

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: Scio Township	County Washtenaw
Audit Date March 31, 2005	Opinion Date June 17, 2005	Date Accountant Report Submitted To State: August 1, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |  |   |
|---|--|---|
| <input type="checkbox"/> yes            | <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes            | <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes            | <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes            | <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes            | <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input checked="" type="checkbox"/> yes | <input type="checkbox"/> no            | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes            | <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes            | <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes            | <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>Plante &amp; Moran, PLLC</b>			
Street Address Suite 200, 350 S. Main Street	City Ann Arbor	State MI	ZIP 48104
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

**Township of Scio**  
**Washtenaw County, Michigan**

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**Financial Report**  
**with Supplemental Information**  
**March 31, 2005**

# Township of Scio

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## Independent Auditor's Report

To the Board of Trustees  
Township of Scio  
Washtenaw County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Township of Scio as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Scio's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Township of Scio as of March 31, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the Board of Trustees  
Township of Scio  
Washtenaw County, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Scio's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 12, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of April 1, 2004.

*Plante & Moran, PLLC*

June 17, 2005

# **Township of Scio**

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## **Management's Discussion and Analysis**

Our discussion and analysis of the Township of Scio's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2005. Please read it in conjunction with the Township's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2005:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$79,000 this year.
- In November 2004, the Township residents voted to approve a new tax millage for the purpose of creating the Open Space Land Preservation Fund. This fund and the tax monies collected from the millage will be used for the permanent preservation of farmland, open space, wildlife, etc., and to provide new parks and recreational opportunities.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

# Township of Scio

## Management's Discussion and Analysis (Continued)

### The Township as a Whole

The following table shows, in a condensed format, the net assets as of the current date:

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Current assets	\$ 7,543,478	\$ 24,267,540	\$ 31,811,018
Noncurrent assets	<u>3,938,858</u>	<u>17,494,490</u>	<u>21,433,348</u>
Total assets	11,482,336	41,762,030	53,244,366
<b>Liabilities</b>			
Current liabilities	734,915	1,975,333	2,710,248
Long-term liabilities	<u>844,095</u>	<u>-</u>	<u>844,095</u>
Total liabilities	<u>1,579,010</u>	<u>1,975,333</u>	<u>3,554,343</u>
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	3,012,073	17,494,490	20,506,563
Restricted	1,365,729	-	1,365,729
Unrestricted	<u>5,525,524</u>	<u>22,292,207</u>	<u>27,817,731</u>
Total net assets	<u><b>\$ 9,903,326</b></u>	<u><b>\$ 39,786,697</b></u>	<u><b>\$ 49,690,023</b></u>

Governmental activities unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - were \$5,525,524 as of March 31, 2005. The current level of unrestricted net assets for our governmental activities is approximately 56 percent of total governmental activities net assets. Amounts are restricted for land preservation, boulevard landscape maintenance, and capital projects.

# Township of Scio

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year:

	Governmental Activities	Business-type Activities	Total
<b>Revenue</b>			
Program revenue:			
Charges for services	\$ 584,020	\$ 4,271,670	\$ 4,855,690
Operating grants and contributions	730,899	-	730,899
Capital grants and contributions	-	1,286,298	1,286,298
General revenue:			
Property taxes	1,998,642	-	1,998,642
State-shared revenue	1,051,957	-	1,051,957
Unrestricted investment earnings	62,478	122,722	185,200
Franchise fees	154,235	-	154,235
Miscellaneous	30,740	-	30,740
Total revenue	4,612,971	5,680,690	10,293,661
<b>Program Expenses</b>			
General government	1,745,983	-	1,745,983
Public safety	1,424,441	-	1,424,441
Public works	45,708	-	45,708
Recreation and culture	2,065	-	2,065
Interest on long-term debt	54,145	-	54,145
Water	-	1,596,110	1,596,110
Sewer	-	1,825,321	1,825,321
Total program expenses	3,272,342	3,421,431	6,693,773
<b>Change in Net Assets</b>	<b>\$ 1,340,629</b>	<b>\$ 2,259,259</b>	<b>\$ 3,599,888</b>

### Governmental Activities

The Township's total governmental revenues increased, despite decreases in state-shared revenue and interest income. The increase was primarily due to property tax collections from the newly approved Open Space Land Preservation millage, a contribution from the Washtenaw County Road Commission for Jackson Road boulevard land maintenance, and increased development plan fees of approximately \$532,000, \$606,000, and \$156,000, respectively.

# **Township of Scio**

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

Expenses increased in total as well, which is due primarily to increased police protection through Washtenaw County, November 2004 election expenses, increased fire protection expenses, capital outlay, and increased consultant development plan fees of approximately \$100,000, \$30,000, \$55,000 \$70,000, and \$118,000, respectively.

### **Business-type Activities**

The Township's business-type activities consist of the Water and Sewer Fund. We provide water and sewage services to residents through the City of Ann Arbor. During the current year, repair and maintenance expenses in the Sewer Fund decreased by approximately \$460,000 as significant sewer system cleanings and repairs were completed during 2004.

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

Our analysis of the Township's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail 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, such as special property tax millages. The Township's major funds include the General Fund, Open Space Land Preservation Fund, Public Improvement Fund, and Capital Project Fund.

The General Fund pays for most of the Township's governmental services. The most significant are police and fire, which incurred expenses of approximately \$1,568,000 in 2005. These expenditures are funded by the General Fund. During the current year, fire department debt service of \$150,000 was funded by the Public Improvement Fund.

The Open Space Land Preservation Fund was created to account for monies collected to be used for the permanent preservation of farmland, open space, wildlife, etc., and to provide new parks and recreational opportunities.

### **General Fund Budgetary Highlights**

Over the course of the year, the Township amended the budget to take into account events during the year. At March 31, 2005, the General Fund Boards and Commissions Department was over budget by approximately \$89,000. This overrun was due to increased consultant expenses incurred by the Township.

### **Capital Asset and Debt Administration**

At the end of 2005, the Township had approximately \$21.4 million invested in a broad range of capital assets, including buildings, fire equipment, and water and sewer lines.

The Township's component unit, the Downtown Development Authority, has a total debt obligation at the end of 2005 of approximately \$13.7 million. The proceeds from these debt issuances were used to finance the development of the Jackson Road corridor.

# **Township of Scio**

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

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

The Township adopted a deficit budget for fiscal year 2005-2006 and is continuing to struggle with declining state revenue-sharing funds. The newly elected supervisor and clerk, along with the three newly elected trustees and the new manager, will be conducting a thorough review of every aspect of the budget to bring things back into balance.

Changes in the terms under which the Township contracts for police services may require the board to seek a public safety millage. The water services contract with Ann Arbor will require significant investment by the Township in new water lines. Annexation pressure may cause the Township to seek charter status in the near future.

### **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 questions about this report or need additional information, we welcome you to contact the Clerk's office.

# Township of Scio

## Statement of Net Assets March 31, 2005

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments (Note 3)	\$ 5,795,858	\$ 23,502,208	\$ 29,298,066	\$ 7,411,490
Receivables - Net:				
Taxes	812,934	-	812,934	383,958
Customer	55,531	715,322	770,853	-
Developer	196,715	-	196,715	-
Interest	4,766	33,624	38,390	75,733
Special assessments	390,000	-	390,000	-
Due from primary government	-	-	-	345,827
Due from component units	50,974	-	50,974	-
Due from other governmental units	235,264	16,386	251,650	-
Other assets	1,436	-	1,436	-
Capital assets - Net (Note 5):				
Nondepreciated	412,714	17,579	430,293	-
Depreciated	3,526,144	17,476,911	21,003,055	-
Total assets	11,482,336	41,762,030	53,244,366	8,217,008
<b>Liabilities</b>				
Accounts payable	196,974	136,401	333,375	2,912
Accrued and other liabilities	20,099	187,144	207,243	334,950
Due to primary government	-	-	-	50,974
Due to component units	345,827	-	345,827	-
Due to other governmental units	-	1,651,788	1,651,788	3,480,998
Noncurrent liabilities (Note 7):				
Due within one year	172,015	-	172,015	975,000
Due in more than one year	844,095	-	844,095	12,775,000
Total liabilities	1,579,010	1,975,333	3,554,343	17,619,834
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	3,012,073	17,494,490	20,506,563	-
Restricted:				
Land preservation	530,928	-	530,928	-
Boulevard landscape maintenace	753,495	-	753,495	-
Capital projects	81,306	-	81,306	-
Unrestricted	5,525,524	22,292,207	27,817,731	(9,402,826)
Total net assets	<u>\$ 9,903,326</u>	<u>\$ 39,786,697</u>	<u>\$ 49,690,023</u>	<u>\$ (9,402,826)</u>

# Township of Scio

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 1,745,983	\$ 562,187	\$ 600,830	\$ -
Public safety	1,424,441	21,833	116,974	-
Public works	45,708	-	13,095	-
Recreation and culture	2,065	-	-	-
Interest on long-term debt	54,145	-	-	-
Total governmental activities	<u>3,272,342</u>	<u>584,020</u>	<u>730,899</u>	<u>-</u>
Business-type activities:				
Water	1,596,110	1,613,146	-	501,470
Sewer	1,825,321	2,658,524	-	784,828
Total business-type activities	<u>3,421,431</u>	<u>4,271,670</u>	<u>-</u>	<u>1,286,298</u>
Total primary government	<u><b>\$ 6,693,773</b></u>	<u><b>\$ 4,855,690</b></u>	<u><b>\$ 730,899</b></u>	<u><b>\$ 1,286,298</b></u>
Component units:				
Downtown Development Authority	\$ 1,512,747	\$ -	\$ -	\$ -
Economic Development Corporation	-	-	-	-
Total component units	<u><b>\$ 1,512,747</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Miscellaneous				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended March 31, 2005**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (582,966)	\$ -	\$ (582,966)	\$ -
(1,285,634)	-	(1,285,634)	-
(32,613)	-	(32,613)	-
(2,065)	-	(2,065)	-
(54,145)	-	(54,145)	-
(1,957,423)	-	(1,957,423)	-
-	518,506	518,506	-
-	1,618,031	1,618,031	-
-	2,136,537	2,136,537	-
(1,957,423)	2,136,537	179,114	-
-	-	-	(1,512,747)
-	-	-	-
-	-	-	(1,512,747)
1,998,642	-	1,998,642	2,335,348
1,051,957	-	1,051,957	-
62,478	122,722	185,200	72,516
154,235	-	154,235	-
30,740	-	30,740	-
3,298,052	122,722	3,420,774	2,407,864
1,340,629	2,259,259	3,599,888	895,117
8,562,697	37,527,438	46,090,135	(10,307,953)
<b>\$ 9,903,326</b>	<b>\$ 39,786,697</b>	<b>\$ 49,690,023</b>	<b>\$ (9,412,836)</b>

# Township of Scio

## Governmental Funds Balance Sheet March 31, 2005

	General Fund	Open Space Land Preservation Fund	Public Improvement Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and investments (Note 3)	\$ 3,578,555	\$ 169,676	\$ 772,721	\$ 30,306	\$ 1,244,600	\$ 5,795,858
Receivables - Net:						
Taxes	476,318	286,131	-	50,485	-	812,934
Customer	55,531	-	-	-	-	55,531
Developer	196,715	-	-	-	-	196,715
Interest	3,824	-	-	-	942	4,766
Special assessments	-	-	-	390,000	-	390,000
Due from other funds (Note 6)	2,475	-	-	-	-	2,475
Due from component units	-	50,974	-	-	-	50,974
Due from other governmental units	67,519	24,720	-	515	-	92,754
Other assets	-	-	1,436	-	-	1,436
<b>Total assets</b>	<b>\$ 4,380,937</b>	<b>\$ 531,501</b>	<b>\$ 774,157</b>	<b>\$ 471,306</b>	<b>\$ 1,245,542</b>	<b>\$ 7,403,443</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 196,401	\$ 573	\$ -	\$ -	\$ -	\$ 196,974
Due to other funds (Note 6)	-	-	-	-	2,475	2,475
Due to component units	345,827	-	-	-	-	345,827
Deferred revenue (Note 4)	-	-	-	390,000	-	390,000
<b>Total liabilities</b>	<b>542,228</b>	<b>573</b>	<b>-</b>	<b>390,000</b>	<b>2,475</b>	<b>935,276</b>
<b>Fund Balances</b>						
Restricted:						
Land preservation	-	530,928	-	-	-	530,928
Road maintenance	-	-	753,495	-	-	753,495
Designated for subsequent year's expenditures	398,937	-	20,662	-	-	419,599
Undesignated, reported in:						
General Fund	3,439,772	-	-	-	-	3,439,772
Special Revenue Funds	-	-	-	-	1,243,067	1,243,067
Capital Projects Funds	-	-	-	81,306	-	81,306
<b>Total fund balances</b>	<b>3,838,709</b>	<b>530,928</b>	<b>774,157</b>	<b>81,306</b>	<b>1,243,067</b>	<b>6,468,167</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,380,937</b>	<b>\$ 531,501</b>	<b>\$ 774,157</b>	<b>\$ 471,306</b>	<b>\$ 1,245,542</b>	

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds	3,938,858
Deferred revenue is reported in the governmental funds, but not in the government-wide statements	390,000
Receivables which are not available in the current period and are not reported in the funds	142,510
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(1,016,110)
Interest amounts on long-term liabilities are not payable until due in the funds	(20,099)
<b>Net assets of governmental activities</b>	<b>\$ 9,903,326</b>

# Township of Scio

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2005

	General	Open Space Land Preservation	Public Improvement Fund	Capital Projects Fund	Other Non- major Governmental Funds	Total Governmental Funds
<b>Revenue</b>						
Property taxes	\$ 1,032,207	\$ 532,457	\$ -	\$ -	\$ -	\$ 1,564,664
Locally raised	716,186	-	613,925	-	-	1,330,111
Federal grants	110,300	-	-	-	-	110,300
State-shared revenues	909,447	-	-	-	-	909,447
Special assessments	-	-	-	60,000	-	60,000
Interest, rentals, and other	504,057	536	11,485	21,306	6,391	543,775
<b>Total revenue</b>	<b>3,272,197</b>	<b>532,993</b>	<b>625,410</b>	<b>81,306</b>	<b>6,391</b>	<b>4,518,297</b>
<b>Expenditures</b>						
Current:						
General government	1,033,537	-	25,295	-	150	1,058,982
Public safety	1,567,671	-	-	-	-	1,567,671
Public works	122,961	-	-	-	-	122,961
Boards and commissions	581,312	-	-	-	-	581,312
Recreation and culture	-	2,065	-	-	-	2,065
Capital outlay	89,660	-	-	-	-	89,660
Debt service	-	-	-	-	67,825	67,825
<b>Total expenditures</b>	<b>3,395,141</b>	<b>2,065</b>	<b>25,295</b>	<b>-</b>	<b>67,975</b>	<b>3,490,476</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(122,944)</b>	<b>530,928</b>	<b>600,115</b>	<b>81,306</b>	<b>(61,584)</b>	<b>1,027,821</b>
<b>Other Financing Sources (Uses)</b>						
Transfers in (Note 6)	150,000	-	-	-	67,825	217,825
Transfers out (Note 6)	(67,825)	-	(150,000)	-	-	(217,825)
<b>Total other financing sources (uses)</b>	<b>82,175</b>	<b>-</b>	<b>(150,000)</b>	<b>-</b>	<b>67,825</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>(40,769)</b>	<b>530,928</b>	<b>450,115</b>	<b>81,306</b>	<b>6,241</b>	<b>1,027,821</b>
<b>Fund Balances - Beginning of year</b>	<b>3,879,478</b>	<b>-</b>	<b>324,042</b>	<b>-</b>	<b>1,236,826</b>	<b>5,440,346</b>
<b>Fund Balances - End of year</b>	<b>\$ 3,838,709</b>	<b>\$ 530,928</b>	<b>\$ 774,157</b>	<b>\$ 81,306</b>	<b>\$ 1,243,067</b>	<b>\$ 6,468,167</b>

# Township of Scio

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended March 31, 2005

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$ 1,027,821
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are recorded as capital assets	262,874
Governmental funds allocate the cost of capital assets over their estimated useful lives as depreciation	(167,758)
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(60,000)
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	142,510
Repayment of long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	160,496
Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	(28,654)
Change in accrued interest on long-term debt is not recorded in the governmental funds	<u>3,340</u>
<b>Change in Net Assets of Governmental Activities</b>	<b><u><u>\$ 1,340,629</u></u></b>

# Township of Scio

## Proprietary Funds Statement of Net Assets March 31, 2005

	Water	Sewer	Total
<b>Assets</b>			
Current assets:			
Cash and investments (Note 3)	\$ 7,972,032	\$ 15,530,176	\$ 23,502,208
Receivables - Net:			
Customers	208,053	507,269	715,322
Interest	15,791	17,833	33,624
Due from other governmental units	-	16,386	16,386
Total current assets	8,195,876	16,071,664	24,267,540
Noncurrent assets - Capital assets (Note 5)	7,705,215	9,789,275	17,494,490
Total assets	15,901,091	25,860,939	41,762,030
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	85,670	50,731	136,401
Accrued and other liabilities	109,509	77,635	187,144
Due to other governmental units	600,682	1,051,106	1,651,788
Total current liabilities	795,861	1,179,472	1,975,333
<b>Net Assets</b>			
Investment in capital assets - Net of related debt	7,705,215	9,789,275	17,494,490
Unrestricted	7,400,015	14,892,192	22,292,207
Total net assets	<b>\$ 15,105,230</b>	<b>\$ 24,681,467</b>	<b>\$ 39,786,697</b>

# Township of Scio

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2005

	Water	Sewer	Total
<b>Operating Revenue</b>			
Charges for services	\$ 1,532,616	\$ 2,658,524	\$ 4,191,140
Other	80,530	-	80,530
Total operating revenue	1,613,146	2,658,524	4,271,670
<b>Operating Expenses</b>			
Water purchased	1,013,534	-	1,013,534
Sewage treatment	-	1,027,892	1,027,892
Operation and maintenance	86,711	136,217	222,928
General and administrative	282,474	369,052	651,526
Depreciation	213,391	292,160	505,551
Total operating expenses	1,596,110	1,825,321	3,421,431
<b>Operating Income</b>	17,036	833,203	850,239
<b>Nonoperating Revenue</b> - Investment income	31,536	91,186	122,722
<b>Income</b> - Before contributions	48,572	924,389	972,961
<b>Capital Contributions</b>			
Connection fees	129,474	349,656	479,130
Lines constructed by developers	371,996	435,172	807,168
Total capital contributions	501,470	784,828	1,286,298
<b>Change in Net Assets</b>	550,042	1,709,217	2,259,259
<b>Net Assets</b> - Beginning of year	14,555,188	22,972,250	37,527,438
<b>Net Assets</b> - End of year	<b>\$ 15,105,230</b>	<b>\$ 24,681,467</b>	<b>\$ 39,786,697</b>

# Township of Scio

## Proprietary Funds Statement of Cash Flows Year Ended March 31, 2005

	Enterprise Funds		
	Water	Sewer	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 1,592,281	\$ 2,647,205	\$ 4,239,486
Payments to suppliers	(1,220,456)	(1,365,331)	(2,585,787)
Payments to employees	(135,520)	(136,308)	(271,828)
Net cash provided by operating activities	236,305	1,145,566	1,381,871
<b>Cash Flows from Capital and Related Financing Activities</b>			
Activities - Collection of connection fees	129,474	349,656	479,130
<b>Cash Flows from Investing Activities</b>			
Purchase of capital assets	(7,880)	(47,745)	(55,625)
Purchase of investments	(10,970)	(1,294,323)	(1,305,293)
Interest received on investments	32,960	94,952	127,912
Net cash provided by (used in) investing activities	14,110	(1,247,116)	(1,233,006)
<b>Net Increase in Cash and Cash Equivalents</b>	379,889	248,106	627,995
<b>Cash and Cash Equivalents - Beginning of year</b>	2,117,561	5,771,528	7,889,089
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 2,497,450</u>	<u>\$ 6,019,634</u>	<u>\$ 8,517,084</u>
<b>Statement of Net Assets Classification of Cash and Cash Equivalents</b>			
Cash and investments	\$ 7,972,032	\$ 15,530,176	\$ 23,502,208
Less amounts classified as investments (Note 3)	(5,474,582)	(9,510,542)	(14,985,124)
Total cash and cash equivalents	<u>\$ 2,497,450</u>	<u>\$ 6,019,634</u>	<u>\$ 8,517,084</u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>			
Operating income	\$ 17,036	\$ 833,203	\$ 850,239
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation and amortization	213,391	292,160	505,551
Changes in assets and liabilities:			
Receivables	(20,865)	(9,807)	(30,672)
Due to governmental units	60,018	160,075	220,093
Accounts payable	(61,046)	(140,022)	(201,068)
Accrued and other liabilities	27,771	9,957	37,728
Net cash provided by operating activities	<u>\$ 236,305</u>	<u>\$ 1,145,566</u>	<u>\$ 1,381,871</u>

**Noncash Investing, Capital, and Financing Activities** - During the year ended March 31, 2005, the Water and Sewer Funds received \$371,996 and \$435,172 of lines donated by developers, respectively. These lines were recorded as capital assets.

# Township of Scio

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## Fiduciary Funds Statement of Assets and Liabilities March 31, 2005

	Agency Funds		
	Current Tax Collection	Trust and Agency	Total
<b>Assets - Cash and investments (Note 3)</b>	<b><u>\$ 11,212,460</u></b>	<b><u>\$ 146,859</u></b>	<b><u>\$ 11,359,319</u></b>
<b>Liabilities - Accrued and other liabilities</b>	<b><u>\$ 11,212,460</u></b>	<b><u>\$ 146,859</u></b>	<b><u>\$ 11,359,319</u></b>

# Township of Scio

## Component Units Statement of Net Assets March 31, 2005

	Downtown Development Authority	Economic Development Corporation	Totals
<b>Assets</b>			
Cash and investments	\$ 7,401,480	\$ 10,010	\$ 7,411,490
Receivables - Net:			
Taxes	383,958	-	383,958
Interest	75,733	-	75,733
Due from primary government	<u>345,827</u>	<u>-</u>	<u>345,827</u>
Total assets	8,206,998	10,010	8,217,008
<b>Liabilities</b>			
Accounts payable	2,912	-	2,912
Accrued and other liabilities	334,950	-	334,950
Due to primary government	50,974	-	50,974
Due to other governmental units	3,480,998	-	3,480,998
Long-term debt	<u>13,750,000</u>	<u>-</u>	<u>13,750,000</u>
Total liabilities	<u>17,619,834</u>	<u>-</u>	<u>17,619,834</u>
<b>Net Assets - Unrestricted</b>	<b><u>\$ (9,412,836)</u></b>	<b><u>\$ 10,010</u></b>	<b><u>\$ (9,402,826)</u></b>

# Township of Scio

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	Expenses	Program Revenues	
		Charges for Services	Operating Grants/ Contributions
Downtown Development Authority - Public works	\$ 1,512,747	\$ -	\$ -
Economic Development Corporation - Public works	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u><b>\$ 1,512,747</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>

## General Revenues

Property taxes

Interest

Total general revenues

## Change in Net Assets

**Net Assets** - Beginning of year

**Net Assets** - End of year

**Component Units  
Statement of Activities  
Year Ended March 31, 2005**

Net (Expense) Revenue and Changes in Net Assets		
Downtown Development Authority	Economic Development Corporation	Total
\$ (1,512,747)	\$ -	\$ (1,512,747)
-	-	-
(1,512,747)	-	(1,512,747)
2,335,348	-	2,335,348
72,516	-	72,516
2,407,864	-	2,407,864
895,117	-	895,117
(10,307,953)	10,010	(10,297,943)
<b>\$ (9,412,836)</b>	<b>\$ 10,010</b>	<b>\$ (9,402,826)</b>

## **Note I - Summary of Significant Accounting Policies**

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

### **Reporting Entity**

The Township of Scio is governed by an elected seven-member Board of Trustees. 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. Each 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 Building Authority was created to provide for the financing of renovations to Township Hall. The Building Authority's governing body, which consists of three individuals, was created during the fiscal year ended March 31, 1999. Building Authority operations consist of the issuance and repayment of debt and the construction of facilities. 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 finance and construct the Township's public buildings. The financial statements of the Building Authority are consolidated with the financial statement of the Township as follows:

- Fixed assets (completed construction projects) of the Building Authority are recorded as capital assets in the government-wide statement of net assets.
- Remaining amounts due on the bonds issued by the Building Authority are included as long-term debt in the government-wide statement of net assets.

### **Discretely Presented Component Units**

**Downtown Development Authority** - The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and promote economic growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the Township Board. In addition, the Authority's budget is subject to approval by the Township Board.

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

**Economic Development Corporation** - The Economic Development Corporation was created to provide a means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, construction, improving, or expanding within the Township so as to provide needed services and facilities of such enterprises to the residents of the Township. The Corporation's governing body, which consists of nine individuals, is selected by the Township Board.

### **Government-wide and Fund Financial Statements**

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

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

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

### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

**General Fund** - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Open Space Land Preservation Fund** - The Open Space Land Preservation Fund accounts for monies collected to be used for permanent preservation of farmland, open space, wildlife, etc. and to provide new parks and recreational opportunities.

**Public Improvement Fund** - The Public Improvement Fund is used to account for monies collected from outside development to be used for increased public safety.

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

**Capital Project Fund** - The Capital Project Fund is used to account for the monies collected and expended for capital improvements.

The Township reports the following major proprietary funds:

**Water Fund** - The Water Fund accounts for the activities of the water distribution system.

**Sewer Fund** - The Sewer Fund accounts for the activities of the sewage collection system.

Additionally, the Township reports the following fund types:

**Agency Funds** - The Agency Funds account for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

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

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

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

### **Property Tax Revenue**

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are due on February 14 with the final collection date of the last day of February before they are added to the county tax roll.

The Township's 2004 tax is levied and collectible on December 1, 2004 and is recognized as revenue in the year ended March 31, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2004 taxable valuation of the Township totaled \$1,172,301,684 (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 0.9631 mills for operating purposes and 0.500 mills for land preservation. This resulted in \$1,025,745 for operating and \$532,457 for open space land preservation. These amounts are recognized in the respective General Fund and Open Space Preservation Fund financial statements as tax revenue.

### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund is generally allocated to each fund based on relative participation in the pool.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Capital Assets** - Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are recorded by the Township as appropriate, based on cost and useful life. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Utility system	50 years
Sewer meters	25 years
Buildings	20 to 50 years
Land improvements	10 to 25 years
Machinery and equipment	5 to 25 years
Vehicles	5 years
Fire vehicles	20 years

**Compensated Absences (Vacation and Sick Leave)** - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. No liability for these amounts is reported in governmental funds as there were no employee terminations as of year end.

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

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## **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 does not collect construction code fees as allowed by the State's Construction Code Act. Accordingly, no separate reporting of this activity has been reflected in the financial statements.

## **Note 3 - Deposits and Investments**

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

# Township of Scio

## Notes to Financial Statements March 31, 2005

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

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and cash equivalents	\$ 2,637,280	\$ 8,517,084	\$ 11,359,319	\$ 22,513,683	\$ 7,411,490
Investments	3,158,578	14,985,124	-	18,143,702	-
Total	<u>\$ 5,795,858</u>	<u>\$ 23,502,208</u>	<u>\$ 11,359,319</u>	<u>\$ 40,657,385</u>	<u>\$ 7,411,490</u>

The breakdown between deposits and investments for the Township is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 22,513,082	\$ 7,411,390
Investments in securities, mutual funds, and similar vehicles	18,143,703	-
Petty cash or cash on hand	600	100
Total	<u>\$ 40,657,385</u>	<u>\$ 7,411,490</u>

#### Deposits

The bank balance of the Township's deposits is \$22,498,023, of which \$600,000 is covered by federal depository insurance and the remainder was 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 Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component units' deposits had a bank balance of \$7,486,976, of which \$200,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

# Township of Scio

## Notes to Financial Statements March 31, 2005

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

#### Investments

The Township is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles. To the extent that cash from various funds has been pooled, related investment income is allocated to each fund based on relative participation in the pool, except that the Agency Funds' investment earnings are allocated to the General Fund.

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the Township or its agent in the Township's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Township's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name.

At year end, the Township's investment balances were categorized as follows:

	<u>Reported Amount (Fair Value)</u>
Primary government - Category 2 - U.S. government securities and bonds	\$ 16,181,579
Investments not subject to categorization:	
Interlocal agreement - MBIA Michigan CLASS funds	750,006
Mutual funds	<u>1,212,118</u>
Total primary government	<u>\$ 18,143,703</u>

# Township of Scio

## Notes to Financial Statements March 31, 2005

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

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The interlocal agreement investment pool and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. Investments under the interlocal agreement (MBIA-CLASS) are regulated by the Urban Cooperation Act. The fair value of the position in the interlocal agreement pools is the same as the value of the pool shares.

### Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, total deferred revenue of \$390,000 represents future special assessment collections that are unavailable in the current period.

### Note 5 - Capital Assets

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

	Balance		Disposals	Balance
	April 1, 2004	Additions	and Adjustments	March 31, 2005
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land	\$ 412,714	\$ -	\$ -	\$ 412,714
Capital assets being depreciated:				
Buildings	2,371,664	71,550	-	2,443,214
Land improvements	154,237	-	-	154,237
Equipment	633,708	191,324	(50,286)	774,746
Fire vehicles	826,121	-	-	826,121
Subtotal	3,985,730	262,874	(50,286)	4,198,318
Accumulated depreciation:				
Buildings	155,043	50,452	-	205,495
Land improvements	12,421	12,422	-	24,843
Equipment	255,669	63,578	(50,286)	268,961
Fire vehicles	131,569	41,306	-	172,875
Subtotal	554,702	167,758	(50,286)	672,174
Net capital assets being depreciated	3,431,028	95,116	-	3,526,144
Net capital assets	\$ 3,843,742	\$ 95,116	\$ -	\$ 3,938,858

# Township of Scio

## Notes to Financial Statements March 31, 2005

### Note 5 - Capital Assets (Continued)

<b>Business-type Activities</b>	Balance April 1, 2004	Additions	Disposals and Adjustments	Balance March 31, 2005
Capital assets not being depreciated:				
Land	\$ 17,579	\$ -	\$ -	\$ 17,579
Construction in progress	235,549	-	(235,549)	-
Subtotal	253,128	-	(235,549)	17,579
Capital assets being depreciated:				
Buildings	761,586	-	-	761,586
Utility system	21,795,433	1,023,361	-	22,818,794
Sewer meters	7,118	-	-	7,118
Machinery and equipment	341,078	74,980	-	416,058
Vehicles	56,649	-	-	56,649
Subtotal	22,961,864	1,098,341	-	24,060,205
Accumulated depreciation:				
Buildings	308,925	19,278	-	328,203
Utility system	5,504,645	458,089	-	5,962,734
Sewer meters	5,053	285	-	5,338
Machinery and equipment	223,960	19,009	-	242,969
Vehicles	35,160	8,890	-	44,050
Subtotal	6,077,743	505,551	-	6,583,294
Net capital assets being depreciated	<u>16,884,121</u>	<u>592,790</u>	<u>-</u>	<u>17,476,911</u>
Net capital assets	<u>\$ 17,137,249</u>	<u>\$ 592,790</u>	<u>\$ (235,549)</u>	<u>\$ 17,494,490</u>

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

Governmental activities:

General government	\$ 71,867
Public safety	95,155
Public works	<u>736</u>

Total governmental activities \$ 167,758

Business-type activities:

Water	\$ 213,391
Sewer	<u>292,160</u>

Total business-type activities \$ 505,551

# Township of Scio

## Notes to Financial Statements March 31, 2005

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Due to/from Other Funds</b>		
General Fund	Other governmental funds	<u>\$ 2,475</u>

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

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

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Building Authority Fund	\$ 67,825 (1)
Public Improvement Fund	General Fund	<u>150,000 (1)</u>
Total		<u>\$ 217,825</u>

(1) Transfer for debt service

# Township of Scio

## Notes to Financial Statements March 31, 2005

### 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. Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Governmental Activities</b>						
General obligation bonds:						
1999 General Obligation Limited Tax Bonds:	4.90% -	\$50,000 -	\$ 800,000	\$ (25,000)	\$ 775,000	\$ 50,000
Amount of issue: \$900,000	5.65%	\$75,000				
Maturing through May 2017						
Installment purchase agreements:	4.90% -	\$64,970 -	287,280	(135,495)	151,785	74,045
Amount of issue: \$643,295	5.50%	\$77,740				
Maturing through November 2006						
Compensated absences			60,671	28,654	89,325	47,970
Total governmental activities			<u>\$ 1,147,951</u>	<u>\$ (131,841)</u>	<u>\$ 1,016,110</u>	<u>\$ 172,015</u>
<b>Component Unit</b>						
General obligation bonds:						
1988 General Obligation Limited Tax Bonds:		\$100,000 -				
Amount of issue: \$1,500,000		\$125,000				
Maturing through November 2008			\$ 550,000	\$ (100,000)	\$ 450,000	\$ 100,000
1990 General Obligation Limited Tax Bonds:		\$175,000				
Amount of issue: \$2,775,000						
Maturing through November 2010			1,200,000	(150,000)	1,050,000	175,000
1994 General Obligation Limited Tax Bonds:	5.00% -	\$400,000 -				
Amount of issue: \$8,000,000	8.00%	\$700,000				
Maturing through May 2014			6,200,000	(400,000)	5,800,000	400,000
2002 General Obligation Limited Tax Bonds:	4.25% -	\$300,000 -				
Amount of issue: \$7,000,000	6.25%	\$700,000				
Maturing through April 2018			6,750,000	(300,000)	6,450,000	300,000
Total component unit			<u>\$ 14,700,000</u>	<u>\$ (950,000)</u>	<u>\$ 13,750,000</u>	<u>\$ 975,000</u>

# Township of Scio

## Notes to Financial Statements March 31, 2005

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

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

	Governmental Activities			Component Unit		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 124,045	\$ 48,112	\$ 172,157	\$ 975,000	\$ 718,861	\$ 1,693,861
2007	127,740	41,930	169,670	1,075,000	648,636	1,723,636
2008	50,000	35,576	85,576	1,100,000	581,487	1,681,487
2009	50,000	33,051	83,051	1,150,000	513,706	1,663,706
2010	50,000	30,476	80,476	1,175,000	442,950	1,617,950
2011-2015	300,000	109,284	409,284	5,775,000	1,268,025	7,043,025
2016-2019	<u>225,000</u>	<u>19,070</u>	<u>244,070</u>	<u>2,500,000</u>	<u>229,252</u>	<u>2,729,252</u>
Total	<u>\$ 926,785</u>	<u>\$ 317,499</u>	<u>\$ 1,244,284</u>	<u>\$ 13,750,000</u>	<u>\$ 4,402,917</u>	<u>\$ 18,152,917</u>

### Note 8 - 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 property loss, torts, errors and omissions, and medical benefit claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### Note 9 - Defined Benefit Pension Plan

**Plan Description** - During the year ended March 31, 2005, the Township began to participate in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all full- and part-time fire fighters of the Township, except the fire chief. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, Michigan 48917.

## **Note 9 - Defined Benefit Pension Plan (Continued)**

**Funding Policy** - The obligation to contribute to and maintain the MERS for these employees was established by negotiations with the Township's collective bargaining units and arbitration rulings under Michigan Public Act 312 of 1969. Under the bargaining agreement, the Township is required to contribute a fixed 8 percent of gross wages through April 30, 2012, after which the percent contribution may change.

**Annual Pension Costs** - For the year ended March 31, 2005, the Township's annual pension cost was approximately \$11,400. The Township's participation in the plan commenced during the fiscal year. As this is the initial year of participation, a current valuation, including the negotiated required Township contribution of 8 percent, is not available and therefore no information has been included regarding the funding status of the plan.

## **Note 10 - Defined Contribution Retirement Plan**

The Township offers pension benefits to all of its full-time employees through a defined contribution plan. Effective January 1, 2005, the Township fire fighters were transferred to the Municipal Employees' Retirement System of Michigan (MERS) plan referred to in Note 9. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate 90 days from the date of employment. As established by the Board of Trustees, the Township contributes 5.5 percent of an employee's gross earnings. Employee contributions are not required. In accordance with these requirements, the Township contributed approximately \$47,000 during the current year. The Township's contributions for each employee are fully vested upon entering service.

## **Note 11 - Other Postemployment Benefits**

The Township has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The Township pays a portion of the cost of coverage for these benefits. The retirees pay the difference between the Township's portion and the actual cost. Also, retirees can purchase coverage for their dependents at the Township's group rates. Currently, four retirees are eligible for postemployment health benefits. For the fiscal year ended March 31, 2005, the Township made payments for postemployment health benefit premiums of \$22,328. Expenditures for postemployment health care benefits will be recognized as the insurance premiums become due.

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

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending March 31, 2009.

## **Note 12 - Accounting and Reporting Change**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Township of Scio has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The Township has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Township's activities
- A change in the fund financial statements to focus on the major funds
- Capital assets at April 1, 2004 previously reported in the General Fixed Assets Account Group have been adjusted by approximately \$599,000 to reflect the historical cost of the Township's capital assets at that date.
- The governmental activities column includes bonds and other long-term obligations totaling \$1,016,110 previously reported in the General Long-term Debt Account Group.

## **Required Supplemental Information**

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# Township of Scio

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## **Required Supplemental Information Note to Budgetary Comparison Schedule - General Fund Year Ended March 31, 2005**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and all Special Revenue Funds except that operating transfers and the proceeds of long-term financing have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).”

The annual budget is prepared by the Township’s department heads and finance department. It is approved by the Township budget committee and adopted by the Township board; subsequent amendments are approved by the Township board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at March 31, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of the actual results of operations to the budgeted amounts (at the level of control adopted by the Township board) for the General Fund, Open Space Land Preservation Fund, and the Public Improvement Fund is presented as required supplementary information. Information comparing other Special Revenue Fund activity to the respective budgets can be obtained at the township hall.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the Township of Scio incurred expenditures that were in excess of the amounts budgeted in the General Fund Board and Commissions activity of approximately \$89,000.

# Township of Scio

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenues</b>	\$ 2,680,000	\$ 3,239,536	\$ 3,422,197	\$ 182,661
<b>Expenditures</b>				
General government	859,600	692,920	674,781	18,139
Elections	43,250	30,577	29,047	1,530
Assessor	337,150	341,895	329,709	12,186
Buildings and grounds	43,225	46,825	44,973	1,852
Health and safety	658,000	701,325	694,464	6,861
Fire	835,007	967,555	951,195	16,360
Boards and commissions	36,915	492,250	581,312	(89,062)
Contingency	-	67,825	67,825	-
Capital outlay	50,000	110,000	89,660	20,340
Total expenditures	<u>2,863,147</u>	<u>3,451,172</u>	<u>3,462,966</u>	<u>(11,794)</u>
<b>Net Revenues (Expenditures)</b>	(183,147)	(211,636)	(40,769)	170,867
<b>Fund Balance - Beginning of year</b>	<u>3,597,892</u>	<u>3,879,478</u>	<u>3,879,478</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u><b>\$ 3,414,745</b></u>	<u><b>\$ 3,667,842</b></u>	<u><b>\$ 3,838,709</b></u>	<u><b>\$ 170,867</b></u>

# Township of Scio

## Required Supplemental Information Budgetary Comparison Schedule Open Space Land Preservation Fund Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenues</b>	\$ -	\$ 518,100	\$ 532,993	\$ 14,893
<b>Expenditures</b>	-	5,000	2,065	2,935
<b>Net Revenue (Expenditures)</b>	-	513,100	530,928	17,828
<b>Fund Balance - Beginning of year</b>	-	-	-	-
<b>Fund Balance - End of year</b>	<u>\$ -</u>	<u>\$ 513,100</u>	<u>\$ 530,928</u>	<u>\$ 17,828</u>

# Township of Scio

## Required Supplemental Information Budgetary Comparison Schedule Public Improvement Fund Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues	\$ 6,000	\$ 619,830	\$ 625,410	\$ 5,580
Expenditures	50,235	181,425	175,295	6,130
Net Revenues (Expenditures)	(44,235)	438,405	450,115	11,710
Fund Balance - Beginning of year	287,833	324,042	324,042	-
Fund Balance - End of year	<u>\$ 243,598</u>	<u>\$ 762,447</u>	<u>\$ 774,157</u>	<u>\$ 11,710</u>

## **Other Supplemental Information**

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# Township of Scio

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds March 31, 2005

	Special Revenue Funds	Public Safety and Improvement	Debt Service Funds Building Authority	Total Nonmajor Governmental Funds
<b>Assets</b>				
Cash and investments	\$ 81,829	\$ 1,162,771	\$ -	\$ 1,244,600
Receivables	-	942	-	942
Total assets	<b>\$ 81,829</b>	<b>\$ 1,163,713</b>	<b>\$ -</b>	<b>\$ 1,245,542</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b> - Due to other funds	\$ 1,975	\$ 500	\$ -	\$ 2,475
<b>Fund Balances</b> - Unreserved	79,854	1,163,213	-	1,243,067
Total liabilities and fund balances	<b>\$ 81,829</b>	<b>\$ 1,163,713</b>	<b>\$ -</b>	<b>\$ 1,245,542</b>

# Township of Scio

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended March 31, 2005

	Special Revenue Funds		Debt Service Funds	Total Nonmajor Governmental Funds
	Budget Stabilization	Public Safety and Improvement	Building Authority	
<b>Revenue</b> - Interest, rentals, and other	\$ 1,133	\$ 5,258	\$ -	\$ 6,391
<b>Expenditures</b>				
General government	150	-	-	150
Debt service	-	-	67,825	67,825
Total expenditures	150	-	67,825	67,975
<b>Excess of Revenue Over (Under) Expenditures</b>	983	5,258	(67,825)	(61,584)
<b>Other Financing Sources</b> -				
Transfers in	-	-	67,825	67,825
<b>Net Change in Fund Balances</b>	983	5,258	-	6,241
<b>Fund Balances</b> - Beginning of year	78,871	1,157,955	-	1,236,826
<b>Fund Balances</b> - End of year	<u>\$ 79,854</u>	<u>\$ 1,163,213</u>	<u>\$ -</u>	<u>\$ 1,243,067</u>



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June 17, 2005

To the Members of the  
Township Board of Trustees  
Scio Township  
827 North Zeeb Road  
Ann Arbor, MI 48103

Dear Trustees:

We have recently completed our audit of the financial statements of Scio Township for the year ended March 31, 2005. As part of our audit, and in addition to the financial report, we offer the following comments and recommendations for your consideration. Before we discuss our specific comments and recommendations, we would like to compliment the Township's staff, in particularly Mrs. Sandy Egeler, for the overall positive condition of the financial records and related documentation for the fiscal year ended March 31, 2005 and the assistance provided to us during the audit.

### **New Reporting Model - GASB 34**

As we have discussed over the past several years, the Governmental Accounting Standards Board (GASB) issued a major pronouncement that drastically changed the way your financial statements look. The Township fully implemented GASB 34 beginning April 1, 2004. The expected benefits of the new model include improved comparability of financial statements between communities, and a better matching of the current year's revenue sources to the full cost of services provided during that year.

Some of the changes in the model include the following:

- Management's Discussion and Analysis - Management is now required to give an overview of the Township's overall financial position and results of operations.
- Government-wide Financial Statements - These additional statements adjust the normal fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the Township from a longer-term perspective (i.e., are today's taxpayers paying for today's services?). These statements show capital and infrastructure assets (including depreciation), as well as long-term debt as part of the Township's financial picture.
- Budget Comparison - A financial statement reader will now be able to view not only the actual revenue and expenditures of the Township as compared to the current budget, but also as compared to the original budget.

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June 17, 2005

It is important to note that, although the implementation process has received the most attention, there are on-going aspects of GASB 34 that will continue for future year audits. With additional statements, reconciliation from fund-based to government-wide reporting, infrastructure tracking and more being added to this new model, there will continue to be additional preparation needed for the audit, as well as more audit procedures to apply. This is a permanent increase to the workload of both the Township staff and the auditors.

During the implementation of GASB 34, we did note that the Township does not appear to have a formal capitalization threshold for fixed assets. If one was established a long time ago, it is likely not appropriate given the cost of current capital items. We encourage the Township to institute a capitalization threshold as soon as possible for the capitalization of future asset purchases.

### **Internal Control and Accounting Considerations**

During the audit, we noted the following regarding the internal control structure:

- During our review of the payroll system, we noted that there is only on-line documentation relating to the department cost allocation for individuals. As the allocations change from time to time, an audit trail to verify appropriate allocation of costs is difficult. Although we were able to retrieve the necessary information and appropriately perform our walkthrough of the system, we would suggest the information be formally documented during the budget process and again when any allocations are revised.
- The Township's purchasing policy states that purchase orders over \$5,000 require signatures from a department head and the Township supervisor, treasurer, clerk, or manager. During our testing of cash disbursements, we noted a capital addition in which the purchase order had only one of the two required signatures present. We recommend the Township adhere to the approved purchasing policy.
- It was noted during our review of the Township's compensated absences accrual that one employee was in excess of the allowable accumulation for compensatory time based on the personnel manual. We would suggest the Township regularly review the accumulated balances for conformity with the current personnel manual. There may be occasions where an employee accumulates comp time and is unable to utilize it within the Township's guidelines. When this occurs, the Township should recognize the situation and any exceptions to the policy be approved by the Township manager or board.

June 17, 2005

- Delinquent personal property tax collections were discussed with Township staff. Many of the older uncollected personal property amounts relate to businesses that have moved or gone out of business. We encourage you to pursue collection efforts where possible or have Court authority to write off if appropriate. Additionally, we suggest meeting with the County treasurer who is in a position to observe the “best practices” of other local treasurers and could provide helpful suggestions regarding increasing the success rate.
- During our review of the Township’s property taxes, it was noted that the Township was not timely in their remittance of taxes to the other governmental units. This should be performed within 10 working days after the 1<sup>st</sup> and 15<sup>th</sup> of the month. This has become a topic of increased sensitivity and Plante & Moran has been informed of the Michigan Department of Treasury’s intent to begin sending communication to governmental units that are currently delinquent in their remittances to the other governmental units. A copy of this letter will also be sent to the Michigan legislature for their review.
- During our walkthrough of the cash receipt system, we noted that collections were not deposited on a daily (or at a minimum next-day) basis. In addition, the Township does not appear to have adequate safeguards in place for collections in between deposit dates. We would suggest the Township implement daily deposit procedures and review their facilities for proper safekeeping of cash receipts in between trips to the bank.
- The Township is responsible for the accounting of the Baker Road/I-94 special assessment district. It is our understanding that construction of this project has not yet begun and the Township has not acquired outside financing for the project. During the year ended March 31, 2005, the Township billed the special assessment members for both their principal and interest portions of the assessment. It may not be proper to charge interest without a bond issue in place related to the project. We encourage you to review this situation with bond counsel to determine an appropriate remedy.

### **Downtown Development Authority Year-end Net Assets**

Due to the implementation of GASB 34, component unit funds are required to report on a full-accrual basis, which includes recording of all long-term debt and capital assets. As of March 31, 2005, the Downtown Development Authority Fund (DDA) had negative unrestricted net assets, on a full-accrual basis, of approximately \$9.4 million. The DDA currently has \$13.7 million of bonds outstanding for the development of the Jackson Road Boulevard. The offsetting infrastructure asset, however, is that of Washtenaw County. Our understanding is that the Michigan Department of Treasury is aware of these situations and will not require a deficit elimination plan to be filed.

### **Performance Bonds**

As we noted last year, our review of performance bonds revealed numerous old outstanding deposits. In addition, the Township has incurred additional expenses over and above those initial deposit amounts, which are currently being billed or collected. We compliment the Township board and staff for tracking this difficult issue and getting the bond activity more current.

### **New Accounting Statement - GASB 40**

The GASB has instituted Statement No. 40, *Deposit and Investment Risk Disclosures*. This new statement will be effective for the Township's fiscal year beginning April 1, 2005 and requires disclosure of the Township's deposit and investment policies as well as the following information:

- Custodial credit risk
- Interest rate risk
- Credit risk
- Concentrations of credit risk
- Foreign currency risk

### **State-shared Revenue**

State-shared revenue accounts for approximately 28 percent of the Township's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue-sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue-sharing line item in the State's budget, revenue-sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state-shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple-year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue-sharing payments to cities, villages, and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was approved by the Michigan legislature and signed by the governor.

June 17, 2005

In February 2005, the governor also introduced her 2006 budget with a \$773 million shortfall. At this time, the budgeted amount for revenue sharing in 2006 is approximately the same as the 2005 funding level. The details on how the monies will be distributed on an individual community basis are yet to be confirmed.

As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to the State's tax structure, we continue to urge the Township to be very conservative in its estimation of state-shared revenue as this line item in the State's budget remains vulnerable.

A history of the Township's state shared revenue over the past several years is as follows:

State Fiscal Year End	Constitutional	Statutory	Total
2001	\$ 870,917	\$ 144,771	\$ 1,015,688
2002	879,581	133,221	1,012,802
2003	893,351	140,454	1,033,805
2004	883,625	45,510	929,135
2005 (Estimated)	902,826	15,101	917,927

We will continue to update the Township as developments occur.

### **Property Taxes**

As you may recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

2005	2.3%
2004	2.3%
2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%

The increases in the taxable value of property for 1999, 2000, and 2003 were the lowest increases since the 1994 adoption of Proposal A. Property taxes are the Township's largest source of revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the Township is involved in long-term financial planning.

June 17, 2005

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the Township. In general terms, if growth on the Township's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the Township to "roll back" its property tax rate to inflation.

Prior to the passage of Proposal A in 1994, during years when the growth on the Township's existing property tax base was less than inflation, the Headlee Amendment allowed the Township to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back".

However, subsequent to the passage of Proposal A, the Township is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. For the year ended March 2005, the Township's Headlee maximum property tax rate for its operating levy was 0.9631 mills even though Township Charter would allow the Township to levy 1.16 mills for operations.

As indicated, due to the passage of Proposal A, the Township will not be allowed to "roll back" up to 1.16 mills. If the Township requires additional millage capacity for operations, then a Headlee override vote would be necessary to levy the maximum mills.

### **Retiree Health Care Funding**

The Governmental Accounting Standards Board recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care benefits. The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. As a result, the Township will need to continue to budget for contributions to a pre-funding plan. For many communities, the funding of post-employment benefits is the most significant financial challenge they will face in coming years. The statement will not be effective until the Township's 2008 fiscal year. The cost of health care currently paid each year as premiums become due has been increasing and the trend is expected to continue.

To the Members of the  
Township Board of Trustees  
Scio Township

7

June 17, 2005

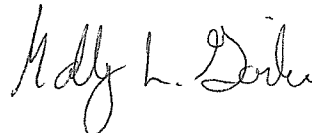
Again, we would like to thank the Township board and all Township personnel for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink, appearing to read "M.J. Swartz", with a stylized flourish extending from the end.

Michael J. Swartz

A handwritten signature in black ink, appearing to read "Molly L. Goike", written in a cursive style.

Molly L. Goike