



# Financial Report

with Supplemental Information

December 31, 2016

# Charter Township of Shelby

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# Charter Township of Shelby

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## Independent Auditor's Report

To the Board of Trustees  
Charter Township of Shelby

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Shelby (the "Township") as of and for the year ended December 31, 2016, 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.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Shelby as of December 31, 2016, and the respective changes in its financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees  
Charter Township of Shelby

***Emphasis of Matter***

As explained in Note 3, the financial statements include investments valued at approximately \$17.2 million at year end (13.6 percent of the equity in the aggregate remaining funds) whose fair values have been 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.

***Other Matters***

*Required Supplemental Information*

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

*Other Information*

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

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

*Plante & Moran, PLLC*

June 15, 2017

# Charter Township of Shelby

## Management's Discussion and Analysis

### Using this Annual Report

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

In a condensed format, the table below shows the comparison of net position (in millions of dollars) as of December 31, 2016 to the prior year:

	Governmental Activities				Business-type Activities				Total			
	2016	2015	\$ Diff	% Diff	2016	2015	\$ Diff	% Diff	2016	2015	\$ Diff	% Diff
<b>Assets</b>												
Other assets	\$ 70.0	\$ 66.0	\$ 4.0	6.1%	\$ 50.3	\$ 45.5	\$ 4.8	10.5%	\$ 120.3	\$ 111.5	\$ 8.8	7.9%
Restricted assets	-	-	-		0.5	1.5	(1.0)	-66.7%	0.5	1.5	(1.0)	-66.7%
Capital assets	<u>50.4</u>	<u>49.6</u>	<u>0.8</u>	1.6%	<u>118.8</u>	<u>119.0</u>	<u>(0.2)</u>	-0.2%	<u>169.2</u>	<u>168.6</u>	<u>0.6</u>	0.4%
Total assets	120.4	115.6	4.8	4.2%	169.6	166.0	3.6	2.2%	290.0	281.6	8.4	3.0%
<b>Deferred Outflows of Resources</b>	5.3	7.9	(2.6)	-32.9%	-	-	0.0%	0.0%	5.3	7.9	(2.6)	0.0%
<b>Liabilities</b>												
Current liabilities	3.3	2.3	1.0	43.5%	6.8	6.5	0.3	4.6%	10.1	8.8	1.3	14.8%
Long-term liabilities	<u>26.7</u>	<u>27.4</u>	<u>(0.7)</u>	-2.6%	<u>18.5</u>	<u>20.3</u>	<u>(1.8)</u>	-8.7%	<u>45.2</u>	<u>47.7</u>	<u>(2.5)</u>	-5.2%
Total liabilities	30.0	29.7	0.3	1.0%	25.3	26.8	(1.5)	-5.5%	55.3	56.5	(1.2)	-2.1%
<b>Deferred Inflows of Resources</b>	<u>28.4</u>	<u>27.6</u>	<u>0.8</u>	2.9%	-	-	-	0.0%	<u>28.4</u>	<u>27.6</u>	<u>0.8</u>	2.9%
<b>Net Position</b>												
Net investment in capital assets	50.2	49.6	0.6	1.2%	100.3	99.1	1.2	1.2%	150.5	148.7	1.8	1.2%
Restricted	13.5	12.9	0.6	4.7%	0.4	1.3	(0.9)	-69.2%	13.9	14.2	(0.3)	-2.1%
Unrestricted	<u>3.6</u>	<u>3.7</u>	<u>(0.1)</u>	-2.7%	<u>43.6</u>	<u>38.8</u>	<u>4.8</u>	12.4%	<u>47.2</u>	<u>42.5</u>	<u>4.7</u>	11.1%
Total net position	<u>\$ 67.3</u>	<u>\$ 66.2</u>	<u>\$ 1.1</u>	1.7%	<u>\$ 144.3</u>	<u>\$ 139.2</u>	<u>\$ 5.1</u>	3.7%	<u>\$ 211.6</u>	<u>\$ 205.4</u>	<u>\$ 6.2</u>	3.0%

The Township's combined net position increased by \$6.2 million from a year ago, from \$205.4 million to \$211.6 million. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$1.1 million in net position, or 1.7 percent, during 2016. This increase is a result of a few different factors. The amount of available cash and investments increased by \$4.1 million as the Township had a positive operating cash flow in 2016. This increase was offset by a net increase in other postemployment benefit obligation (OPEB) and pension related items of \$2.7 million as the Township saw a significant change in the deferred resources related to pensions and incurred additional OPEB liability. Unrestricted net position (the portion of net position available to finance day-to-day operations and future growth of the Township) decreased \$.1 million, or 2.7 percent, to \$3.6 million. This decrease is offset by a \$.6 million increase to restricted net position, mainly attributable to an increase in money restricted for police and fire, and an increase in net investment in capital assets of \$.6 million. These increases are a positive sign as the Township continues to invest in its infrastructure and the Fire Fund and Police Fund show sustained surpluses. The business-type activities net position increased \$5.1 million, or 3.7 percent, to \$144.3 million. This increase was attributable to an increase in net investment of capital assets of \$1.2 million as debt used to finance the purchase of capital assets was paid down and an increase in unrestricted net position of \$4.8 million as both the Water and Sewer Fund and the Shelby Manor Fund realized positive cash flow from operations. Total assets increased \$3.6 million and total liabilities decreased \$1.5 million. The increase in assets was mainly due to the \$4.8 million increase in cash and investments offset by a decrease of \$1 million in restricted assets as these assets were placed into service and capitalized. The decrease in liabilities was mainly due to a reduction in long-term debt.

# Charter Township of Shelby

## Management's Discussion and Analysis (Continued)

The following table shows the changes in net position (in millions of dollars) for the year ended December 31, 2016 and the prior year:

	Governmental Activities				Business-type Activities				Total			
	2016	2015	\$ Diff	% Diff	2016	2015	\$ Diff	% Diff	2016	2015	\$ Diff	% Diff
<b>Revenue</b>												
Program revenue:												
Charges for services	\$ 9.7	\$ 9.2	\$ 0.5	5.4%	\$ 29.2	\$ 24.9	\$ 4.3	17.3%	\$ 38.9	\$ 34.1	\$ 4.8	14.1%
Operating grants and contributions	0.8	0.7	0.1	14.3%	-	-	-	0.0%	0.8	0.7	0.1	14.3%
Capital grants and contributions	0.3	-	0.3	0.0%	3.6	2.8	0.8	28.6%	3.9	2.8	1.1	39.3%
General revenue:												
Property taxes	27.7	26.7	1.0	3.7%	-	-	-	0.0%	27.7	26.7	1.0	3.7%
State-shared revenue	6.2	5.7	0.5	8.8%	-	-	-	0.0%	6.2	5.7	0.5	8.8%
Interest	0.3	0.2	0.1	50.0%	0.3	0.2	0.1	50.0%	0.6	0.4	0.2	50.0%
Other	2.1	2.1	-	0.0%	-	-	-	0.0%	2.1	2.1	-	0.0%
Extraordinary item	-	-	-	0.0%	-	-	-	0.0%	-	-	-	0.0%
Total revenue	47.1	44.6	2.5	5.6%	33.1	27.9	5.2	18.6%	80.2	72.5	7.7	10.6%
<b>Program Expenses</b>												
General government	8.0	7.8	0.2	2.6%	-	-	-	0.0%	8.0	7.8	0.2	2.6%
Public safety	29.1	27.4	1.7	6.2%	-	-	-	0.0%	29.1	27.4	1.7	6.2%
Public works	1.9	1.6	0.3	18.8%	-	-	-	0.0%	1.9	1.6	0.3	18.8%
41st District Court	2.6	2.6	-	0.0%	-	-	-	0.0%	2.6	2.6	-	0.0%
Recreation and culture	4.0	4.0	-	0.0%	-	-	-	0.0%	4.0	4.0	-	0.0%
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%	26.7	24.7	2.0	8.1%	26.7	24.7	2.0	8.1%
Total program expenses	46.0	43.8	2.2	5.0%	28.0	26.0	2.0	7.7%	74.0	69.8	4.2	6.0%
<b>Transfers</b>	-	-	-	0.0%	-	-	-	0.0%	-	-	-	0.0%
<b>Change in Net Position</b>	1.1	0.8	0.3	37.5%	5.1	1.9	3.2	168.4%	6.2	2.7	3.5	129.6%
<b>Net Position - Beginning of year</b>	66.2	65.4	0.8	1.2%	139.2	137.3	1.9	1.4%	205.4	202.7	2.7	1.3%
<b>Net Position - End of year</b>	<u>\$ 67.3</u>	<u>\$ 66.2</u>	<u>\$ 1.1</u>	1.7%	<u>\$ 144.3</u>	<u>\$ 139.2</u>	<u>\$ 5.1</u>	3.7%	<u>\$ 211.6</u>	<u>\$ 205.4</u>	<u>\$ 6.2</u>	3.0%

### Governmental Activities

The Township's total governmental revenue increased by approximately \$2.5 million, or 5.6 percent, from last year. An increase in property taxes of \$1 million, charges for services of \$500,000, and state-shared revenue of \$500,000 accounted for the majority of the increase. Property tax revenue increased as property values continue to rise and new development occurs throughout the Township. The increase in charges for services was due mainly to an increase in fines and forfeitures of \$200,000, ambulance billings of \$160,000, and permits of \$100,000. Lastly, the constitutional portion of state-shared revenue saw a small increase of \$150,000 and an additional \$350,000 was received from the State of Michigan as part of a program put in place to reform personal property tax.

Total governmental expenses increased approximately \$2.2 million in 2016, or 5 percent. The majority of this increase in expenses is related to public safety as costs rose by \$1.7 million, or 6.2 percent. An increase in wage and benefit costs combined with an increase in staffing in anticipation of increased development in the Township caused personnel related expenses to increase by \$800,000. An increase in expenses related to retiree pensions of almost \$500,000 as well as an increase in ambulance billing amounts written off of \$300,000 accounted for the majority of the remaining cost increase.

# **Charter Township of Shelby**

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

### **Business-type Activities**

The Township's business-type activities are recorded in the Water and Sewer Fund and Shelby Manor Fund. The Water and Sewer Fund provides water, which is purchased from the Great Lakes Water Authority (GLWA), to 27,137 accounts. The Township also provides sewer service to 15,751 accounts. 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 Macomb County Waste Water Disposal District (MCWWDD) acts as an intermediary for the GLWA, OMID, and MIDD. 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.

The Township's business-type activities' revenue increased by \$5.2 million, or 18.6 percent, from last year primarily as a result of an increase in charges for services due to increased seasonal water sales, increased water and sewer rates, and an increase in capital contributions. Shelby Manor rental rates remained unchanged in 2016, so revenue for its operations remained flat.

Expenses for 2016 increased by \$2.0 million, or 7.7 percent. This increase is primarily attributable to an increase in the cost of water and sewer purchases from last year. The Shelby Manor Fund's expense decreased by \$50,000, primarily due to a decrease in the amount of interest expense paid on long-term debt.

### **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 2016 include the General Fund, Police Fund, Fire Fund, Public Improvement Fund, Water and Sewer Fund, and Shelby Manor Fund. The Public Improvement Fund was added a major Township fund in 2016 due to increased capital expenditure activity as a result of the construction of Fire Station 5 and the setting aside of money in anticipation of the construction of a new District Court facility.

### **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 2016 and acceleration of multi-year capital projects. The General Fund experienced a \$675,000, or 4.4 percent, increase in revenue from 2015. The most significant influences on revenue during 2016 were increases in state-shared revenue of \$220,000 and fines and forfeitures of \$225,000. As mentioned earlier, the constitutional portion of state-shared revenue saw an increase of \$150,000 while the General Fund also received \$70,000 in new revenue as a result of personal property tax reform. The fines and forfeitures increased due to an additional fine for District Court building improvements being levied for all of 2016. Other major changes were a \$105,000 increase in property taxes as values continue to increase and an increase in licenses and permits of \$100,000 due to permit levels seeing their third highest year since 2000.

The General Fund ended the year with a favorable revenue budget variance of \$615,576 mostly attributed to state-shared revenue coming in higher than expected.



# **Charter Township of Shelby**

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

In 2016, the Township changed the way it accounts for contributions to the Township's OPEB Trust. In 2015 and prior, this amount was budgeted and expensed as a transfer out. In 2016, it was transitioned to an expenditure account and is reflected as such in the amended and actual numbers presented in the budgetary schedule. Treating the OPEB contribution in a similar manner in 2015 as it was treated in 2016, the General Fund experienced a 6.2 percent increase in expenditures from 2015. A large increase in general government of almost \$500,000 as well as a sizable increase in recreation and culture accounted for the majority of the difference. Over 45 percent of the increase in general government was attributable to an increase in election expenditures due to the 2016 presidential election and another almost 40 percent was due to an increase in building department expenditures as additional staffing was needed and expenditures incurred due to an increase in Township development. The increase in recreation and culture was due primarily to an increase in spending in the Township's library as the library saw an increase in staffing levels and was fully staffed for the first time in many years.

The General Fund ended the year with a favorable expenditure budget variance of \$380,739. All township departments, with the exception of the legal department, finished the year under budget, with personnel costs, maintenance costs, capital outlay, and senior/recreation programs being the largest contributors to the favorable variance.

Looking at other financing sources/uses, the Township saw a large increase in proceeds from the sale of capital assets due to a large sale of township land occurring in November 2016. This accounts for the majority of the \$291,113 listed. Transfers out of the General Fund also saw an increase of over \$2.2 million. This is due to the Township setting aside the remaining money needed to construct a new District Court building into the Township's Public Improvement Fund.

When comparing the 2016 original General Fund budget with the 2016 amended budget, the amended budget increased revenue by approximately \$255,000. Large increases required in licenses and permits and fines and forfeitures were offset by a large decrease in other miscellaneous income. The increases were due to Township growth being larger than originally anticipated as well as an additional District Court building fine being levied for all of 2016. The large decrease was due to an accounting change relating to the allocation of township fuel costs. On the expenditure side, the amended budget decreased expenditures by approximately \$144,000. The majority of the decrease is in recreation and culture as program costs were lower than anticipated and personnel costs due to employee retirements.

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

At the end of 2016, the Township's governmental and business activities combined had approximately \$272 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 \$20.3 and \$20.0 million for 2016 and 2015, respectively. The Enterprise Funds' infrastructure for 2016 and 2015 (including construction in progress), net of depreciation, is \$104.9 million and \$104.6 million, respectively. Additionally, the value of buildings and improvements for the governmental activities, net of depreciation, is \$11.2 million and \$11.6 million for 2016 and 2015, respectively. The Enterprise Funds' buildings and improvements, net of depreciation, are \$12.2 million for 2016 and \$12.6 million for 2015. See Note 4 for additional information.

# **Charter Township of Shelby**

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

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 \$8 million outstanding as of the end of 2016.

### **Economic Factors and Next Year's Budgets and Rates**

The Charter Township of Shelby will maintain the same property tax millage rate for 2017 that applied in 2016 (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 2016, property taxes made up approximately 58.8 percent of the Township's governmental funds' overall revenue. As the Township continues to recover from the economic downturn that occurred several years ago, the ad valorem taxable value experienced an increase of approximately \$48 million, or 1.6 percent, between the 2015 and 2016 assessment years. State-shared revenue represented approximately 13.2 percent of the Township's governmental funds' overall 2016 revenue. In preparing the 2017 budget, it was assumed that there would be a slight decrease in state-shared revenue based upon the State of Michigan's projections.

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 contractual wage increases as well as an increase in staffing due to increased demand for services, personnel costs will experience an increase in 2017. The township board aggressively pursues a permanent solution to healthcare funding to spare future taxpayers the cost of funding present benefits.

The township 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 set aside over several years (when possible) in order to smooth Township capital costs and allow for more uniform budgeting. Beginning in 2016, the Township began construction on an additional fire station. It is anticipated that this project will be completed in summer 2017. Additionally, sometime in 2017 or 2018, the Township will complete the construction of a new District Court building. 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, 2016

	Primary Government			Component Unit - DDA
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments	\$ 65,888,327	\$ 30,169,703	\$ 96,058,030	\$ 207,555
Receivables:				
Property taxes receivable	13,189,504	-	13,189,504	-
Customers	-	6,828,451	6,828,451	-
Accrued interest receivable - Special assessment	-	82,609	82,609	-
Other receivables	1,015,698	756	1,016,454	-
Due from other governmental units	1,659,595	9,506	1,669,101	-
Special assessments receivable	-	1,010,915	1,010,915	-
Allowance for doubtful accounts	(405,136)	-	(405,136)	-
Due from component units (Note 5)	-	8	8	-
Internal balances (Note 5)	(11,884,141)	11,884,141	-	-
Inventories	-	172,337	172,337	-
Prepaid costs and other assets	493,907	129,865	623,772	-
Restricted assets (Note 8)	-	492,158	492,158	-
Capital assets:				
Assets not subject to depreciation (Note 4)	13,162,940	2,161,389	15,324,329	-
Assets subject to depreciation - Net (Note 4)	37,237,888	116,681,475	153,919,363	-
<b>Total assets</b>	<b>120,358,582</b>	<b>169,623,313</b>	<b>289,981,895</b>	<b>207,555</b>
<b>Deferred Outflows of Resources</b> - Deferred outflows related to pensions (Note 13)	5,271,867	-	5,271,867	-
<b>Liabilities</b>				
Accounts payable	1,253,368	2,558,470	3,811,838	563
Due to primary government (Note 5)	-	-	-	8
Accrued liabilities and other	1,130,085	2,230,659	3,360,744	-
Unearned revenue (Note 6)	1,975	14,620	16,595	-
Due to fiduciary fund	-	237,543	237,543	-
Noncurrent liabilities (Note 7):				
Due within one year:				
Compensated absences	132,640	6,592	139,232	-
Provision for property tax refunds	1,521	-	1,521	-
Current portion of long-term debt	757,710	1,690,289	2,447,999	-
Due in more than one year:				
Compensated absences	723,968	57,726	781,694	-
Unearned revenue (Note 6)	-	691,843	691,843	-
Other postemployment benefit obligations (Note 10)	11,509,677	869,058	12,378,735	-
Net pension liability (Note 13)	6,940,260	-	6,940,260	-
Long-term debt - Net of current portion	7,495,000	16,912,784	24,407,784	-
<b>Total liabilities</b>	<b>29,946,204</b>	<b>25,269,584</b>	<b>55,215,788</b>	<b>571</b>
<b>Deferred Inflows of Resources</b>				
Property taxes levied for the following year	28,149,445	-	28,149,445	-
Deferred inflows related to pensions (Note 13)	254,092	-	254,092	-
<b>Total deferred inflows of resources</b>	<b>28,403,537</b>	<b>-</b>	<b>28,403,537</b>	<b>-</b>

# Charter Township of Shelby

## Statement of Net Position (Continued) December 31, 2016

	Primary Government			Component Unit - DDA
	Governmental Activities	Business-type Activities	Total	
<b>Net Position</b>				
Net investment in capital assets	\$ 50,183,118	\$ 100,323,147	\$ 150,506,265	\$ -
Restricted for:				
Police and fire	13,440,612	-	13,440,612	-
Community development	14,984	-	14,984	-
Street lighting	24,508	-	24,508	-
Grants	5,812	-	5,812	-
Assets held at County	-	408,802	408,802	-
Unrestricted	3,611,674	43,621,780	47,233,454	206,984
Total net position	<u>\$ 67,280,708</u>	<u>\$ 144,353,729</u>	<u>\$ 211,634,437</u>	<u>\$ 206,984</u>

# Charter Township of Shelby

Functions/Programs	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 8,026,223	\$ 2,948,960	\$ 240,858	\$ 264,442
41A District Court	2,628,933	2,387,963	45,724	-
Public safety	29,101,889	3,255,017	233,583	13,396
Public works	1,862,075	270,227	50,223	19,998
Recreation and culture	4,048,900	826,439	243,138	-
Interest on long-term debt	370,385	-	-	-
Total governmental activities	<u>46,038,405</u>	<u>9,688,606</u>	<u>813,526</u>	<u>297,836</u>
Business-type activities:				
Water and sewer	26,670,854	27,273,120	-	3,661,504
Shelby Manor senior housing	1,286,843	1,904,217	-	-
Total business-type activities	<u>27,957,697</u>	<u>29,177,337</u>	<u>-</u>	<u>3,661,504</u>
Total primary government	<u>\$ 73,996,102</u>	<u>\$ 38,865,943</u>	<u>\$ 813,526</u>	<u>\$ 3,959,340</u>
Component unit - Downtown Development Authority	<u>\$ 13,111</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenue:				
Property taxes				
State-shared revenue				
Investment income				
Cable franchise fees				
Other miscellaneous income				
Gain on sale of fixed assets				
Total general revenue				
<b>Change in Net Position</b>				
<b>Net Position - Beginning of year</b>				
<b>Net Position - End of year</b>				

**Statement of Activities**  
**Year Ended December 31, 2016**

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit - Downtown Development Authority
Governmental Activities	Business-type Activities	Total	
\$ (4,571,963)	\$ -	\$ (4,571,963)	\$ -
(195,246)	-	(195,246)	-
(25,599,893)	-	(25,599,893)	-
(1,521,627)	-	(1,521,627)	-
(2,979,323)	-	(2,979,323)	-
(370,385)	-	(370,385)	-
(35,238,437)	-	(35,238,437)	-
-	4,263,770	4,263,770	-
-	617,374	617,374	-
-	4,881,144	4,881,144	-
(35,238,437)	4,881,144	(30,357,293)	-
-	-	-	(13,111)
27,722,549	-	27,722,549	-
6,238,650	-	6,238,650	-
322,672	279,842	602,514	641
1,522,826	-	1,522,826	-
393,492	-	393,492	-
117,515	-	117,515	-
36,317,704	279,842	36,597,546	641
1,079,267	5,160,986	6,240,253	(12,470)
66,201,441	139,192,743	205,394,184	219,454
<b>\$ 67,280,708</b>	<b>\$ 144,353,729</b>	<b>\$ 211,634,437</b>	<b>\$ 206,984</b>

# Charter Township of Shelby

## Governmental Funds Balance Sheet December 31, 2016

	General Fund	Fire Fund	Police Fund	Public Improvement Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and investments	\$ 13,244,225	\$ 21,617,567	\$ 17,011,694	\$ 13,761,774	\$ 253,067	\$ 65,888,327
Receivables:						
Taxes	1,423,989	5,317,002	6,448,513	-	-	13,189,504
Other receivables	577,207	341,569	69,654	21,655	5,613	1,015,698
Due from other governmental units	1,103,015	99,836	183,510	-	273,234	1,659,595
Allowance for doubtful accounts	(34,882)	(259,526)	(110,728)	-	-	(405,136)
Advances to other funds (Note 5)	-	-	-	296,741	-	296,741
Prepaid expenses and other assets	67,910	29,386	43,785	351,528	1,298	493,907
Total assets	<u>\$ 16,381,464</u>	<u>\$ 27,145,834</u>	<u>\$ 23,646,428</u>	<u>\$ 14,431,698</u>	<u>\$ 533,212</u>	<u>\$ 82,138,636</u>
<b>Liabilities</b>						
Accounts payable	\$ 216,935	\$ 68,373	\$ 100,953	\$ 536,167	\$ 330,940	\$ 1,253,368
Due to other funds (Note 5)	27,978	2,761	143	-	-	30,882
Advances from other funds (Note 5)	-	5,832,000	6,318,000	-	-	12,150,000
Accrued and other liabilities	408,655	381,758	236,648	-	-	1,027,061
Unearned revenue (Note 6)	-	-	-	-	1,975	1,975
Provision for property tax refunds	164	611	746	-	-	1,521
Total liabilities	<u>653,732</u>	<u>6,285,503</u>	<u>6,656,490</u>	<u>536,167</u>	<u>332,915</u>	<u>14,464,807</u>
<b>Deferred Inflows of Resources</b>						
Unavailable revenue	7,348	3,437	14,971	21,655	2,376	49,787
Property taxes levied for the following year	<u>3,026,797</u>	<u>11,312,878</u>	<u>13,809,770</u>	<u>-</u>	<u>-</u>	<u>28,149,445</u>
Total deferred inflows of resources	<u>3,034,145</u>	<u>11,316,315</u>	<u>13,824,741</u>	<u>21,655</u>	<u>2,376</u>	<u>28,199,232</u>
<b>Fund Balances</b>						
Nonspendable - Prepaids	67,910	29,386	43,785	351,528	1,298	493,907
Restricted:						
Police and fire	-	9,514,630	3,121,412	1,058,564	133,910	13,828,516
Grants	-	-	-	-	5,162	5,162
Street lighting	-	-	-	-	22,132	22,132
Community development	-	-	-	-	14,984	14,984
Assigned:						
Public improvement	-	-	-	12,463,784	-	12,463,784
Economic development	561	-	-	-	-	561
Equipment replacement	-	-	-	-	20,435	20,435
Recycling committee	9,880	-	-	-	-	9,880
Library	159,109	-	-	-	-	159,109
Special recreation donations	8,025	-	-	-	-	8,025
Unassigned	12,448,102	-	-	-	-	12,448,102
Total fund balances	<u>12,693,587</u>	<u>9,544,016</u>	<u>3,165,197</u>	<u>13,873,876</u>	<u>197,921</u>	<u>39,474,597</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 16,381,464</u>	<u>\$ 27,145,834</u>	<u>\$ 23,646,428</u>	<u>\$ 14,431,698</u>	<u>\$ 533,212</u>	<u>\$ 82,138,636</u>

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

# Charter Township of Shelby

## Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position December 31, 2016

<b>Fund Balance Reported in Governmental Funds</b>	<b>\$ 39,474,597</b>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	50,400,828
Grants and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds	49,787
Bonds payable and other long-term liabilities are not due and payable in the current period and are not reported in the funds	(8,252,710)
Other liabilities that do not present a claim on current financial resources are not reported as fund liabilities	(103,024)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(856,608)
Net pension liability is not due and payable in the current period and is not reported in the funds	(6,940,260)
Certain changes in pension plan net position are reported as deferred outflows of resources in the statement of net position, but are not reported in the funds	5,271,867
Certain changes in pension plan net position are reported as deferred inflows of resources in the statement of net position, but are not reported in the funds	(254,092)
Long-term liabilities, such as net OPEB obligations, are not due and payable in the current period and are not reported in the funds	<u>(11,509,677)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 67,280,708</u></b>



# Charter Township of Shelby

## Governmental Funds

### Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2016

	General Fund	Fire Fund	Police Fund	Public Improvement	Nonmajor Governmental Funds	Total
<b>Revenue</b>						
Property taxes	\$ 2,989,623	\$ 11,137,582	\$ 13,595,344	\$ -	\$ -	\$ 27,722,549
Licenses and permits	1,573,606	-	-	-	-	1,573,606
Federal grants	-	12,624	10,271	-	278,560	301,455
State-shared revenue and grants	6,272,298	99,836	257,840	70,221	141,146	6,841,341
Charges for services:						
Charges to other funds	1,082,737	-	-	-	-	1,082,737
Charges for services to external parties	1,026,676	2,552,653	623,959	3,007	264,701	4,470,996
Fines and forfeitures	2,482,606	-	-	-	78,105	2,560,711
Investment income	187,111	60,687	45,753	28,506	511	322,568
Cable franchise fees	1,522,826	-	-	-	-	1,522,826
Other revenue	482,342	35,943	69,903	-	8	588,196
<b>Total revenue</b>	<b>17,619,825</b>	<b>13,899,325</b>	<b>14,603,070</b>	<b>101,734</b>	<b>763,031</b>	<b>46,986,985</b>
<b>Expenditures</b>						
Current:						
General government	7,521,178	-	-	122,107	-	7,643,285
District Court	2,471,302	-	-	-	-	2,471,302
Public safety	-	12,390,946	12,586,627	-	512,107	25,489,680
Public works	276,517	-	-	178,229	320,670	775,416
Recreation and culture	3,602,033	-	-	9,966	18,690	3,630,689
Capital outlay	298,546	65,854	372,020	2,873,083	274,913	3,884,416
Debt service	-	481,697	521,838	-	-	1,003,535
<b>Total expenditures</b>	<b>14,169,576</b>	<b>12,938,497</b>	<b>13,480,485</b>	<b>3,183,385</b>	<b>1,126,380</b>	<b>44,898,323</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>3,450,249</b>	<b>960,828</b>	<b>1,122,585</b>	<b>(3,081,651)</b>	<b>(363,349)</b>	<b>2,088,662</b>
<b>Other Financing Sources (Uses)</b>						
Proceeds from installment purchase agreement	-	-	-	-	207,200	207,200
Proceeds from sale of capital assets	291,113	-	20,350	-	-	311,463
Transfers in (Note 5)	-	-	16,728	6,017,350	1,314	6,035,392
Transfers out (Note 5)	(5,350,323)	(515,347)	(169,722)	-	-	(6,035,392)
<b>Total other financing (uses) sources</b>	<b>(5,059,210)</b>	<b>(515,347)</b>	<b>(132,644)</b>	<b>6,017,350</b>	<b>208,514</b>	<b>518,663</b>
<b>Net Change in Fund Balances</b>	<b>(1,608,961)</b>	<b>445,481</b>	<b>989,941</b>	<b>2,935,699</b>	<b>(154,835)</b>	<b>2,607,325</b>
<b>Fund Balances - Beginning of year</b>	<b>14,302,548</b>	<b>9,098,535</b>	<b>2,175,256</b>	<b>10,938,177</b>	<b>352,756</b>	<b>36,867,272</b>
<b>Fund Balances - End of year</b>	<b>\$ 12,693,587</b>	<b>\$ 9,544,016</b>	<b>\$ 3,165,197</b>	<b>\$ 13,873,876</b>	<b>\$ 197,921</b>	<b>\$ 39,474,597</b>

# Charter Township of Shelby

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2016

**Net Change in Fund Balances - Total Governmental Funds** \$ 2,607,325

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

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

Capital outlay	3,845,247
Depreciation expense	(2,898,009)
Net book value of adjustments and assets disposed of	(193,948)

Repayment of long-term liabilities is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	640,510
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Installment purchase proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position	(207,200)
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Revenue is recorded in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	(4,459)
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Other liabilities do not present a claim on current financial resources and are not reported as fund liabilities	4,909
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Changes in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources and, therefore, are not reported in the fund statements until they come due for payment	(12,889)
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Decrease in net pension liability reported in the statement of activities does not require the use of current resources and, therefore, is not reported in the fund statements until it becomes due for payment	1,039,221
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Change in deferred outflows related to pensions is reported in the statement of activities	(2,655,995)
--	-------------

Change in deferred inflows related to pensions is reported in the statement of activities	(254,092)
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Net other postemployment benefit obligations reported in the statement of activities do not require the use of current resources and therefore are not reported in the fund statements	(831,353)
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**Change in Net Position of Governmental Activities** \$ 1,079,267

# Charter Township of Shelby

## Proprietary Funds Statement of Net Position December 31, 2016

	Enterprise Funds		
	Water and Sewer	Shelby Manor	Total
<b>Assets</b>			
Current assets:			
Cash and investments	\$ 29,454,918	\$ 714,785	\$ 30,169,703
Receivables:			
Special assessments receivable	179,546	-	179,546
Customers	6,828,451	-	6,828,451
Accrued interest receivable	82,609	-	82,609
Other receivables	-	756	756
Due from other governmental units	9,506	-	9,506
Due from component units (Note 5)	8	-	8
Due from other funds (Note 5)	52,928	-	52,928
Inventory	172,337	-	172,337
Prepaid expenses and other assets	32,323	97,542	129,865
	<u>36,812,626</u>	<u>813,083</u>	<u>37,625,709</u>
Total current assets			
Noncurrent assets:			
Restricted assets (Note 8)	492,158	-	492,158
Advances to other funds (Note 5)	12,150,000	-	12,150,000
Special assessment receivables	831,369	-	831,369
Capital assets:			
Assets not subject to depreciation (Note 4)	841,389	1,320,000	2,161,389
Assets subject to depreciation (Note 4)	107,336,267	9,345,208	116,681,475
	<u>121,651,183</u>	<u>10,665,208</u>	<u>132,316,391</u>
Total noncurrent assets			
Total assets			
	<u>158,463,809</u>	<u>11,478,291</u>	<u>169,942,100</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	2,536,496	21,974	2,558,470
Due to other funds (Note 5)	-	22,046	22,046
Accrued liabilities and other	2,038,191	192,468	2,230,659
Unearned revenue (Note 6)	-	14,620	14,620
Due to fiduciary fund	237,543	-	237,543
Compensated absences (Note 7)	6,592	-	6,592
Current portion of long-term debt (Note 7)	913,649	776,640	1,690,289
	<u>5,732,471</u>	<u>1,027,748</u>	<u>6,760,219</u>
Total current liabilities			
Noncurrent liabilities:			
Advances from other funds (Note 5)	-	296,741	296,741
Compensated absences (Note 7)	57,726	-	57,726
Unearned revenue (Note 6)	691,843	-	691,843
Other postemployment benefit obligations (Note 10)	869,058	-	869,058
Long-term debt - Net of current portion (Note 7)	16,912,784	-	16,912,784
	<u>18,531,411</u>	<u>296,741</u>	<u>18,828,152</u>
Total noncurrent liabilities			
Total liabilities			
	<u>24,263,882</u>	<u>1,324,489</u>	<u>25,588,371</u>
<b>Net Position</b>			
Net investment in capital assets	90,434,579	9,888,568	100,323,147
Restricted - Assets held at County	408,802	-	408,802
Unrestricted	43,356,546	265,234	43,621,780
	<u>\$ 134,199,927</u>	<u>\$ 10,153,802</u>	<u>\$ 144,353,729</u>
Total net position			

# Charter Township of Shelby

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended December 31, 2016

	Enterprise Funds		
	Water and Sewer	Shelby Manor	Total
<b>Operating Revenue</b>			
Sale of water	\$ 15,352,928	\$ -	\$ 15,352,928
Sewage disposal charges	9,517,631	-	9,517,631
Other sales to customers	2,223,354	-	2,223,354
Other miscellaneous income	79,207	-	79,207
Rental income	-	1,904,217	1,904,217
Charges to other funds	100,000	-	100,000
Total operating revenue	27,273,120	1,904,217	29,177,337
<b>Operating Expenses</b>			
Cost of water	13,299,287	-	13,299,287
Cost of sewage treatment	5,802,771	-	5,802,771
Other operation and maintenance	2,795,618	936,637	3,732,255
Billing and administrative costs	337,676	-	337,676
Depreciation	3,778,608	309,473	4,088,081
Total operating expenses	26,013,960	1,246,110	27,260,070
<b>Operating Income</b>	1,259,160	658,107	1,917,267
<b>Nonoperating Revenue (Expenses)</b>			
Investment income	277,861	1,981	279,842
Interest expense	(614,894)	(40,733)	(655,627)
Loss on sale of assets	(42,000)	-	(42,000)
Total nonoperating expenses	(379,033)	(38,752)	(417,785)
<b>Income - Before capital contributions</b>	880,127	619,355	1,499,482
<b>Capital Contributions</b>	3,661,504	-	3,661,504
<b>Change in Net Position</b>	4,541,631	619,355	5,160,986
<b>Net Position - Beginning of year</b>	129,658,296	9,534,447	139,192,743
<b>Net Position - End of year</b>	<u>\$ 134,199,927</u>	<u>\$ 10,153,802</u>	<u>\$ 144,353,729</u>

# Charter Township of Shelby

## Proprietary Funds Statement of Cash Flows Year Ended December 31, 2016

	Enterprise Funds		
	Water and Sewer	Shelby Manor	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 26,689,518	\$ 1,892,358	\$ 28,581,876
Payments to suppliers	(20,078,110)	(915,901)	(20,994,011)
Payments to employees	(2,078,198)	-	(2,078,198)
Internal activity - Payments from other funds	49,438	970	50,408
Net cash provided by operating activities	4,582,648	977,427	5,560,075
<b>Cash Flows from Noncapital Financing Activities -</b>			
Repayments on advance to other funds	425,000	-	425,000
<b>Cash Flows from Capital and Related Financing Activities</b>			
Issuance of bonds	178,035	-	178,035
Special assessment collections	222,313	-	222,313
Collection of capital charges and front foot assessments	1,473,320	-	1,473,320
Proceeds from sales of capital assets	26,711	-	26,711
Purchase of capital assets	(898,152)	-	(898,152)
Principal and interest paid on capital debt	(1,532,247)	(848,327)	(2,380,574)
Net cash used in capital and related financing activities	(530,020)	(848,327)	(1,378,347)
<b>Cash Flows from Investing Activities</b>			
Interest received on investments	237,985	1,981	239,966
Net purchase of investment securities	(5,986,937)	-	(5,986,937)
Net cash (used in) provided by investing activities	(5,748,952)	1,981	(5,746,971)
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(1,271,324)	131,081	(1,140,243)
<b>Cash and Cash Equivalents - Beginning of year</b>	14,540,250	583,704	15,123,954
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 13,268,926</b>	<b>\$ 714,785</b>	<b>\$ 13,983,711</b>
<b>Statement of Net Position Classification of Cash and Cash Equivalents</b>			
Cash and investments	\$ 29,454,918	\$ 714,785	\$ 30,169,703
Less amounts classified as investments	(16,185,992)	-	(16,185,992)
Total cash and cash equivalents	<b>\$ 13,268,926</b>	<b>\$ 714,785</b>	<b>\$ 13,983,711</b>

# Charter Township of Shelby

## Proprietary Funds Statement of Cash Flows (Continued) Year Ended December 31, 2016

	Enterprise Funds		
	Water and Sewer	Shelby Manor	Total
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>			
Operating income	\$ 1,259,160	\$ 658,107	\$ 1,917,267
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation and amortization	3,778,608	309,473	4,088,081
Changes in assets and liabilities:			
Receivables	(583,602)	(731)	(584,333)
Due from other funds	(25,094)	-	(25,094)
Inventories	56,813	-	56,813
Prepaid and other assets	(2,122)	8,807	6,685
Accounts payable	92,687	11,929	104,616
Due to other funds	74,532	970	75,502
Accrued and other liabilities	(68,334)	(11,128)	(79,462)
Net cash provided by operating activities	<b>\$ 4,582,648</b>	<b>\$ 977,427</b>	<b>\$ 5,560,075</b>

**Noncash Transactions** - During the year ended December 31, 2016, developers constructed water and sewer lines with an estimated value of \$2,094,002 and donated them to the Township Water and Sewer Fund. In addition, the Township recorded approximately \$1,135,880 of capital assets, representing the Township's portion of the Oakland Macomb Interceptor Drainage District project and \$42,234 of capital assets, representing the Township's portion of the Clintondale Pump Station project and the North Gratiot Interceptor project.

# Charter Township of Shelby

## Fiduciary Funds Statement of Fiduciary Net Position December 31, 2016

	Pension and Other Employee Benefit Trust Funds	<u>Agency Funds</u>
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$ 2,036,135	\$ 7,332,810
Investments (Note 3):		
Short-term funds	4,532,849	-
Stocks	39,714,439	-
Collective index and mutual funds - Fixed income	28,381,908	-
Collective index and mutual funds - Equity	34,106,631	-
Limited partnerships	17,211,217	-
Receivables:		
Accrued interest receivable	202,910	131,821
Other receivables	-	99,495
Due from other governmental units	-	1,114
Due from primary government	237,543	-
Prepaid expenses and other assets	487,222	11,911
	126,910,854	<b><u>\$ 7,577,151</u></b>
<b>Liabilities</b>		
Accounts payable	49,864	\$ 116,425
Refundable deposits, bonds, etc.	-	1,069,276
Accrued and other liabilities	78,002	297,845
Advance tax collections	-	6,093,605
	127,866	<b><u>\$ 7,577,151</u></b>
<b>Net Position Held in Trust for Pension and Other Employee Benefits</b>	<b><u>\$ 126,782,988</u></b>	

# Charter Township of Shelby

## Fiduciary Funds Statement of Changes in Fiduciary Net Position Year Ended December 31, 2016

	Pension and Other Employee Benefit Trust Funds
<b>Additions</b>	
Investment income:	
Interest and dividends	\$ 2,651,971
Net realized and unrealized gain on investments	8,094,024
Investment-related expenses	<u>(648,985)</u>
Net investment income	10,097,010
Contributions:	
Employer	6,969,319
Employee	<u>531,588</u>
Total contributions	<u>7,500,907</u>
Total additions	17,597,917
<b>Deductions</b>	
Benefit payments	8,664,052
Refunds of contributions	113,686
Administrative expenses	<u>39,382</u>
Total deductions	<u>8,817,120</u>
<b>Net Increase in Net Position Held in Trust</b>	8,780,797
<b>Net Position Held in Trust for Pension and Other Employee Benefits -     Beginning of year</b>	<u>118,002,191</u>
<b>Net Position Held in Trust for Pension and Other Employee Benefits -     End of year</b>	<u><u>\$ 126,782,988</u></u>



# Charter Township of Shelby

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## Notes to Financial Statements December 31, 2016

### Note I - Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used by the Charter Township of Shelby (the "Township"):

#### **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 composed of the supervisor, clerk, treasurer, and four other trustees. The Township provides the following services as authorized by its charter: public safety (police and fire), highway and streets, sanitation, water and sewer, culture, recreation, public improvements, planning and zoning, and general administrative services. The accompanying financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the Township's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Township (see discussion below for description).

**Blended Component Units** - The following component units are reported as if they were part of the primary government in the financial statements:

- a. The police and fire retirement system (the "System") has been blended into the Township's financial statements. The System is governed by a five-member pension board, which includes the treasurer of the Township's board, two members elected individually by the police officers and firefighters, and two members appointed by the board of trustees. The System is reported as if it were part of the primary government because of the fiduciary responsibility that the Township retains relative to the operations of the retirement system.
- b. The Shelby Township Building Authority is governed by a five-member board that is appointed by the Township's board of trustees. Although it is legally separate from the Township, it is reported as if it were part of the primary government because its primary purpose is to provide certain facilities necessary for the operation of the Township's government and to finance and construct the Township's public buildings.

**Discretely Presented Component Units** - The Shelby Township Downtown Development Authority (the "Authority") is governed by a board that is appointed by the Township's board of trustees. The Authority's budget is subject to approval of the board of trustees. The Authority does not issue its own financial statements.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Accounting and Reporting Principles**

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

#### **Report Presentation**

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as 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 general fund, 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.

### Note I - Summary of Significant Accounting Policies (Continued)

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

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

#### **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:

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

- The General Fund, which is the primary operating fund because it accounts for all financial resources used to provide general government services, other than those specifically assigned to another fund.
- The Fire Special Revenue Fund, which accounts for all activities of the Township's fire department, except for the purchase of equipment, and is financed primarily with a dedicated property tax millage.
- The Police Special Revenue Fund, which accounts for all the activities of the Township's police department, except for the purchase of equipment, and is financed primarily with a dedicated property tax millage.

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

### Note I - Summary of Significant Accounting Policies (Continued)

- The Public Improvement Fund, which accounts for the activities of capital improvement projects. It is financed primarily through transfers from other 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 and disposes of sanitary sewage to residents of the Township in exchange for quarterly user charges.
- The Shelby Manor Senior Housing Fund accounts for the activities of the Township's senior housing apartment complex.

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

- The pension and other employee benefits trust fund accounts for the activities of employee benefit plans, which accumulate resources for pension and other postemployment benefit payments to qualified employees.
- The agency funds account for assets held by the Township in a trustee capacity or as an agent for individuals, organizations, and other governments. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

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

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

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

### Note I - Summary of Significant Accounting Policies (Continued)

#### Specific Balances and Transactions

**Cash and Cash Equivalents** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less as of December 31, 2016.

**Investments** - 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 \$15 million of the assets held by the Shelby Township Police and Fire Pension Plan and approximately \$2 million of assets held by the Shelby Township Other Post Employment Benefit Trust at December 31, 2016 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** - Restricted 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.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., 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. The Township evaluates items with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year for classification as capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

### Note I - Summary of Significant Accounting Policies (Continued)

Infrastructure, intangibles, buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

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

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

#### **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Township has one item that qualifies for reporting in this category, which is the deferred outflows of resources related to the defined benefit pension plan. The deferred outflows of resources related to the defined benefit pension plan are reported in the government-wide financial statements. The deferred outflows of resources result from differences in assumed and actual plan experience, changes in plan assumptions, and the variance between the plan's actual investment earnings compared to the plan's assumed investment earnings.

### **Note I - Summary of Significant Accounting Policies (Continued)**

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

#### **Net Position Flow Assumption**

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

#### **Fund Balance Flow Assumption**

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. The Township's policy is to first apply unrestricted resources, except in the General Fund, where restricted resources are applied first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the Township's policy to spend funds in this order:

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

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

### Note I - Summary of Significant Accounting Policies (Continued)

#### Fund Balance Policies

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

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

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

#### Property Tax Revenue

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

The 2015 taxable valuation of the Township totaled approximately \$2,970,000,000 on which ad valorem taxes levied consisted of 1.0000 mills for operating purposes, 4.0424 mills for police protection, 3.2575 mills for fire operating purposes, and 1.0000 mill for police and fire pension. The ad valorem taxes raised approximately \$2,970,000 for general operations, \$12,010,000 for police protection, \$9,680,000 for fire operations, and \$2,970,000 for police and fire pension. These amounts are recorded in their respective funds as tax revenue.



### Note I - Summary of Significant Accounting Policies (Continued)

**Pension Costs** - The Township offers pension benefits to retirees. The Township records a net pension liability 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 liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the pension plan 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 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 retirees. The Township receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. For the government-wide statements and proprietary funds, the Township reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

**Compensated Absences (Vacation, Sick, and Personal Leave)** - It is the Township's policy to permit employees to accumulate earned but unused sick, vacation, and personal pay benefits. The government-wide and proprietary statements accrue all vacation pay as it is earned and sick and personal pay as it is vested. A liability for these amounts is reported in the governmental funds as they come due for payment (when the time is taken off or employees terminate).

**Proprietary Funds Operating Classification** - Proprietary funds distinguish operating 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 is charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of capital charges intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

### Note 1 - Summary of Significant Accounting Policies (Continued)

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

### Note 2 - Stewardship, Compliance, and Accountability

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

Shortfall at January 1, 2016		\$ (2,585,569)
Current year permit revenue		1,568,802
Related expenses:		
Direct costs	\$ 1,300,874	
Estimated indirect costs	249,557	1,550,431
		<u>18,371</u>
Current year surplus		<u>18,371</u>
Cumulative shortfall at December 31, 2016		<u>\$ (2,567,198)</u>

### Note 3 - Deposits and Investments

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

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

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

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

The Township has designated 14 banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments allowed by state statutory authority as listed above. The Township's deposits and investment policies are in accordance with statutory authority.

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

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$56,838,766 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 one year unless the maturity is matched to a specific cash flow according to the policy. Commercial paper is restricted to purchases with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Bank investment pool	\$ 1,888,543	365 days
U.S. government agency	13,100,223	162 days
Commercial paper	27,224,310	97 days
U.S. Treasury securities	1,205,707	228 days
Short-term investments (Pension Trust)	3,167,112	38 days
Short-term investments (Other Postemployment Benefits Trust)	1,365,737	34 days
Fixed Income Collective Index Fund (Pension Trust)	20,993,243	7.3 years
Fixed Income Collective Fund (Other Postemployment Benefits Trust)	7,388,665	6.59 years

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

### 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	Fair Value	Rating	Rating Organization
Bank investment pool	\$ 1,888,543	Not rated	
U.S. government agency	13,100,223	AA+	S&P
Commercial paper	27,224,310	AI	S&P
Short-term investment fund (Pension Trust)	3,196,272	AI	S&P
Short-term investment fund (Other Postemployment Benefits Trust)	1,365,737	AI	S&P
Fixed Income Collective Index Fund (Pension Trust)	20,993,243	AA1/AA2	S&P
Fixed Income Collective Index Fund (Other Postemployment Benefits Trust)	7,388,665	AA1/AA2	S&P

**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, 2016, there were no investments in a single issuer in excess of 50 percent of the Township's total portfolio. The Township is invested in the Comerica Bond Index Fund and the Comerica S&P 500 Index Fund, each of which exceed 5 percent of the Township's total portfolio.

During the year, the Township implemented Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. The statement required disclosures regarding the impact of fair value measures on a government's financial position, as follows:

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.

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

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

The Township has the following recurring fair value measurements as of December 31, 2016:

#### Assets Measured at Fair Value on a Recurring Basis

	Balance at December 31, 2016	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities:				
U.S. Treasury securities	\$ 1,205,707	\$ 1,205,707	\$ -	\$ -
U.S. government agency Collective index and mutual funds - Fixed income	13,100,223	-	13,100,223	-
	<u>28,381,908</u>	<u>10,383,945</u>	<u>17,997,963</u>	<u>-</u>
Total debt securities	42,687,838	11,589,652	31,098,186	-
Equity securities:				
Stocks	39,714,438	39,714,438	-	-
Collective index and mutual funds - Equity	34,106,631	21,274,723	12,831,908	-
	<u>73,821,069</u>	<u>60,989,161</u>	<u>12,831,908</u>	<u>-</u>
Total equity securities	73,821,069	60,989,161	12,831,908	-
Limited partnerships	<u>1,659,590</u>	<u>-</u>	<u>-</u>	<u>1,659,590</u>
Total investments by fair value level	118,168,497	<u>\$ 72,578,813</u>	<u>\$ 43,930,094</u>	<u>\$ 1,659,590</u>
Investments measured at net asset value (NAV):				
Real estate funds	6,937,475			
Commingled funds	<u>8,614,152</u>			
Total investments measured at NAV	<u>15,551,627</u>			
Total investments measured at fair value	<u>\$ 133,720,124</u>			

Debt and equity securities 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, 2016 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.

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

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

The fair value of collective index fund (fixed income and equity) investments at December 31, 2016 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 the limited partnership at December 31, 2016 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 on the following table.

#### Investments in Entities that Calculate Net Asset Value per Share

The Township holds shares or interests in investment companies where 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.

At the year ended December 31, 2016, the fair value, unfunded commitments, and redemption rules of those investments is as follows:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
Real estate funds	\$ 6,937,475	\$ -	Fully restricted	None
Commingled funds	<u>8,614,152</u>	<u>-</u>	Monthly	30 days
Total investments measured at NAV	<u>\$ 15,551,627</u>	<u>\$ -</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 five 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. Because it is not probable that any individual investment will be sold, the fair value of each individual investment has been determined using the NAV per share (or its equivalent) of the Township's ownership interest in partners' capital. 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.

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

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

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.

### Note 4 - Capital Assets

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

	Balance January 1, 2016	Transfers/ Adjustments	Additions	Disposals	Balance December 31, 2016
<b>Governmental Activities</b>					
Capital assets not being depreciated:					
Land	\$ 11,696,828	\$ -	\$ -	\$ (159,920)	\$ 11,536,908
Construction in progress	363,951	(262,109)	1,524,190	-	1,626,032
Subtotal	12,060,779	(262,109)	1,524,190	(159,920)	13,162,940
Capital assets being depreciated:					
Infrastructure	35,840,670	262,109	1,391,002	-	37,493,781
Buildings and improvements	17,688,216	-	-	(5,740)	17,682,476
Machinery and equipment	6,363,604	-	658,175	-	7,021,779
Vehicles	7,164,942	-	271,880	(157,003)	7,279,819
Library books	2,000,000	-	-	-	2,000,000
Subtotal	69,057,432	262,109	2,321,057	(162,743)	71,477,855
Accumulated depreciation:					
Infrastructure	15,839,844	-	1,343,687	-	17,183,531
Buildings and improvements	6,074,102	-	365,808	(2,221)	6,437,689
Machinery and equipment	3,983,531	-	490,760	-	4,474,291
Vehicles	4,573,196	-	697,754	(126,494)	5,144,456
Library books	1,000,000	-	-	-	1,000,000
Subtotal	31,470,673	-	2,898,009	(128,715)	34,239,967
Net capital assets being depreciated	37,586,759	262,109	(576,952)	(34,028)	37,237,888
Net capital assets	\$ 49,647,538	\$ -	\$ 947,238	\$ (193,948)	\$ 50,400,828

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

### Note 4 - Capital Assets (Continued)

	Balance January 1, 2016	Transfers/ Adjustments	Additions	Disposals	Balance December 31, 2016
<b>Business-type Activities</b>					
Capital assets not being depreciated:					
Land	\$ 1,525,441	\$ -	\$ -	\$ -	\$ 1,525,441
Construction in progress	404,215	(96,409)	354,851	(26,709)	635,948
Subtotal	1,929,656	(96,409)	354,851	(26,709)	2,161,389
Capital assets being depreciated:					
Buildings and improvements	19,505,595	7,465	-	-	19,513,060
Vehicles	754,692	-	-	-	754,692
Furniture and fixtures	1,018,920	-	-	-	1,018,920
Water systems	41,668,342	88,944	1,504,043	(41,997)	43,219,332
Sewer systems	118,557,517	-	2,139,310	-	120,696,827
Subtotal	181,505,066	96,409	3,643,353	(41,997)	185,202,831
Accumulated depreciation:					
Buildings and improvements	6,892,701	-	391,713	-	7,284,414
Vehicles	631,643	-	18,549	-	650,192
Furniture and fixtures	862,791	-	41,229	-	904,020
Water systems	18,315,617	-	1,021,702	-	19,337,319
Sewer systems	37,730,523	-	2,614,888	-	40,345,411
Subtotal	64,433,275	-	4,088,081	-	68,521,356
Net capital assets being depreciated	117,071,791	96,409	(444,728)	(41,997)	116,681,475
Net capital assets	<u>\$ 119,001,447</u>	<u>\$ -</u>	<u>\$ (89,877)</u>	<u>\$ (68,706)</u>	<u>\$ 118,842,864</u>

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

#### Governmental activities:

General government	\$ 571,231
Public safety	1,092,435
Public works	916,253
Recreation and culture	309,544
41A District Court	8,546
Total governmental activities	<u>\$ 2,898,009</u>

#### Business-type activities:

Water and sewer	\$ 3,778,608
Shelby Manor	309,473
Total business-type activities	<u>\$ 4,088,081</u>



# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

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

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
Water and Sewer Fund	General Fund	\$ 27,978
	Police Fund	143
	Fire Fund	2,761
	Shelby Manor Fund	<u>22,046</u>
	Total Water and Sewer Fund	<u>\$ 52,928</u>

Receivable Fund	Payable Fund	Amount
<b>Advances from/to Other Funds</b>		
Water and Sewer Fund	Police Fund	\$ 6,318,000
	Fire Fund	<u>5,832,000</u>
	Total Water and Sewer Fund	12,150,000
Public Improvement Fund	Shelby Manor Fund	<u>296,741</u>
	Total	<u>\$ 12,446,741</u>

Receivable Fund	Payable Fund	Amount
<b>Due to/from Primary Government and Component Units</b>		
Water and Sewer Fund	Downtown Development Authority	<u>\$ 8</u>

Interfund balances generally represent routine transactions and temporary cash flow assistance until amounts are available. 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.

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

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

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

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Amount</u>
General Fund	Nonmajor governmental funds	\$ 1,314
	Public Improvement Fund	5,332,281
	Police Fund	16,728
	<u>Total General Fund</u>	<u>\$ 5,350,323</u>
Police Fund	Public Improvement Fund	\$ 169,722
Fire Fund	Public Improvement Fund	515,347

### Note 6 - Unearned Revenue

Unearned revenue in the Water and Sewer Fund represents redeemable certificates issued to developers to be applied as payment on future capital charges. Unearned revenue in the Shelby Manor Housing Fund represents 2017 rent payments made by residents during 2016. Unearned revenue in the Street Lighting Fund represents 2017 Street Lighting payments made by property owners in 2016.

### Note 7 - Long-term Debt

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

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

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

Description	Amount
<b>Governmental Activities:</b>	
General obligations:	
Installment purchase agreement - Computer software	\$ 10,510
Installment purchase agreement - Police equipment	207,200
Pension Obligation Bonds Series 2014A:	
Amount of issue - \$9,300,000	
Maturing through 2027	
Interest rate range - 2.00% - 3.60%	
Principal maturity range - \$635,000 - \$860,000	8,035,000
Total	<u>\$ 8,252,710</u>
<b>Business-type Activities:</b>	
General obligations:	
2006 B.A. Refunding Bonds:	
Amount of issue - \$3,730,000	
Less bond discount of \$49,783	
Maturing through 2024	
Interest rate range - 4.00% - 5.50%	
Principal maturity ranges - \$260,000 - \$300,000	\$ 2,178,665
2008 B.A. Refunding Bonds:	
Amount of issue - \$7,325,000	
Plus bond premium of \$355,000	
Maturing through 2017	
Interest rate range - 3.00% - 5.50%	
Principal maturity range - \$776,640	776,640
2009 State Revolving Fund (SRF) Clean Water:	
General Obligation Bond - Project 5343-01:	
Amount of issue - \$128,150	
Maturing through 2029	
Interest rate - 2.50%	
Principal maturity range - \$5,000 - \$10,000	98,150
2010 Clintondale Pump Station Debt:	
Amount of issue - \$2,849,191	
Maturing through 2031	
Interest rate - 2.50% - 5.00%	
Principal maturity range - \$102,000 - \$231,000	2,456,040
2010 OMID Series 2010B:	
Amount of issue - \$319,195	
Maturing through 2030	
Interest rate range - 1.15% - 5.90%	
Principal maturity range - \$13,000 - \$25,000	252,736

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

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

Description	Amount
<b>Business-type Activities (Continued):</b>	
General obligations (Continued):	
2010 OMID Series 2010A (SRF):	
Amount of issue - \$1,242,274	
Maturing through 2031	
Interest rate - 2.50%	
Principal maturity range - \$55,000 - \$78,000	\$ 987,349
2010 MID Series 2010A:	
Amount of issue - \$7,721,197	
Maturing through 2035	
Interest rate range - 1.25% - 5.50%	
Principal maturity range - \$259,000 - \$455,000	6,487,355
2010 N. Gratiot Drainage Assessment:	
Amount of issue - \$73,021	
Maturing through 2035	
Interest rate range - 1.00% - 6.35%	
Principal maturity range - \$2,000 - \$4,000	60,216
2010 MID Series 2010A (Garfield Interceptor):	
Amount of issue - \$4,861,206	
Maturing through 2035	
Interest rate range - 1.25% - 5.375%	
Principal maturity range - \$163,000 - \$286,000	4,084,389
2014 OMID Drain Bonds Series 2014A:	
Amount of issue - \$476,441	
Maturing through 2034	
Interest rate range - 2.00% - 3.125%	
Principal maturity range - \$19,000 - \$31,000	439,234
2015 MID SRF 5624-01	
Amount of issue - \$355,314	
Maturing through 2035	
Interest rate - 2.50%	
Principal maturity range - \$8,000 - \$18,000	185,074
2015 N. Gratiot Drainage Assessment	
Amount of issue - \$597,225	
Maturing through 2033	
Interest rate range - 3.50% - 5.00%	
Principal maturity range - \$25,000 - \$41,000	597,225
Total business-type activity debt	<u>\$ 18,603,073</u>

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

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

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Installment purchase agreement	\$ 21,020	\$ 207,200	\$ 10,510	\$ 217,710	\$ 117,710
General obligations	8,665,000	-	630,000	8,035,000	640,000
Subtotal	8,686,020	207,200	640,510	8,252,710	757,710
Accumulated compensated absences	843,719	132,112	119,223	856,608	132,640
Total governmental activities	<u>\$ 9,529,739</u>	<u>\$ 339,312</u>	<u>\$ 759,733</u>	<u>\$ 9,109,318</u>	<u>\$ 890,350</u>
<b>Business-type Activities</b>					
General obligations	\$ 20,161,585	\$ 178,035	\$ 1,736,547	\$ 18,603,073	\$ 1,690,289
Compensated absences	78,670	-	14,352	64,318	6,592
Total business-type activities	<u>\$ 20,240,255</u>	<u>\$ 178,035</u>	<u>\$ 1,750,899</u>	<u>\$ 18,667,391</u>	<u>\$ 1,696,881</u>

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
2017	\$ 757,710	\$ 236,248	\$ 993,958	\$ 1,690,289	\$ 693,790	\$ 2,384,079
2018	750,000	223,448	973,448	930,161	622,840	1,553,001
2019	665,000	210,448	875,448	961,265	591,062	1,552,327
2020	680,000	197,148	877,148	980,641	557,211	1,537,852
2021	695,000	176,748	871,748	1,055,106	521,791	1,576,897
2022-2026	3,845,000	548,623	4,393,623	5,079,684	2,004,443	7,084,127
2027-2031	860,000	30,960	890,960	4,904,827	1,061,713	5,966,540
2032-2036	-	-	-	3,001,100	234,005	3,235,105
Total	<u>\$ 8,252,710</u>	<u>\$ 1,623,623</u>	<u>\$ 9,876,333</u>	<u>\$ 18,603,073</u>	<u>\$ 6,286,855</u>	<u>\$ 24,889,928</u>

The Macomb Interceptor Drainage District (MID) and Oakland-Macomb Interceptor Drainage District (OMID) projects are construction and rehabilitation projects which began in 2010 and are ongoing. The MID issued county bonds that were used to acquire the MID Interceptor system and to assume amounts owed related to the Garfield Interceptor. Additional county bonds were issued to improve and repair the North Gratiot Interceptor and Clintondale Pump Station. These bonds were issued as Federally Taxable Recovery Zone Economic Development Bonds and are eligible to recover tax credit payments from the United States Treasury up to 45 percent (for the North Gratiot Bond), up to 35 percent (for the MID Bond), and up to 45 percent (for the OMID Series 2010B Bond) of the interest payable on the bonds.

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

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

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

**Subsequent Event** - The Macomb Interceptor Drain Drainage District issued bonds of which the proceeds were to be used to refund all of the 2010 MID Series 2010A and the 2010 MID Series 2010A (Garfield Interceptor) bonds presented in the Township's financial statements. The bonds are also to be used to pay for the cost of repairs to MID's sewer interceptor system. The total amount of the bond issue allocated to the Township is \$14,723,535. The bonds will be maturing through 2042 with an interest rate range of 3.0 percent to 5.0 percent and principal maturity range of \$301,825 to \$995,525.

#### Macomb Interceptor Drainage District (MID)

	County Portion	Township Portion	Tax Credit
MID Series 2010A	\$ 95,955,000	\$ 12,582,403	\$ 1,899,080
North Gratiot Interceptor 2010	16,965,000	73,021	26,000
Clintondale Pump Station 2011	30,800,000	2,849,191	-
MID SRF 5624-01	2,059,211	199,093	-

#### 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	-

**Advance and Current Refundings** - In prior years, the Township defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At December 31, 2016, \$3,055,000 of bonds outstanding is considered defeased.

### Note 8 - Restricted Assets

The Township has \$83,356 of restricted assets at December 31, 2016 related to unspent bond proceeds which are held by Macomb and Oakland counties in connection with the OMID, North Gratiot, and Clintondale Pump Station Interceptor projects described in Note 7. The remaining \$408,802 of restricted assets relates to prepayments made to the counties for the Township's portion of OMID Segments 3 and 4.

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

### 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 fiscal year were as follows:

	Medical Claims	
	2016	2015
Unpaid claims - Beginning of year	\$ 759,395	\$ 716,888
Incurred claims, including claims incurred but not reported	3,862,976	3,719,899
Claim payments	<u>(3,831,018)</u>	<u>(3,677,392)</u>
Unpaid claims - End of year	<u>\$ 791,353</u>	<u>\$ 759,395</u>

### Note 10 - Other Postemployment Benefits

**Plan Description** - The Township provides healthcare benefits to the following classes of employees under 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.

### **Note 10 - Other Postemployment Benefits (Continued)**

Supervisory/Department Heads - Employees hired on or before November 21, 2006 who retire having a minimum of 10 years of continuous full-time service and having attained an age of 55 or above, which, when combined with the number of years of service, is greater than or equal to 75, are eligible for healthcare and life insurance benefits. Employees hired between November 21, 2006 and September 1, 2010 who retire having a minimum of 15 years of continuous full-time service and having attained an age of 55 or above, which, when combined with the number of years of service, is greater than or equal to 75, are eligible for healthcare and life insurance benefits. Employees hired on or after September 1, 2010 are eligible for life insurance benefits only.

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

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

Command Officers - Employees 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.



# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

### Note 10 - Other Postemployment Benefits (Continued)

41A District Court - Employees hired on or before October 31, 2010 who retire having a minimum of 15 years of continuous full-time service and having attained an age of 55 or above, which, when combined with the number of years of service, is greater than or equal to 75, are eligible for healthcare and life insurance benefits. Employees hired after October 31, 2010 are eligible for life insurance benefits only.

Healthcare benefits provided cover the retired employee, as well as his or her spouse and any eligible dependents. All benefits listed are paid in full by the Township until a covered person is eligible for Medicare coverage. Upon eligibility for Medicare coverage, the covered person must apply for Medicare and the Township then supplies a complementary coverage policy per the applicable bargaining unit. Currently, 189 retirees are eligible.

**Funding Policy** - The Township has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). As shown below, the Township has made contributions to advance fund a portion of these benefits as of December 31, 2016.

**Funding Progress** - For the year ended December 31, 2016, the Township has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of January 1, 2016. The valuation computes an annual required contribution which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution	\$ 5,815,278
Interest on the prior year's net OPEB obligation	757,348
Less adjustment to the annual required contribution	<u>(702,440)</u>
Annual OPEB cost	5,870,186
Amounts contributed:	
Payments of current premiums	(2,869,282)
Prefunding contribution	<u>(2,273,678)</u>
Increase in net OPEB obligation	727,226
OPEB obligation - Beginning of year	<u>11,651,509</u>
OPEB obligation - End of year	<u>\$ 12,378,735</u>

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

### Note 10 - Other Postemployment Benefits (Continued)

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

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
12/31/16	1/1/16	\$ 5,815,278	88.4	\$ 12,378,735
12/31/15	1/1/14	5,773,353	79.7	11,651,509
12/31/14	1/1/14	5,773,353	61.1	10,414,042
12/31/13	1/1/12	5,079,690	87.0	8,107,695
12/31/12	1/1/12	5,079,690	73.3	7,295,926

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
1/1/16	\$ 24,461,957	\$ 89,174,816	\$ 64,712,859	27.4	\$ 13,897,076	465.7
1/1/14	19,855,870	84,443,078	64,587,208	23.5	14,554,860	443.8
1/1/12	13,948,217	70,380,755	56,432,538	19.8	16,179,279	348.8
1/1/11	-	84,004,736	84,004,736	-	16,719,112	502.4

**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.

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.

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

### Note 10 - Other Postemployment Benefits (Continued)

In the January 1, 2016 actuarial valuation, the projected unit credit with linear proration to decrement method was used. The actuarial assumptions included a 6.5 percent investment rate of return (net of administrative expenses), which is a blended rate consisting of the expected long-term investment return on plan assets and that of employer assets, and an annual healthcare cost trend rate of 8.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent by 2024. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2016 was 26 years.

### Note 11 - Pension and Other Employee Benefit Trust Funds

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

	Police and Fire Retirement System	Retiree Healthcare Trust
<b>Statement of Net Position</b>		
Investments	\$ 97,389,402	\$ 26,557,642
Other assets	657,280	2,306,530
Liabilities	<u>(102,151)</u>	<u>(25,715)</u>
Net position	<u>\$ 97,944,531</u>	<u>\$ 28,838,457</u>
<b>Statement of Changes in Net Position</b>		
Investment income	\$ 7,994,188	\$ 2,102,822
Contributions	2,357,947	5,142,960
Refunds of contributions	(113,686)	-
Benefit payments	(5,794,770)	(2,869,282)
Other deductions	<u>(39,382)</u>	<u>-</u>
Net change in net position	<u>\$ 4,404,297</u>	<u>\$ 4,376,500</u>

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

### Note 12 - 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, 2016, the Township made contributions of \$841,109 and the plan members contributed \$443,200 to the plan.

### Note 13 - Defined Benefit 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 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 pension board, which consists of five members - two elected by plan members, two appointed by the Township, and the Township treasurer, who serves as an ex-officio member.

**Employees Covered by Benefit Terms** - At December 31, 2016, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	112
Inactive plan members entitled to but not yet receiving benefits	3
Active plan members	<u>108</u>
Total employees covered by the plan	<u><u>223</u></u>

### Note 13 - Defined Benefit Pension Plan (Continued)

**Benefits Provided** - The pension plan 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.

**Contributions** - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the pension board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the Township Charter, union contracts, and plan provisions. For the year ended December 31, 2016, the active member contribution rate was 5 percent of annual payroll. The Township contributed the actuarial required contribution of \$1,826,359.

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

### Note 13 - Defined Benefit Pension Plan (Continued)

#### Pension Plan Investments - Policy and Rate of Return

**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. The following was the pension board's adopted asset allocation policy as of December 31, 2016:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	41 %
Global fixed income	31
International equity	16
Real estate	5
Alternatives	5
Cash or cash equivalents	2

**Rate of Return** - For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.69 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 percent. For any employee who terminates before vesting in the pension plan, his or her balance is returned to his or her upon his or her 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.

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

### Note 13 - Defined Benefit Pension Plan (Continued)

The balances of the reserve accounts at December 31, 2016 are as follows:

	Required Reserve	Amount Funded
Retiree reserve	\$ 62,012,231	\$ 62,012,231
Employee reserve	7,634,601	7,634,601
Employer reserve	N/A	28,297,699

#### Net Pension Liability

The components of the net pension liability of the Township at December 31, 2016 were as follows:

Total pension liability	\$ 104,884,791
Plan fiduciary net position	<u>(97,944,531)</u>
Township's net pension liability	<u>\$ 6,940,260</u>

Plan fiduciary net position as a percentage of the total pension liability 93.4 %

The Township has chosen to use December 31, 2016 as its measurement date for the net pension liability. The December 31, 2016 reported net pension liability was determined using a measure of the total pension liability and the pension net position as of December 31, 2016. The December 31, 2016 total pension liability was determined by an actuarial valuation performed as of that date.

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability (Asset)
<b>Balance at December 31, 2015</b>	\$ 101,519,715	\$ 93,540,234	\$ 7,979,481
Service cost	1,909,981	-	1,909,981
Interest	7,535,660	-	7,535,660
Differences between expected and actual experience	132,801	-	132,801
Changes in assumptions	(304,910)	-	(304,910)
Contributions - Employer	-	1,826,359	(1,826,359)
Contributions - Employee	-	531,588	(531,588)
Net investment income (loss)	-	7,994,188	(7,994,188)
Benefit payments, including refunds	(5,908,456)	(5,908,456)	-
Administrative expenses	-	(39,382)	39,382
Net changes	<u>3,365,076</u>	<u>4,404,297</u>	<u>(1,039,221)</u>
<b>Balance at December 31, 2016</b>	<u>\$ 104,884,791</u>	<u>\$ 97,944,531</u>	<u>\$ 6,940,260</u>

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

### Note 13 - Defined Benefit Pension Plan (Continued)

**Assumption Changes** - The mortality table used to measure funding liability has been updated from the RP-2014 Blue Collar with 2015 Social Security Generational Improvement Scale from 2006 to the RP-2014 Blue Collar with 2016 Social Security Generational Improvement Scale from 2006. This change resulted in a decrease in the liabilities and normal cost.

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

For the year ended December 31, 2016, the Township recognized pension expense of \$3,697,227. At December 31, 2016, 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	\$ 524,695	\$ -
Changes in assumptions	1,280,930	(254,092)
Net difference between projected and actual earnings on pension plan investments	<u>3,466,242</u>	<u>-</u>
Total	<u>\$ 5,271,867</u>	<u>\$ (254,092)</u>

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
2017	\$ 1,624,688
2018	1,624,688
2019	1,624,688
2020	172,396
2021	(28,685)



### Note 13 - Defined Benefit Pension Plan (Continued)

**Actuarial Assumptions** - The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 %	
Salary increases	3.5 - 8.75 %	Average, including inflation
Investment rate of return	7.50 %	Net of pension plan investment expense, compounded annually

Mortality rates were based on the RP-2014 Blue Collar with 2016 Social Security Generational Improvement Scale from 2006.

**Discount Rate** - The discount rate used to measure the total pension liability was 7.50 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.

#### **Projected Cash Flows**

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.

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

### Note 13 - Defined Benefit Pension Plan (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of December 31, 2016 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 table.

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	7.10 %
Global fixed income	2.80
International equity	6.80
Real estate	4.50
Alternatives	4.70
Cash and cash equivalents	1.40

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following presents the net pension liability (asset) of the Township, calculated using the discount rate of 7.5 percent, as well as what the Township's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	<u>1 Percent Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1 Percent Increase (8.5%)</u>
Net pension liability of the Township	\$ 18,509,050	\$ 6,940,260	\$ (3,479,255)

# Charter Township of Shelby

## Notes to Financial Statements December 31, 2016

### Note 14 - Future Minimum Lease Revenue

The Township leases a portion of its land to a private operator through the year 2053 for use as a golf course. During 2016, the Township recognized no revenue related to this lease.

Future annual minimum lease payments are as follows:

<u>Year</u>	<u>Percent of Gross Revenue</u>	<u>Minimum Rent</u>
2017-2020	- %	\$ -
2021-2024	4.5	225,000
2025-2034	5.5	250,000
2035-2045	5.5	300,000
2046-2053	5.5	250,000

### Note 15 - Tax Abatements

During the year ended December 31, 2016, the Township implemented GASB Statement No. 77, *Tax Abatement Disclosures*. This statement required the Township to disclose information related to tax abatement agreements, as follows:

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 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 2016 was \$148,690.

### Note 15 - 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 no less than five years and no 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 four and 20 similar qualified tool and die businesses once it is 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 2016 was \$72,055.

# Charter Township of Shelby

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## Notes to Financial Statements December 31, 2016

### Note 16 - Upcoming Accounting Pronouncements

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses reporting by OPEB plans whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statements more extensive note disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the Township will, after adoption of GASB Statement No. 75, recognize on the face of the financial statements its net OPEB liability. The Township is currently evaluating the impact these standards will have on the financial statements when adopted. GASB Statement No. 74 is effective for fiscal years beginning after June 15, 2016 whereas GASB Statement No. 75 is effective one year later.

## **Required Supplemental Information**

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# Charter Township of Shelby

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2016

	Original Budget	Amended Budget	Actual
<b>Revenue</b>			
Property taxes	\$ 2,999,571	\$ 2,990,699	\$ 2,989,623
Licenses and permits	1,249,819	1,489,113	1,573,606
State-shared revenue and grants	6,021,293	5,965,275	6,272,298
Charges for services	2,054,547	2,018,566	2,035,792
Fines and forfeitures	2,197,800	2,402,189	2,482,606
Investment income	70,000	115,000	186,611
Other revenue:			
Local donations	35,843	199,414	201,982
Other miscellaneous income	521,060	225,045	280,359
Total revenue	<u>15,149,933</u>	<u>15,405,301</u>	<u>16,022,877</u>
<b>Expenditures</b>			
Current:			
General government	7,656,204	7,700,445	7,521,178
Public works	272,725	282,000	276,517
Recreation and culture	3,274,248	3,076,776	2,934,166
Capital outlay	129,709	129,242	75,863
Total expenditures	<u>11,332,886</u>	<u>11,188,463</u>	<u>10,807,724</u>
<b>Excess of Revenue Over Expenditures</b>	3,817,047	4,216,838	5,215,153
<b>Other Financing Sources (Uses)</b>			
Proceeds from sale of capital assets	3,600	289,851	291,113
Transfers in	15,000	8,500	7,700
Transfers out	(5,086,765)	(7,141,469)	(7,122,927)
Total other financing uses	<u>(5,068,165)</u>	<u>(6,843,118)</u>	<u>(6,824,114)</u>
<b>Net Change in Fund Balance</b>	(1,251,118)	(2,626,280)	(1,608,961)
<b>Fund Balance - Beginning of year</b>	<u>14,078,683</u>	<u>14,078,683</u>	<u>14,078,683</u>
<b>Fund Balance - End of year</b>	<u><u>\$ 12,827,565</u></u>	<u><u>\$ 11,452,403</u></u>	<u><u>\$ 12,469,722</u></u>

# Charter Township of Shelby

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Fire Fund Year Ended December 31, 2016

	Original Budget	Amended Budget	Actual
<b>Revenue</b>			
Property taxes	\$ 11,165,121	\$ 11,133,131	\$ 11,137,582
Federal grants	-	10,472	12,624
State-shared revenue and grants	-	98,700	99,836
Charges for services	2,591,600	2,397,014	2,552,653
Investment income	28,000	30,000	60,687
Other revenue	10,000	35,995	35,943
Total revenue	13,794,721	13,705,312	13,899,325
<b>Expenditures</b>			
Public safety	11,994,941	12,236,145	12,390,946
Capital outlay	95,430	136,909	65,854
Debt service	480,185	481,697	481,697
Total expenditures	12,570,556	12,854,751	12,938,497
<b>Excess of Revenue Over Expenditures</b>	1,224,165	850,561	960,828
<b>Other Financing Uses - Transfers out</b>	(864,256)	(515,347)	(515,347)
<b>Net Change in Fund Balance</b>	359,909	335,214	445,481
<b>Fund Balance - Beginning of year</b>	9,098,535	9,098,535	9,098,535
<b>Fund Balance - End of year</b>	<u>\$ 9,458,444</u>	<u>\$ 9,433,749</u>	<u>\$ 9,544,016</u>



# Charter Township of Shelby

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Police Fund Year Ended December 31, 2016

	Original Budget	Amended Budget	Actual
<b>Revenue</b>			
Property taxes	\$ 13,634,877	\$ 13,591,606	\$ 13,595,344
Federal grants	17,000	17,800	10,271
State-shared revenue and grants	70,000	192,301	257,840
Charges for services	637,419	596,621	623,959
Investment income	21,400	23,000	45,753
Other revenue	34,300	36,300	69,903
Total revenue	14,414,996	14,457,628	14,603,070
<b>Expenditures</b>			
Public safety	12,492,936	12,934,786	12,586,627
Capital outlay	305,805	358,805	372,020
Debt service	520,200	521,838	521,838
Total expenditures	13,318,941	13,815,429	13,480,485
<b>Excess of Revenue Over Expenditures</b>	1,096,055	642,199	1,122,585
<b>Other Financing Sources (Uses)</b>			
Proceeds from sale of capital assets	10,000	5,000	20,350
Transfers in	10,000	14,000	16,728
Transfers out	(730,759)	(169,722)	(169,722)
Total other financing uses	(710,759)	(150,722)	(132,644)
<b>Net Change in Fund Balance</b>	385,296	491,477	989,941
<b>Fund Balance - Beginning of year</b>	2,175,256	2,175,256	2,175,256
<b>Fund Balance - End of year</b>	<u>\$ 2,560,552</u>	<u>\$ 2,666,733</u>	<u>\$ 3,165,197</u>

# Charter Township of Shelby

## Note to Required Supplemental Information Year Ended December 31, 2016

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all special revenue funds. In the original budget, contributions to the OPEB system were budgeted as transfers between funds instead of contributions. This was adjusted to comply with GAAP in the amended budget and actual results. The budget is amended by the board throughout the year as deemed necessary.

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

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

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

	<u>Total Revenue and Transfers</u>	<u>Total Expenditures and Transfers</u>
<b>General Fund</b>		
Amounts per operating statement	\$ 17,910,938	\$ 19,519,899
Cable Television Fund budgeted separately from the General Fund	<u>(1,589,248)</u>	<u>(1,589,248)</u>
Amounts per budget statement	<u>\$ 16,321,690</u>	<u>\$ 17,930,651</u>

During the year, the Township incurred expenditures that were in excess of amounts budgeted due to unforeseen events, as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Fire Fund - Public safety	\$ 12,236,145	\$ 12,390,946	\$ (154,801)
Police Fund - Capital outlay	358,805	372,020	(13,215)

# Charter Township of Shelby

## Required Supplemental Information Schedule of Changes in the Township Net Pension Liability and Related Ratios Years Ended December 31

	2016	2015	2014
<b>Total Pension Liability</b>			
Service cost	\$ 1,909,981	\$ 1,909,981	\$ 2,244,535
Interest	7,535,660	7,098,747	6,948,342
Changes in benefit terms	-	-	(6,650)
Differences between expected and actual experience	132,801	621,041	2,622,717
Changes in assumptions	(304,910)	1,921,395	-
Benefit payments, including refunds	(5,908,456)	(5,542,845)	(5,213,225)
<b>Net Change in Total Pension Liability</b>	3,365,076	6,008,319	6,595,719
<b>Total Pension Liability - Beginning of year</b>	101,519,715	95,511,396	88,915,677
<b>Total Pension Liability - End of year</b>	<b>\$ 104,884,791</b>	<b>\$ 101,519,715</b>	<b>\$ 95,511,396</b>
<b>Plan Fiduciary Net Position</b>			
Contributions - Employer	\$ 1,826,359	\$ 1,841,300	\$ 27,671,584
Contributions - Member	531,588	536,954	593,046
Net investment income	7,994,188	(117,265)	4,900,289
Administrative expenses	(39,382)	(29,671)	(40,613)
Benefit payments, including refunds	(5,908,456)	(5,542,845)	(5,213,225)
<b>Net Change in Plan Fiduciary Net Position</b>	4,404,297	(3,311,527)	27,911,081
<b>Plan Fiduciary Net Position - Beginning of year</b>	93,540,234	96,851,761	68,940,680
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 97,944,531</b>	<b>\$ 93,540,234</b>	<b>\$ 96,851,761</b>
<b>Township's Net Pension Liability - End of year</b>	<b>\$ 6,940,260</b>	<b>\$ 7,979,481</b>	<b>\$ (1,340,365)</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	93.38 %	92.14 %	101.40 %
<b>Covered Employee Payroll</b>	\$ 10,180,063	\$ 10,326,125	\$ 10,780,667
<b>Township's Net Pension Liability as a Percentage of Covered Employee Payroll</b>	68.18 %	77.27 %	(12.4)%

# Charter Township of Shelby

## Required Supplemental Information Schedule of Township Contributions Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	\$ 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	\$ 3,422,222
Contributions in relation to the actuarially determined contribution	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	3,515,092
<b>Contribution Excess</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (23,627,804)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (795)</b>	<b>\$ (66,112)</b>	<b>\$ (398,996)</b>	<b>\$ (92,870)</b>
<b>Covered Employee Payroll</b>	<b>\$ 10,180,063</b>	<b>\$ 10,326,125</b>	<b>\$ 10,780,667</b>	<b>\$ 10,962,530</b>	<b>\$ 10,940,963</b>	<b>\$ 11,259,348</b>	<b>\$ 10,915,185</b>	<b>\$ 10,939,120</b>	<b>\$ 10,815,600</b>	<b>\$ 10,447,198</b>
<b>Contributions as a Percentage of Covered Employee Payroll</b>	<b>17.94 %</b>	<b>17.83 %</b>	<b>256.68 %</b>	<b>37.38 %</b>	<b>41.66 %</b>	<b>43.85 %</b>	<b>42.25 %</b>	<b>33.51 %</b>	<b>34.13 %</b>	<b>33.65 %</b>

### Notes to Schedule of Township Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date	Actuarially determined contribution rates are calculated as of December 31, 2014 which is 12 months prior to the beginning of the fiscal year during which contributions are reported.
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	12 year
Asset valuation method	Four-year smoothed market
Inflation	4.25 percent
Salary increases	4.25 to 9.50 percent
Investment rate of return	7.50 percent
Retirement age	Age and experience-based tables that are specific to the type of eligibility condition.
Mortality	UP-94 Mortality Table for males and females. This assumption does not contain a margin for future mortality improvement.
Other information	Changes to the benefit provisions and actuarial assumptions are reflected in the TPL as of December 31, 2014.

# Charter Township of Shelby

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## Required Supplemental Information Schedule of Investment Returns Years Ended December 31

	2016	2015	2014
Annual money-weighted rate of return - Net of investment expense	8.7 %	0.1 %	7.0 %

# Charter Township of Shelby

## Required Supplemental Information OPEB System Schedule of Funding Progress Year Ended December 31, 2016

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
1/1/16	\$ 24,461,957	\$ 89,174,816	\$ 64,712,859	27.4	\$ 13,897,076	465.7
1/1/14	19,855,870	84,443,078	64,587,208	23.5	14,554,860	443.8
1/1/12	13,948,217	70,380,755	56,432,538	19.8	16,179,279	348.8

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
12/31/16	1/1/16	\$ 5,815,278	88.4
12/31/15	1/1/14	5,773,353	79.7
12/31/14	1/1/14	5,773,353	61.1

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

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2016, the latest actuarial valuation, is as follows:

Amortization method	Level percent
Amortization period	26-year closed
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return	6.5%
Projected salary increases	3.0%
Includes inflation at	3.0%
Cost-of-living adjustments	None

## **Other Supplemental Information**

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# Charter Township of Shelby

	Nonmajor Special Revenue Funds					
	Emergency Response	Street Lighting	Building Authority	Michigan Justice Training Grant	Community Block Grant	Federal Forfeiture
<b>Assets</b>						
Cash and investments	\$ 41,553	\$ 66,881	\$ 14,984	\$ 6,822	\$ -	\$ 35,209
Receivables:						
Other receivables	-	5,613	-	-	-	-
Due from other governmental units	-	2,376	-	-	270,858	-
Prepaid expenses and other assets	-	-	-	650	-	-
<b>Total assets</b>	<b>41,553</b>	<b>74,870</b>	<b>14,984</b>	<b>7,472</b>	<b>270,858</b>	<b>35,209</b>
<b>Liabilities</b>						
Accounts payable	\$ 188	\$ 48,387	\$ -	\$ 1,660	\$ 270,858	\$ -
Unearned revenue	-	1,975	-	-	-	-
<b>Total liabilities</b>	<b>188</b>	<b>50,362</b>	<b>-</b>	<b>1,660</b>	<b>270,858</b>	<b>-</b>
<b>Deferred Inflows of Resources</b>						
Unavailable revenue	-	2,376	-	-	-	-
<b>Fund Balances</b>						
Nonspendable - Prepays	-	-	-	650	-	-
Restricted:						
Police and fire	41,365	-	-	-	-	35,209
Grants	-	-	-	5,162	-	-
Street lighting	-	22,132	-	-	-	-
Community development	-	-	14,984	-	-	-
Assigned - Equipment replacement	-	-	-	-	-	-
<b>Total fund balances</b>	<b>41,365</b>	<b>22,132</b>	<b>14,984</b>	<b>5,812</b>	<b>-</b>	<b>35,209</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 41,553</b>	<b>\$ 74,870</b>	<b>\$ 14,984</b>	<b>\$ 7,472</b>	<b>\$ 270,858</b>	<b>\$ 35,209</b>



**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
December 31, 2016**

Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds	Total Nonmajor Governmental Funds
Drug Forfeiture	Equipment Replacement	
\$ 65,456	\$ 22,162	\$ 253,067
-	-	5,613
-	-	273,234
648	-	1,298
<b>66,104</b>	<b>22,162</b>	<b>533,212</b>
\$ 8,120	\$ 1,727	\$ 330,940
-	-	1,975
8,120	1,727	332,915
-	-	2,376
648	-	1,298
57,336	-	133,910
-	-	5,162
-	-	22,132
-	-	14,984
-	20,435	20,435
57,984	20,435	197,921
<b>\$ 66,104</b>	<b>\$ 22,162</b>	<b>\$ 533,212</b>

# Charter Township of Shelby

	Nonmajor Special Revenue Funds						
	Emergency Response	Street Lighting	Building Authority	Michigan		Federal Forfeiture	Drug Forfeiture
				Justice Training Grant	Community Block Grant		
<b>Revenue</b>							
Federal grants	\$ -	\$ -	\$ -	\$ -	\$ 278,560	\$ -	\$ -
State-shared revenue and grants	128,973	-	-	12,173	-	-	-
Charges for services	-	264,701	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	36,988	41,117
Investment income	250	203	-	-	-	-	58
Other revenue	-	8	-	-	-	-	-
<b>Total revenue</b>	<b>129,223</b>	<b>264,912</b>	<b>-</b>	<b>12,173</b>	<b>278,560</b>	<b>36,988</b>	<b>41,175</b>
<b>Expenditures</b>							
Current:							
Public safety	392,492	-	-	11,685	-	1,780	106,150
Public works	-	320,670	-	-	-	-	-
Recreation and culture	-	-	-	-	8,143	-	-
Capital outlay	-	-	-	-	270,417	-	-
<b>Total expenditures</b>	<b>392,492</b>	<b>320,670</b>	<b>-</b>	<b>11,685</b>	<b>278,560</b>	<b>1,780</b>	<b>106,150</b>
<b>Excess of Revenue (Under) Over Expenditures</b>	<b>(263,269)</b>	<b>(55,758)</b>	<b>-</b>	<b>488</b>	<b>-</b>	<b>35,208</b>	<b>(64,975)</b>
<b>Other Financing Sources</b>							
Proceeds from installment purchase agreement	207,200	-	-	-	-	-	-
Transfers in	-	1,314	-	-	-	-	-
<b>Total other financing sources</b>	<b>207,200</b>	<b>1,314</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>(56,069)</b>	<b>(54,444)</b>	<b>-</b>	<b>488</b>	<b>-</b>	<b>35,208</b>	<b>(64,975)</b>
<b>Fund Balances - Beginning of year</b>	<b>97,434</b>	<b>76,576</b>	<b>14,984</b>	<b>5,324</b>	<b>-</b>	<b>1</b>	<b>122,959</b>
<b>Fund Balances - End of year</b>	<b>\$ 41,365</b>	<b>\$ 22,132</b>	<b>\$ 14,984</b>	<b>\$ 5,812</b>	<b>\$ -</b>	<b>\$ 35,209</b>	<b>\$ 57,984</b>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes in**  
**Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended December 31, 2016**

Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
Equipment Replacement	Funds
\$ -	\$ 278,560
-	141,146
-	264,701
-	78,105
-	511
-	8
-	763,031
-	512,107
-	320,670
10,547	18,690
4,496	274,913
15,043	1,126,380
(15,043)	(363,349)
-	207,200
-	1,314
-	208,514
(15,043)	(154,835)
35,478	352,756
<b>\$ 20,435</b>	<b>\$ 197,921</b>

# Charter Township of Shelby

	Pension and Other Employee Benefit Trust Funds		
	Police and Fire		
	Retirement		
	Systems Trust	Retiree Health	Total Pension
	Fund	Care Trust	and OPEB
<b>Assets</b>			
Cash and cash equivalents	\$ -	\$ 2,036,135	\$ 2,036,135
Investments:			
Short-term funds	3,167,112	1,365,737	4,532,849
Stocks	37,630,291	2,084,148	39,714,439
Collective index and mutual funds - Fixed income	20,993,243	7,388,665	28,381,908
Collective index and mutual funds - Equity	20,736,401	13,370,230	34,106,631
Limited partnerships	14,862,355	2,348,862	17,211,217
Receivables:			
Accrued interest receivable	170,058	32,852	202,910
Other receivables	-	-	-
Due from other governmental units	-	-	-
Due from primary government	-	237,543	237,543
Prepaid expenses and other assets	487,222	-	487,222
Total assets	98,046,682	28,864,172	126,910,854
<b>Liabilities</b>			
Accounts payable	32,410	17,454	49,864
Refundable deposits, bonds, etc.	-	-	-
Accrued and other liabilities	69,741	8,261	78,002
Advance tax collections	-	-	-
Total liabilities	102,151	25,715	127,866
<b>Net Position Held in Trust for Pension and Other Employee Benefits</b>	<b>\$ 97,944,531</b>	<b>\$ 28,838,457</b>	<b>\$ 126,782,988</b>

**Other Supplemental Information  
Combining Statement of Assets and Liabilities  
Fiduciary Funds  
December 31, 2016**

Agency Funds

Trust and Agency	Treasurer's Agency	Current Tax Collection	41st District Court	Accounts Payable Imprest	Payroll Imprest	Total Agency Funds
\$ 951,149	\$ 42,751	\$ 6,093,605	\$ 245,305	\$ -	\$ -	\$ 7,332,810
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	131,821	-	-	-	-	131,821
-	99,495	-	-	-	-	99,495
-	-	-	-	-	1,114	1,114
-	-	-	-	-	-	-
-	-	-	11,911	-	-	11,911
<b>\$ 951,149</b>	<b>\$ 274,067</b>	<b>\$ 6,093,605</b>	<b>\$ 257,216</b>	<b>\$ -</b>	<b>\$ 1,114</b>	<b>\$ 7,577,151</b>
\$ 286	\$ -	\$ -	\$ 115,025	\$ -	\$ 1,114	\$ 116,425
950,863	-	-	118,413	-	-	1,069,276
-	274,067	-	23,778	-	-	297,845
-	-	6,093,605	-	-	-	6,093,605
<b>\$ 951,149</b>	<b>\$ 274,067</b>	<b>\$ 6,093,605</b>	<b>\$ 257,216</b>	<b>\$ -</b>	<b>\$ 1,114</b>	<b>\$ 7,577,151</b>

# Charter Township of Shelby

## Other Supplemental Information Combining Statement of Changes in Fiduciary Net Position Fiduciary Funds Year Ended December 31, 2016

	Police and Fire Retirement Systems Trust Fund	Retiree Health Care Trust	Total
<b>Additions</b>			
Investment income:			
Interest and dividends	\$ 2,030,345	\$ 621,626	\$ 2,651,971
Net realized and unrealized gain on investments	6,506,988	1,587,036	8,094,024
Investment-related expenses	(543,145)	(105,840)	(648,985)
Net investment income	7,994,188	2,102,822	10,097,010
Contributions:			
Employer	1,826,359	5,142,960	6,969,319
Employee	531,588	-	531,588
Total contributions	2,357,947	5,142,960	7,500,907
Total additions	10,352,135	7,245,782	17,597,917
<b>Deductions</b>			
Benefit payments	5,794,770	2,869,282	8,664,052
Refunds of contributions	113,686	-	113,686
Administrative expenses	39,382	-	39,382
Total deductions	5,947,838	2,869,282	8,817,120
<b>Net Increase in Net Position Held in Trust</b>	4,404,297	4,376,500	8,780,797
<b>Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year</b>	93,540,234	24,461,957	118,002,191
<b>Net Position Held in Trust for Pension and Other Employee Benefits - End of year</b>	<b>\$ 97,944,531</b>	<b>\$ 28,838,457</b>	<b>\$ 126,782,988</b>