

# **State of Michigan 4 I-B Judicial District Court**

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**Financial Report  
with Supplemental Information  
December 31, 2012**

# State of Michigan 4 I-B Judicial District Court

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## Independent Auditor's Report

To the Board  
State of Michigan 41-B Judicial District Court

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

We have audited the accompanying financial statements of the governmental activities, the General Fund, and the fiduciary fund information of the State of Michigan 41-B Judicial District Court (the "Court") as of and for the year ended December 31, 2012, which collectively comprise the Court'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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the Board  
State of Michigan 41-B Judicial District Court

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the General Fund, and the fiduciary fund information of the State of Michigan 41-B Judicial District Court as of December 31, 2012 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

***Other Matters***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the major fund budgetary comparison schedule on page 20 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.

*Plante & Morse, PLLC*

June 12, 2013

# **State of Michigan 4 I-B Judicial District Court**

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

Our discussion and analysis of State of Michigan 4 I-B Judicial District Court's (the "Court") financial performance provides an overview of the Court's financial activities for the year ended December 31, 2012. Please read it in conjunction with the Court's financial statements.

The Court is a joint venture of the Charter Townships of Clinton and Harrison and the City of Mount Clemens. Its financial activities are comprised of two major functions - general operational activity and bond transactions. Operational activity is reported in the General Fund and bond activity is reported in a Fiduciary Fund.

### **Using this Annual Report**

This annual report consists of three general sections - management's discussion and analysis (this section), the basic financial statements, and required supplemental information.

The basic financial statements consist of three financial statements and the notes. The statement of net position/governmental fund balance sheet and the statement of activities/governmental fund revenue, expenditures, and changes in fund balance include information about the Court's General Fund under the modified and full accrual method. These financial statements focus on the financial position of the Court at December 31, 2012 and provide a more detailed view of the activity and accountability of the Court's sources and uses of funds.

The Fiduciary Fund - statement of assets and liabilities includes information about the Court's bond money held at December 31, 2012. This amount is a liability of the Court as it is owed to defendants who have not yet appeared before the judge. Once the defendant has appeared, bond money can be applied to fines and costs.

The basic financial statement section also includes notes that help to explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements.

### **Condensed Financial Information**

The table on the next page provides key financial information for the government-wide financial statements in a condensed format, in thousands of dollars.

# State of Michigan 4 I-B Judicial District Court

## Management's Discussion and Analysis (Continued)

	2012	2011
<b>Assets</b>	\$ 2,875	\$ 2,935
<b>Liabilities</b>		
Current	506	653
Long-term	142	136
Total liabilities	648	789
<b>Net Position</b>		
Restricted:		
Capital and other improvements	1,000	1,000
Debt payments	360	325
Operation and maintenance	347	350
Unrestricted	520	471
Total net position	<u>\$ 2,227</u>	<u>\$ 2,146</u>
<b>Revenue</b>		
Fines and fees	\$ 3,502	\$ 3,516
Probation revenue	431	528
Building Fund	787	880
Federal revenue	73	13
Other	218	217
Total revenue	5,011	5,154
<b>Expenses</b>		
Court services	3,926	3,871
Debt service	794	804
Payment to communities	210	370
<b>Excess of Revenue Over Expenses/Change in Net Position</b>	4,930	5,045
<b>Change in Net Position</b>	<u>\$ 81</u>	<u>\$ 109</u>

# **State of Michigan 4 I-B Judicial District Court**

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

### **The Court as a Whole**

- The construction of the new court building was completed during 2007 and the Court employees from Clinton Township and Mount Clemens moved into the new building on January 11, 2008. This capital project was funded with a \$13,500,000 bond issue to be repaid over 25 years. The Court will pay the biannual bond payments from operational funds, primarily through the collection of Building Fund revenue. If payment becomes impossible in any one year, the funding units will pay the difference on a pro-rata basis. Once the debt is paid off in 2031, ownership will be shared by the three funding units.
- The Court has set up a trust to fund future postemployment benefits. Management recognizes the advantage of funding these obligations as early as possible and contributed \$115,626 in 2012. Due to the Court's timely payments, there is no unfunded liability outstanding.
- Wages and benefits continue to be a significant cost for the Court, representing 60 percent of the Court's total expenditures, a 3 percent drop from last year. The decrease was due to changes in health care and full-time employees replaced with part-time employees.
- Under this new joint venture, the Court Management Council, comprised of representatives from Clinton Township, Mount Clemens, and Harrison Township, has a common fund agreement. This agreement states that any shortfall or excess be divided on a caseload average pro-rata basis between the three funding units based on the annual summary calculation of the prior year. The annual summary agreement requires that \$1,000,000 be maintained separately in an Improvement Fund to cover any unexpected shortfalls the Court may encounter. For the year 2012, the annual summary excess payment to the communities was \$209,578. The prior year excess payments to the communities were \$148,087 in 2009, \$563,500 in 2010, \$370,247 in 2011, and the \$209,578 in 2012 brings the total refunded to communities to \$1,291,412.
- The Court signed a two-year contract on January 9, 2013 for the period from January 1, 2013 through December 31, 2014 with the AFSCME court employees. The amendments included no wage increases and a change to a new health care plan which will keep the court under the hard cap limits. This new health plan saves the Court over \$100,000 compared to last year. The employees also save by not having to contribute for health care.

### **The Court's General Fund**

Our analysis of the Court's major fund (the General Fund) is included in the basic financial statements. The General Fund budget is prepared by the chief judge and approved by the three councils of the funding units.

As the financial statements show, fund balance increased by \$82,021 in 2012, including a payment to the funding units of \$209,578, leaving a total fund balance of \$2,447,403, which is reserved for both the Improvement Fund and the payment of debt.

# **State of Michigan 41-B Judicial District Court**

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

### **Court Budgetary Highlights**

The Court continues to implement cost-saving strategies to minimize expenditures. As a result, the Court was significantly under budget across many line items.

- The 41-B Judicial District Court has looked to new alternatives to save costs and increase cash flow by developing new collection procedures including implementing income tax garnishments.
- The major source of revenue was fines and fees revenue from the three funding units which totaled \$3,502,941 and represents 70 percent of total revenue.
- The payment to the communities was over budget by \$74,950 based on original estimate. The Court Management Council did not vote on the actual payment amount until May 2013.
- In January 2008, the 41-B Judicial District Court implemented its own probation department. The probation services prior to 2008 were handled by the Macomb County District Court. Total revenues collected in 2012 were \$431,222 or 8 percent of total revenue.
- In 2011, the 41-B Judicial District Court was a recipient of two grants: a State Drug/Sobriety Court grant for \$50,000 and a Federal Drug/Sobriety Court grant for \$200,000 over two years. The grants are reimbursement based on recovering costs incurred in establishing and running the Drug Court program. The grant's revenue and expenses recorded in 2012 are higher than 2011 because there was an entire year of grant activity and the Drug/Sobriety Court has grown in participants.

### **Contacting Court Management**

This financial report is intended solely to provide our funding units and citizens a general overview of the Court's finances and to show the Court's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Court's administration.

# State of Michigan 4 I-B Judicial District Court

## Statement of Net Position/Governmental Fund Balance Sheet December 31, 2012

	General Fund - Modified Accrual Basis	GASB No. 34 Adjustments (Note 2)	Statement of Activities - Full Accrual Basis
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 2,786,405	\$ -	\$ 2,786,405
Accounts receivable	21,214	-	21,214
Prepaid expenses and other assets	67,113	-	67,113
Total assets	<u>\$ 2,874,732</u>	-	2,874,732
<b>Liabilities</b>			
Accounts payable	47,786	-	47,786
Due to local governmental units:			
Charter Township of Clinton	145,493	-	145,493
City of Mount Clemens	36,105	-	36,105
Charter Township of Harrison	29,342	-	29,342
State of Michigan	98,954	-	98,954
Other accrued liabilities	69,649	-	69,649
Compensated absences due within one year	-	78,136	78,136
Compensated absences due in more than one year	-	142,257	142,257
Total liabilities	427,329	220,393	647,722
<b>Equity - Fund balance</b>			
Nonspendable	66,029	(66,029)	-
Restricted:			
Capital and other improvements	1,000,000	(1,000,000)	-
Debt payments	359,550	(359,550)	-
Operating and maintenance	347,234	(347,234)	-
Assigned - Debt payments	674,590	(674,590)	-
Total fund balance	<u>2,447,403</u>	<u>(2,447,403)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 2,874,732</u>		
<b>Net Position</b>			
Restricted:			
Capital and other improvements		1,000,000	1,000,000
Debt payments		359,550	359,550
Operation and maintenance		347,234	347,234
Unrestricted		520,226	520,226
Total net position		<u>\$ 2,227,010</u>	<u>\$ 2,227,010</u>

# State of Michigan 4 I-B Judicial District Court

## Statement of Activities/Governmental Fund Revenue, Expenditures, and Changes in Fund Balance Year Ended December 31, 2012

	General Fund - Modified Accrual Basis	GASB No. 34 Adjustments (Note 2)	Statement of Activities - Full Accrual Basis
<b>Revenue</b>			
Fines and fees collected from within:			
Charter Township of Clinton	\$ 2,417,029	\$ -	\$ 2,417,029
Charter Township of Harrison	490,412	-	490,412
City of Mount Clemens	595,500	-	595,500
Total fines and fees revenue	3,502,941	-	3,502,941
Building fund fines	787,392	-	787,392
Probation revenue	431,222	-	431,222
Interest and dividends	7,269	-	7,269
State reimbursement - Judges' salaries	137,172	-	137,172
Other revenue	72,721	-	72,721
Federal revenue	71,962	-	71,962
Total revenue	5,010,679	-	5,010,679
<b>Expenditures</b>			
Current:			
Salaries and wages	1,788,582	-	1,788,582
Employee benefits	1,027,167	1,495	1,028,662
Contractual services	220,798	-	220,798
Professional services	256,932	-	256,932
Federal grant expenditures	113,623	-	113,623
Insurance	71,494	-	71,494
Communications	34,478	-	34,478
Utilities	106,048	-	106,048
Other expenditures	40,129	-	40,129
Equipment services, leases, and maintenance	142,264	-	142,264
Travel, education, and training	10,394	-	10,394
Printing, postage, and office supplies	94,258	-	94,258
Jury and witness fees	4,131	-	4,131
Capital outlay	15,282	-	15,282
Debt service (Note 9):			
Principal retirement	250,000	-	250,000
Interest and fiscal charges	543,500	-	543,500
Total expenditures	4,719,080	1,495	4,720,575
<b>Excess (Deficiency) of Revenue Over Expenditures/Change in Position - Before payment to local units</b>	291,599	(1,495)	290,104
<b>Payment to Local Units</b>	(209,578)	-	(209,578)
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	82,021	(1,495)	80,526
<b>Fund Balance/Net Position - Beginning of year</b>	2,365,382	(218,898)	2,146,484
<b>Fund Balance/Net Position - End of year</b>	<b>\$ 2,447,403</b>	<b>\$ (220,393)</b>	<b>\$ 2,227,010</b>

# State of Michigan 4 I-B Judicial District Court

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## Fiduciary Fund Statement of Assets and Liabilities December 31, 2012

	Agency Fund - Bond Fund
<b>Assets</b> - Cash and cash equivalents (Note 3)	<u>\$ 194,255</u>
<b>Liabilities</b> - Bonds payable	<u>\$ 194,255</u>

# State of Michigan 4 I-B Judicial District Court

## Notes to Financial Statements December 31, 2012

### Note I - Summary of Significant Accounting Policies

The State of Michigan 4 I-B Judicial District Court (the "Court") became an independent entity as of July 1, 2006. The Court serves the City of Mount Clemens and the Charter Townships of Clinton and Harrison (the "Local Units"), which are members of the Court. The Court oversees and processes items relating to traffic violations, criminal and civil infractions, landlord/tenant cases, and small claims filings. It also provides probation oversight and related services.

The accounting policies of the State of Michigan 4 I-B Judicial District Court 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 Court:

#### Reporting Entity

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

The Court's basic financial statements include both the Court's full accrual financial statements and modified accrual financial statements.

#### Full Accrual Financial Statements

The full accrual financial statements (i.e., the statement of net position and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting, which are described below.

Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

#### Modified Accrual Financial Statements

The Court's modified accrual financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which are described below.

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 finance expenditures of the fiscal period. For this purpose, the Court considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Revenue is recognized in the accounting period in which it becomes susceptible to accrual, that is, when it becomes both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the Court.

# State of Michigan 41-B Judicial District Court

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## Notes to Financial Statements December 31, 2012

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

The accounts of the Court are organized on the basis of funds, each of which is considered a separate accounting entity. The various funds are grouped, in the financial statements in this report, into generic fund types in two broad categories as follows:

#### Governmental Fund

**General Fund** - The General Fund contains the records of the ordinary activities of the Court that are not accounted for in another fund. The General Fund includes the general operating expenditures of the Court, which consist mainly of salaries and fringe benefits for Court employees. Revenue is derived primarily from the Court's share of fines and costs associated with the traffic and criminal divisions, filing fees assessed for civil and small claims filings, and probationary fees.

#### Fiduciary Fund

**Agency Fund** - An agency fund is used to account for assets held by the Court as an agent for individuals, organizations, other governments, or other funds. An agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. The Court uses the following agency fund:

- **Bond Fund** - This fund receives and holds bond monies from defendants as a promise to appear on an appointed court date. After the court date, the monies are applied to fines and costs, bond costs, forfeitures, restitution payments, and refunds, as appropriate.

#### Financial Statement Amounts

**Cash and Cash Equivalents** - The Court has defined cash and cash equivalents to include cash on hand and all highly liquid investments purchased with an original maturity of 12 months or less when acquired.

**Compensated Absences (Vacation and Sick Leave)** - It is the Court's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements. Total compensated absence liabilities increased by \$1,495 in the current year.

**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.

# State of Michigan 4 I-B Judicial District Court

## Notes to Financial Statements December 31, 2012

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

**Fund Balance** - In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact.
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose.
- **Committed:** Amounts that have been formally set aside by the court management council for use for specific purposes. Commitments are made and can be rescinded only via resolution of the court management council.
- **Assigned:** Intent to spend resources on specific purposes expressed by the Court management council or chief judge, who is authorized by resolution approved by the court management council, to make assignments.
- **Unassigned:** Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund.

#### Upcoming Accounting Standards

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the Court's 2013 fiscal year.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Court will evaluate the impact this standard will have and will be implemented for the Court's 2015 fiscal year.

# State of Michigan 4 I-B Judicial District Court

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## Notes to Financial Statements December 31, 2012

### **Note 2 - Reconciliation of Full Accrual to Modified Accrual Financial Statements**

The governmental fund balance sheet and statement of governmental revenue, expenditures, and changes in fund balance of the Court's General Fund differ from the statement of net position and the statement of activities. This difference results primarily from the long-term economic focus of the statement of net position and the statement of activities versus the current focus of the governmental fund balance sheet and statement of governmental revenue, expenditures, and changes in fund balance.

The statement of net position includes the accrued compensated absences and the statement of activities includes the change in the compensated absences liability.

### **Note 3 - Cash and Cash Equivalents**

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 Court has designated 15 banks for the deposit of its funds. The Court has adopted an investment policy in accordance with Public Act 196 of 1997, and the Court's deposits and investment policies are in accordance with statutory authority. The Court's cash and investments are subject to custodial credit risk of bank deposits, which is examined below.

#### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Court's deposits may not be returned to it. The Court's policy for custodial credit risk states that the Court will minimize credit risk by limiting investments to the safest types of securities and by diversifying the portfolio so that potential losses on individual securities would be minimized. At December 31, 2012, the Court had approximately \$973,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized as they exceeded the limits of FDIC insurance or were not held in accounts participating in the temporary liquidity guarantee program. The Court 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 Court 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.

# State of Michigan 41-B Judicial District Court

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## Notes to Financial Statements December 31, 2012

### Note 4 - Budget Information

The annual budget is prepared by the chief judge of the Court and is submitted to the State of Michigan 41-B Judicial District Court Management Council for review and approval. Upon approval by the Court Management Council, the budget is submitted to the local units for approval. An affirmative majority vote by the local units is required to adopt the budget. The amount of encumbrances outstanding at December 31, 2012 has not been calculated. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget statement (budgetary comparison schedule - General Fund) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on a fund basis. A comparison of actual results of operations to the General Fund budget as adopted by the local units is included in the required supplemental information.

### Note 5 - Allocation to Local Units

The State of Michigan 41-B Judicial District Court judges and council members of the State of Michigan 41-B Judicial District Court Management Council have instructed that the expenses of the Court be divided among the three district control units in proportion to the volume of cases attributable to each district control unit. At the discretion of the district control units, fines and fees collected from within the local units are distributable to the local units net of their allocation of the Court's expenditures.

### Note 6 - Other Postemployment Benefits

**Plan Description** - The Court provides retiree healthcare benefits to all full-time employees, who were hired before July 1, 2011, upon retirement. The Court includes pre-Medicare retirees and their spouses in the insured healthcare plan. This is an agent multiple-employer defined benefit plan administered by the Michigan Municipal Employees' Retiree Health Funding Vehicle. The benefits are provided in accordance with labor contracts.

**Funding Policy** - The collective bargaining agreement requires contributions from participants ranging from 0 percent to 75 percent of the cost of benefits received. Contributions are dependent upon the number of years of service to the Court prior to retirement and the nature of the benefit received. The Court has no obligation to make contributions in advance of when insurance premiums are due for payment (in other words, the plan may be financed on a "pay-as-you-go" basis).

# State of Michigan 4 I-B Judicial District Court

## Notes to Financial Statements December 31, 2012

### Note 6 - Other Postemployment Benefits (Continued)

**Funding Progress** - For the year ended December 31, 2012, the Court has estimated the cost of providing retiree health care benefits through an actuarial valuation as of December 31, 2009. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 460,749
Interest on the prior year's net OPEB obligation	-
Less adjustment to the annual required contribution	-
Annual OPEB cost	460,749
Amounts contributed:	
Payments of current premiums	(345,123)
Advance funding	(115,626)
Change in OPEB asset	-
OPEB asset - Beginning of year	-
OPEB asset - End of year	\$ -

Three-year trend information for OPEB costs and funding progress is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed	Net OPEB Obligation
12/31/10	12/31/06	\$ 762,231	100.0 %	\$ -
12/31/11	12/31/09	440,908	100.0	-
12/31/12	12/31/09	460,749	100.0	-

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
12/31/09	\$ 801,873	\$ 6,440,258	\$ 5,638,385	12.5 %	\$ 1,845,931	305.4 %
12/31/06	-	9,909,066	9,909,066	-	1,845,510	536.9

# State of Michigan 41-B Judicial District Court

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## Notes to Financial Statements December 31, 2012

### Note 6 - Other Postemployment Benefits (Continued)

**Actuarial Methods and Assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented within this note, presents 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 actuarially accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2009 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included an 8.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 13.5 percent initially, reduced by decrements to an ultimate rate of 9 percent after 10 years. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was set equal to the reported market value of assets. The UAAL is being amortized as a level percentage of active member payroll. The remaining amortization period at December 31, 2009 was 27 years.

### Note 7 - Risk Management

The Court is exposed to various risks of loss pertaining to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Court has purchased commercial insurance for these claims.

# State of Michigan 4 I-B Judicial District Court

## Notes to Financial Statements December 31, 2012

### Note 8 - Defined Benefit Pension Plan

**Plan Description** - The Court participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for MERS. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute to and maintain the Michigan Municipal Employees' Retirement System for these employees was established by negotiation with the Court employees' collective bargaining unit.

**Annual Pension Cost** - For the year ended December 31, 2012, the Court's annual pension cost totaled \$153,902, which was equal to the Court's required annual contribution. The annual required contribution was determined as part of an actuarial calculation dated December 31, 2010.

#### Three-year Trend Information

	Fiscal Year Ended December 31		
	2012	2011	2010
Annual pension cost (APC)	\$ 153,902	\$ 150,199	\$ 153,578
Percentage of APC contributed	100.0 %	100.0 %	100.0 %
Net pension obligation	-	-	-

	Fiscal Year Ended December 31		
	2011	2010	2009
Actuarial value of assets	\$ 6,209,444	\$ 5,971,609	\$ 5,743,633
Actuarial accrued liability (AAL)	6,964,566	6,712,721	6,513,870
Unfunded AAL (UAAL)	755,122	741,112	770,337
Funded ratio	89.2 %	89.0 %	88.0 %
Covered payroll	1,362,983	1,372,430	1,426,365
UAAL as a percentage of covered payroll	55.4 %	54.0 %	54.0 %

# State of Michigan 4 I-B Judicial District Court

## Notes to Financial Statements December 31, 2012

### Note 9 - Commitments

The Charter Township of Clinton issued \$13,500,000 of General Obligation Limited Tax Capital Improvement Bonds on behalf of the Court for the construction of a new court building. The building and related debt have been recorded by the district control units, which jointly own the building. It is intended that remaining debt service obligations for these bonds will be paid by the Court from its revenue as follows:

<u>Years Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 300,000	\$ 532,200	\$ 832,200
2014	300,000	520,200	820,200
2015	300,000	508,200	808,200
2016	400,000	493,700	893,700
2017	400,000	476,700	876,700
2018-2022	2,800,000	2,055,050	4,855,050
2023-2027	3,900,000	1,332,550	5,232,550
2029-2031	3,900,000	357,750	4,257,750
Total	<u>\$ 12,300,000</u>	<u>\$ 6,276,350</u>	<u>\$ 18,576,350</u>

### Note 10 - Change in Accounting

During the current year, the Court adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. As a result, net assets have now been re-labeled as net position.

## **Required Supplemental Information**

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# State of Michigan 4 I-B Judicial District Court

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2012

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Fines and fees	\$ 3,600,000	\$ 3,600,000	\$ 3,502,941	\$ (97,059)
Building fund fines	880,000	810,000	787,392	(22,608)
Probation, interest, and other revenue	870,600	798,600	720,346	(78,254)
Total revenue	5,350,600	5,208,600	5,010,679	(197,921)
<b>Expenditures</b>				
Current:				
Salaries and wages	1,921,220	1,921,220	1,788,582	132,638
Employee benefits	1,075,426	1,103,156	1,027,167	75,989
Contractual services	266,880	268,380	220,798	47,582
Professional services	266,000	266,000	256,932	9,068
Federal grant expenditures	137,500	152,500	113,623	38,877
Insurance	68,000	72,000	71,494	506
Communications	34,640	34,640	34,478	162
Utilities	102,500	102,500	106,048	(3,548)
Other expenditures	36,750	47,676	40,129	7,547
Equipment services, leases, and maintenance	154,750	159,900	142,264	17,636
Travel, education, and training	22,500	22,500	10,394	12,106
Printing, postage, and office supplies	107,300	108,700	94,258	14,442
Jury and witness fees	6,000	6,000	4,131	1,869
Capital outlay	5,000	15,300	15,282	18
Debt service:				
Principal retirement	250,000	250,000	250,000	-
Interest and fiscal charges	543,500	543,500	543,500	-
Total expenditures	4,997,966	5,073,972	4,719,080	354,892
<b>Excess of Revenue Over Expenditures</b>	352,634	134,628	291,599	156,971
<b>Payment to Local Units</b>	(352,634)	(134,628)	(209,578)	(74,950) *
<b>Excess of Revenue Over Expenditures</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,021</u>	<u>\$ 82,021</u>

\* Total actual revenue in excess of expenditures exceeded budgeted amounts and, therefore, on May 14, 2013, the management council approved a payment to the Local Units for an amount that exceeded the amended budget amount.

June 12, 2013

To the Honorable Judges  
State of Michigan 41-B Judicial District Court  
22380 Starks Drive  
Clinton Township, MI 48036

Dear Judges:

We have audited the financial statements of the State of Michigan 41-B Judicial District Court (the "Court") as of and for the year ended December 31, 2012 and have issued our report thereon dated June 12, 2013. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated April 16, 2013, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the Court. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on May 8, 2013.

## **Significant Audit Findings**

### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Court are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012.

We noted no transactions entered into by the Court during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was that related to recording the net pension and OPEB liabilities. The recording of these amounts relies heavily on actuarial provided calculations. For the year ended December 31, 2012, it was assumed by an actuarial valuation that the investments in the retiree healthcare and pension plan were earning an average rate of return of 8 percent.

The disclosures in the financial statements are neutral, consistent, and clear.

### ***Difficulties Encountered in Performing the Audit***

We encountered no difficulties in dealing with management in performing and completing our audit.

### ***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not detect any misstatements as a result of audit procedures.

***Significant Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Court, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as the Court's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated June 12, 2013.

***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Court's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Other Information**

*Actuarial Valuation* - The Court obtains an actuarial valuation on a period basis in order to determine the annual required contribution that is made to fund future and current retiree health care costs. Current accounting rules for governmental entities allow the Court to have the valuation completed on a tri-annual basis. The most recent valuation available is dated as of December 31, 2009. The Court will be required to obtain a new actuarial valuation dated as of December 31, 2012, which will be used to compute the annual required contribution for years 2013, 2014, and 2015.

*Upcoming Accounting Standards*

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the Court's 2013 fiscal year.

To the Honorable Judges  
State of Michigan 41-B Judicial District Court

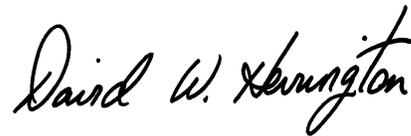
June 12, 2013

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). This standard will be implemented for the Court's 2015 fiscal year.

This information is intended solely for the use of the Honorable Judges of the 41-B Judicial District Court and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**



David W. Herrington



Dana M. Coomes