

**Township of Scio
Washtenaw County, Michigan**

**Financial Report
with Supplemental Information
March 31, 2010**

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 (the "Township") as of and for the year ended March 31, 2010, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2010 and the respective changes in financial position and cash flows 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.

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.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2010 on our consideration of the Township of Scio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 11, the Township has implemented a new financial reporting standard, as required by the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of March 31, 2010.

Plante & Moran, PLLC

July 15, 2010

Township of Scio

Management's Discussion and Analysis

Our discussion and analysis of the Township of Scio's (the "Township") financial performance provides an overview of the financial activities for the fiscal year ended March 31, 2010. Please read it in conjunction with the Township's financial statements.

Financial Highlights

The following are the most significant financial highlights for the year ended March 31, 2010:

- The Township property tax collection remains the largest single revenue source for the general operations of the Township. The collection was relatively flat for the previous two years because of the tax formula used to determine taxable value. Since state equalized values have generally reduced to a point where they equal the taxable value, the economic turndown impacted the 2010 fiscal year with a decline in actual tax collections.
- The fire special assessment district (SAD) funded the fire department budget for the first time in fiscal year 2010. The voter-approved SAD levy is a maximum of 0.9 mills on the taxable value of real property in the district that excludes the Village of Dexter. It is collected annually with the December tax bills. This collection is not subject to state rollback requirements and is not captured by the Township Downtown Development Authority. The first collection occurred following the vote with the December 2008 taxes. The monies represent deferred revenue and are committed to the fiscal year budget that starts following collection. Revenue is segregated in the Fire Department Fund and expended only on fire service costs.
- On the sheriff side of public safety, the Township has seen substantial increases in expenditures for sheriff services by increasing the number of deputies assigned to the Township and the total number of deployment hours.
- State-shared revenue, the Township's second largest revenue source, was more than \$160,000 less in fiscal year ended 2010 than in 2009. The Township receives only the constitutional allocation of state revenue funds. There are many unanswered questions on the amount of funding that will be available in future years as Lansing continues to deal with the State's revenue shortfall and discusses an overhaul of the program. The 2010 allocation was the least amount received from the State since 1999.
- Because of the economic downturn, development fee revenue remains a significantly reduced percentage of the budget. Collection of these fees varies widely based upon economic activities external to the Township. These fees were never a "profit center" since the fees are a pass-through that meets costs of review and engineering inspection services on construction through consultants to the Township. Building inspection services are handled through Washtenaw County.
- The Jackson Boulevard Phase III project was opened to traffic in late 2009 and was mostly completed by the end of the fiscal year. Final landscaping will not be installed until fall 2010. Because of the economy, Phase IV of the improvement project is on hold indefinitely.

Township of Scio

Management's Discussion and Analysis (Continued)

- The revamped billing method for water and sewer service continues to be monitored closely to assure that annual cost and revenues are in line. In this fiscal year, the Water Fund approximately broke even while the Sewer Fund expenditures exceeded revenues.
- The Township is working with its water supplier, the City of Ann Arbor, to perform contractual improvement obligations to the West High water pumping station. Design and cost estimates are being prepared. Construction of this significant project is scheduled to begin in 2011.
- This is the first year that the Township is required to report on the Governmental Accounting Standards Board's (GASB) Statement No. 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Township provides a capped subsidy for health benefits for retirees who meet certain requirements as stated in the Township personnel manual. The financial statement reports the future costs for current employees as determined through an actuarial process.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets (deficit) and the statement of activities show the status of the Township as a whole. This is a long-term view and uses the accrual basis of accounting to measure the cost of providing services during the current year, thus showing whether the Township has funded the full cost of providing its government services.

The financial statements present a clear short-term view; they tell how the Township's resources were spent during the year, as well as how much is available going into the new budget year. Fund financial statements report the Township's operations in greater detail than the government-wide financial statements by providing information about the Township's most significant activities. 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 operations outside of everyday government.

It is important that the reader note that this report represents a snapshot of the financial position of the Township as of the close of business on March 31, 2010. The largest financial resource, property tax collection, is seasonal. It is collected late in the budget year and only during the fourth quarter (December to February). The revenue generated from property tax collection is in the fourth quarter revenue stream and not available for the first three quarters. As such, it becomes reflected in fund balance. Sufficient cash balance must be in reserve to meet the expenditures for the entire year. The fire SAD collection is shown as deferred revenue with expenditures to be budgeted in the fiscal year starting on April 1, 2011.

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 end of the fiscal year compared to the prior year (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets						
Current assets	\$ 11,077	\$ 10,391	\$ 25,303	\$ 27,714	\$ 36,380	\$ 38,105
Noncurrent assets	<u>8,187</u>	<u>6,270</u>	<u>25,753</u>	<u>21,706</u>	<u>33,940</u>	<u>27,976</u>
Total assets	19,264	16,661	51,056	49,420	70,320	66,081
Liabilities						
Current liabilities	2,022	1,610	1,698	1,302	3,720	2,912
Long-term liabilities	<u>593</u>	<u>589</u>	<u>2,274</u>	<u>2,285</u>	<u>2,867</u>	<u>2,874</u>
Total liabilities	<u>2,615</u>	<u>2,199</u>	<u>3,972</u>	<u>3,587</u>	<u>6,587</u>	<u>5,786</u>
Net Assets						
Invested in capital assets -						
Net of related debt	7,662	5,695	23,375	19,296	31,037	24,991
Restricted	472	1,017	23,709	26,537	24,181	27,554
Unrestricted	<u>8,515</u>	<u>7,750</u>	-	-	<u>8,515</u>	<u>7,750</u>
Total net assets	<u>\$ 16,649</u>	<u>\$ 14,462</u>	<u>\$ 47,084</u>	<u>\$ 45,833</u>	<u>\$ 63,733</u>	<u>\$ 60,295</u>

A significant portion of the assets represents fixed capital improvements. The equity in Township capital assets, such as sewer and water lines, are not readily transferable to cash. The unrestricted net assets are more liquid in nature and are available to finance day-to-day operations. They were \$8,515,000 and \$7,750,000 as of March 31, 2010 and 2009, respectively. The current level of unrestricted net assets for governmental activities is approximately 51 percent of total governmental activities net assets. The reader should note throughout the statements that certain amounts remain restricted for specific items and legally can only be expended on those items such as land preservation, boulevard landscape maintenance, tree activities, special assessment purposes, sewer and water operations, Metro Act funds, and capital projects.

Township of Scio

Management's Discussion and Analysis (Continued)

The following table shows the changes in the net assets during the fiscal year as compared to the prior year (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenue						
Program revenue:						
Charges for services	\$ 1,211	\$ 256	\$ 3,918	\$ 4,117	\$ 5,129	\$ 4,373
Operating grants and contributions	-	17	-	-	-	17
Capital grants and contributions	502	851	1,698	175	2,200	1,026
General revenue:						
Property taxes	1,984	2,653	-	-	1,984	2,653
State-shared revenue	823	986	-	-	823	986
Unrestricted investment earnings	61	194	221	781	282	975
Franchise fees	229	204	-	-	229	204
Miscellaneous	408	154	-	-	408	154
Proceeds from sale of capital assets	-	-	5	-	5	-
Total revenue	5,218	5,315	5,842	5,073	11,060	10,388
Program Expenses						
General government	1,161	1,718	-	-	1,161	1,718
Public safety	1,626	1,411	-	-	1,626	1,411
Public works	200	75	-	-	200	75
Recreation and culture	-	-	-	-	-	-
Interest on long-term debt	43	47	-	-	43	47
Water	-	-	2,225	2,376	2,225	2,376
Sewer	-	-	2,367	2,585	2,367	2,585
Total program expenses	3,030	3,251	4,592	4,961	7,622	8,212
Change in Net Assets	\$ 2,188	\$ 2,064	\$ 1,250	\$ 112	\$ 3,438	\$ 2,176

Governmental Activities

For the second year in a row, total expenditures on general government activities decreased compared to the previous year. This reduction was due to lack of capital improvement spending and a close monitoring of the overall budget expenditures.

Business-type Activities

The Township's largest business-type activities consist of the Water and Sewer Fund. All assets, liabilities, revenue, and expenses are restricted strictly for those operations. The Township provides water and sewage services to property owners within a defined district in the Township. The water supply and sewerage processing is through contract with the City of Ann Arbor (the "City"). The Township is reviewing other outstanding system improvements required under outstanding contracts with the City, including a major updating of the West High pumping station.

Township of Scio

Management's Discussion and Analysis (Continued)

The Township's operational responsibility for sewer and water is limited to the service lines and pumping facilities located within the borders of the Township. The utilities department continues to implement an adopted capital improvement program. Over the past five years, the department implemented an extensive in-flow and infiltration (I&I) program on the sanitary sewer system that has led to a lesser problem with wet weather flooding. Additional water and sewer infrastructure upgrades were completed as part of the Jackson Road Phase III boulevard project with part of the construction costs contributed from the Township DDA.

The Loch Alpine Sewer Authority also provides public utility service in the Township, but it is a separate entity from the Township and is subject to a separate audit.

Township Funds

The analysis of the Township's major funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds. The Township board of trustees creates accounting funds to segregate monies, 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, Fire Fund, Sewer Fund, Water Fund, Open Space Land Preservation Fund, and Capital Projects Fund.

The General Fund revenues are not restricted or dedicated to specific uses. The General Fund pays for most of the Township's governmental services. The most significant expenditures are police and fire, which incurred expenses of approximately \$1,626,000 in audit year 2010, up from \$1,411,000 in the 2009 audit, an increase of 15 percent. An addition was made to the number of deputies contracted through the Washtenaw County sheriff. All public safety expenditures have historically been funded entirely by the General Fund. The 2010 fiscal year was the first time that the dedicated fire special assessment millage funded the service.

The Open Space Land Preservation Fund was created to account for taxes approved by the voters in 2004 to be used for the permanent preservation of farmland, open space, wildlife, etc. and to provide new parks and recreational opportunities. Cooperative ventures with Washtenaw County, the City of Ann Arbor, and the State of Michigan have provided additional opportunities for acquisition of either land or rights to develop land. This millage was approved for a limited time and expires in 2014.

The Scio Downtown Development Authority (DDA) remains a major player in the physical development of the Township. Jackson Road improvements have been funded by the DDA through the capture of 50 percent of the property tax increment funds in their district since 1986. Thus, the DDA captures 50 percent of the new taxes that would be available for unrestricted general operations of the Township from their district - the major growth area of the Township. However, the DDA also captures taxes from other jurisdictions that can be used for DDA purposes. The DDA has incurred most of the Township's outstanding debt for improvements to Jackson Road, as discussed below. The debt will be repaid through the collection of future tax increments.

Township of Scio

Management's Discussion and Analysis (Continued)

The Fire Fund accounts for monies collected under the fire special assessment district millage. These funds are required to be used only for the provision of fire services to the community.

Budgetary Highlights

Over the course of the year, the Township amended the budget to reflect changing events. There were minimal changes in the Township's General Fund that created a General Fund surplus for this fiscal year because of (1) a positive change in the accrued valuation of held investments, (2) the receipt of a one-time circuit court ordered assessment of \$311,000 on private property, and (3) full budgeted sheriff costs were not expended because anticipated staffing increases did not occur until the fourth quarter of the year.

Capital Asset and Debt Administration

At the end of fiscal year 2010, the Township had approximately \$33.9 million invested in a broad range of capital assets, including buildings, fire equipment, and water and sewer lines (not including the Jackson Road improvements). Capital assets are not liquid and cannot be easily transferred to cash equivalents.

The Township's Downtown Development Authority has a debt obligation at the end of the audit year of approximately \$21.1 million. The proceeds from these debt issuances financed the development of the Jackson Road corridor. The DDA amended its financing plan in fall 2006 to extend its life and fund Phase III of Jackson Road. A bond issue of \$9.7 million was sold in December 2006. An additional \$3.3 million of debt was issued in 2008. Per the adopted DDA financing plan, all bond payments will be met by the DDA through the capture of tax increment revenue. The Washtenaw County Road Commission has full jurisdiction over the road, retains the asset, and is responsible for the project and contract administration of funds from Township, State, and federal sources. The numbers in this audit represent contributions from the DDA and the Township sewer funds. The total final costs, including acquisition, design, and construction through Phase III, will be approximately \$23 million, with over \$16 million paid by the Township local sources. The proposed Phase IV construction (Dino Drive to Parker Road) has been planned since 1986; however, the uncertainty over the current state of the economy means that the start of this final phase will be placed on hold for the foreseeable future.

Economic Factors and Next Year's Budgets and Rates

The recent national economic downturn caused a decline in property values that has resulted in lower property tax collections for the Township. Declines in state sales tax collections have lowered state revenue-sharing funds. Millage rates are capped by state laws. When these factors are combined, they lead to lower tax collections.

Township of Scio

Management's Discussion and Analysis (Continued)

Most readers are familiar with fiscal planning that occurs on a calendar year basis. However, when analyzing various funding cycles that apply to the statements in this report, you need to consider the varying fiscal years of the State of Michigan (October 1 to September 30), Washtenaw County (January 1 to December 31), and Scio Township (April 1 to March 31). The timing of the revenue stream can confuse the average resident. It can also present funding problems for the Township.

Contacting Township Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township 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 (Deficit) March 31, 2010

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 10,192,675	\$ 24,593,090	\$ 34,785,765	\$ 8,210,179
Receivables:				
Property taxes receivable	63,556	-	63,556	-
Customer receivables - Net	95,574	645,828	741,402	-
Accrued interest receivable	1,782	-	1,782	-
Due from other governmental units	417,915	28,265	446,180	-
Special assessments receivable	305,559	-	305,559	-
Due from primary government (Note 6)	-	-	-	196,417
Prepaid expenses	-	36,023	36,023	504,825
Capital assets - Net (Note 5):				
Nondepreciated	5,136,026	2,950,742	8,086,768	-
Depreciated	3,051,090	22,801,895	25,852,985	-
Total assets	19,264,177	51,055,843	70,320,020	8,911,421
Liabilities				
Accounts payable	654,467	495,005	1,149,472	485,029
Due to other governmental units	-	850,964	850,964	2,875,589
Due to component units (Note 6)	196,417	-	196,417	-
Accrued liabilities and other	65,004	226,943	291,947	387,513
Deferred revenue	989,824	-	989,824	-
Noncurrent liabilities:				
Current portion of long-term debt (Note 7)	115,847	125,000	240,847	1,420,000
Due in more than one year:				
Net other postemployment benefits obligation (Note 11)	56,194	21,564	77,758	-
Long-term debt - Net of current portion	536,939	2,252,160	2,789,099	19,685,000
Total liabilities	2,614,692	3,971,636	6,586,328	24,853,131
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	7,662,116	23,375,477	31,037,593	-
Restricted for:				
Utility operations	-	23,708,730	23,708,730	-
Metro act	77,098	-	77,098	-
Land preservation	395,262	-	395,262	-
Unrestricted (deficit)	8,515,009	-	8,515,009	(15,941,710)
Total net assets (deficit)	<u>\$ 16,649,485</u>	<u>\$ 47,084,207</u>	<u>\$ 63,733,692</u>	<u>\$ (15,941,710)</u>

Township of Scio

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,160,502	\$ 150,387	\$ -	\$ 501,825
Public safety	1,625,692	1,039,010	-	-
Public works	200,459	21,852	-	-
Interest on long-term debt	43,166	-	-	-
Total governmental activities	3,029,819	1,211,249	-	501,825
Business-type activities:				
Water	2,224,867	2,242,391	-	1,508,120
Sewer	2,366,814	1,675,992	-	189,434
Total business-type activities	4,591,681	3,918,383	-	1,697,554
Total primary government	\$ 7,621,500	\$ 5,129,632	\$ -	\$ 2,199,379
Component units:				
Downtown Development Authority	\$ 6,244,680	\$ -	\$ -	\$ -
Economic Development Corporation	16,282	770	-	-
Total component units	\$ 6,260,962	\$ 770	\$ -	\$ -
General revenues:				
Property taxes				
State-shared revenue				
Investment income				
Cable franchise fees				
Other miscellaneous income				
Proceeds from sale of capital assets				
Total general revenues				
Change in Net Assets				
Net Assets (Deficit) - Beginning of year				
Net Assets (Deficit) - End of year				

Statement of Activities
Year Ended March 31, 2010

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (508,290)	\$ -	\$ (508,290)	\$ -
(586,682)	-	(586,682)	-
(178,607)	-	(178,607)	-
(43,166)	-	(43,166)	-
(1,316,745)	-	(1,316,745)	-
-	1,525,644	1,525,644	-
-	(501,388)	(501,388)	-
-	1,024,256	1,024,256	-
(1,316,745)	1,024,256	(292,489)	-
-	-	-	(6,244,680)
-	-	-	(15,512)
-	-	-	(6,260,192)
1,983,850	-	1,983,850	2,522,735
822,994	-	822,994	-
60,661	221,461	282,122	104,438
229,252	-	229,252	-
407,903	-	407,903	2,229
100	5,186	5,286	-
3,504,760	226,647	3,731,407	2,629,402
2,188,015	1,250,903	3,438,918	(3,630,790)
14,461,470	45,833,304	60,294,774	(12,310,920)
\$ 16,649,485	\$ 47,084,207	\$ 63,733,692	\$ (15,941,710)

Township of Scio

Governmental Funds Balance Sheet March 31, 2010

	General Fund	Open Space Land Preservation Fund	Capital Projects Fund	Fire Department Fund	Other Nonmajor Governmental Funds	Total
Assets						
Cash and investments (Note 3)	\$ 6,318,456	\$ 361,660	\$ 298	\$ 1,355,991	\$ 2,156,270	\$ 10,192,675
Receivables - Net:						
Taxes	49,582	13,974	-	-	-	63,556
Special assessments	-	-	240,000	-	65,559	305,559
Customers	95,574	-	-	-	-	95,574
Interest	1,782	-	-	-	-	1,782
Due from other governmental units	316,810	39,542	-	58,135	3,428	417,915
Due from other funds (Note 6)	1,420	-	-	-	-	1,420
Total assets	\$ 6,783,624	\$ 415,176	\$ 240,298	\$ 1,414,126	\$ 2,225,257	\$ 11,078,481
Liabilities and Fund Balances (Deficit)						
Liabilities						
Accounts payable	\$ 636,922	\$ 5,939	\$ -	\$ 4,672	\$ 6,934	\$ 654,467
Due to component units (Note 6)	-	-	196,417	-	-	196,417
Due to other funds (Note 6)	-	-	-	-	1,420	1,420
Accrued liabilities and other	33,856	-	-	18,992	-	52,848
Deferred revenue (Note 4)	121,832	13,975	240,000	989,823	65,559	1,431,189
Total liabilities	792,610	19,914	436,417	1,013,487	73,913	2,336,341
Fund Balances (Deficit)						
Reserved for:						
Land preservation	-	395,262	-	-	-	395,262
Metro act	-	-	-	-	77,098	77,098
Unreserved, reported in:						
General Fund:						
Designated:						
Contingent legal action	311,103	-	-	-	-	311,103
Other postemployment benefits	839,225	-	-	-	-	839,225
Undesignated	4,840,686	-	-	-	-	4,840,686
Special Revenue Funds	-	-	-	400,639	2,004,234	2,404,873
Capital Projects Funds	-	-	(196,119)	-	70,012	(126,107)
Total fund balances (deficit)	5,991,014	395,262	(196,119)	400,639	2,151,344	8,742,140
Total liabilities and fund balances (deficit)	\$ 6,783,624	\$ 415,176	\$ 240,298	\$ 1,414,126	\$ 2,225,257	\$ 11,078,481

Township of Scio

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets (Deficit) March 31, 2010

Fund Balance Reported in Governmental Funds	\$ 8,742,140
Amounts reported for governmental activities in the statement of net assets (deficit) are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	8,187,116
Grants and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds	441,365
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(652,786)
Accrued interest is not due and payable in the current period and is not reported in the funds	(12,156)
Net other postemployment benefit obligations are not reported as fund liabilities	<u>(56,194)</u>
Net Assets of Governmental Activities	<u>\$ 16,649,485</u>

Township of Scio

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended March 31, 2010

	General Fund	Open Space Land Preservation Fund	Capital Projects Fund	Fire Department Fund	Other Nonmajor Governmental Funds	Total
Revenue						
Property taxes	\$ 1,183,218	\$ 606,428	\$ -	\$ -	\$ -	\$ 1,789,646
Federal grants	-	501,825	-	-	-	501,825
State-shared revenue and grants	821,653	-	-	-	-	821,653
Locally raised	875,342	-	-	2,441	-	877,783
Investment income	25,658	1,404	13,502	988	19,109	60,661
Rental income	33,002	-	-	29,916	-	62,918
Other revenue:						
Special assessments	-	-	30,000	1,006,653	21,852	1,058,505
Other miscellaneous income	358,979	-	-	639	37,236	396,854
Total revenue	3,297,852	1,109,657	43,502	1,040,637	78,197	5,569,845
Expenditures - Current						
General government	1,239,498	-	-	-	25,305	1,264,803
Public safety	1,121,708	-	-	640,377	-	1,762,085
Public works	36,550	-	-	-	-	36,550
Capital outlay	41,148	1,668,798	-	-	63,677	1,773,623
Debt service	-	-	13,500	-	80,750	94,250
Total expenditures	2,438,904	1,668,798	13,500	640,377	169,732	4,931,311
Excess of Revenue Over (Under) Expenditures	858,948	(559,141)	30,002	400,260	(91,535)	638,534
Other Financing Sources (Uses)						
Transfers in (Note 6)	-	-	-	-	80,750	80,750
Transfers out (Note 6)	(80,750)	-	-	-	-	(80,750)
Net Change in Fund Balances	778,198	(559,141)	30,002	400,260	(10,785)	638,534
Fund Balances (Deficit) - Beginning of year	5,212,816	954,403	(226,121)	379	2,162,129	8,103,606
Fund Balances (Deficit) - End of year	<u>\$ 5,991,014</u>	<u>\$ 395,262</u>	<u>\$ (196,119)</u>	<u>\$ 400,639</u>	<u>\$ 2,151,344</u>	<u>\$ 8,742,140</u>

Township of Scio

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities Year Ended March 31, 2010

Net Change in Fund Balances - Total Governmental Funds \$ 638,534

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

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

Capital outlay	2,099,720
Depreciation expense	(179,399)

Revenues are recorded in the statement of activities that do not provide current financial resources and are not reported as revenue in the governmental funds	(300,158)
--	-----------

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	(51,853)
--	----------

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	50,000
---	--------

Change in accrued interest payable and other	1,084
--	-------

Increase in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements until they come due for payment	(10,868)
--	----------

Loss on disposal on assets is not recorded in the governmental funds	(2,851)
--	---------

Change in net other postemployment benefits	<u>(56,194)</u>
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Change in Net Assets of Governmental Activities **\$ 2,188,015**

Township of Scio

Proprietary Funds Statement of Net Assets March 31, 2010

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Assets			
Current assets:			
Cash and investments (Note 3)	\$ 7,942,701	\$ 16,650,389	\$ 24,593,090
Receivables:			
Customer receivables - Net	312,013	333,815	645,828
Due from other governmental units	11,411	16,854	28,265
Prepaid expenses and other assets	13,605	22,418	36,023
Total current assets	8,279,730	17,023,476	25,303,206
Noncurrent assets - Capital assets (Note 5):			
Assets not subject to depreciation	26,070	2,924,672	2,950,742
Assets subject to depreciation	12,547,231	10,254,664	22,801,895
Total assets	20,853,031	30,202,812	51,055,843
Liabilities			
Current liabilities:			
Accounts payable	141,333	353,672	495,005
Due to other governmental units	627,732	223,232	850,964
Accrued liabilities and other	143,959	82,984	226,943
Current portion of long-term debt	125,000	-	125,000
Total current liabilities	1,038,024	659,888	1,697,912
Noncurrent liabilities:			
Net other postemployment benefits obligation	10,782	10,782	21,564
Long-term debt - Net of current portion	2,252,160	-	2,252,160
Total liabilities	3,300,966	670,670	3,971,636
Net Assets			
Invested in capital assets - Net of related debt	10,196,141	13,179,336	23,375,477
Restricted for utility operations	7,355,924	16,352,806	23,708,730
Total net assets	<u>\$ 17,552,065</u>	<u>\$ 29,532,142</u>	<u>\$ 47,084,207</u>

Township of Scio

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2010

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating Revenue			
Charges for services	\$ 2,223,934	\$ 1,630,220	\$ 3,854,154
Other	18,457	45,772	64,229
Total operating revenue	2,242,391	1,675,992	3,918,383
Operating Expenses			
Cost of water	1,344,577	-	1,344,577
Cost of sewage treatment	-	1,417,079	1,417,079
Operation and maintenance	50,411	149,299	199,710
General and administrative	419,329	468,141	887,470
Depreciation and amortization	350,390	332,295	682,685
Total operating expenses	2,164,707	2,366,814	4,531,521
Operating Income (Loss)	77,684	(690,822)	(613,138)
Nonoperating Revenue (Expenses)			
Investment income	68,346	153,115	221,461
Interest expense	(60,160)	-	(60,160)
Gain on sale of assets	2,593	2,593	5,186
Income (Loss) - Before contributions	88,463	(535,114)	(446,651)
Capital Contributions			
Donated lines	1,489,303	125,153	1,614,456
Connection fees	18,817	64,281	83,098
Total capital contributions	1,508,120	189,434	1,697,554
Change in Net Assets	1,596,583	(345,680)	1,250,903
Net Assets - Beginning of year	15,955,482	29,877,822	45,833,304
Net Assets - End of year	\$ 17,552,065	\$ 29,532,142	\$ 47,084,207

Township of Scio

Proprietary Funds Statement of Cash Flows Year Ended March 31, 2010

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 2,220,976	\$ 1,641,818	\$ 3,862,794
Payments to suppliers	(1,474,752)	(1,525,631)	(3,000,383)
Payments to employees	(320,173)	(284,672)	(604,845)
Other receipts	13,581	(16,193)	(2,612)
Net cash provided by (used in) operating activities	439,632	(184,678)	254,954
Cash Flows from Capital and Related Financing Activities			
Issuance of bonds	91,711	-	91,711
Collection of connection fees	18,817	64,281	83,098
Proceeds from sales of capital assets	2,593	2,593	5,186
Purchase of capital assets	(14,449)	(3,099,950)	(3,114,399)
Principal and interest paid on capital debt	(125,000)	-	(125,000)
Repayment of interest	(60,160)	-	(60,160)
Net cash used in capital and related financing activities	(86,488)	(3,033,076)	(3,119,564)
Cash Flows from Investing Activities			
Interest received on investments	68,346	153,115	221,461
Purchase of investment securities	(336,793)	-	(336,793)
Proceeds from sale and maturities of investment securities	-	2,172,171	2,172,171
Net cash (used in) provided by investing activities	(268,447)	2,325,286	2,056,839
Net Increase (Decrease) in Cash and Cash Equivalents	84,697	(892,468)	(807,771)
Cash and Cash Equivalents - Beginning of year	920,057	2,052,739	2,972,796
Cash and Cash Equivalents - End of year	<u>\$ 1,004,754</u>	<u>\$ 1,160,271</u>	<u>\$ 2,165,025</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 7,942,701	\$ 16,650,389	\$ 24,593,090
Less amounts classified as investments	(6,937,947)	(15,490,118)	(22,428,065)
Total cash and cash equivalents	<u>\$ 1,004,754</u>	<u>\$ 1,160,271</u>	<u>\$ 2,165,025</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ 77,684	\$ (690,822)	\$ (613,138)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	350,390	332,295	682,685
Changes in assets and liabilities:			
Receivables	(7,834)	(50,367)	(58,201)
Prepaid and other assets	(13,605)	(22,418)	(36,023)
Accounts payable	46,812	225,579	272,391
Accrued and other liabilities	(13,815)	21,055	7,240
Net cash provided by (used in) operating activities	<u>\$ 439,632</u>	<u>\$ (184,678)</u>	<u>\$ 254,954</u>

Noncash Investing, Capital, and Financing Activities - During the year ended March 31, 2010, the Water Fund received \$1,489,303 of lines donated by developers and the Downtown Development Authority. The Sewer Fund received \$125,153. These lines were recorded as capital assets.

Township of Scio

Fiduciary Funds Statement of Assets and Liabilities March 31, 2010

	Current Tax Collection	Trust and Agency	Total
Assets - Cash and investments (Note 3)	<u>\$ 20,573</u>	<u>\$ 152,527</u>	<u>\$ 173,100</u>
Liabilities - Accrued liabilities and other	<u>\$ 20,573</u>	<u>\$ 152,527</u>	<u>\$ 173,100</u>

Township of Scio

Component Units Statement of Net (Deficit) Assets March 31, 2010

	Downtown Development Authority	Economic Development Corporation	Total
Assets			
Cash and investments	\$ 8,199,239	\$ 10,940	\$ 8,210,179
Due from primary government	196,417	-	196,417
Prepaid expenses and other assets	504,825	-	504,825
Total assets	8,900,481	10,940	8,911,421
Liabilities			
Accounts payable	485,029	-	485,029
Due to other governmental units	2,875,589	-	2,875,589
Accrued liabilities and other	387,513	-	387,513
Long-term debt	21,105,000	-	21,105,000
Total liabilities	24,853,131	-	24,853,131
Net (Deficit) Assets	\$ (15,952,650)	\$ 10,940	\$ (15,941,710)

Township of Scio

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Downtown Development Authority - Public works	\$ 6,244,680	\$ -	\$ -	\$ -
Economic Development Corporation - Public works	16,282	770	-	-
Total governmental activities	\$ 6,260,962	\$ 770	\$ -	\$ -
General revenues:				
Property taxes				
Interest				
Other				
Total general revenues				
Change in Net Assets				
Net (Deficit) Assets - Beginning of year				
Net (Deficit) Assets - End of year				

**Component Units
Statement of Activities
Year Ended March 31, 2010**

Net (Expense) Revenue and Changes in Net Assets		
Downtown Development Authority	Economic Development Corporation	Total
\$ (6,244,680)	\$ -	\$ (6,244,680)
<u>-</u>	<u>(15,512)</u>	<u>(15,512)</u>
(6,244,680)	(15,512)	(6,260,192)
2,522,735	-	2,522,735
91,012	13,426	104,438
2,229	-	2,229
<u>2,615,976</u>	<u>13,426</u>	<u>2,629,402</u>
(3,628,704)	(2,086)	(3,630,790)
<u>(12,323,946)</u>	<u>13,026</u>	<u>(12,310,920)</u>
<u>\$ (15,952,650)</u>	<u>\$ 10,940</u>	<u>\$ (15,941,710)</u>

Township of Scio

Notes to Financial Statements March 31, 2010

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 the 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.

Discretely Presented Component Units

Downtown Development Authority - The Downtown Development Authority (the "Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the Township's board. In addition, the Authority's budget is subject to approval by the Township's board. Interim internal financial statements are prepared monthly and available at the Township Hall. The report may be obtained by writing to the Township at 827 North Zeeb Road, Ann Arbor, MI 48103.

Economic Development Corporation - The Economic Development Corporation (the "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 10 individuals, is selected by the Township board. Interim internal financial statements are prepared monthly and available at the Township Hall. The report may be obtained by writing to the Township at 827 North Zeeb Road, Ann Arbor, MI 48103.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets (deficit) 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.

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.

Note I - Summary of Significant Accounting Policies (Continued)

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 60 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.

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

Fire Fund - The Fire Fund is used to account for monies collected and expended for fire protection services.

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 type:

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.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

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 function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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.

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 2009 tax is levied and collectible on December 1, 2009 and is recognized as revenue in the year ended March 31, 2010, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2009 taxable valuation of the Township totaled \$1.39 billion (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 0.9518 mills for operating purposes and 0.4942 mills for land preservation. This resulted in approximately \$1,180,000 for operating and approximately \$606,000 for open space land preservation. These amounts are recognized in the respective General Fund and Open Space Preservation Fund financial statements as tax revenue.

Township of Scio

Notes to Financial Statements March 31, 2010

Note I - Summary of Significant Accounting Policies (Continued)

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.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Restricted assets are made up of cash or investments resulting from unspent bond proceeds which are legally restricted for capital projects.

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.

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

Note I - Summary of Significant Accounting Policies (Continued)

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.

Pension and Other Postemployment Benefit Costs - The Township offers both pension and retiree healthcare benefits to retirees. The Township receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, pension and OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the Township reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

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.

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.

Township of Scio

Notes to Financial Statements March 31, 2010

Note 1 - Summary of Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements - The Governmental Accounting Standards Board recently issued GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. As a result, the Township will be reviewing its right-of-way easements, water rights, land or property use rights, and computer software for capitalization of costs that had previously been expensed against operations. This new accounting pronouncement will be effective for the year beginning after June 15, 2009 (which would be the Township's fiscal year ending March 31, 2011).

The Governmental Accounting Standards Board recently issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. GASB No. 54 eliminates the current use of the terms "reserved" and "designated" in the reporting of fund balance and replaces those terms with five new categories for segregating fund balance. The standard is effective for periods beginning after June 15, 2010 (which would be the Township's fiscal year ending March 31, 2012).

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.

Fund Deficits - As of March 31, 2010, the Capital Projects Fund has a fund deficit of \$196,119 resulting from the loan payable to the Downtown Development Authority for the Baker Road construction costs. This deficit will be resolved by the collection of special assessment revenue over the next eight years.

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 seven banks for the deposit of its funds. The investment policy adopted by the Township board of trustees in accordance with Public Act 196 of 1947 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, 2010

Note 3 - Deposits and Investments (Continued)

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$13,991,613 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized; all of the component unit bank deposits were fully insured and collateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Commercial paper - L'Oreal USA Inc.	\$ 601,857	72 days
Commercial paper - Prudential PLC	4,486,368	5 days
U.S. government or agency bonds	21,538,132	428 days

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

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Pooled investment	\$ 636,514	AAAm	S&P
Commercial paper - L'Oreal USA Inc.	601,857	AAA	S&P
Commercial paper - Prudential PLC	4,486,368	AAA	S&P
U.S. government or agency bonds	21,538,132	AAA	S&P
Money markets	299,726	AAA	S&P

Township of Scio

Notes to Financial Statements March 31, 2010

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, the various components of deferred revenue are as follows:

	Governmental Funds	
	Unavailable	Unearned
Delinquent property taxes	\$ 63,556	\$ -
Special assessments	305,559	989,824
State-shared revenue	72,250	-
Total	<u>\$ 441,365</u>	<u>\$ 989,824</u>

Note 5 - Capital Assets

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

	Balance April 1, 2009	Additions	Disposals	Balance March 31, 2010
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 572,764	\$ -	\$ -	\$ 572,764
Land preservation - Land and easement	2,572,613	1,990,649	-	4,563,262
Subtotal	3,145,377	1,990,649	-	5,136,026
Capital assets being depreciated:				
Buildings and improvements	2,453,924	-	-	2,453,924
Equipment	943,789	59,678	(57,817)	945,650
Vehicles	875,933	49,393	-	925,326
Land improvements	154,237	-	-	154,237
Subtotal	4,427,883	109,071	(57,817)	4,479,137
Accumulated depreciation:				
Buildings	547,445	96,425	-	643,870
Equipment	346,223	32,111	(54,966)	323,368
Fire vehicles	335,415	38,441	-	373,856
Land improvements	74,531	12,422	-	86,953
Subtotal	1,303,614	179,399	(54,966)	1,428,047
Net capital assets being depreciated	<u>3,124,269</u>	<u>(70,328)</u>	<u>(2,851)</u>	<u>3,051,090</u>
Net capital assets	<u>\$ 6,269,646</u>	<u>\$ 1,920,321</u>	<u>\$ (2,851)</u>	<u>\$ 8,187,116</u>

Township of Scio

Notes to Financial Statements March 31, 2010

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance April 1, 2009	Reclassifications	Additions	Disposals	Balance March 31, 2010
Capital assets not being depreciated:					
Land	\$ 17,579	\$ 1,726,996	\$ 239,980	\$ -	\$ 1,984,555
Construction in progress	3,665,912	(5,539,917)	2,840,192	-	966,187
Subtotal	3,683,491	(3,812,921)	3,080,172	-	2,950,742
Capital assets being depreciated:					
Utility system	25,494,793	3,812,921	1,574,976	-	30,882,690
Buildings	761,586	-	-	-	761,586
Machinery and equipment	437,641	-	18,055	-	455,696
Vehicles	56,649	-	55,652	(38,279)	74,022
Sewer meters	7,118	-	-	-	7,118
Subtotal	26,757,787	3,812,921	1,648,683	(38,279)	32,181,112
Accumulated depreciation:					
Utility system	7,955,713	-	635,201	-	8,590,914
Buildings	405,311	-	19,278	-	424,589
Machinery and equipment	310,661	-	19,971	-	330,632
Vehicles	56,649	-	7,950	(38,279)	26,320
Sewer meters	6,477	-	285	-	6,762
Subtotal	8,734,811	-	682,685	(38,279)	9,379,217
Net capital assets being depreciated	18,022,976	3,812,921	965,998	-	22,801,895
Net capital assets	\$ 21,706,467	\$ -	\$ 4,046,170	\$ -	\$ 25,752,637

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

Governmental activities:	
General government	\$ 83,875
Public safety	95,229
Public works	295
Total governmental activities	<u>\$ 179,399</u>
Business-type activities:	
Water	\$ 350,390
Sewer	332,295
Total business-type activities	<u>\$ 682,685</u>

Township of Scio

Notes to Financial Statements March 31, 2010

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>
Due to/from Other Funds		
General Fund	Other governmental funds	\$ <u>1,420</u>
<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from Primary Government and Component Units		
Component Unit - Downtown Development Authority	Primary government - Capital Projects Fund	\$ <u>196,417</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	Other governmental funds	\$ <u>80,750</u>

The transfers from the General Fund to other governmental funds are related to debt service.

Note 7 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. Installment purchase agreements are also general obligations of the government.

Township of Scio

Notes to Financial Statements March 31, 2010

Note 7 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bonds:							
1999 General Obligation Limited Tax Bonds:							
Amount of issue: \$900,000	5.40% -	\$50,000 -					
Maturing through May 2017	5.65%	\$75,000	\$ 575,000	\$ -	\$ 50,000	\$ 525,000	\$ 50,000
Accumulated compensated absences			116,918	10,868	-	127,786	65,847
Total governmental activities			\$ 691,918	\$ 10,868	\$ 50,000	\$ 652,786	\$ 115,847
Business-type Activities							
General obligation bonds - 2008 DWRP Bonds:							
Amount of issue: \$3,155,000		\$125,000 -					
Maturing through October 2028	2.5%	\$195,000	\$ 2,410,449	\$ 91,711	\$ 125,000	\$ 2,377,160	\$ 125,000
Component Unit Activities							
2002 General Obligation Limited Tax Bonds:							
Amount of issue: \$7,000,000	4.30% -	\$400,000 -					
Maturing through April 2018	4.60%	\$700,000	\$ 5,200,000	\$ -	\$ 400,000	\$ 4,800,000	\$ 400,000
2006 General Obligation Limited Tax Bonds:							
Amount of issue: \$9,700,000		\$200,000 -					
Maturing through April 2025	4.00%	\$1,000,000	9,500,000	-	200,000	9,300,000	200,000
Total bonds payable			14,700,000	-	600,000	14,100,000	600,000
2007 Downtown Development & Refunding Bonds:							
Amount of issue: \$4,745,000		\$705,000 -					
Maturing through May 2014	4.00%	\$820,000	4,720,000	-	965,000	3,755,000	820,000
2008 Downtown Development & Refunding Bonds:							
Amount of issue: \$3,250,000	4.00% -	\$50,000 -					
Maturing through November 2028	5.00%	\$400,000	3,250,000	-	-	3,250,000	-
Total component unit activities			\$ 22,670,000	\$ -	\$ 1,565,000	\$ 21,105,000	\$ 1,420,000

Year Ending March 31	Governmental Activities			Business-type Activities			Component Unit Activities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 50,000	\$ 27,850	\$ 77,850	\$ 125,000	\$ 59,429	\$ 184,429	\$ 1,420,000	\$ 863,200	\$ 2,283,200
2012	50,000	25,175	75,175	101,990	56,977	158,967	1,555,000	804,525	2,359,525
2013	50,000	22,450	72,450	105,913	54,428	160,341	1,515,000	742,550	2,257,550
2014	75,000	18,993	93,993	105,913	51,780	157,693	1,660,000	678,900	2,338,900
2015	75,000	14,812	89,812	109,836	49,132	158,968	1,705,000	609,850	2,314,850
2016-2020	225,000	19,069	244,069	592,329	203,098	795,427	5,850,000	2,244,002	8,094,002
2021-2025	-	-	-	666,860	125,527	792,387	5,100,000	1,205,500	6,305,500
2026-2030	-	-	-	569,319	37,560	606,879	2,300,000	215,000	2,515,000
Total	\$ 525,000	\$ 128,349	\$ 653,349	\$ 2,377,160	\$ 637,931	\$ 3,015,091	\$ 21,105,000	\$ 7,363,527	\$ 28,468,527

Note 7 - Long-term Debt (Continued)

In prior years, the Township defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At March 31, 2010, \$3,475,000 of bonds outstanding are considered defeased.

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 - The Township participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all full- and part-time firefighters of the Township and all full-time employees, except the elected officials other than the current treasurer. 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 supplemental information for the system. The report may be obtained by writing to the system at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy - The obligation to contribute to and maintain the MERS for these employees was established by negotiation with the Township's collective bargaining units and arbitration rulings under Michigan Public Act 3312 of 1969.

Under the bargaining agreement with the firefighters, the Township is required to contribute a fixed 8 percent of gross wages through April 30, 2012, after which the percent contribution may change. The balance of funding required beyond the Township's 8 percent will be contributed by the full- and part-time firefighters of the Township.

For all full-time employees that elected to join MERS, the Township is required to contribute a fixed 8 percent of gross wages. The balance of funding required beyond the Township's 8 percent will be contributed by the full-time employees of the Township.

Township of Scio

Notes to Financial Statements March 31, 2010

Note 9 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost - For the year ended March 31, 2010, the Township's annual pension cost was approximately \$88,000 and was equal to the Township's required and actual contribution. The Township's participation in the plan commenced for the firefighters during the 2005 fiscal year. The other Township employees followed during the 2008 fiscal year. The annual required contribution was determined as part of an actuarial valuation performed by MERS as of December 31, 2008 using the entry age normal actuarial method and was revised for the full-time employees entering into the defined benefit plan during the 2008 fiscal year, subject to the fixed contribution noted above. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent attributable to inflation, (c) additional salary increases of 0 percent to 8.4 percent per year, attributable to seniority/merit, and (d) the assumption that benefits will increase 4.5 percent per year annually after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period.

The unfunded actuarial liability is being amortized as a level percent of payroll on an open basis. The remaining amortization period is 28 years.

Three-year trend information as of March 31 follows:

	Fiscal Year Ended March 31		
	2008	2009	2010
Annual pension cost (APC)	\$ 92,497	\$ 90,958	\$ 88,208
Percentage of APC contributed	100.0 %	100.0 %	100.0 %

Financial information from the most recent actuarial valuations is as follows:

	Actuarial Valuation as of December 31		
	2007	2008	2009
Actuarial value of assets	\$ 769,648	\$ 935,259	\$ 1,149,103
Actuarial accrued liability (AAL) (entry age)	1,402,144	1,506,556	1,537,420
Unfunded AAL (UAAL)*	632,496	571,297	388,317
Funded ratio	54.9 %	62.1 %	74.7 %
Covered payroll	1,149,993	1,121,009	1,113,744
UAAL as a percentage of covered payroll	55.0 %	51.0 %	34.9 %

* The unfunded AAL (UAAL) is the financial responsibility of the employees, assuming the Township remits the 8 percent contribution noted above.

Note 10 - Defined Contribution Pension Plan

The Township offers pension benefits to its elected officials through a defined contribution plan. Firefighters and other full-time employees participated in this plan in the past, but have since transferred to the defined benefit plan as disclosed 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 8 percent of an employee's approved pension earnings. Employee contributions are not required. In accordance with these requirements, the Township contributed approximately \$7,400 during the current year. The Township's contributions for each employee are fully vested upon entering service.

Note 11 - Other Postemployment Benefits

New Accounting Standard - In the current year, the Township implemented the Governmental Accounting Standards Board's Statement No. 45, *Accounting and Financial 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 pronouncement causes the government-wide statements and the proprietary fund to recognize the cost of providing retiree healthcare expenses over the working life of the employee, rather than at the time the healthcare expenses are paid. This statement was implemented prospectively. Implementing the statement caused an additional expense to be reported in the government-wide statement of activities and the proprietary fund of \$77,758 in excess of what would have been recorded in prior years.

Plan Description - The Township provides retiree healthcare benefits to eligible employees. This is an agent multiple employer defined benefit plan administered by the Township. The benefits are provided under collective bargaining agreements as approved by the board. The Township provides a monthly stipend to be used to supplement the insurance cost for postemployment healthcare benefits. At the governmental fund level, the expense is recognized by the Township as the payments to the employees are made. During the year, this amounted to \$15,305.

Funding Policy - The collective bargaining agreements do not require a contribution from employees. The Township has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis).

Township of Scio

Notes to Financial Statements March 31, 2010

Note 11 - Other Postemployment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation - The Township's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC). For the year ended March 31, 2010, the Township has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Township's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Township's net OPEB obligation to the Retiree Health Plan:

Annual required contribution (recommended)	\$ 93,063
Amounts contributed - Payments of current premiums	<u>(15,305)</u>
Increase in net OPEB obligation	77,758
OPEB obligation - Beginning of year	<u>-</u>
OPEB obligation - End of year	<u>\$ 77,758</u>

The Township's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2010 is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
3/31/10	3/31/09	\$ 93,063	16.4	\$ 77,758

The funding progress of the plan is as follows:

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
3/31/09	\$ -	\$ 839,225	\$ 839,225	-	\$ 1,402,156	59.9

Note 11 - Other Postemployment Benefits (Continued)

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

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

The following simplifying assumptions were made:

Retirement Age for Active Employees - Based on historical average retirement age for the covered group, active plan members were assumed to retire at age 65.

Marital Status - Marital status of members is irrelevant as the plan does not cover spouses or other dependents.

Mortality - Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2002 United States Life Tables for males and females were used.

Turnover - Non-group-specific age-based turnover data from GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating the periods of the present value of total benefits to be paid.

Healthcare Cost, Inflation, and Payroll Growth Trend Rates - A rate of 2 percent annually was based on the average Consumer Price Index (CPI) increases since 1994.

Health Insurance Premiums - Fiscal year 2010 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Note 11 - Other Postemployment Benefits (Continued)

In the March 31, 2009 valuation, the entry age actuarial cost method was used. The assumptions included a 1.00 percent investment rate of return and an inflation rate of 2.00 percent. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at March 31, 2009 was 30 years.

Required Supplemental Information

Township of Scio

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2010

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 1,176,000	\$ 1,166,000	\$ 1,183,218	\$ 17,218
State-shared revenue and grants	897,000	856,650	821,653	(34,997)
Locally raised	861,410	860,720	875,342	14,622
Investment income	35,000	30,000	25,658	(4,342)
Rental income	31,000	32,250	33,002	752
Other revenue	15,800	21,000	358,979	337,979
Total revenue	3,016,210	2,966,620	3,297,852	331,232
Expenditures - Current				
General government:				
General government	778,812	635,762	584,581	51,181
Assessing	440,050	413,020	404,110	8,910
Elections	30,645	15,610	15,135	475
Boards and commissions	255,625	228,875	235,672	(6,797)
Total general government	1,505,132	1,293,267	1,239,498	53,769
Health and safety	1,337,500	1,109,283	1,121,708	(12,425)
Building and grounds	46,100	43,000	36,550	6,450
Capital outlay	60,000	60,000	41,148	18,852
Total expenditures	2,948,732	2,505,550	2,438,904	66,646
Excess of Revenue Over Expenditures	67,478	461,070	858,948	397,878
Other Financing Uses - Transfers out	(80,751)	(80,750)	(80,750)	-
Net Change in Fund Balance	(13,273)	380,320	778,198	397,878
Fund Balance - Beginning of year	5,212,816	5,212,816	5,212,816	-
Fund Balance - End of year	<u>\$ 5,199,543</u>	<u>\$ 5,593,136</u>	<u>\$ 5,991,014</u>	<u>\$ 397,878</u>

Township of Scio

Required Supplemental Information Budgetary Comparison Schedule Open Space Land Preservation Fund Year Ended March 31, 2010

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 601,500	\$ 601,700	\$ 606,428	\$ 4,728
Federal grants	-	501,825	501,825	-
Investment income	15,000	1,200	1,404	204
Total revenue	616,500	1,104,725	1,109,657	4,932
Expenditures - Current - Capital outlay	3,115,570	1,682,620	1,668,798	13,822
Excess of Expenditures Over Revenue	(2,499,070)	(577,895)	(559,141)	18,754
Other Financing Sources -				
Proceeds for issuance of debt	2,500,000	-	-	-
Net Change in Fund Balance	930	(577,895)	(559,141)	18,754
Fund Balance - Beginning of year	954,403	954,403	954,403	-
Fund Balance - End of year	<u>\$ 955,333</u>	<u>\$ 376,508</u>	<u>\$ 395,262</u>	<u>\$ 18,754</u>

Township of Scio

Required Supplemental Information Budgetary Comparison Schedule Fire Department Fund Year Ended March 31, 2010

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Locally raised	\$ 500	\$ 1,715	\$ 2,441	\$ 726
Investment income	-	900	988	88
Rental income	22,250	26,083	29,916	3,833
Other revenue:				
Special assessments	1,006,000	1,006,600	1,006,653	53
Other miscellaneous income	2,600	630	639	9
Total revenue	1,031,350	1,035,928	1,040,637	4,709
Expenditures - Current - Public safety	1,033,112	677,550	640,377	37,173
Excess of Revenue (Under) Over Expenditures	(1,762)	358,378	400,260	41,882
Other Financing Sources -				
Transfers in	2,762	-	-	-
Net Change in Fund Balance	1,000	358,378	400,260	41,882
Fund Balance - Beginning of year	379	379	379	-
Fund Balance - End of year	<u>\$ 1,379</u>	<u>\$ 358,757</u>	<u>\$ 400,639</u>	<u>\$ 41,882</u>

Township of Scio

Note to Budgetary Comparison Schedule - General Fund Year Ended March 31, 2010

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds, except that operating transfers and debt proceeds 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, 2010 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Township had the following expenditures in excess of budgeted amounts:

	<u>Budget</u>	<u>Actual</u>
General Fund - Boards and commissions	\$ 228,875	\$ 235,672
General Fund - Health and safety	1,109,283	1,121,708

Other Supplemental Information

Township of Scio

	Special Revenue Funds				Debt Service Funds
	Public Improvement Fund	Budget Stabilization Fund	Public Safety and Improvement Fund	Tree Mitigation Fund	Building Authority Fund
Assets					
Cash and investments	\$ 787,420	\$ 93,241	\$ 1,203,015	\$ 6,010	\$ -
Receivables	-	-	-	-	-
Total assets	\$ 787,420	\$ 93,241	\$ 1,203,015	\$ 6,010	\$ -
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ -	\$ -	\$ 6,934	\$ -	\$ -
Due to other funds	220	780	420	-	-
Deferred revenue	-	-	-	-	-
Total liabilities	220	780	7,354	-	-
Fund Balances					
Reserved - Metro act	77,098	-	-	-	-
Special Revenue Funds	710,102	92,461	1,195,661	6,010	-
Capital Projects Funds	-	-	-	-	-
Total fund balances	787,200	92,461	1,195,661	6,010	-
Total liabilities and fund balances	\$ 787,420	\$ 93,241	\$ 1,203,015	\$ 6,010	\$ -

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
March 31, 2010**

<u>Capital Projects Funds</u>		
<u>Township Road Improvement Revolving Fund</u>	<u>East Delhi Bridge Maintenance Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 61,578	\$ 5,006	\$ 2,156,270
68,987	-	68,987
<u>\$ 130,565</u>	<u>\$ 5,006</u>	<u>\$ 2,225,257</u>
\$ -	\$ -	\$ 6,934
-	-	1,420
65,559	-	65,559
65,559	-	73,913
-	-	77,098
-	-	2,004,234
65,006	5,006	70,012
65,006	5,006	2,151,344
<u>\$ 130,565</u>	<u>\$ 5,006</u>	<u>\$ 2,225,257</u>

Township of Scio

	Special Revenue Funds				Debt Service Funds
	Public Improvement Fund	Budget Stabilization Fund	Public Safety and Improvement Fund	Tree Mitigation Fund	Building Authority Fund
Revenue					
Investment income	\$ 4,139	\$ 272	\$ 10,291	\$ 5	\$ -
Other revenue	12,316	-	24,920	-	-
Total revenue	16,455	272	35,211	5	-
Expenditures - Current					
General government	21,904	161	3,240	-	-
Capital outlay	-	-	63,677	-	-
Debt service	-	-	-	-	80,750
Total expenditures	21,904	161	66,917	-	80,750
Excess of Revenue (Under) Over Expenditures	(5,449)	111	(31,706)	5	(80,750)
Other Financing Sources - Transfers in	-	-	-	-	80,750
Net Change in Fund Balances	(5,449)	111	(31,706)	5	-
Fund Balances - Beginning of year	792,649	92,350	1,227,367	6,005	-
Fund Balances - End of year	<u>\$ 787,200</u>	<u>\$ 92,461</u>	<u>\$ 1,195,661</u>	<u>\$ 6,010</u>	<u>\$ -</u>

**Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended March 31, 2010**

Capital Projects Funds		
Township Road Improvement Revolving Fund	East Delhi Bridge Maintenance Fund	Total Nonmajor Governmental Funds
\$ 4,399	\$ 3	\$ 19,109
21,852	-	59,088
<u>26,251</u>	<u>3</u>	<u>78,197</u>
-	-	25,305
-	-	63,677
-	-	80,750
<u>-</u>	<u>-</u>	<u>169,732</u>
26,251	3	(91,535)
<u>-</u>	<u>-</u>	<u>80,750</u>
26,251	3	(10,785)
<u>38,755</u>	<u>5,003</u>	<u>2,162,129</u>
<u>\$ 65,006</u>	<u>\$ 5,006</u>	<u>\$ 2,151,344</u>

**Township of Scio
Washtenaw County, Michigan**

**Federal Awards
Supplemental Information
March 31, 2010**

Township of Scio

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Independent Auditor's Report

To the Board of Trustees
Township of Scio

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township of Scio (the "Township") as of and for the year ended March 31, 2010, which collectively comprise the Township's basic financial statements, and have issued our report thereon dated July 15, 2010. These basic financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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.

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 schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule 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.

Plante & Moran, PLLC

July 15, 2010

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
Township of Scio

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township of Scio (the "Township") as of and for the year ended March 31, 2010, which collectively comprise the Township's basic financial statements, and have issued our report thereon dated July 15, 2010. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Scio's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2010-1 to be a material weakness.

To the Board of Trustees
Township of Scio

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township of Scio's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we have reported to management of the Township of Scio in a separate letter dated July 15, 2010.

The Township of Scio's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Township of Scio's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of trustees, others within the Township, regulatory bodies, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

July 15, 2010

Report on Compliance with Requirements Applicable to the Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Trustees
Township of Scio

Compliance

We have audited the compliance of the Township of Scio with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended March 31, 2010. The major federal program of the Township of Scio is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Township of Scio's management. Our responsibility is to express an opinion on the Township of Scio's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Township of Scio's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Township of Scio's compliance with those requirements.

In our opinion, the Township of Scio complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended March 31, 2010.

To the Board of Trustees
Township of Scio

Internal Control Over Compliance

The management of the Township of Scio is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Township of Scio's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the board of trustees, others within the Township, regulatory bodies, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

July 15, 2010

Township of Scio

Schedule of Expenditures of Federal Awards Year Ended March 31, 2010

<u>Federal Agency/Pass-through Agency/Program Title</u>	<u>CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture - Farm and Ranch Lands Protection Project	10.913	N/A	\$ 501,825
U.S. Environmental Protection Agency - Passed through State of Michigan Department of Environmental Quality - Safe Drinking Water Revolving Fund	66.468	7232-01	<u>55,226</u>
Total federal awards			<u>\$ 557,051</u>

Township of Scio

Note to Schedule of Expenditures of Federal Awards Year Ended March 31, 2010

Note - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Township of Scio and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Township of Scio

Schedule of Findings and Questioned Costs Year Ended March 31, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major program(s):

CFDA Number	Name of Federal Program or Cluster
10.913	Farm and Ranch Lands Protection Project

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

Township of Scio

Schedule of Findings and Questioned Costs (Continued) Year Ended March 31, 2010

Section II - Financial Statement Audit Findings

Reference Number	Findings
2010-1	<p>Finding Type - Material weakness</p> <p>Criteria - The Township's purchasing policy and procedures require a signed contract be executed following board approval before any work begins or any invoices for work performed are paid.</p> <p>Condition - Following the board's approval of a water and sewer construction project for approximately \$589,000, the work was completed by the Township's engineering firm, invoices were presented to the Township, and subsequently paid by the Township, but the related contract had never been signed before work commenced.</p> <p>Context - The Township has an approximate \$2,100,000 approved contract with the same engineering firm for what is referred to as the "master plan." It was mistakenly assumed that the \$589,000 project was part of the master plan.</p> <p>Cause - When they were approved for payment, the invoices were not traced back to the contract.</p> <p>Effect - Over two years, the project in question was completed and paid for by the Township without ever having signed the contract.</p> <p>Recommendation - Invoices from the engineering firm should be clearly labeled as to which project the invoice applies to. Also, as part of the cash disbursement procedures, the invoices should be traced back to the signed contract to ensure the work has been properly approved before payment.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The Township identified the problem and the Township board has approved the contract retroactively. Future projects will be clearly identified so that this series of events does not occur again in the future.</p>

Township of Scio

Schedule of Findings and Questioned Costs (Continued) Year Ended March 31, 2010

Section III - Federal Program Audit Findings

Reference Number	Findings
None	

**Township of Scio
Washtenaw County, Michigan**

**Report to the Township Board of Trustees
Supplemental Information
March 31, 2010**

July 15, 2010

To the Board of Trustees
Township of Scio

Dear Board Members:

We have recently audited the financial statements of Scio Township (the "Township") for the year ended March 31, 2010 and have issued our report thereon dated July 15, 2010. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Communications Required Under SAS 114

Section II - Other Recommendations

Section III - Legislative and Informational Items

Section I includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the board of trustees of the Township of Scio.

Section II presents recommendations related to internal control and procedures noted during our current year audit. These comments are offered in the interest of helping the Township in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operational or administrative efficiency and effectiveness.

Section III contains updated legislative and informational items that we believe will be of interest to you.

In addition to the comments and recommendations in this letter, our observations and comments regarding the Township's internal control, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. This report is included in the supplemental schedule of federal awards, and we recommend that the matters we have noted there receive your careful consideration.

We would like to take this opportunity to thank the Township's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report is intended solely for the use of the board of trustees and management of the Township and is not intended to be and should not be used by anyone other than these specified parties.

To the Board of Trustees
Township of Scio

July 15, 2010

We welcome any questions you may have regarding the following communications and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC

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

Michael J. Swartz

Section I - Communications Required Under SAS 114

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 25, 2007, 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 Township of Scio. 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.

Our audit of the Township's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the Township's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated June 3, 2010, regarding our consideration of the Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

We are also obligated to communicate certain matters related to our audit to those responsible for the governance of the Township, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We have made suggestions as to the form or content of the financial statements, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of 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. The financial statements remain the representations of management.

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

Auditor's Responsibility for Testing and Reporting on Internal Control and Compliance with Laws, Regulations, Grant Agreements, and Contract Provisions

In the process of a financial statement audit, we gain an understanding of internal control of the Township as well as the laws and regulations having a direct and material effect on the Township for the purpose of assisting in determining the nature, timing, and extent of audit testing. Tests of controls and compliance with laws and regulations in a financial statement audit contribute to the evidence supporting our opinion on the financial statements. However, the limited purpose and scope of these tests are not sufficient to provide a basis for an opinion on the adequacy of internal control or on compliance with laws, regulations, grant agreements, and contract provisions.

The limited purpose of these tests in a financial statement audit may not meet the needs of some users of auditor's reports who require additional information on internal control and on compliance with laws, regulations, grant agreements, and contract provisions. To meet certain audit report users' needs, laws, regulations, grants, and contracts often prescribe testing and reporting on internal control and compliance to supplement the coverage of these areas in a financial statement audit. In accordance with OMB Circular A-133 covering federal awards, supplemental testing of and reporting on internal control and compliance were performed.

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 19, 2010.

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 Township of Scio are described in Note 1 to the financial statements.

As described in Note 11, the Township changed accounting policies related to the recording of other postemployment benefits by adopting Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2009.

We noted no transactions entered into by the Township 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 estimates affecting the financial statements were other postemployment benefit actuarial estimates. Management's estimate of the other postemployment benefit actuarial estimates is based on historical data relating to healthcare premiums. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Management has corrected all such misstatements.

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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 15, 2010.

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 Township'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 Audit Findings or Issues

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

This information is intended solely for the use of the board of trustees and management of the Township of Scio and is not intended to be and should not be used by anyone other than these specified parties.

Section II - Other Recommendations

During our audit, we noted areas where we believe there are opportunities for the Township to further strengthen internal control or to increase operating efficiencies. Our observations on those areas are presented for your consideration below.

Sick and Vacation Time Approval - Repeat Suggestion

From work performed during the audit and discussions with management, it appears that employees would potentially have the ability to use sick and vacation time without reporting it on their timesheet. As a result, employees' accumulated banks of time could possibly not be reduced when compensated time off is taken. We suggest that the Township implement additional controls for tracking, approving, and reporting compensated time off.

Daily Cash Reconciliation - Repeat Suggestion

During our test of controls when performing audit procedures, it was noted that there is still no signature/initial of which employee performed the cash reconciliation function on any given day. We recommend having the employee sign his or her initials to the daily reconciliation in order to maintain a better audit trail.

Maintenance of Original Bank Documents

When performing audit procedures on the bank reconciliation process, the Township was unable to provide the auditors with the original bank statement or bank reconciliation for a few months of the DDA bank accounts. The original copies were misplaced within the Township offices. New copies of these missing bank statements were requested and received from the bank and the reconciliation was performed again by accounting staff. Maintaining the documentation related to bank accounts and reconciliations is an important aspect of internal control and provides the necessary audit trail. We suggest that the Township review the system of maintaining and retaining original documents.

Review and Approval of Manual Journal Entries

In a smaller accounting environment where staffing is limited, it becomes very important for management to provide enough oversight over the accounting function. During the review of journal entry documentation, it was noted that there is no review or authorization process in place for entries made by the CFO. Even though the Township board of trustees receives and reviews budget to actual statements each month, we suggest that one of the elected officials review manual journal entries periodically throughout the year as an additional aspect of internal control.

Capital Asset Software Program

The Township has been tracking and maintaining capital asset detail using various excel spreadsheets over the past several years. Given the volume of fixed assets that the Township currently holds, the maintenance of such excel spreadsheets has become cumbersome and time consuming, allowing room for potential error or double counting of assets. We suggest that the Township utilize a capital asset software program to track and maintain capital assets currently held as well as future capital asset purchases.

BS&A Software Capabilities

As the volume of capital projects of the Township continues to increase, it would be advantageous for the Township to utilize the “project management” component within their current general ledger system. This component will help track the progress of the different projects, project contracts paid to date, and related project capital assets. The information collected within the software should be helpful to the Township management and the board of trustees.

Designated Banking Institutions

During the course of preparing the cash and investment disclosures within the Township’s financial statements, we became aware that the Township’s investment policy does not require the board’s approval before utilizing a financial institution. We suggest that the Township amend the current investment policy and include a list of banking institutions that the Township is allowed to do business with.

We appreciate the continued opportunity to serve as your auditors. We would be happy to answer any questions you have regarding the annual financial report or the above comments and recommendations at your convenience.

Section III - Legislative and Informational Items

Revenue Sharing

As you are aware, the last State budget passed in October 2009 had the effect of reducing revenue sharing to communities for 2009/2010 from a total of \$1.037 billion to \$917.4 million. After the January consensus, the executive budget recommendation for 2010/2011 was to maintain revenue sharing at the same total level of \$917.4 million although there was a slight shift from the constitutional to the statutory portion.

In March 2010, the House general government committee set forth a budget for 2010/2011 that would have introduced a revenue-sharing cut of 3.1 percent. The House appropriations committee rejected the cut and instead recommended an increase of 1 percent. The \$26 million needed for this proposal would come from closing some tax loopholes that currently exist. On the contrary, most recently, in May 2010, the Senate appropriations committee as well as the full Senate voted to cut revenue sharing by 4 percent. As you can see, revenue sharing continues to be a moving target and we continue to encourage you to be cautious in budgeting this line item.

The Senate fiscal agency website includes a listing of projected revenue sharing by community (including the 1 percent increase) at www.house.mi.gov/hfa/revenue.asp.

Property Tax Developments

Many communities in Michigan are continuing to face the challenges inherent in the real estate market decline given the effects of Proposal A. Some communities are seeing a decline in overall taxable value this year - many will see similar or greater declines in future years. The impact on each community and over what period of time will vary. The one constant, however, is that there will be an impact that each community will need to consider come budget time.

The following table illustrates the time lag related to property tax valuations:

Assessment Date	12/31/07	12/31/08	12/31/09	12/31/10
Levy date	12/1/08	12/1/09	12/1/10	12/1/11
Budget year	3/31/09	3/31/10	3/31/11	3/31/12

In addition, the recovery of property tax revenue, when it does begin to happen, will be very slow due to the impact of Headlee and Proposal A. Even if the market value of properties increases by more than inflation, the Township would only see increases in line with the percentages in the following table.

Property Assessment Cap

As you 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:

2010	(0.3%)
2009	4.4%
2008	2.3%
2007	3.7%
2006	3.3%
2005	2.3%
2004	2.3%
2003	1.5%

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 and as a result of changes made to the State's General Property Tax Act, 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 31, 2010, the Township's Headlee maximum property tax rate for its operating levy was 0.9518 mills even though the Township Charter would allow the Township to levy 1.1600 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated in several published studies and reports, due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation) will continue downward pressure on millage rates particularly given the significant gap that now exists between taxable value and state equalized value. It should be noted that the Township tax revenue has declined for a third year while the millage has remained unchanged.

PCI Compliance Rules for Governments Accepting Credit Card Payments

The payment card industry (PCI) is an industry group created by Visa, Discover, and other credit card issuers. To protect their cardholders from the increasing number of incidences of identity theft and security breaches, they have developed data security standards (DSS) by which all organizations, including governmental entities that accept, process, transmit, or store credit card data, must comply.

These standards have been around for a number of years, but have been sporadically enforced. Due to recent increases in identity theft incidences, the card issuers are moving toward enforcing full compliance by all organizations. The requirements of the PCI standards include the completion of an annual self-assessment questionnaire (SAQ) and a quarterly network security scan by an approved scanning vendor (ASV). Penalties for noncompliance include a hold on your ability to accept credit card payments, increased scrutiny for the next year, and fines ranging from \$10,000 to \$50,000 or more.

On June 3, 2010, one of our technology specialists gave a brief presentation to the Township's full-time elected officials regarding compliance requirements.

If the board as a whole is interested, our specialist would be happy to attend a Township board meeting and repeat the presentation.

House Bills 5550-5554 - "Financial Flexibility"

On March 15, 2010, the State House passed a series of bills that would temporarily reverse the current requirements that bond refinancing may only be done if net present value savings can be obtained. Furthermore, this legislation would permit for a municipal security to be sold at a discount rate exceeding 10 percent of the principal. Both bills apply only to securities issued prior to December 31, 2012. The purpose of the bills is to permit refunding bonds to be issued for the purpose of achieving cash-flow savings, frequently caused by the sharp property value declines or other negative economic factors. The bills are intended to provide debt flow relief and restructuring in appropriate cases (i.e., special assessments, TIFs, etc.) and only apply if those securities were not originally secured by the unlimited full faith and credit pledge of the municipality. The bills have been recently submitted to the Senate for their consideration.

Upcoming Accounting Change - GASB Statements No. 51 and No. 54

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for the Township's 2011 fiscal year end. This statement requires capitalization of identifiable intangible assets in the statement of net assets and provides guidance for amortization of intangible assets unless they are considered to have an indefinite useful life. This statement also establishes specified conditions upon which internally generated intangible assets should be recognized and amortized, including internally generated computer software. This statement is to be implemented retroactively. The Township will be required to implement this new standard with the fiscal year beginning on April 1, 2010. We will assist the Township in understanding this new pronouncement and the effect it will have on the Township's future financial statements.

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved will be replaced with five new designations. The Township will be required to implement this new standard with the fiscal year beginning April 1, 2011. We will assist the Township in understanding this new pronouncement and the effect it will have on the Township's future financial statements.