



Financial Report

with Supplemental Information

December 31, 2017

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Independent Auditor's Report

To the Board of Trustees
Charter Township of Shelby

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Shelby (the "Township") as of and for the year ended December 31, 2017, 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 opinion.

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, 2017 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.

Emphasis of Matter

As described in Note 3 to the financial statements, investments valued at approximately \$23.0 million at year end (15.1 percent of the equity in the aggregate remaining funds) have fair values that are estimated by management in the absence of readily determinable market values. Management's estimates are based on information provided by fund managers. Our opinion is not modified with respect to this matter.

To the Board of Trustees
Charter Township of Shelby

Required Supplemental Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion 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 other supplemental 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 other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plante & Moran, PLLC

June 20, 2018

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, 2017 to the prior year:

	Governmental Activities				Business-type Activities				Total			
	2017	2016	\$ Diff	% Diff	2017	2016	\$ Diff	% Diff	2017	2016	\$ Diff	% Diff
Assets												
Other assets	\$ 87.0	\$ 70.0	\$ 17.0	24.3%	\$ 61.5	\$ 50.3	\$ 11.2	22.3%	\$ 148.5	\$ 120.3	\$ 28.2	23.4%
Restricted assets	-	-	-		1.2	0.5	0.7	140.0%	1.2	0.5	0.7	140.0%
Capital assets	<u>51.9</u>	<u>50.4</u>	<u>1.5</u>	3.0%	<u>111.5</u>	<u>118.8</u>	<u>(7.3)</u>	-6.1%	<u>163.4</u>	<u>169.2</u>	<u>(5.8)</u>	-3.4%
Total assets	138.9	120.4	18.5	15.4%	174.2	169.6	4.6	2.7%	313.1	290.0	23.1	8.0%
Deferred Outflows of Resource	1.4	5.3	(3.9)	-73.6%	0.1	-	-	100.0%	1.5	5.3	(3.8)	-71.7%
Liabilities												
Current liabilities	3.2	3.3	(0.1)	-3.0%	15.2	6.7	8.5	126.9%	18.4	10.0	8.4	84.0%
Long-term liabilities	<u>13.8</u>	<u>26.7</u>	<u>(12.9)</u>	-48.3%	<u>22.7</u>	<u>18.6</u>	<u>4.1</u>	22.0%	<u>36.5</u>	<u>45.3</u>	<u>(8.8)</u>	-19.4%
Total liabilities	17.0	30.0	(13.0)	-43.3%	37.9	25.3	12.6	49.8%	54.9	55.3	(0.4)	-0.7%
Deferred Inflows of Resources	<u>35.8</u>	<u>28.4</u>	<u>7.4</u>	26.1%	-	-	-	0.0%	<u>35.8</u>	<u>28.4</u>	<u>7.4</u>	26.1%
Net Position												
Net investment in capital ass	51.8	50.2	1.6	3.2%	90.7	100.3	(9.6)	-9.6%	142.5	150.5	(8.0)	-5.3%
Restricted	16.9	13.5	3.4	25.2%	1.2	0.4	0.8	200.0%	18.1	13.9	4.2	30.2%
Unrestricted	<u>18.8</u>	<u>3.6</u>	<u>15.2</u>	422.2%	<u>44.5</u>	<u>43.6</u>	<u>0.9</u>	2.1%	<u>63.3</u>	<u>47.2</u>	<u>16.1</u>	34.1%
Total net position	<u>\$ 87.5</u>	<u>\$ 67.3</u>	<u>\$ 20.2</u>	30.0%	<u>\$ 136.4</u>	<u>\$ 144.3</u>	<u>\$ (7.9)</u>	-5.5%	<u>\$ 223.9</u>	<u>\$ 211.6</u>	<u>\$ 12.3</u>	5.8%

The Township’s combined net position increased by \$12.3 million from a year ago, from \$211.6 million to \$223.9 million.

A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$20.2 million in net position, or 30 percent, during 2017. This increase is a result of a few different factors. The amount of available cash and investments increased by \$13.4 million as the Township received \$14 million in cash as a result of the sale of Shelby Manor. As this money had no restrictions, the cash was placed in General Fund and then contributed to the Other Postemployment Benefits (OPEB) Trust and transferred to capital projects funds. The transfer of money to the OPEB Trust also helped reduce the OPEB obligation as this liability decreased by \$5.2 million. A change from a net pension liability in 2016 of \$6.9 million to a net pension asset of \$3.8 million was offset by a decrease in deferred outflows relating to pensions of \$3.9 million and an increase in deferred inflows relating to pensions of \$6.3 million. Unrestricted net position (the portion of net position available to finance day-to-day operations and future growth of the Township) increased \$15.2 million, or 422.2 percent, to \$18.8 million. Additional increases of \$3.4 million and \$1.6 million were seen in restricted net position and net investment in capital assets, respectively. The increase to restricted net position is mainly attributable to an increase in money restricted for police and fire. These increases are a positive sign as the Township continues to invest in its infrastructure and the Fire Fund and Police Fund show conservative operations.

Management’s Discussion and Analysis

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The business-type activities net position decreased \$7.9 million, or 5.5 percent, to \$136.4 million. This decrease was primarily attributable to the sale of Shelby Manor and the subsequent transfer of the proceeds from that sale to the General Fund. This resulted in a decrease in Shelby Manor net position of \$10.2 million, almost all of which was previously characterized as net investment in capital assets. This decrease was partially offset by an increase in the Water and Sewer Fund of \$2.3 million. This increase was due to an increase in available cash and investments of \$2.8 million as a result of increases in non-operating income and capital contributions of \$500,000 and \$1.7 million, respectively, Non-operating income increased due to greater investment income earned on capital reserves and the receipt of a state SAW grant. Capital contributions from and capital charges to developers drove the increase in capital contributions, the result of substantially greater commercial and residential development in the township. The Water and Sewer Fund was obligated to assume an increase in long-term debt and corresponding capital asset in the form of the Township’s proportional share of Macomb County issued bonds used to repair the Fraser sinkhole. As a result, an increase in Water and Sewer capital assets of \$3.5 million was offset by an increase in long-term debt of \$4.1 million.

The following table shows the changes in net position (in millions of dollars) for the year ended December 31, 2017 and the prior year:

	Governmental Activities				Business-type Activities				Total			
	2017	2016	\$ Diff	% Diff	2017	2016	\$ Diff	% Diff	2017	2016	\$ Diff	% Diff
Revenue												
Program revenue:												
Charges for services	\$ 10.9	\$ 9.7	\$ 1.2	12.4%	\$ 28.6	\$ 29.2	\$ (0.6)	-2.1%	\$ 39.5	\$ 38.9	\$ 0.6	1.5%
Operating grants and contributic	0.7	0.8	(0.1)	-12.5%	0.4	-	0.4	0.0%	1.1	0.8	0.3	37.5%
Capital grants and contributions	0.6	0.3	0.3	100.0%	5.3	3.6	1.7	47.2%	5.9	3.9	2.0	51.3%
General revenue:												
Property taxes	28.2	27.7	0.5	1.8%	-	-	-	0.0%	28.2	27.7	0.5	1.8%
State-shared revenue	6.5	6.2	0.3	4.8%	-	-	-	0.0%	6.5	6.2	0.3	4.8%
Interest	0.5	0.3	0.2	66.7%	0.4	0.3	0.1	33.3%	0.9	0.6	0.3	50.0%
Other	1.9	2.1	(0.2)	-9.5%	-	-	-	0.0%	1.9	2.1	(0.2)	-9.5%
Special item	-	-	-	0.0%	3.6	-	3.6	0.0%	3.6	-	3.6	0.0%
Total revenue	49.3	47.1	2.2	4.7%	38.3	33.1	5.2	15.7%	87.6	80.2	7.4	9.2%
Program Expenses												
General government	7.9	8.0	(0.1)	-1.3%	-	-	-	0.0%	7.9	8.0	(0.1)	-1.3%
Public safety	26.9	29.1	(2.2)	-7.6%	-	-	-	0.0%	26.9	29.1	(2.2)	-7.6%
Public works	2.2	1.9	0.3	15.8%	-	-	-	0.0%	2.2	1.9	0.3	15.8%
41st District Court	2.3	2.6	(0.3)	-11.5%	-	-	-	0.0%	2.3	2.6	(0.3)	-11.5%
Recreation and culture	3.7	4.0	(0.3)	-7.5%	-	-	-	0.0%	3.7	4.0	(0.3)	-7.5%
Interest on long-term debt	0.4	0.4	-	0.0%	-	-	-	0.0%	0.4	0.4	-	0.0%
Shelby Manor senior housing	-	-	-	0.0%	1.3	1.3	-	0.0%	1.3	1.3	-	0.0%
Water and sewer	-	-	-	0.0%	30.6	26.7	3.9	14.6%	30.6	26.7	3.9	14.6%
Total program expenses	43.4	46.0	(2.6)	-5.7%	31.9	28.0	3.9	13.9%	75.3	74.0	1.3	1.8%
Transfers	14.3	-	14.3	0.0%	(14.3)	-	(14.3)	0.0%	-	-	-	0.0%
Change in Net Position	20.2	1.1	19.1	1736.4%	(7.9)	5.1	(13.0)	-254.9%	12.3	6.2	6.1	98.4%
Net Position - Beginning of year	67.3	66.2	1.1	1.7%	144.3	139.2	5.1	3.7%	211.6	205.4	6.2	3.0%
Net Position - End of year	\$ 87.5	\$ 67.3	\$ 20.2	30.0%	\$ 136.4	\$ 144.3	\$ (7.9)	-5.5%	\$ 223.9	\$ 211.6	\$ 12.3	5.8%

Governmental Activities

The Township’s total governmental revenue increased by approximately \$2.2 million, or 4.7 percent, from last year. An increase in charges for services of \$1.2 million and property taxes of \$500,000 accounted for the majority of the increase. The increase in charges for services was due mainly to an increase in permits of \$640,000, ambulance billings of \$280,000, and fines and forfeitures of \$180,000. Permit revenue saw a large increase as

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several major building projects were undertaken in the Township. Property tax revenue increased as property values continue to rise and new development occurs throughout the Township.

Total governmental expenses decreased approximately \$2.6 million in 2017, or 5.7 percent. The majority of this decrease in expenses is related to public safety as costs fell by \$2.2 million, or 7.6 percent. The majority of the costs related to public safety remained nearly flat with the cost decrease due largely to a decrease in costs for pension and retiree healthcare as changes in these liabilities decreased or increased at a slower rate in 2017.

In late 2017, the Township sold the Shelby Manor Senior Housing complex for \$14 million. As a result, the sales proceeds as well as accumulated reserves in the Shelby Manor Fund were transferred to the General Fund. This transfer accounts for over 70% of the increase in net position in 2017 for governmental activities.

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 Great Lakes Water Authority (GLWA), and sewer service to Township residents and businesses. The sewer service is primarily provided by the GLWA. 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 Shelby Manor Fund represents the operation results of the Township's Shelby Manor senior living facility. The facility is made up of three buildings with a total of 264 units. In December 2017, this facility was sold by the Township to an outside party.

The Township's business-type activities' revenue increased by \$5.2 million, or 15.7 percent, from last year primarily as a result of the \$3.6 million gain realized on the sale of Shelby Manor. Operating revenues for Shelby Manor decreased slightly due to only being in operation by the Township for 11.5 months. The Water and Sewer Fund saw operating revenue decrease by \$500,000 as a result of a weather-affected decline in sales. This slight decrease was offset with an increase of \$2.2 million in investment income, grants and capital contributions.

Expenses for 2016 increased \$3.9 million, or 13.9 percent. This increase is primarily attributable to an increase in water and sewer main repairs of almost \$2.9 million as the Township's share of assessed costs pertaining to the Fraser sinkhole exceeded \$2.5 million. Grant reimbursable costs of over \$400,000 and the increased cost of water and sewer purchases of over \$400,000 accounted for the majority of the remaining cost increase. A slight increase in expenses of \$70,000 was seen in the Shelby Manor Fund as additional costs were incurred in preparation for the eventual sale of the property.

The Township's Funds

The presentation of the Township's major funds begins on page 12, 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 2017 include the General Fund, Police Fund, Fire Fund, Public Improvement Fund, Water and Sewer Fund, and Shelby Manor Fund.

General Fund Budgetary Highlights

Over the course of the year, the Township Board and administration monitor and amend the budget to take into account unanticipated events that occur during 2017 and acceleration of multi-year capital projects. The General Fund experienced a \$1,030,000, or 6.4 percent, increase in revenue from 2016. The most significant influences on revenue during 2017 were increases in licenses and permits of \$640,000 and state-shared revenue of \$340,000. As mentioned earlier, several large building projects took place during 2017 helping permit revenues reach their highest level this century. State-shared revenue continued the trend of yearly increases as a strong economy allows for increased revenue sharing from the State of Michigan. Other major changes were a \$180,000 increase in fines and forfeitures as court fines continue to increase and decreases of \$165,000 in donations and \$140,000 in other income as several one-time revenues were received in 2016.

The General Fund ended the year with a favorable revenue budget variance of \$264,984 mostly attributed to state-shared revenue coming in higher than expected.

In 2017, the Township experienced an almost \$5 million increase in expenditures, or 46 percent. All of this increase can be attributed to a \$5 million contribution to the Township's OPEB Trust in addition to the money that is normally contributed to the Trust each year. This additional contribution was made possible due to the sale of the Shelby Manor property. The Township Board made the prudent decision to fund Township legacy costs in an effort to reduce the large outstanding liability for current and future retiree healthcare. The majority of the Township's remaining expenses remained flat as the Township Board continues to look for creative ways to reduce expenditures while still funding Township infrastructure.

The General Fund ended the year with a favorable expenditure budget variance of \$670,066. All township departments, with the exception of the department covering street lighting and drain expenditures, finished the year under budget, with personnel costs and the General Fund transfer for District Court operations being the largest contributors to the favorable variance.

Looking at other financing sources/uses, the Township saw a large increase in both transfers into and transfers out of the General Fund. The transfer in was made up almost solely of transfers from the Shelby Manor Fund as a result of the sale of the property. This money was then used in large part to fund transfers to the Township's various capital projects funds, primarily to fund the future construction of a new Library and Senior Center. Additional large transfers were made to another capital projects fund for a Police building expansion and various other future capital projects.

When comparing the 2017 original General Fund budget with the 2017 amended budget, the amended budget increased revenue by approximately \$1,750,000. Large increases were required in state-shared revenue, licenses and permits, and investment income. The increases were due to a continually strengthening economy, Township growth being larger than originally anticipated and continued increases in interest rates from historically low levels. On the expenditure side, the amended budget increased expenditures by approximately \$4,925,000. The increase is due almost solely to the additional \$5 million contributed to the Township's OPEB Trust and is offset by a decrease of approximately \$105,000 in recreation and culture as program costs were lower than anticipated.

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Capital Assets and Debt Administration

At the end of 2017, the Township's governmental and business activities combined had approximately \$266 million in historical cost invested in a wide range of capital assets, including land, buildings, fire equipment, computer equipment, water and sewer lines, library books, and township infrastructure such as roads and bridges. 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 \$20.1 and \$20.3 million for 2017 and 2016, respectively. The Enterprise Funds' infrastructure for 2017 and 2016 (including construction in progress), net of depreciation, is \$108.2 million and \$104.9 million, respectively. The large increase is mainly due to additional infrastructure from the Fraser sinkhole. Additionally, the value of buildings and improvements for the governmental activities, net of depreciation, is \$13.1 million and \$11.2 million for 2017 and 2016, respectively, as the Township added another Fire Station in 2017. The Enterprise Funds' buildings and improvements, net of depreciation, are \$2.8 million for 2017 and \$12.2 million for 2016. The large decrease is a result of the sale of Shelby Manor. See Note 4 for additional information.

The majority of the 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). The only debt not related to buildings and infrastructure relates to pension obligation bonds issued in 2014 to help fund the Township's Police and Fire Pension System. The debt is scheduled to be paid through 2027 and has approximately \$7.4 million outstanding as of the end of 2017.

Economic Factors and Next Year's Budgets and Rates

The Charter Township of Shelby will maintain the same property tax millage rate for 2018 that applied in 2017 (9.2999). Strong expenditure controls, growth in the Township's tax base, and the Township Board's philosophy of no new taxes have avoided millage rate increases. In 2017, property taxes made up approximately 57.2 percent of the Township's governmental funds' overall revenue. After going through the economic downturn, the Township continues to see added growth as the ad valorem taxable value experienced an increase of approximately \$118 million, or 3.9 percent, between the 2016 and 2017 assessment years. State-shared revenue represented approximately 13.2 percent of the Township's governmental funds' overall 2017 revenue. In preparing the 2018 budget, it was assumed that there would be a slight increase in state-shared revenue based upon the State of Michigan's projections and continued increases in prior years.

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 rising healthcare costs and projected and contractual wage increases as well as an increase in staffing due to demand for services, personnel costs will experience an increase in 2018. The Township Board aggressively pursues a permanent solution to healthcare funding to spare future taxpayers the cost of funding present benefits and continues to set aside millions of dollars each year to reduce the liability.

In recent years, continued focus has been placed on improving Township roads and providing more modern and efficient facilities for Township employees and residents to conduct business in. Over the next several years, the Township Board has made it a priority to create a more centralized campus with more amenities both on the

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Township campus and in the various parks and bike paths throughout the Township. The Board continues to focus on and weigh difficult choices between capital projects and staffing. Using the Township's Capital Improvement Plan as a guide, future capital costs will be evaluated and money continue to be set aside over several years (when possible) in order to smooth Township capital costs and allow for more uniform budgeting. In 2017, the Township completed construction on an additional fire station. In 2018, the Township has already begun construction on a new District Court building as well as the expansion of the current Police Station. In addition, a new Splash Pad has been opened at Gene Shepherd Park and plans are in place to begin construction on a new Library and Senior Center sometime in 2019. Money for these projects has been set aside in past years as the Township Board continues to improve upon infrastructure without the need to incur additional debt. The Township will adjust expenses to mirror the revenue base, having as a goal maintaining revenue in excess of or equal to expenditures unless the need arises to fund large capital projects.

Contacting the Township's Management

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

Charter Township of Shelby

Statement of Net Position

December 31, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 79,301,966	\$ 32,966,950	\$ 112,268,916	\$ 145,231
Receivables:				
Property taxes receivable	12,790,447	-	12,790,447	-
Special assessments receivable	-	9,674,744	9,674,744	-
Customers	-	6,709,577	6,709,577	-
Accrued interest	-	103,699	103,699	-
Other receivables	1,051,380	123,843	1,175,223	-
Allowance for doubtful accounts	(436,214)	-	(436,214)	-
Due from other governmental units	1,440,533	5,263	1,445,796	-
Internal balances	(11,653,904)	11,653,904	-	-
Inventory	-	199,844	199,844	-
Prepaid expenses and other assets	727,668	55,561	783,229	-
Restricted assets (Note 8)	-	1,238,432	1,238,432	-
Net pension asset (Note 10)	3,774,248	-	3,774,248	-
Capital assets: (Note 4)				
Assets not subject to depreciation	12,787,465	1,189,894	13,977,359	-
Assets subject to depreciation	39,082,051	110,448,202	149,530,253	-
Total assets	138,865,640	174,369,913	313,235,553	145,231
Deferred Outflows of Resources				
Deferred charges on bond refunding (Note 7)	-	130,932	130,932	-
Deferred pension costs (Note 10)	1,359,752	-	1,359,752	-
Total deferred outflows of resources	1,359,752	130,932	1,490,684	-
Liabilities				
Accounts payable	1,300,507	3,278,794	4,579,301	4,036
Accrued liabilities and other	1,027,123	2,655,470	3,682,593	-
Unearned revenue (Note 6)	-	8,169,816	8,169,816	-
Due to fiduciary fund	-	256,455	256,455	-
Noncurrent liabilities:				
Due within one year:				
Compensated absences (Note 7)	120,685	8,075	128,760	-
Provision for property tax refunds	660	-	660	-
Current portion of long-term debt (Note 7)	750,000	857,203	1,607,203	-
Due in more than one year:				
Compensated absences (Note 7)	727,415	66,664	794,079	-
Unearned revenue (Note 6)	-	687,943	687,943	-
Net OPEB obligation (Note 11)	6,343,899	646,078	6,989,977	-
Long-term debt, net of current portion (Note 7)	6,745,000	21,347,931	28,092,931	-
Total liabilities	17,015,289	37,974,429	54,989,718	4,036
Deferred Inflows of Resources				
Property taxes levied for the following year	29,231,248	-	29,231,248	-
Deferred pension cost reductions (Note 10)	6,542,606	-	6,542,606	-
Total deferred inflows of resources	35,773,854	-	35,773,854	-
Net Position				
Net investment in capital assets	51,769,516	90,671,394	142,440,910	-
Restricted:				
Police and fire operations	16,769,832	-	16,769,832	-
Community development	14,817	-	14,817	-
Street lighting	69,354	-	69,354	-
Grants	5,286	-	5,286	-
Assets held at County	-	1,238,432	1,238,432	-
Unrestricted	18,807,444	44,616,590	63,424,034	141,195
Total net position	<u>\$ 87,436,249</u>	<u>\$ 136,526,416</u>	<u>\$ 223,962,665</u>	<u>\$ 141,195</u>

See notes to financial statements.

Charter Township of Shelby

Functions/Programs	Program Revenue			Capital Grants and Contributions
	Expenses	Charges for Services	Operating Grants and Contributions	
Primary government:				
Governmental activities:				
General government	\$ 7,945,560	\$ 3,645,941	\$ 264,474	\$ 417,103
District court	2,294,880	2,571,869	45,724	-
Public safety	26,944,446	3,539,933	269,671	12,915
Public works	2,170,088	334,041	49,231	-
Recreation and culture	3,674,788	794,062	82,230	185,154
Interest on long-term debt	353,485	-	-	-
Total governmental activities	43,383,247	10,885,846	711,330	615,172
Business-type activities:				
Water and Sewer	30,479,704	26,748,360	363,253	5,289,511
Shelby Manor	1,322,378	1,818,185	-	-
Total business-type activities	31,802,082	28,566,545	363,253	5,289,511
Total primary government	\$ 75,185,329	\$ 39,452,391	\$ 1,074,583	\$ 5,904,683
Component units - Downtown Development Authority	\$ 66,857	\$ -	\$ -	\$ -
General revenue:				
Property taxes				
Unrestricted state-shared revenue				
Unrestricted investment income				
Cable franchise fees				
Loss on sale of capital assets				
Other miscellaneous income				
Total general revenue				
Transfers				
Special items (Note 17)				
Change in Net Position				
Net Position - Beginning of year				
Net Position - End of year				

Statement of Activities

Year Ended December 31, 2017

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (3,618,042)	\$ -	\$ (3,618,042)	\$ -
322,713	-	322,713	-
(23,121,927)	-	(23,121,927)	-
(1,786,816)	-	(1,786,816)	-
(2,613,342)	-	(2,613,342)	-
(353,485)	-	(353,485)	-
(31,170,899)	-	(31,170,899)	-
-	1,921,420	1,921,420	-
-	495,807	495,807	-
-	2,417,227	2,417,227	-
(31,170,899)	2,417,227	(28,753,672)	-
-	-	-	(66,857)
28,191,081	-	28,191,081	-
6,512,947	-	6,512,947	-
516,574	408,081	924,655	1,068
1,550,400	-	1,550,400	-
(48,404)	-	(48,404)	-
310,611	-	310,611	-
37,033,209	408,081	37,441,290	1,068
14,293,231	(14,293,231)	-	-
-	3,640,610	3,640,610	-
20,155,541	(7,827,313)	12,328,228	(65,789)
67,280,708	144,353,729	211,634,437	206,984
\$ 87,436,249	\$ 136,526,416	\$ 223,962,665	\$ 141,195

Charter Township of Shelby

	General Fund	Fire Fund	Police Fund
Assets			
Cash and investments	\$ 13,134,852	\$ 21,646,054	\$ 18,383,841
Receivables:			
Property taxes receivable	1,382,059	5,155,868	6,252,520
Other receivables	469,298	379,264	72,668
Allowance for doubtful accounts	(37,839)	(278,839)	(119,536)
Due from other governmental units	1,098,881	73,940	89,359
Due from other funds	234,390	-	-
Prepaid expenses and other assets	107,923	38,226	47,824
	\$ 16,389,564	\$ 27,014,513	\$ 24,726,676
Liabilities			
Accounts payable	\$ 542,816	\$ 91,931	\$ 97,047
Due to other funds	1,205	1,039	161
Advances from other funds	-	5,628,000	6,097,000
Accrued liabilities and other	310,644	365,230	253,017
Provision for property tax refunds	71	265	324
	854,736	6,086,465	6,447,549
Deferred Inflows of Resources			
Unavailable revenue	95,565	10,188	16,152
Property taxes levied for the following year	3,143,120	11,747,640	14,340,488
	3,238,685	11,757,828	14,356,640
	4,093,421	17,844,293	20,804,189
Fund Balances			
Nonspendable -			
Prepays	107,923	38,226	47,824
Restricted:			
Police and fire	-	9,131,994	3,874,663
Grants	-	-	-
Street lighting	-	-	-
Community development	-	-	-
Assigned:			
Public improvement	-	-	-
Equipment replacement	-	-	-
Recycling committee	8,103	-	-
Library	159,327	-	-
Special recreation donations	10,025	-	-
Unassigned	12,010,765	-	-
	12,296,143	9,170,220	3,922,487
	\$ 16,389,564	\$ 27,014,513	\$ 24,726,676

Governmental Funds
Balance Sheet

December 31, 2017

Public Improvement	Nonmajor Funds	Total Governmental Funds
\$ 25,827,293	\$ 309,926	\$ 79,301,966
-	-	12,790,447
123,192	6,958	1,051,380
-	-	(436,214)
-	178,353	1,440,533
-	-	234,390
532,747	948	727,668
\$ 26,483,232	\$ 496,185	\$ 95,110,170
\$ 491,928	\$ 76,785	\$ 1,300,507
-	160,889	163,294
-	-	11,725,000
-	167	929,058
-	-	660
491,928	237,841	14,118,519
123,192	14,556	259,653
-	-	29,231,248
123,192	14,556	29,490,901
615,120	252,397	43,609,420
532,747	948	727,668
4,014,636	165,083	17,186,376
-	5,286	5,286
-	66,889	66,889
-	14,817	14,817
21,320,729	-	21,320,729
-	2,856	2,856
-	-	8,103
-	-	159,327
-	-	10,025
-	(12,091)	11,998,674
25,868,112	243,788	51,500,750
\$ 26,483,232	\$ 496,185	\$ 95,110,170

Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Position

December 31, 2017

Fund Balances Reported in Governmental Funds	\$ 51,500,750
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	51,869,516
Receivables that are not collected soon after year end are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds	259,653
Other liabilities that do not present a claim on current financial resources are not reportable as fund liabilities	(42,203)
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(7,495,000)
Accrued interest is not due and payable in the current period and is not reported in the funds	(55,862)
Some employee fringe benefits 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:	
Employee compensated absences	(848,100)
Pension benefits	(1,408,606)
Retiree healthcare benefits	(6,343,899)
Total employee fringe benefits not reported as fund liabilities	<u>(8,600,605)</u>
Net Position of Governmental Activities	<u><u>\$ 87,436,249</u></u>

Charter Township of Shelby

	General Fund	Fire Fund	Police Fund
Revenue			
Property taxes	\$ 3,039,283	\$ 11,324,436	\$ 13,823,829
Intergovernmental:			
Federal grants	-	9,724	10,523
State sources	6,613,112	73,940	187,494
Charges for services:			
Charges to other funds	1,105,040	-	-
Charges for services to external parties	1,027,711	2,835,861	634,447
Fines and forfeitures	2,660,996	-	-
Licenses, permits, and fees:			
Cable franchise fees	1,550,400	-	-
Other licenses and permits	2,214,918	-	-
Investment income	230,225	118,638	90,954
Other revenue	175,056	83,743	104,185
Total revenue	18,616,741	14,446,342	14,851,432
Expenditures			
Current services:			
General government	12,358,083	-	-
District court	2,486,759	-	-
Public safety	-	12,741,900	12,977,339
Public works	284,770	-	-
Recreation and culture	3,559,370	-	-
Capital outlay	300,810	99,829	468,973
Debt service	-	478,409	518,276
Total expenditures	18,989,792	13,320,138	13,964,588
Excess of Revenue (Under) Over Expenditures	(373,051)	1,126,204	886,844
Other Financing Sources (Uses)			
Transfers in	14,293,231	-	21,631
Transfers out	(14,319,454)	(1,500,000)	(185,450)
Sale of capital assets	1,830	-	34,265
Total other financing (uses) sources	(24,393)	(1,500,000)	(129,554)
Net Change in Fund Balances	(397,444)	(373,796)	757,290
Fund Balances - Beginning of year	12,693,587	9,544,016	3,165,197
Fund Balances - End of year	\$ 12,296,143	\$ 9,170,220	\$ 3,922,487

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended December 31, 2017

Public Improvement	Nonmajor Funds	Total Governmental Funds
\$ -	\$ -	\$ 28,187,548
167,368	176,769	364,384
200,481	142,202	7,217,229
-	-	1,105,040
2,969	333,969	4,834,957
-	69,675	2,730,671
-	-	1,550,400
-	-	2,214,918
76,436	975	517,228
-	6	362,990
447,254	723,596	49,085,365
368,267	167	12,726,517
-	-	2,486,759
-	74,475	25,793,714
362,291	289,448	936,509
9,793	7,486	3,576,649
3,695,940	198,953	4,764,505
-	107,200	1,103,885
4,436,291	677,729	51,388,538
(3,989,037)	45,867	(2,303,173)
15,983,273	-	30,298,135
-	-	(16,004,904)
-	-	36,095
15,983,273	-	14,329,326
11,994,236	45,867	12,026,153
13,873,876	197,921	39,474,597
\$ 25,868,112	\$ 243,788	\$ 51,500,750

Charter Township of Shelby

Governmental Funds

**Reconciliation of the Statement of Revenue, Expenditures, and Changes in
Fund Balances to the Statement of Activities**

Year Ended December 31, 2017

Net Change in Fund Balance Reported in Governmental Funds	\$ 12,026,153
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, and gains or losses on disposals are only reported in the governmental activities	1,468,688
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds until it is available	209,866
Other liabilities do not present a claim on current financial resources and are not reported as fund liabilities	1,759
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	757,710
Interest expense is recognized in the government-wide statements as it accrues	3,200
Some employee costs (pension, OPEB, and compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	<u>5,688,165</u>
Change in Net Position of Governmental Activities	<u><u>\$ 20,155,541</u></u>

Charter Township of Shelby

Proprietary Funds Statement of Net Position

December 31, 2017

	Water and Sewer	Shelby Manor	Total Enterprise Funds
Assets			
Current assets:			
Cash and investments	\$ 32,966,950	\$ -	\$ 32,966,950
Receivables:			
Special assessments	1,058,555	-	1,058,555
Customers	6,709,577	-	6,709,577
Accrued interest	103,699	-	103,699
Other receivables	26,546	97,297	123,843
Due from other governmental units	5,263	-	5,263
Due from other funds (Note 5)	2,405	-	2,405
Inventory	199,844	-	199,844
Prepaid expenses and other assets	55,561	-	55,561
Total current assets	41,128,400	97,297	41,225,697
Noncurrent assets:			
Restricted assets (Note 8)	1,238,432	-	1,238,432
Advances to other funds (Note 5)	11,725,000	-	11,725,000
Special assessment receivables	8,616,189	-	8,616,189
Capital assets:			
Assets not subject to depreciation (Note 4)	1,189,894	-	1,189,894
Assets subject to depreciation (Note 4)	110,448,202	-	110,448,202
Total noncurrent assets	133,217,717	-	133,217,717
Total assets	174,346,117	97,297	174,443,414
Deferred Outflows of Resources - Deferred charges on bond refunding	130,932	-	130,932
Liabilities			
Current liabilities:			
Accounts payable	3,254,998	23,796	3,278,794
Due to other funds (Note 5)	-	73,501	73,501
Accrued liabilities and other	2,655,470	-	2,655,470
Unearned revenue (Note 6)	8,169,816	-	8,169,816
Due to fiduciary fund	256,455	-	256,455
Compensated absences (Note 7)	8,075	-	8,075
Current portion of long-term debt (Note 7)	857,203	-	857,203
Total current liabilities	15,202,017	97,297	15,299,314
Noncurrent liabilities:			
Compensated absences (Note 7)	66,664	-	66,664
Unearned revenue (Note 6)	687,943	-	687,943
Net OPEB obligation	646,078	-	646,078
Long-term debt, net of current portion	21,347,931	-	21,347,931
Total noncurrent liabilities	22,748,616	-	22,748,616
Total liabilities	37,950,633	97,297	38,047,930
Net Position			
Net investment in capital assets	90,671,394	-	90,671,394
Restricted - Assets held at County	1,238,432	-	1,238,432
Unrestricted	44,616,590	-	44,616,590
Total net position	\$ 136,526,416	\$ -	\$ 136,526,416

See notes to financial statements.

Charter Township of Shelby

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position

Year Ended December 31, 2017

	Water and Sewer	Shelby Manor	Total Enterprise Funds
Operating Revenue			
Sale of water	\$ 14,768,843	\$ -	\$ 14,768,843
Sewage disposal charges	9,659,037	-	9,659,037
Other sales to customers	2,014,251	-	2,014,251
Other miscellaneous revenue	206,229	-	206,229
Rental income	-	1,818,185	1,818,185
Charges to other funds	100,000	-	100,000
Total operating revenue	26,748,360	1,818,185	28,566,545
Operating Expenses			
Cost of water	13,418,992	-	13,418,992
Cost of sewage treatment	6,096,247	-	6,096,247
Other operating and maintenance costs	6,349,264	1,008,826	7,358,090
Depreciation	3,919,928	305,817	4,225,745
Total operating expenses	29,784,431	1,314,643	31,099,074
Operating (Loss) Income	(3,036,071)	503,542	(2,532,529)
Nonoperating Revenue (Expense)			
Investment income	405,069	3,012	408,081
Interest expense	(695,273)	(7,735)	(703,008)
State grants	363,253	-	363,253
Total nonoperating revenue (expense)	73,049	(4,723)	68,326
(Loss) Income - Before capital contributions	(2,963,022)	498,819	(2,464,203)
Capital Contributions			
Capital grants	513,852	-	513,852
Special assessments	675,876	-	675,876
Lines donated by developers	2,429,519	-	2,429,519
Capital and lateral charges	1,670,264	-	1,670,264
Total capital contributions	5,289,511	-	5,289,511
Transfers Out	-	(14,293,231)	(14,293,231)
Special Items (Note 17)	-	3,640,610	3,640,610
Change in Net Position	2,326,489	(10,153,802)	(7,827,313)
Net Position - Beginning of year	134,199,927	10,153,802	144,353,729
Net Position - End of year	\$ 136,526,416	\$ -	\$ 136,526,416

Charter Township of Shelby

Proprietary Funds Statement of Cash Flows

Year Ended December 31, 2017

	Water and Sewer	Shelby Manor	Total Enterprise Funds
Cash Flows from Operating Activities			
Receipts from customers	\$ 26,767,234	\$ 1,617,972	\$ 28,385,206
Receipts from interfund services and reimbursements	150,523	51,455	201,978
Payments to suppliers	(22,852,211)	(1,006,003)	(23,858,214)
Payments to employees and fringes	(2,088,304)	-	(2,088,304)
Net cash provided by operating activities	1,977,242	663,424	2,640,666
Cash Flows from Noncapital Financing Activities			
Operating grants and subsidies	336,715	-	336,715
Repayments of loans made to other funds	425,000	-	425,000
Transfers to other funds	-	(14,293,231)	(14,293,231)
Repayments of loans from other funds	-	(296,741)	(296,741)
Net cash provided by (used in) noncapital financing activities	761,715	(14,589,972)	(13,828,257)
Cash Flows from Capital and Related Financing Activities			
Issuance of bonds	17,428,764	-	17,428,764
Receipt of capital grants	513,852	-	513,852
Special assessment collections	231,635	-	231,635
Benefit fees	1,666,364	-	1,666,364
Proceeds from sale of capital assets	-	14,000,000	14,000,000
Purchase of capital assets	(5,697,123)	-	(5,697,123)
Principal and interest paid on capital debt	(13,708,867)	(791,249)	(14,500,116)
Net cash provided by capital and related financing activities	434,625	13,208,751	13,643,376
Cash Flows from Investing Activities			
Interest received on investments	338,450	3,012	341,462
Proceeds from sale and maturities of investment securities	927,291	-	927,291
Net cash provided by investing activities	1,265,741	3,012	1,268,753
Net Increase (Decrease) in Cash	4,439,323	(714,785)	3,724,538
Cash - Beginning of year	13,268,926	714,785	13,983,711
Cash - End of year	\$ 17,708,249	\$ -	\$ 17,708,249
Classification of Cash			
Cash and investments	\$ 32,966,950	\$ -	\$ 32,966,950
Less amounts classified as investments	(15,258,701)	-	(15,258,701)
Total cash	\$ 17,708,249	\$ -	\$ 17,708,249

**Proprietary Funds
Statement of Cash Flows (Continued)**

Year Ended December 31, 2017

	Water and Sewer	Shelby Manor	Total Enterprise Funds
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities			
Operating (loss) income	\$ (3,036,071)	\$ 503,542	\$ (2,532,529)
Adjustments to reconcile operating (loss) income to net cash from operating activities:			
Depreciation and amortization	3,919,928	305,817	4,225,745
Changes in assets and liabilities:			
Receivables	118,874	(200,213)	(81,339)
Due to and from other funds	50,523	51,455	101,978
Inventories	(27,507)	-	(27,507)
Prepaid and other assets	(154,170)	1,001	(153,169)
Net OPEB liability	(222,980)	-	(222,980)
Accounts payable	718,502	1,822	720,324
Accrued and other liabilities	610,143	-	610,143
Total adjustments	5,013,313	159,882	5,173,195
Net cash provided by operating activities	\$ 1,977,242	\$ 663,424	\$ 2,640,666

Significant Noncash Transactions - During the year ended December 31, 2017, developers constructed water and sewer lines with an estimated value of \$2,429,519 and donated them to the Township's Water and Sewer Fund.

Charter Township of Shelby

Fiduciary Funds Statement of Fiduciary Net Position

December 31, 2017

	Pension and OPEB	Agency
Assets		
Cash and cash equivalents (Note 3)	\$ 2,101,976	\$ 10,224,533
Investments: (Note 3)		
Short-term funds	10,552,188	-
Stocks	45,389,553	-
Collective index and mutual funds - Fixed income	28,483,247	-
Collective index and mutual funds - Equity	41,797,931	-
Limited partnerships	22,994,939	-
Receivables:		
Accrued interest	203,036	138,676
Other receivables	-	171,771
Due from other governmental units	-	448
Due from primary government	256,455	-
Prepaid expenses and other assets	3,996	-
	<u>151,783,321</u>	<u>\$ 10,535,428</u>
Liabilities		
Accounts payable	84,992	\$ 828
Refundable deposits, bonds, etc.	-	1,275,969
Accrued liabilities and other liabilities	84,841	310,423
Advance tax receipts	-	8,948,208
	<u>169,833</u>	<u>\$ 10,535,428</u>
Net Position Held in Trust for Pension and Other Employee Benefits	<u>\$ 151,613,488</u>	

Fiduciary Funds
Statement of Changes in Fiduciary Net Position

Year Ended December 31, 2017

	<u>Pension and OPEB</u>
Additions	
Investment income:	
Interest and dividends	\$ 3,456,873
Net realized and unrealized gain on investments	18,972,768
Investment-related expenses	<u>(1,029,264)</u>
Total investment income	21,400,377
Contributions:	
Employer contributions	11,898,980
Employee contributions	<u>525,566</u>
Total contributions	<u>12,424,546</u>
Total additions	33,824,923
Deductions	
Benefit payments	8,954,671
Administrative expenses	<u>39,752</u>
Total deductions	<u>8,994,423</u>
Net Increase in Net Position Held in Trust	24,830,500
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	<u>126,782,988</u>
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	<u>\$ 151,613,488</u>

Note 1 - Significant Accounting Policies

Reporting Entity

The Township was organized on November 20, 1978 under the provisions of Act 359 of P.A. 1947, as amended (the "Charter Township Act"). The Township is governed by an elected seven-member board of trustees (board). 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. Blended component units are, in substance, part of the Township's operations, even though they are separate legal entities. Thus, blended component units are appropriately presented as funds of the Township. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are 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:

Police and Fire Retirement System

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.

Shelby Township Building Authority

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

Downtown Development Authority

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.

Accounting and Reporting Principles

The Charter Township of Shelby 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 Government Accounting Standards Board. The following is a summary of the significant accounting policies used by the Township:

Note 1 - Significant Accounting Policies (Continued)

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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. 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 revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (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 revenue 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 revenue 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.

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.

Revenue is not recognized until it is collected, or collected soon enough after the end of the year that it is 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.

Note 1 - Significant Accounting Policies (Continued)

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 revenue was used. The various funds are aggregated into three broad fund types as follows:

Governmental Funds

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

- The General Fund is the primary operating fund because it accounts for all financial resources used to provide 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
- The Public Improvement Fund, which accounts for the activities of capital improvement projects. It is financed primarily through transfers from other funds.

Proprietary Funds

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. The Shelby Manor building and all operations were sold during 2017. Refer to Note 17 for additional information regarding this sale.

Fiduciary Funds

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 following:

- The Police and Fire Retirement Systems and Retiree Health Care Trust Funds account for the activities of employee benefit plans, which accumulate resources for pension and other postemployment benefit payments to qualified retirees.
- 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.

Note 1 - Significant Accounting Policies (Continued)

Interfund Activity

During the course of operations, the Township 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 (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Furthermore, 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.

Specific Balances and Transactions

Cash and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Pooled investment income is generally allocated to each fund using a weighted-average of balance for the principal.

Investments are reported at fair value or estimated fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Real estate assets are reported at fair value utilizing an income approach to valuation. The fair value of real estate is based on periodic appraisals as well as the judgment of independent real estate advisors and management. Investments that do not have an established market value are reported at estimated fair value as determined by the plan's management.

Approximately \$18.5 million of the assets held by the Shelby Township Police and Fire Pension Plan and approximately \$4.5 million of the assets held by the Shelby Township Other Post Employment Benefit Trust at December 31, 2017 are not publicly traded and, therefore, do not always have a readily determinable market value. Management's estimates of these values are based on information provided by investment managers, general partners, real estate advisors, and other means. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the values that would have been used had a ready market for these securities existed.

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

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

Note 1 - Significant Accounting Policies (Continued)

Capital Assets

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

Capital assets are depreciated using the straight-line method over the following useful lives:

	Depreciable Life - Years
Infrastructure	20-35
Water and sewer lines	50
Buildings and improvements	20-50
Machinery and equipment	5-20
Vehicles	5
Furniture and fixtures	5-20
Library materials	8

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 lives 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, Police Fund, and Fire Fund are generally used to liquidate governmental long-term debt.

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of net position and/or the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

The Township reports the following deferred outflows of resources and deferred inflows of resources:

Description	Outflows	Inflows
Unavailable revenue (those not collected within the period of availability) - Reported only at the modified accrual level		✓
Deferred charge on bond refunding	✓	
Deferred pension costs (or cost reductions)	✓	✓
Property taxes levied for the following year		✓

Note 1 - Significant Accounting Policies (Continued)

Net Position

Net position of the Township is classified in three components. Net investment in capital assets - net of related debt consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position is further classified as expendable and nonexpendable, where applicable. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Net Position Flow Assumption

The Township will sometimes 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.

Fund Balance Flow Assumptions

The Township will sometimes 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. It is the Township's policy to first apply unrestricted resources, except in the General Fund, where restricted resources are applied first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balances classification could be used, it is the Township's policy to spend the 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 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 has, by resolution, authorized the director of finance to assign fund balance. The board of trustees 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.

December 31, 2017

Note 1 - Significant Accounting Policies (Continued)

Property Tax Revenue

Properties are assessed as of December 31. Property taxes are levied the following December 1 and become an enforceable lien at that time; the tax is based on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed. 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 2016 taxable valuation of the Township totaled approximately \$3.0 billion (a portion of which is abated). Ad valorem taxes were levied as follows:

Purpose	Millage Rate	Revenue
General operating	1.0000	\$ 3,030,000
Police protection	4.0424	12,250,000
Fire operating	3.2575	9,870,000
Police and fire pension	1.0000	3,030,000
Total		<u>\$ 28,180,000</u>

Pension

The Township offers a defined benefit pension plan to its eligible employees. The Township records a net pension asset for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purpose of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Police and Fire Retirement System and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefit Costs

The Township offers retiree healthcare benefits to eligible employees. 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 and Sick Leave)

It is the Township's policy to permit employees to accumulate earned but unused sick, vacation, and personal pay benefits. Sick and personal pay is accrued for the estimated amount that the Township will pay upon employment termination; vacation pay is accrued when incurred. Both of these are reported in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. Generally, the funds that report each employee's compensation (the General Fund, Fire Fund, Police Fund, and Water and Sewer Fund, primarily) are used to liquidate the obligations.

December 31, 2017

Note 1 - Significant Accounting Policies (Continued)

Proprietary Funds Operating Classification

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue 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 revenue 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 tap fees 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 revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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.

Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Township to recognize on the face of the financial statements its net OPEB liability related to its participation in the Charter Township of Shelby Other Post Employment Benefit Plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Township is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Township's financial statements for the year ending December 31, 2018.

In November 2016, the Governmental Accounting Standards Board issued GASB Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The Township is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Township's financial statements for the 2019 fiscal year.

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The Township is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Township's financial statements for the year ending December 31, 2020.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Township is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Township's financial statements for the year ending December 31, 2021.

December 31, 2017

Note 1 - Significant Accounting Policies (Continued)

In March 2018, the Governmental Accounting Standards Board issued GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This statement requires additional disclosures related to debt and clarifies which liabilities governments should include when disclosing information related to debt. The Township is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Township's financial statements for the year ending December 31, 2019.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees

The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees only be used for construction code costs, including an allocation of estimated overhead costs. As required under the provisions of the act, the Township adopted this accounting treatment effective January 1, 2000. A summary of the cumulative shortfall since January 1, 2000 is as follows:

Shortfall at January 1, 2017		\$ (2,567,198)
Current year permit revenue		2,209,127
Related expenses:		
Direct costs	\$ 1,399,273	
Estimated indirect costs	255,660	1,654,933
Current year surplus		554,194
Cumulative shortfall December 31, 2017		<u>\$ (2,013,004)</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 law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

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

The Township has designated 16 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 investments comply with all required laws and regulations.

December 31, 2017

Note 3 - Deposits and Investments (Continued)

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$55,879,632 of bank deposits (certificates of deposit and 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 two years, unless the maturity is matched to a specific cash flow according to the policy. Commercial paper can only be purchased with a 270-day maturity.

At year end, the Township had the following investments:

Investment	Carrying Value	Weighted- average Maturity
Primary Government		
Bank investment pool	\$ 2,051,438	365 days
U.S. government agency	12,013,511	90 days
Commercial paper	22,222,550	114 days
U.S. Treasury	5,087,754	148 days
Total	<u>\$ 41,375,253</u>	

Investment	Carrying Value	Weighted- average Maturity
Fiduciary Funds		
Short-term investments (Pension Trust)	\$ 4,259,052	53 days
Short-term investments (OPEB Trust)	6,293,136	24 days
Fixed Income Collective Index Fund (Pension Trust)	20,853,294	4.5 years
Fixed Income Collective Index Fund (OPEB Trust)	7,629,953	6.4 years
Total	<u>\$ 39,035,435</u>	

December 31, 2017

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:

Investment	Carrying Value	Rating	Rating Organization
Primary Government			
Bank investment pool	\$ 2,051,438	Not rated	Not rated
U.S. government agency securities	12,013,511	AA+ to AAA	S&P
Commercial paper	22,222,550	A1	S&P
U.S. Treasury	5,087,754	A1+ to AA+	S&P
Total	<u>\$ 41,375,253</u>		

Investment	Carrying Value	Rating	Rating Organization
Fiduciary Funds			
Short-term investments (Pension Trust)	\$ 4,259,052	A1	S&P
Short-term investments (OPEB Trust)	6,293,136	A1	S&P
Fixed Income Collective Index Fund (Pension Trust)	20,853,294	AA1/AA2	S&P
Fixed Income Collective Index Fund (OPEB Trust)	7,629,953	AA1/AA2	S&P
Total	<u>\$ 39,035,435</u>		

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, 2017, there were no investments in a single issuer in excess of 50 percent of the Township's total portfolio. The Township's Fiduciary Funds are invested in the Vanguard FTSE Developed ETF, Comerica Large Cap Equity Index Fund, Vanguard 500 Index Fund, and Baird Intermediate Bond Fund, each of which exceeds 5 percent of the Township's fiduciary fund portfolio.

Fair Value Measurements

The Township categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Township's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

December 31, 2017

Note 3 - Deposits and Investments (Continued)

The Township has the following recurring fair value measurements as of December 31, 2017:

	Assets Measured at Carrying Value on a Recurring Basis at December 31, 2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)	Balance at December 31, 2017
Debt securities:				
U.S. Treasury securities	\$ 5,087,754	\$ -	\$ -	\$ 5,087,754
U.S. government agency	-	12,013,511	-	12,013,511
Collective index and mutual funds - Fixed income	22,182,151	6,301,096	-	28,483,247
Total debt securities	27,269,905	18,314,607	-	45,584,512
Equity securities:				
Stocks	45,389,553	-	-	45,389,553
Collective index and mutual funds - Equity	28,976,624	12,821,307	-	41,797,931
Total equity securities	74,366,177	12,821,307	-	87,187,484
Limited partnerships	-	-	1,921,119	1,921,119
Total	\$ 101,636,082	\$ 31,135,914	\$ 1,921,119	134,693,115
Investments measured at NAV:				
Commingled funds				13,283,106
Real estate funds				7,790,714
Total assets				\$ 155,766,935

Debt and equity securities and mutual funds classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of U.S. government agency investments at December 31, 2017 was determined primarily based on Level 2 inputs. The Township estimates the fair value of these investments using interactive data, which uses other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

The fair value of collective index funds (fixed income and equity) at December 31, 2017 was determined primarily based on Level 2 inputs. The Township estimates the fair value of these investments using model-based valuation techniques for which all significant assumptions are observable in the market.

The fair value of limited partnerships at December 31, 2017 was determined primarily based on Level 3 inputs. The Township estimates the fair value of these investments using audited financial statements of the limited partnership.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented in the table below.

Investments in Entities that Calculate Net Asset Value per Share

The Township holds shares or interests in investment companies whereby the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

December 31, 2017

Note 3 - Deposits and Investments (Continued)

At December 31, 2017, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	Carrying Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Real estate funds	\$ 7,790,714	\$ 370,000	Fully restricted	None
Commingled funds	13,283,106	-	Monthly	30 days
Total	<u>\$ 21,073,820</u>	<u>\$ 370,000</u>		

Real estate funds: This type includes three real estate funds that invest primarily in U.S. commercial real estate. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the Township’s ownership interest in partners’ capital. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next one to eight years. 100 percent of the total investment in this type is expected to be sold. However, the individual investments that will be sold have not yet been determined. Once it has been determined which investments will be sold and whether those investments will be sold individually or in a group, the investments will be sold in an auction process.

Commingled funds: This type includes one commingled fund that invests in publicly traded international equity. All of the underlying securities within the commingled fund carry a Level 1 or Level 2 valuation

December 31, 2017

Note 4 - Capital Assets

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

Governmental Activities

	Balance January 1, 2017	Reclassifications	Additions	Disposals and Adjustments	Balance December 31, 2017
Capital assets not being depreciated:					
Land	\$ 11,536,908	\$ -	\$ -	\$ -	\$ 11,536,908
Construction in progress	1,626,032	(1,501,133)	1,146,141	(20,483)	1,250,557
Subtotal	13,162,940	(1,501,133)	1,146,141	(20,483)	12,787,465
Capital assets being depreciated:					
Infrastructure	37,493,781	107,301	1,111,918	-	38,713,000
Buildings and improvements	17,682,476	1,362,520	894,422	(7,282)	19,932,136
Machinery and equipment	7,021,779	31,312	682,364	(352,746)	7,382,709
Vehicles	7,279,819	-	741,747	(273,859)	7,747,707
Library books	2,000,000	-	-	-	2,000,000
Subtotal	71,477,855	1,501,133	3,430,451	(633,887)	75,775,552
Accumulated depreciation:					
Infrastructure	17,183,531	-	1,385,867	-	18,569,398
Buildings and improvements	6,437,689	-	384,878	(3,692)	6,818,875
Machinery and equipment	4,474,291	-	543,912	(348,678)	4,669,525
Vehicles	5,144,456	-	708,747	(217,500)	5,635,703
Library books	1,000,000	-	-	-	1,000,000
Subtotal	34,239,967	-	3,023,404	(569,870)	36,693,501
Net capital assets being depreciated	37,237,888	1,501,133	407,047	(64,017)	39,082,051
Net governmental activities capital assets	<u>\$ 50,400,828</u>	<u>\$ -</u>	<u>\$ 1,553,188</u>	<u>\$ (84,500)</u>	<u>\$ 51,869,516</u>

December 31, 2017

Note 4 - Capital Assets (Continued)

Business-type Activities

	Balance January 1, 2017	Reclassifications	Additions	Disposals and Adjustments	Balance December 31, 2017
Capital assets not being depreciated:					
Land	\$ 1,525,441	\$ -	\$ -	\$ (1,320,000)	\$ 205,441
Construction in progress	635,948	(35,656)	555,164	(171,003)	984,453
Subtotal	2,161,389	(35,656)	555,164	(1,491,003)	1,189,894
Capital assets being depreciated:					
Water systems	43,219,332	-	1,559,387	-	44,778,719
Sewer systems	120,696,827	-	5,456,387	(197,141)	125,956,073
Buildings and improvements	19,513,060	-	-	(15,363,896)	4,149,164
Furniture and equipment	1,018,920	(133,026)	41,510	(82,798)	844,606
Vehicles	754,692	168,682	136,065	(140,693)	918,746
Subtotal	185,202,831	35,656	7,193,349	(15,784,528)	176,647,308
Accumulated depreciation:					
Water systems	19,337,319	-	1,051,670	-	20,388,989
Sewer systems	40,345,411	-	2,709,147	-	43,054,558
Buildings and improvements	7,284,414	-	388,025	(6,324,504)	1,347,935
Furniture and equipment	904,020	(174,408)	44,748	(82,798)	691,562
Vehicles	650,192	174,408	32,155	(140,693)	716,062
Subtotal	68,521,356	-	4,225,745	(6,547,995)	66,199,106
Net capital assets being depreciated	116,681,475	35,656	2,967,604	(9,236,533)	110,448,202
Net business-type activity capital assets	<u>\$ 118,842,864</u>	<u>\$ -</u>	<u>\$ 3,522,768</u>	<u>\$ (10,727,536)</u>	<u>\$ 111,638,096</u>

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

Governmental activities:	
General government	\$ 563,797
Public safety	1,169,437
Public works	978,355
Recreation and culture	303,081
41A District Court	8,734
Total governmental activities	<u>\$ 3,023,404</u>
Business-type activities:	
Water and sewer	\$ 3,919,928
Shelby Manor	305,817
Total business-type activities	<u>\$ 4,225,745</u>

December 31, 2017

Note 4 - Capital Assets (Continued)

Construction Commitments

The Township has active construction projects at year end. Three of these are significant projects with construction costs in excess of \$1,000,000. At year end, the Township's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Fire Station #4	\$ 70,000	\$ 1,930,000
41A District Court Building	-	5,250,000
Special Assessment Sewer District #34	675,000	8,170,000
Total	<u>\$ 745,000</u>	<u>\$ 15,350,000</u>

The Water and Sewer Fund includes a nonoperating impairment loss of approximately \$197,000 due to damage caused by a sinkhole to the Macomb Interceptor Drainage District sewer system, of which the Township is a member. The Township calculated the loss based on the historical cost of the system, its allocated portion replacement costs, and an estimate of the damaged section compared to the entire system.

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Shelby Manor	\$ 73,501
	Community Block Grant	160,889
	Total General Fund	234,390
Water and Sewer Fund	General Fund	1,205
	Fire Fund	1,039
	Police Fund	161
	Total Water and Sewer Fund	2,405
	Total	<u>\$ 236,795</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

The Township has made the following long-term advances between funds:

Fund Borrowed From	Fund Loaned To	Amount
Water and Sewer Fund	Fire Fund	\$ 5,628,000
	Police Fund	6,097,000
	Total Water and Sewer Fund	<u>\$ 11,725,000</u>

In 2014, the Water and Sewer Fund advanced \$13,000,000 in total to the Police Fund and Fire Fund, which was used to fund the pension obligation. The advance will be paid back through 2032 and bears interest payable annually at 1 percent.

December 31, 2017

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

Interfund transfers reported in the fund financial statements are composed of the following:

Paying Fund (Transfer Out)	Receiving Fund (Transfer In)	Amount
General Fund	Public Improvement Fund	\$ 14,297,823
	Police Fund	21,631
	Total General Fund	14,319,454
Police Fund	Public Improvement Fund	185,450
Fire Fund	Public Improvement Fund	1,500,000
Shelby Manor Fund	General Fund	14,293,231
	Total	<u>\$ 30,298,135</u>

Transfers from the General Fund, Police Fund, and Fire Fund to the Public Improvement Fund will be used to fund future capital projects throughout the Township for equipment, buildings, and infrastructure. As discussed in Note 17, Shelby Manor was sold during the year, and Shelby Manor transferred the residual net position to the General Fund.

Note 6 - Unearned Revenue

The unearned revenue reported in the Water and Sewer Fund represents redeemable certificates issued to developers to be applied as payment on future capital charges totaling \$687,943. In addition, the Water and Sewer Fund issued a special assessment to certain property owners for a sewer project that was not complete at December 31, 2017. Total revenue for this project is anticipated to be approximately \$8.85 million, of which \$8,169,816 is reported as unearned revenue at year end.

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 Township. 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.

Long-term debt activity for the year ended December 31, 2017 can be summarized as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligations:					
Installment purchase agreements	\$ 217,710	\$ -	\$ (117,710)	\$ 100,000	\$ 100,000
General obligations	8,035,000	-	(640,000)	7,395,000	650,000
Total general obligations:	8,252,710	-	(757,710)	7,495,000	750,000
Compensated absences	856,608	124,132	(132,640)	848,100	120,685
Total governmental activities long-term debt	<u>\$ 9,109,318</u>	<u>\$ 124,132</u>	<u>\$ (890,350)</u>	<u>\$ 8,343,100</u>	<u>\$ 870,685</u>

December 31, 2017

Note 7 - Long-term Debt (Continued)

Business-type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and contracts payable -					
General obligations	\$ 18,603,073	\$ 17,428,764	\$ (13,826,703)	\$ 22,205,134	\$ 857,203
Compensated absences	64,318	17,013	(6,592)	74,739	8,075
Total business-type activities long-term debt	<u>\$ 18,667,391</u>	<u>\$ 17,445,777</u>	<u>\$ (13,833,295)</u>	<u>\$ 22,279,873</u>	<u>\$ 865,278</u>

The Township had deferred outflows of \$130,932 related to deferred charges on bond refundings at December 31, 2017.

December 31, 2017

Note 7 - Long-term Debt (Continued)
General Obligation Bonds and Contracts

General obligations outstanding at December 31, 2017 are as follows:

Purpose	Amount of Issue	Interest Rates	Principal Maturity Ranges	Outstanding
Governmental Activities				
Installment Purchase Agreement - Police equipment	\$207,200	0.00%	\$100,000	\$ 100,000
Pension Obligation Bonds Series 2014A			\$650,000 -	
Maturing through 2027	\$9,300,000	2.00% - 3.60%	\$860,000	<u>7,395,000</u>
Total governmental activities				<u>\$ 7,495,000</u>
Business-type Activities				
2009 State Revolving Fund (SRF) Clean Water - Project 5343-01			\$5,000 -	
Maturing through 2029	\$128,150	2.50%	\$10,000	\$ 93,150
2010 Clintondale Pump Station			\$111,000 -	
Maturing through 2031	\$2,849,191	2.50% - 5.00%	\$231,000	2,354,283
2010 OMID Series 2010B			\$13,000 -	
Maturing through 2030	\$319,195	1.15% - 5.90%	\$25,000	239,873
2010 OMID Series 2010A (SRF)			\$56,000 -	
Maturing through 2031	\$1,242,274	2.50%	\$78,000	932,324
2010 N. Gratiot Drainage Assessment			\$2,000 -	
Maturing through 2035	\$73,021	1.00% - 6.35%	\$4,000	57,827
2014 OMID Drain Bonds Series 2014A			\$20,000 -	
Maturing through 2034	\$476,441	2.00% - 3.125%	\$31,000	420,137
2015 MID SRF 5624-01			\$10,000 -	
Maturing through 2035	\$355,314	2.50%	\$20,000	251,381
2015 N. Gratiot Drainage Assessment			\$25,000 -	
Maturing through 2033	\$597,225	3.50% - 5.00%	\$41,000	572,619
2017 MID Drain and Refunding Bonds, Series 2017A (New Money Portion)			\$152,000 -	
Maturing through 2035	\$7,029,457	3.45% - 5.50%	\$419,000	7,008,839
2017 MID Drain and Refunding Bonds, Series 2017A (Refunding Portion)			\$412,000 -	
Maturing through 2042	\$10,318,982	3.45% - 5.50%	\$759,000	<u>10,274,701</u>
Total business-type activities				<u>\$ 22,205,134</u>

December 31, 2017

Note 7 - Long-term Debt (Continued)

Debt Service Requirements to Maturity

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
2018	\$ 750,000	\$ 223,448	\$ 973,448	\$ 857,203	\$ 884,888	\$ 1,742,091
2019	665,000	210,448	875,448	855,990	851,184	1,707,174
2020	680,000	197,148	877,148	892,614	816,628	1,709,242
2021	695,000	176,748	871,748	928,669	780,273	1,708,942
2022	720,000	155,898	875,898	966,539	742,106	1,708,645
2023-2027	3,985,000	423,685	4,408,685	5,457,633	3,071,181	8,528,814
2028-2032	-	-	-	6,252,542	1,846,617	8,099,159
2033-2037	-	-	-	4,005,418	722,285	4,727,703
2038-2042	-	-	-	1,988,526	234,152	2,222,678
Total	<u>\$ 7,495,000</u>	<u>\$ 1,387,375</u>	<u>\$ 8,882,375</u>	<u>\$ 22,205,134</u>	<u>\$ 9,949,314</u>	<u>\$ 32,154,448</u>

The Macomb Interceptor Drainage District (MID) and Oakland-Macomb Interceptor Drainage District (OMID) projects are construction and rehabilitation projects that 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. During 2017, the County issued MID Drain and Refunding Bonds to repair a sinkhole and for new capital projects. The refunding portion of the 2017A bonds refunded the MID 2010A bonds.

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
North Gratiot Interceptor 2010	\$ 16,965,000	\$ 73,021	\$ 26,000
Clintondale Pump Station	30,800,000	2,849,191	-
MID SRF 5624-01	2,890,019	279,419	-
MID Series 2017A (New money and refunded portion)	126,425,000	14,723,536	-
Total	<u>\$ 177,080,019</u>	<u>\$ 17,925,167</u>	<u>\$ 26,000</u>

Oakland-Macomb Interceptor Drainage District (OMID)

	County Portion	Township Portion	Tax Credit
2010A (SRF)	\$ 26,076,000	\$ 1,242,287	\$ -
2010B	6,700,000	319,195	140,000
2014A	7,235,000	476,441	-

December 31, 2017

Note 7 - Long-term Debt (Continued)

Advance and Current Refunding

In prior years, the Township defeased certain bonds by placing the proceeds of the 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, 2017, there is still \$1,950,000 of bonds outstanding that is considered defeased.

Note 8 - Restricted Assets

At December 31, 2017, restricted assets are composed of the following:

Description	Business-type Activities
Total assets held at Macomb and Oakland County, Michigan	<u>\$ 1,238,432</u>

The restricted assets consist of prepayments made to Macomb and Oakland County, Michigan for the Township's portion of OMID Segments 3 and 4 and assets held at Macomb County, Michigan for the sewer improvements.

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. 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 two fiscal years were as follows:

	Medical Claims	
	2017	2016
Unpaid claims - Beginning of year	\$ 791,353	\$ 759,395
Incurred claims, including claims incurred but not reported	3,700,270	3,862,976
Claim payments	<u>(3,710,766)</u>	<u>(3,831,018)</u>
Unpaid claims - End of year	<u>\$ 780,857</u>	<u>\$ 791,353</u>

Note 10 - Pension Plan

Plan Description

The Fire and Police Pension Board administers the Shelby Township Fire and Police Pension System - a single-employer defined benefit pension plan that provides pensions for all permanent full-time firefighters hired prior to May 2, 2014 and all police officers hired prior to April 2, 2014 of the Township. Benefit terms have been established by contractual agreements between the Township and the various employee union representation; amendments are subject to the same process.

The financial statements of the pension system are included in these financial statements as a pension and other employee benefit trust fund (a fiduciary fund).

Note 10 - Pension Plan (Continued)

Management of the plan is vested in the pension board, which consists of five members - two elected by plan members, two appointed by the Township, and the Township's treasurer, who serves as an ex officio member.

Benefits Provided

Shelby Township Fire and Police Pension System provides retirement, disability, and death benefits. Retirement benefits for the majority of plan members are calculated as 2.5 percent of the member's final three-year average final compensation times the member's years of service for the first 25 years of service. The percentage is reduced to 1 percent for years of service in excess of 25. Deferred retirement benefits are available for patrol officers with eight years of continuous service and all other plan members after 10 years of continuous service. These benefits follow the same provisions as a service retirement but do not become payable until the date retirement would have been eligible had the member remained in employment. Plan members with 10 years of continuous service are eligible to retire at age 60, and plan members with 25 years of continuous service are eligible to retire regardless of age. All firefighter members are eligible for nonduty disability benefits after five years of service and all police officer members are eligible after 10 years of service. All plan members are eligible for duty-related disability benefits upon hire. Disability retirement benefits vary based upon bargaining unit and date of hire. Duty death benefits equal the same amount paid by workers' compensation and nonduty death benefits equal the member's actuarially reduced pension benefit.

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

	Shelby Township Fire and Police Pension System
Inactive plan members or beneficiaries currently receiving benefits	114
Inactive plan members entitled to but not yet receiving benefits	2
Active plan members	<u>106</u>
Total employees covered by the plan	<u><u>222</u></u>

Contributions

State law requires public employers to make pension contributions in accordance with an actuarial valuation. The pension board hires an independent actuary for this purpose, and the Township annually contributes the amount determined to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees are required to make pension contributions based on union contracts and plan provisions as well as Township Charter, which may be amended by the board of trustees. The Township's required contribution is determined after consideration of the required contribution rate of employees. For the year ended December 31, 2017, the active employee contribution rate was 5 percent of annual pay. The Township's contribution was \$1,971,756, which was the actuarial required contribution.

Net Pension Liability

The Township has chosen to use the December 31 measurement date as its measurement date for the net pension liability. The December 31, 2017 fiscal year end reported net pension liability was determined using a measure of the total pension liability and the pension net position as of the December 31, 2017 measurement date.

December 31, 2017

Note 10 - Pension Plan (Continued)

Changes in the net pension liability (asset) during the measurement year were as follows:

Changes in Net Pension Liability (Asset)	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability (Asset)
Balance at January 1, 2017	\$ 104,884,791	\$ 97,944,531	\$ 6,940,260
Changes for the year:			
Service cost	1,892,677	-	1,892,677
Interest	7,769,229	-	7,769,229
Differences between expected and actual experience	(479,021)	-	(479,021)
Changes in assumptions	(135,422)	-	(135,422)
Contributions - Employer	-	1,971,756	(1,971,756)
Contributions - Employee	-	525,566	(525,566)
Net investment income	-	17,304,401	(17,304,401)
Benefit payments, including refunds	(6,375,484)	(6,375,484)	-
Administrative expenses	-	(39,752)	39,752
Net changes	2,671,979	13,386,487	(10,714,508)
Balance at December 31, 2017	\$ 107,556,770	\$ 111,331,018	\$ (3,774,248)

The plan's fiduciary net position represents 103.5 percent of the total pension liability.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2017, the Township recognized pension expense of \$1,457,877.

At December 31, 2017, the Township reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 399,055	\$ (383,217)
Changes in assumptions	960,697	(311,611)
Net difference between projected and actual earnings on pension plan investments	-	(5,847,778)
Total	\$ 1,359,752	\$ (6,542,606)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending December 31	Amount
2018	\$ (519,298)
2019	(519,298)
2020	(1,971,589)
2021	(2,172,669)
Total	\$ (5,182,854)

Note 10 - Pension Plan (Continued)

Actuarial Assumptions

The total pension liability (asset) in the December 31, 2017 actuarial valuation was determined using an inflation assumption of 3.5 percent, assumed salary increases (including inflation) of 3.5 - 8.75 percent, an investment rate of return (net of investment expenses) of 7.5 percent, and the RP-2014 Blue Collar with 2017 Social Security Generational Improvement scale from 2006 mortality rates. See changes disclosed below.

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that township contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Investment Rate of Return

Best estimates of arithmetic real rates of return as of the December 31, 2017 measurement date for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following tables:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	41.00 %	7.10 %
Global fixed income	31.00	2.80
International equity	16.00	6.90
Alternatives	5.00	4.70
Real estate	5.00	4.50
Cash or cash equivalents	2.00	1.40

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension asset of the Township, calculated using the discount rate of 7.5 percent, as well as what the Township's net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.5%)	Current Discount Rate (7.5%)	1 Percent Increase (8.5%)
Net pension liability (asset) of the Shelby Township Fire and Police Pension System	\$ 7,933,319	\$ (3,774,248)	\$ (14,332,543)

Assumption Changes

The mortality rates were updated from the RP-2014 Blue Collar with 2016 Social Security Generational Improvement Scale from 2006 to the RP-2014 Blue Collar with 2017 Social Security Generational Improvement Scale from 2006.

Note 10 - Pension Plan (Continued)

Investment Policy

The pension plan’s policy in regard to the allocation of invested assets is established and may be amended by the pension board by a majority vote of its members. It is the policy of the pension board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan’s investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans.

Rate of Return

For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 18.9 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Pension Plan Reserves

In accordance with Act 345 of the State of Michigan, the following reserves are required to be set aside within the pension plan:

The retiree reserve is to be computed annually by the actuary as the present value of estimated benefit payments for all current retirees. The amounts reserved may be used solely to pay monthly retiree benefit payments.

The employee reserve is credited as employee contributions are received throughout the year; the plan maintains a record of the amount contributed by each employee and credits interest annually at a rate of 2.0 percent. For any employee who terminates before vesting in the pension plan, his or her balance is returned to him or her upon request; for those who stay until retirement, the balance is transferred into the retiree reserve.

The employer reserve account is used to account for the residual net position balance in the pension plan after funding the above two reserves.

The balances of the reserve accounts at December 31, 2017 are as follows:

	<u>Required Reserve</u>	<u>Amount Funded</u>
Retiree reserve	\$ 62,383,343	\$ 62,383,343
Employee reserve	8,094,818	8,094,818
Employer reserve	-	40,852,857
	<u>\$ 70,478,161</u>	<u>\$ 111,331,018</u>
Total		

Note 11 - Other Postemployment Benefits

Plan Description

For a description of retiree healthcare benefits provided by the Township, eligibility requirements for employees, and plan information please see note Note 12.

Funding Policy

See the contributions section in Note 12 for information on the Township's plan funding.

December 31, 2017

Note 11 - Other Postemployment Benefits (Continued)

Funding Progress

For the year ended December 31, 2017, the Township has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of January 1, 2017. 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 costs 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 (recommended)	\$ 4,488,364
Interest on the prior year's net OPEB obligation	835,567
Less adjustment to the annual required contribution	<u>(785,465)</u>
Annual OPEB cost	4,538,466
Amounts contributed:	
Payment of current premiums	(2,579,187)
Advance funding	<u>(7,348,037)</u>
Decrease in net OPEB obligation	(5,388,758)
OPEB obligation - Beginning of year	<u>12,378,735</u>
OPEB obligation - End of year	<u><u>\$ 6,989,977</u></u>

Employer contributions and annual OPEB cost data for the current and two preceding years were as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Employer Contributions Percentage of ARC Contributed	Net OPEB Obligation
December 31, 2017	January 1, 2017	\$ 4,488,364	221.20 %	\$ 6,989,977
December 31, 2016	January 1, 2016	5,815,278	88.40	12,378,735
December 31, 2015	January 1, 2014	5,773,353	79.70	11,651,509

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
January 1, 2017	\$ 28,838,457	\$ 79,110,395	\$ 50,271,938	36.45 %	\$ 13,753,607	365.52 %
January 1, 2016	24,461,957	89,174,816	64,712,859	27.43	13,897,076	465.66
January 1, 2014	19,855,870	84,443,078	64,587,208	23.51	14,554,860	443.75

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

December 31, 2017

Note 11 - Other Postemployment Benefits (Continued)

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, 2017 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 6.75 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date and an annual healthcare cost trend rate of 8 percent initially reduced by decrements to an ultimate rate of 5 percent in 2024 and all future years. Both rates included a 3.75 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2017 was 25 years.

Note 12 - Other Postemployment Benefit Plan

Plan Description

The Township provides OPEB for all employees who meet eligibility requirements, as described below. The benefits are provided through the Charter Township of Shelby Other Post Employment Benefit Plan, a single-employer plan administered by the board of trustees.

The financial statements of the OPEB plan are included in these financial statements as a pension and other employee benefit trust fund (a fiduciary fund).

Management of the plan is vested in the Township's board of trustees.

The Township provides retiree healthcare benefits to eligible employees meeting the following criteria:

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.

December 31, 2017

Note 12 - Other Postemployment Benefit Plan (Continued)

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 hired on or before February 16, 2016 retiring after 25 years of service or under the provisions of Act 345 are eligible for healthcare benefits only. Employees hired after February 16, 2016 are not eligible for any retiree coverage.

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.

Benefits Provided

The Charter Township of Shelby Other Post Employment Benefit Plan provides healthcare, dental, vision, and prescription drug benefits for retirees and their 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 complimentary coverage policy per the applicable bargaining unit.

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

Date of member count	December 31, 2017
Inactive plan members or beneficiaries currently receiving benefits	195
Active plan members	203
	<hr/>
Total plan members	398
	<hr/> <hr/>

Contributions

Retiree healthcare costs are paid by the Township on a "pay-as-you-go" basis. The Township has no obligation to make contributions in advance of when the insurance costs are due for payment. In the current year, the Township paid postemployment healthcare costs of \$2,579,187, plus it contributed \$7,348,037 into a prefunded retiree healthcare fund, which is reported in this financial statement as a Pension and Other Employee Benefit Trust Fund type.

December 31, 2017

Note 12 - Other Postemployment Benefit Plan (Continued)

Net OPEB Liability

The Township has chosen to use the December 31 measurement date as its measurement date for the net OPEB liability. The December 31, 2017 fiscal year end reported net OPEB liability was determined using a measure of the total OPEB liability and the OPEB net position as of the December 31, 2017 measurement date. The December 31, 2017 measurement date total OPEB liability was determined by an actuarial valuation performed as of that date.

Changes in the net OPEB liability during the measurement year were as follows:

Changes in Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
Balance at January 1, 2017	\$ 93,359,269	\$ 28,838,457	\$ 64,520,812
Changes for the year:			
Service cost	1,495,309	-	1,495,309
Interest	6,317,058	-	6,317,058
Differences between expected and actual experience	(8,527,386)	-	(8,527,386)
Changes in assumptions	(7,311,609)	-	(7,311,609)
Contributions - Employer	-	9,927,224	(9,927,224)
Net investment income	-	4,095,976	(4,095,976)
Benefit payments, including refunds	(2,579,187)	(2,579,187)	-
Net changes	(10,605,815)	11,444,013	(22,049,828)
Balance at December 31, 2017	\$ 82,753,454	\$ 40,282,470	\$ 42,470,984

The plan's fiduciary net position represents 48.7 percent of the total OPEB liability.

Actuarial Assumptions

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using an inflation assumption of 3.75 percent; an investment rate of return (net of investment expenses) of 6.75 percent; and a healthcare cost trend rate of 8.00 percent, 5.00 percent, and 4.00 percent for medical, dental, and vision benefits, respectively. The healthcare cost trend rates decrease by 0.50 percent, 0.25 percent, and 0.25 to an ultimate rate of 5.00 percent, 4.00 percent, and 3.00 percent for medical, dental and vision benefits, respectively. The total OPEB liability was determined using the RPH-2017 Total Dataset Mortality Table fully generational using Scale MP-2017. These assumptions were applied to all periods included in the measurement.

Discount Rate

The discount rate used to measure the total OPEB liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that Township contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

December 31, 2017

Note 12 - Other Postemployment Benefit Plan (Continued)

Investment Rate of Return

Best estimates of arithmetic real rates of return as of the December 31, 2017 measurement date for each major asset class included in the OPEB plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following tables:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Large Cap Equity	30.00 %	5.39 %
Domestic Small / Mid Cap Equity	15.00	5.96
International Equity	15.00	5.20
Domestic Bonds	20.00	1.98
International Bonds	10.00	3.79
Real estate	10.00	4.25

Rate of Return

For the year ended December 31, 2017, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 15.1 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Township, calculated using the discount rate of 6.75 percent, as well as what the Township's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (5.75%)	Current Discount Rate (6.75%)	1 Percent Increase (7.75%)
Net OPEB liability of the Charter Township of Shelby Other Post Employment Benefit Plan	\$ 55,619,851	\$ 42,470,984	\$ 31,927,870

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the Township, calculated using the healthcare cost trend rate of 8.0 percent, 5.0 percent, and 4.0 percent for medical, dental, and vision, respectively, as well as what the Township's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (7.0%, 4.0%, 3.0%)	Current Healthcare Cost Trend Rate (8.0%, 5.0%, 4.0%)	1 Percent Increase (9.0%, 6.0%, 5.0%)
Net OPEB liability of the Charter Township of Shelby Other Post Employment Benefit Plan	\$ 31,469,525	\$ 42,470,984	\$ 56,311,690

December 31, 2017

Note 12 - Other Postemployment Benefit Plan (Continued)

OPEB Plan Fiduciary Net Position

Detailed information about the plan’s fiduciary net position is not available in the separately issued financial report. For the purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the plan’s fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Concentrations

At December 31, 2017, the plan held approximately 5.6 percent, 7.6 percent, 12.5 percent, 16.6 percent, and 34.8 percent of its investment portfolio in the Vanguard FTSE Developed ETF, Templeton Global Bond Fund, Vanguard Total Bond Market Index Fund, Invesco Premier U.S. Government Money Market, and Vanguard 500 Index Fund, respectively.

Note 13 - Pension and Other Employee Benefit Trust Funds

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

	Police and Fire Retirement System	Retiree Healthcare Trust
Statement of Net Position		
Investments	\$ 111,329,800	\$ 39,990,034
Other assets	152,115	311,372
Liabilities	<u>150,897</u>	<u>18,936</u>
Net position	<u>\$ 111,331,018</u>	<u>\$ 40,282,470</u>
Statement of Changes in Net Position		
Investment income	\$ 18,169,179	\$ 4,260,462
Contributions	2,497,322	9,927,224
Benefit payments	6,375,484	2,579,187
Other deductions	<u>904,530</u>	<u>164,486</u>
Net change in net position	<u>\$ 13,386,487</u>	<u>\$ 11,444,013</u>

December 31, 2017

Note 14 - Defined Contribution Pension Plan

The Township provides pension benefits to all of its full-time employees, except those employees covered by the Police and Fire Retirement System, through a defined contribution plan administered by John Hancock. 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, 2017, the Township made contributions of \$905,876, and the plan members contributed \$473,293 to the plan.

Note 15 - Future Minimum Lease Revenue

Operating Leases

The Township leases a portion of its land to a private operator through 2053 for use as a golf course. During 2017, the Township recognized no revenue related to this lease. The future minimum lease payments for these leases are as follows:

Years Ending	Percent of Gross Revenue	Minimum Rent
2017-2020	- %	\$ -
2021-2024	5	225,000
2025-2034	6	250,000
2035-2045	6	300,000
2046-2053	6	250,000

Note 16 - Tax Abatements

The Township receives reduced property tax revenue as a result of the following tax abatements:

The Township currently has several businesses that are receiving an Industrial Facilities Tax (IFT) Exemption, which encourages local businesses to construct new industrial facilities or rehabilitate historical facilities. This exemption applies to both real and personal property taxes. These tax abatements are authorized by Public Act 198 of 1974. In order to receive a tax abatement, a property owner or lessee must have a business that qualifies as a "manufacturing operation" and must have a new industrial facility that is defined within Act 198 as "industrial property." An application must be completed and submitted to the Township and approval must be granted by the township board at a formal public hearing. Commitments are made by the taxpayer regarding the amount of investment and the number of jobs created as a result of the tax abatement. IFT abatements use a reduced (specific tax) millage rate of 50 percent of the normal millage rate that is applied to a taxable value that is calculated in the same manner as all of the properties that are contained on the regular (ad valorem) assessment roll. Abated taxes may be recaptured by the Township if the taxpayer chooses to relocate without township permission prior to termination of the abatement. The amount of tax foregone as a result of this abatement in 2017 was \$125,693.

December 31, 2017

Note 16 - Tax Abatements (Continued)

The Township also has several businesses that participate in Tool and Die Renaissance Recovery Zones. Qualified tool and die businesses do not pay real and personal property taxes. The legislation authorizing the creation of Michigan Tool and Die Renaissance Recovery Zones was first signed into law in 2004. Public Act 376 of 1996, the Michigan Renaissance Zone Act, was amended on December 22, 2010 to allow for the creation of up to 35 Tool and Die Renaissance Recovery Zones. These recovery zones have a duration of not less than five years and not more than 15 years as determined by the board of the Michigan Strategic Fund. If the duration of the recovery zone is less than 15 years, the Michigan Strategic Fund, with the consent of the local municipality, may extend the duration of a recovery zone for one or more periods that, when combined, do not exceed 15 years. A recovery zone shall consist of only “qualified tool and die business property,” which is defined as being owned or leased by one or more “qualified tool and die businesses” that generate 75 percent or more of their gross revenue from tool and die operations on the property at the time of designation. A “qualified tool and die business” must have a North American Industry Classification System (NAICS) code identifying the business operations as industrial pattern manufacturing, industrial mold manufacturing, machine tool manufacturing, special die and tool, die set, jig and fixture manufacturing, or cutting and machine tool accessory manufacturing. The Michigan Renaissance Zone Act also requires that all qualified tool and die businesses enter into a “qualified collaboration agreement” with between 4 and 20 similar qualified tool and die businesses once they are designated part of a recovery zone. A “qualified collaborative agreement” is an agreement that demonstrates synergistic opportunities, including sales and marketing efforts, development of standardized processes, development of tooling standards, standardized project management methods, and the improved ability for specialized or small niche shops to develop expertise and compete successfully on larger programs. The Michigan Strategic Fund may also add property under the same conditions as the existing recovery zone if the additional real property is contiguous to existing qualified tool and die business property and will become qualified tool and die business property once it is brought into operation and the local municipality also consents to the modification of the recovery zone. The amount of tax foregone as a result of this abatement in 2017 was \$22,956.

Note 17 - Sale of Shelby Manor

During 2017, the Township sold Shelby Manor, its senior housing complex, for \$14,000,000. As part of that sale, the Township sold all of the related assets and liabilities of Shelby Manor, less amounts to pay for expenses that were incurred by Shelby Manor prior to the closing. The Shelby Manor Fund recognized a gain on sale of assets of \$3,640,610, which is reported as a special item in the statement of activities and the proprietary funds statement of revenue, expenses, and change in net position. As described in Note 5, during 2017, the Shelby Manor Fund transferred the residual net position of \$14,293,231 to the General Fund.

Note 18 - Contingent Liabilities

Subsequent Event

In May 2018, a lawsuit requesting class action certification was filed against the Township in circuit court. The lawsuit mainly disputes the inclusion of depreciation expenses and their treatment in the calculation of the water and sewer usage rates charged by the Township to customers. It seeks that a “common fund” pay up to \$13,000,000 to the water and sewer customers. The lawsuit is in the discovery phase; therefore, the Township has not reported a contingent liability at December 31, 2017.

Required Supplemental Information

Charter Township of Shelby

Required Supplemental Information Budgetary Comparison Schedule - General Fund

Year Ended December 31, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 3,050,232	\$ 3,036,809	\$ 3,039,283	\$ 2,474
Intergovernmental	5,865,010	6,360,601	6,613,112	252,511
Charges for services	2,097,163	2,089,988	2,122,801	32,813
Fines and forfeitures	2,402,189	2,709,912	2,660,996	(48,916)
Licenses, permits, and fees	1,311,254	2,163,811	2,214,918	51,107
Investment income	80,000	237,600	227,857	(9,743)
Other revenue:				
Local donations	40,593	36,600	35,955	(645)
Other miscellaneous income	188,275	152,105	137,488	(14,617)
Total revenue	15,034,716	16,787,426	17,052,410	264,984
Expenditures				
Current services:				
General government	7,824,545	12,840,016	12,358,083	481,933
Public works	288,300	285,100	284,770	330
Recreation and culture	3,254,393	3,147,628	2,988,752	158,876
Capital outlay	160,376	179,472	150,545	28,927
Total expenditures	11,527,614	16,452,216	15,782,150	670,066
Excess of Revenue Over Expenditures	3,507,102	335,210	1,270,260	935,050
Other Financing Sources (Uses)				
Transfers in	8,500	14,224,906	14,296,231	71,325
Transfers out	(3,343,841)	(16,070,640)	(15,965,767)	104,873
Sale of capital assets	5,200	-	1,830	1,830
Total other financing uses	(3,330,141)	(1,845,734)	(1,667,706)	178,028
Net Change in Fund Balances	176,961	(1,510,524)	(397,446)	1,113,078
Fund Balance - Beginning of year	12,469,722	12,469,722	12,469,722	-
Fund Balance - End of year	\$ 12,646,683	\$ 10,959,198	\$ 12,072,276	\$ 1,113,078

Charter Township of Shelby

Required Supplemental Information
 Budgetary Comparison Schedule - Major Special Revenue Funds
 Fire Fund

Year Ended December 31, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 11,355,295	\$ 11,313,150	\$ 11,324,436	\$ 11,286
Intergovernmental	96,186	96,919	83,664	(13,255)
Charges for services	2,511,754	2,720,716	2,835,861	115,145
Investment income	22,000	77,600	118,638	41,038
Other revenue:				
Local donations	-	20,631	20,631	-
Other miscellaneous income	200	60,797	63,112	2,315
Total revenue	13,985,435	14,289,813	14,446,342	156,529
Expenditures				
Current services - Public safety	12,985,095	12,976,399	12,741,900	234,499
Capital outlay	63,850	88,000	99,829	(11,829)
Debt service	478,409	478,409	478,409	-
Total expenditures	13,527,354	13,542,808	13,320,138	222,670
Excess of Revenue Over Expenditures	458,081	747,005	1,126,204	379,199
Other Financing Uses - Transfers out	(234,734)	(1,500,000)	(1,500,000)	-
Net Change in Fund Balance	223,347	(752,995)	(373,796)	379,199
Fund Balance - Beginning of year	9,544,016	9,544,016	9,544,016	-
Fund Balance - End of year	\$ 9,767,363	\$ 8,791,021	\$ 9,170,220	\$ 379,199

Charter Township of Shelby

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds (Continued) Police Fund

Year Ended December 31, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 13,862,930	\$ 13,810,245	\$ 13,823,829	\$ 13,584
Intergovernmental	196,582	203,744	198,017	(5,727)
Charges for services	622,638	632,910	634,447	1,537
Investment income	20,000	58,300	90,954	32,654
Other revenue	30,800	54,300	104,185	49,885
Total revenue	14,732,950	14,759,499	14,851,432	91,933
Expenditures				
Current services - Public safety	13,737,370	13,482,102	12,977,339	504,763
Capital outlay	444,000	444,000	468,973	(24,973)
Debt service	518,276	518,276	518,276	-
Total expenditures	14,699,646	14,444,378	13,964,588	479,790
Excess of Revenue Over Expenditures	33,304	315,121	886,844	571,723
Other Financing Sources (Uses)				
Transfers in	14,000	25,000	21,631	(3,369)
Transfers out	(29,524)	(185,450)	(185,450)	-
Sale of capital assets	5,000	32,000	34,265	2,265
Total other financing uses	(10,524)	(128,450)	(129,554)	(1,104)
Net Change in Fund Balance	22,780	186,671	757,290	570,619
Fund Balance - Beginning of year	3,165,197	3,165,197	3,165,197	-
Fund Balance - End of year	<u>\$ 3,187,977</u>	<u>\$ 3,351,868</u>	<u>\$ 3,922,487</u>	<u>\$ 570,619</u>

Charter Township of Shelby

Required Supplemental Information Schedule of Changes in the Net Pension Liability and Related Ratios Police and Fire Pension System

	Last Four Fiscal Years			
	2017	2016	2015	2014
Total Pension Liability				
Service cost	\$ 1,892,677	\$ 1,909,981	\$ 1,909,981	\$ 2,244,535
Interest	7,769,229	7,535,660	7,098,747	6,948,342
Changes in benefit terms	-	-	-	(6,650)
Differences between expected and actual experience	(479,021)	132,801	621,041	2,622,717
Changes in assumptions	(135,422)	(304,910)	1,921,395	-
Benefit payments, including refunds	<u>(6,375,484)</u>	<u>(5,908,456)</u>	<u>(5,542,845)</u>	<u>(5,213,225)</u>
Net Change in Total Pension Liability	2,671,979	3,365,076	6,008,319	6,595,719
Total Pension Liability - Beginning of year	<u>104,884,791</u>	<u>101,519,715</u>	<u>95,511,396</u>	<u>88,915,677</u>
Total Pension Liability - End of year	<u>\$ 107,556,770</u>	<u>\$ 104,884,791</u>	<u>\$ 101,519,715</u>	<u>\$ 95,511,396</u>
Plan Fiduciary Net Position				
Contributions - Employer	\$ 1,971,756	\$ 1,826,359	\$ 1,841,300	\$ 27,671,584
Contributions - Member	525,566	531,588	536,954	593,046
Net investment income (loss)	17,304,401	7,994,188	(117,265)	4,900,289
Administrative expenses	(39,752)	(39,382)	(29,671)	(40,613)
Benefit payments, including refunds	<u>(6,375,484)</u>	<u>(5,908,456)</u>	<u>(5,542,845)</u>	<u>(5,213,225)</u>
Net Change in Plan Fiduciary Net Position	13,386,487	4,404,297	(3,311,527)	27,911,081
Plan Fiduciary Net Position - Beginning of year	<u>97,944,531</u>	<u>93,540,234</u>	<u>96,851,761</u>	<u>68,940,680</u>
Plan Fiduciary Net Position - End of year	<u>\$ 111,331,018</u>	<u>\$ 97,944,531</u>	<u>\$ 93,540,234</u>	<u>\$ 96,851,761</u>
Township's Net Pension (Asset) Liability - Ending	<u>\$ (3,774,248)</u>	<u>\$ 6,940,260</u>	<u>\$ 7,979,481</u>	<u>\$ (1,340,365)</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	103.51 %	93.38 %	92.14 %	101.40 %
Covered Employee Payroll	\$ 10,158,694	\$ 10,180,063	\$ 10,326,125	\$ 10,780,667
Township's Net Pension (Asset) Liability as a Percentage of Covered Employee Payroll	(37.15)%	68.18 %	77.27 %	(12.43)%

Required Supplemental Information
Schedule of Pension Contributions

Last Ten Fiscal Years
Years Ended December 31

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 1,971,756	\$ 1,826,359	\$ 1,841,300	\$ 4,043,780	\$ 4,097,277	\$ 4,558,181	\$ 4,937,379	\$ 4,611,275	\$ 3,600,027	\$ 3,292,075
Contributions in relation to the actuarially determined contribution	1,971,756	1,826,359	1,841,300	27,671,584	4,097,277	4,558,181	4,937,379	4,612,070	3,666,139	3,691,071
Contribution Excess	\$ -	\$ -	\$ -	\$ 23,627,804	\$ -	\$ -	\$ -	\$ 795	\$ 66,112	\$ 398,996
Covered Employee Payroll	\$ 10,158,694	\$ 10,180,063	\$ 10,326,125	\$ 10,780,667	\$ 10,962,530	\$ 10,940,963	\$ 11,259,348	\$ 10,915,185	\$ 10,939,120	\$ 10,815,600
Contributions as a Percentage of Covered Employee Payroll	19.41 %	17.94 %	17.83 %	256.68 %	37.38 %	41.66 %	43.85 %	42.25 %	33.51 %	34.13 %

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date December 31, 2015

Methods and assumptions used to determine contribution rates:

Actuarial cost method Individual Entry Age Cost Method percentage of pay
 Amortization method 11-year closed level dollar amortization of unfunded actuarial accrued liability
 Remaining amortization period 11 years
 Asset valuation method 25 percent Write-Up Method. Expected actuarial value of assets, adjusted by 25 percent of the difference between expected actuarial value and actual market value
 Inflation 3.50 percent
 Salary increase 3.50 to 8.75 percent
 Investment rate of return 7.50 percent, net of administrative expenses
 Mortality RP-2014 Blue Collar with 2015 Social Security Generational Improvement Scale from 2006

Charter Township of Shelby

**Required Supplemental Information
Schedule of Pension Investment Returns**

**Last Four Fiscal Years
Years Ended December 31**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	18.90 %	8.70 %	0.10 %	7.00 %

Charter Township of Shelby

Required Supplemental Information Schedule of Changes in the Net OPEB Liability and Related Ratios

	Last Fiscal Year
	<u>2017</u>
Total OPEB Liability	
Service cost	\$ 1,495,309
Interest	6,317,058
Differences between expected and actual experience	(8,527,386)
Changes in assumptions	(7,311,609)
Benefit payments, including refunds	<u>(2,579,187)</u>
Net Change in Total OPEB Liability	(10,605,815)
Total OPEB Liability - Beginning of year	<u>93,359,269</u>
Total OPEB Liability - End of year	<u>\$ 82,753,454</u>
Plan Fiduciary Net Position	
Contributions - Employer	\$ 9,927,224
Net investment income	4,095,976
Benefit payments, including refunds	<u>(2,579,187)</u>
Net Change in Plan Fiduciary Net Position	11,444,013
Plan Fiduciary Net Position - Beginning of year	<u>28,838,457</u>
Plan Fiduciary Net Position - End of year	<u>\$ 40,282,470</u>
Net OPEB Liability - Ending	<u>\$ 42,470,984</u>
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	48.68 %
Covered Employee Payroll	\$ 13,753,607
Net OPEB Liability as a Percentage of Covered Employee Payroll	308.80 %

Required Supplemental Information
Schedule of OPEB Contributions

Last Ten Fiscal Years
Years Ended December 31

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 4,488,364	\$ 5,815,278	\$ 5,773,353	\$ 5,773,353	\$ 5,079,690	\$ 5,079,690	\$ 6,431,625	\$ 7,552,905	\$ 7,552,905	\$ 5,554,000
Contributions in relation to the actuarially determined contribution	9,927,224	5,142,960	4,599,525	3,527,026	4,416,806	3,725,396	15,992,910	1,595,651	2,144,206	1,758,515
Contribution Excess (Deficiency)	\$ 5,438,860	\$ (672,318)	\$ (1,173,828)	\$ (2,246,327)	\$ (662,884)	\$ (1,354,294)	\$ 9,561,285	\$ (5,957,254)	\$ (5,408,699)	\$ (3,795,485)
Covered Employee Payroll	\$ 13,753,607	\$ 13,897,076	\$ 14,554,860	\$ 14,554,860	\$ 16,179,279	\$ 16,179,279	\$ 16,719,112	\$ 16,431,686	\$ 16,431,686	\$ 14,674,606
Contributions as a Percentage of Covered Employee Payroll	72.18 %	37.01 %	31.60 %	24.23 %	27.30 %	23.03 %	95.66 %	9.71 %	13.05 %	11.98 %

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date December 31, 2017

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Individual Entry Age Cost Method percentage of pay
Amortization method	Level percent of pay based on a closed group
Remaining amortization period	25-years closed
Asset valuation method	Market Value
Inflation	3.75 percent
Healthcare cost trend rates	3.00 percent - 8.00 percent depending on the year and type of cost
Salary increase	3.00 percent
Investment rate of return	6.75 percent
Retirement age	Varies depending on employee's years of service
Mortality	RPH-2017 Total Dataset Mortality Table fully generational using Scale MP-2017

Charter Township of Shelby

**Required Supplemental Information
Schedule of OPEB Investment Returns**

**Last Fiscal Year
Year Ended December 31**

2017

Annual money-weighted rate of return, net of investment expense

15.11 %

Required Supplemental Information
Schedule of OPEB Funding Progress

Actuarial Valuation Date	Years Ended December 31					
	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
January 1, 2017	\$ 28,838,457	\$ 79,110,395	\$ 50,271,938	36.45 %	\$ 13,753,607	365.52
January 1, 2016	24,461,957	89,174,816	64,712,859	27.43	13,897,076	465.66
January 1, 2014	19,855,870	84,443,078	64,587,208	23.51	14,554,860	443.75

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of January 1, 2017, the latest actuarial valuation, follows:

Amortization method	Level percent of pay
Amortization period (perpetual)	25-year closed
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	6.75
Projected salary increases	3.0 percent
Cost of living adjustments	None

December 31, 2017

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all special revenue funds. All annual appropriations lapse at fiscal year end.

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 (i.e., the level at which expenditures may not legally exceed appropriations).

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</u>	<u>Total Expenditures</u>
Amounts per operating statement	\$ 18,616,741	\$ 18,989,792
Transfers and Other Financing Sources	14,295,061	14,319,454
Community Relations Fund budgeted separately from the General Fund	<u>(1,561,331)</u>	<u>(1,561,329)</u>
Amounts per budget statement (including other financing sources and uses)	<u>\$ 31,350,471</u>	<u>\$ 31,747,917</u>

During the year, the Charter Township of Shelby incurred expenditures that were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Fire Fund - Capital outlay	\$ 88,000	\$ 99,829	\$ (11,829)
Police Fund - Capital outlay	444,000	468,973	(24,973)

Other Supplemental Information

Charter Township of Shelby

	Nonmajor Special Revenue Funds		
	Emergency Response	Street Lighting	Building Authority
Assets			
Cash and investments	\$ 54,770	\$ 108,394	\$ 14,984
Receivables:			
Other receivables	-	6,958	-
Due from other governmental units	-	2,465	-
Prepaid expenses and other assets	-	-	-
Total assets	<u><u>\$ 54,770</u></u>	<u><u>\$ 117,817</u></u>	<u><u>\$ 14,984</u></u>
Liabilities			
Accounts payable	\$ 272	\$ 48,463	\$ -
Due to other funds	-	-	-
Accrued liabilities and other	-	-	167
Total liabilities	272	48,463	167
Deferred Inflows of Resources - Unavailable revenue	-	2,465	-
Fund Balances			
Nonspendable	-	-	-
Restricted:			
Police and fire	54,498	-	-
Grants	-	-	-
Street lighting	-	66,889	-
Community development	-	-	14,817
Assigned - Equipment replacement	-	-	-
Unassigned	-	-	-
Total fund balances	<u>54,498</u>	<u>66,889</u>	<u>14,817</u>
Total liabilities, deferred inflows of resources, and fund balances	<u><u>\$ 54,770</u></u>	<u><u>\$ 117,817</u></u>	<u><u>\$ 14,984</u></u>

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds

December 31, 2017

Nonmajor Special Revenue Funds				Nonmajor Capital Project Fund		Total Nonmajor Governmental Funds
Michigan Justice Training Grant	Community Block Grant	Federal Forfeiture	Drug Forfeiture	Equipment Replacement		
\$ 5,286	\$ -	\$ 66,327	\$ 57,309	\$ 2,856	\$	309,926
-	-	-	-	-	-	6,958
-	175,888	-	-	-	-	178,353
-	-	-	948	-	-	948
\$ 5,286	\$ 175,888	\$ 66,327	\$ 58,257	\$ 2,856	\$	496,185
\$ -	\$ 14,999	\$ -	\$ 13,051	\$ -	\$	76,785
-	160,889	-	-	-	-	160,889
-	-	-	-	-	-	167
-	175,888	-	13,051	-	-	237,841
-	12,091	-	-	-	-	14,556
-	-	-	948	-	-	948
-	-	66,327	44,258	-	-	165,083
5,286	-	-	-	-	-	5,286
-	-	-	-	-	-	66,889
-	-	-	-	-	-	14,817
-	-	-	-	2,856	-	2,856
-	(12,091)	-	-	-	-	(12,091)
5,286	(12,091)	66,327	45,206	2,856	-	243,788
\$ 5,286	\$ 175,888	\$ 66,327	\$ 58,257	\$ 2,856	\$	496,185

Charter Township of Shelby

	Special Revenue Funds		
	Emergency Response	Street Lighting	Building Authority
Revenue			
Intergovernmental:			
Federal grants	\$ -	\$ -	\$ -
State sources	131,200	-	-
Charges for services	-	333,969	-
Fines and forfeitures	-	-	-
Investment income	285	230	-
Other revenue	-	6	-
Total revenue	131,485	334,205	-
Expenditures			
Current services:			
General government	-	-	167
Public safety	11,152	-	-
Public works	-	289,448	-
Recreation and culture	-	-	-
Capital outlay	-	-	-
Debt service	107,200	-	-
Total expenditures	118,352	289,448	167
Excess of Revenue Over (Under) Expenditures	13,133	44,757	(167)
Fund Balances - Beginning of year	41,365	22,132	14,984
Fund Balances - End of year	\$ 54,498	\$ 66,889	\$ 14,817

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes in Fund
Balances
Nonmajor Governmental Funds

Year Ended December 31, 2017

Special Revenue Funds				Capital Project Funds		Total Nonmajor Governmental Funds
Michigan Justice Training Grant	Community Block Grant	Federal Forfeiture	Drug Forfeiture	Equipment Replacement		
\$ -	\$ 176,769	\$ -	\$ -	\$ -	\$ -	\$ 176,769
11,002	-	-	-	-	-	142,202
-	-	-	-	-	-	333,969
-	-	33,114	36,561	-	-	69,675
-	-	371	89	-	-	975
-	-	-	-	-	-	6
11,002	176,769	33,485	36,650	-	-	723,596
-	-	-	-	-	-	167
11,528	-	2,367	49,428	-	-	74,475
-	-	-	-	-	-	289,448
-	7,486	-	-	-	-	7,486
-	181,374	-	-	17,579	-	198,953
-	-	-	-	-	-	107,200
11,528	188,860	2,367	49,428	17,579	-	677,729
(526)	(12,091)	31,118	(12,778)	(17,579)	-	45,867
5,812	-	35,209	57,984	20,435	-	197,921
\$ 5,286	\$ (12,091)	\$ 66,327	\$ 45,206	\$ 2,856	\$ -	\$ 243,788

Charter Township of Shelby

	Pension and OPEB Funds		
	Police and Fire Retirement Systems Trust Fund	Retiree Healthcare Trust Fund	Total Pension and OPEB Funds
Assets			
Cash and cash equivalents	\$ 10,395	\$ 2,091,581	\$ 2,101,976
Investments:			
Short-term funds	4,259,052	6,293,136	10,552,188
Stocks	43,109,156	2,280,397	45,389,553
Collective index and mutual funds - Fixed income	20,853,294	7,629,953	28,483,247
Collective index and mutual funds - Equity	24,645,452	17,152,479	41,797,931
Limited partnerships	18,452,451	4,542,488	22,994,939
Receivables:			
Accrued interest	148,119	54,917	203,036
Other receivables	-	-	-
Due from other governmental units	-	-	-
Due from primary government	-	256,455	256,455
Prepaid expenses and other assets	3,996	-	3,996
Total assets	111,481,915	40,301,406	151,783,321
Liabilities			
Accounts payable	75,360	9,632	84,992
Refundable deposits, bonds, etc.	-	-	-
Accrued liabilities and other liabilities	75,537	9,304	84,841
Advance tax receipts	-	-	-
Total liabilities	150,897	18,936	169,833
Net Position	\$ 111,331,018	\$ 40,282,470	\$ 151,613,488

Other Supplemental Information
Statement of Fiduciary Net Position
Fiduciary Funds

December 31, 2017

Agency Funds

Trust and Agency	Treasurer's Agency	Current Tax Collection	41st District Court	Accounts Payable Imprest	Payroll Imprest	Total Agency Funds
\$ 1,186,131	\$ -	\$ 8,948,208	\$ 90,194	\$ -	\$ -	\$ 10,224,533
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	138,676	-	-	-	-	138,676
-	171,747	-	-	-	24	171,771
-	-	-	-	-	448	448
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>1,186,131</u>	<u>310,423</u>	<u>8,948,208</u>	<u>90,194</u>	<u>-</u>	<u>472</u>	<u>10,535,428</u>
356	-	-	-	-	472	828
1,185,775	-	-	90,194	-	-	1,275,969
-	310,423	-	-	-	-	310,423
-	-	8,948,208	-	-	-	8,948,208
<u>1,186,131</u>	<u>310,423</u>	<u>8,948,208</u>	<u>90,194</u>	<u>-</u>	<u>472</u>	<u>10,535,428</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Other Supplemental Information
Statement of Changes in Fiduciary Net Position
Fiduciary Funds**

Year Ended December 31, 2017

	Police and Fire Retirement Systems Trust Fund	Retiree Healthcare Trust Fund	Total Fiduciary Funds
Additions			
Investment income:			
Interest and dividends	\$ 2,558,366	\$ 898,507	\$ 3,456,873
Net realized and unrealized gain on investments	15,610,813	3,361,955	18,972,768
Investment-related expenses	(864,778)	(164,486)	(1,029,264)
Total investment income	17,304,401	4,095,976	21,400,377
Contributions:			
Employer contributions	1,971,756	9,927,224	11,898,980
Employee contributions	525,566	-	525,566
Total contributions	2,497,322	9,927,224	12,424,546
Total additions	19,801,723	14,023,200	33,824,923
Deductions			
Benefit payments	6,375,484	2,579,187	8,954,671
Administrative expenses	39,752	-	39,752
Total deductions	6,415,236	2,579,187	8,994,423
Net Increase in Net Position Held in Trust	13,386,487	11,444,013	24,830,500
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	97,944,531	28,838,457	126,782,988
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	\$ 111,331,018	\$ 40,282,470	\$ 151,613,488