u>\$ 4,737</u>	<u>\$ 8,824,898</u>

Charter Township of Shelby

Other Supplemental Information Combining Statement of Changes in Fiduciary Net Position Fiduciary Funds Year Ended December 31, 2013

	Police and Fire Retirement Systems Trust Fund	Retiree Health Care Trust	Total
Additions			
Investment income:			
Interest and dividends	\$ 770,056	\$ 193,851	\$ 963,907
Net realized and unrealized gain on investments	9,281,488	1,578,005	10,859,493
Investment-related expenses	(271,302)	(43,116)	(314,418)
Net investment income	9,780,242	1,728,740	11,508,982
Contributions:			
Employer	4,097,277	4,416,806	8,514,083
Employee	581,521	-	581,521
Total contributions	4,678,798	4,416,806	9,095,604
Total additions	14,459,040	6,145,546	20,604,586
Deductions			
Benefit payments	4,704,223	2,138,527	6,842,750
Administrative expenses	69,680	-	69,680
Total deductions	4,773,903	2,138,527	6,912,430
Net Increase in Net Position Held in Trust	9,685,137	4,007,019	13,692,156
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	59,255,543	15,848,851	75,104,394
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	\$ 68,940,680	\$ 19,855,870	\$ 88,796,550