

# **Charter Township of Mundy**

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**Financial Report  
with Supplemental Information  
December 31, 2014**

# Charter Township of Mundy

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## Independent Auditor's Report

To the Board of Directors  
Charter Township of Mundy

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Mundy as of and for the year ended December 31, 2014 and the related notes to the financial statements, which collectively comprise the Charter Township of Mundy's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Mundy as of December 31, 2014 and the respective changes in its financial position, and, where applicable, cash flows, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors  
Charter Township of Mundy

**Other Matters**

*Required Supplemental Information*

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

*Plante & Moran, PLLC*

May 26, 2015

# **Charter Township of Mundy**

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

This discussion and analysis of the Charter Township of Mundy's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2014. Please read it in conjunction with the Township's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2014:

- Property taxes make up 42 percent of the Township's General Fund revenue. In 2014, the Township saw a 6 percent increase in property tax revenue, compared to a 4 percent decrease in 2013. The Township is finally starting to see a benefit from the slight increase in property values.
- State-shared revenue (the Township's allocation of state sales tax collections) makes up 22 percent of the Township's General Fund revenue. This revenue has been a stable funding source for the Township for the last few years and is expected to increase slightly in 2015.
- Actual revenue exceeded the budgeted amount by \$289,499. This variance is attributed to an overall conservative approach to the budgeted revenue line items.
- Actual expenditures were under the budget by \$163,689. This variance is largely due to the postponement of some costly street maintenance projects as well as conservative spending habits.

### **Using this Annual Report**

- This annual report consists of a series of financial statements. The statement of net position and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.
- The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds.

# Charter Township of Mundy

## Management's Discussion and Analysis (Continued)

### Governmental Activities

The following table shows, in a condensed format, the current year's net position and changes in net position, compared to the prior two years:

	Governmental Activities				Percent
	2012	2013	2014	Change	Change
<b>Assets</b>					
Cash and investments	\$ 6,452,630	\$ 6,220,653	\$ 6,822,452	\$ 601,799	10%
Receivables and other current assets	1,915,675	1,885,587	2,048,715	163,128	9%
Net pension asset	-	882,962	872,250	(10,712)	-1%
Capital assets	<u>4,319,062</u>	<u>4,333,528</u>	<u>4,162,726</u>	<u>(170,802)</u>	-4%
Total assets	12,687,367	13,322,730	13,906,143	583,413	4%
<b>Liabilities</b>					
Current liabilities	167,057	1,023,922	1,087,395	63,473	6%
Long-term liabilities	<u>37,823</u>	<u>220,066</u>	<u>40,264</u>	<u>(179,802)</u>	-82%
Total liabilities	<u>204,880</u>	<u>1,243,988</u>	<u>1,127,659</u>	<u>(116,329)</u>	-9%
Deferred Inflows of Resources	2,686,673	1,984,634	2,048,469	63,835	3%
<b>Net Position</b>					
Net investment in capital assets	4,298,982	4,313,448	4,148,059	(165,389)	-4%
Restricted	10,387	1,633	1,633	-	0%
Unrestricted	<u>5,486,445</u>	<u>5,779,027</u>	<u>6,580,323</u>	<u>801,296</u>	14%
Total net position	<u>\$ 9,795,814</u>	<u>\$ 10,094,108</u>	<u>\$ 10,730,015</u>	<u>\$ 635,907</u>	6%

# Charter Township of Mundy

## Management's Discussion and Analysis (Continued)

	Governmental Activities				Percent
	2012	2013	2014	Change	Change
<b>Revenue</b>					
Program revenue:					
Charges for services	\$1,147,723	\$1,088,506	\$1,132,786	\$ 44,280	4%
Operating grants	12,449	13,204	19,225	6,021	46%
Capital grants	2,024	26,160	1,017	(25,143)	-96%
General revenue:					
Property taxes	2,216,444	2,129,691	2,255,916	126,225	6%
Landfill impact fees	285,107	283,991	354,229	70,238	25%
State-shared revenue	1,099,718	1,121,190	1,172,270	51,080	5%
Investment earnings	13,001	26,857	20,187	(6,670)	-25%
Other revenue	277,794	312,786	315,925	3,139	1%
Total revenue	5,054,260	5,002,385	5,271,555	269,170	5%
<b>Program Expenses</b>					
General government	1,170,087	1,014,468	942,651	(71,817)	-7%
Public safety	2,594,527	2,595,438	2,654,492	59,054	2%
Public works	1,318,275	1,043,484	918,101	(125,383)	-12%
Community and economic develop	2,174	3,787	42,543	38,756	1023%
Planning and zoning	72,256	44,538	76,079	31,541	71%
Interest on long-term debt	2,970	2,376	1,782	(594)	-25%
Total program expenses	5,160,289	4,704,091	4,635,648	(68,443)	-1%
<b>Change in Net Position</b>	<b>\$ (106,029)</b>	<b>\$ 298,294</b>	<b>\$ 635,907</b>	<b>\$ 337,613</b>	113%

The governmental net position increased 6 percent from a year ago - increasing from \$10,094,108 to \$10,730,015. In comparison, there was a 3 percent increase in net position during 2013.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations, increased \$801,296 for the governmental activities. This represents an increase of approximately 14 percent. The current level of unrestricted net position for our governmental activities stands at \$6,580,323, or about 142 percent of expenditures.

The Township's total governmental revenue had a 5 percent increase of \$269,170. Major contributing factors to this increase include a \$126,225 increase in property tax revenue and a \$70,238 increase in impact fees received from the landfill.

Expenditures decreased \$68,443 during the year. The decrease was primarily due to a decrease in street maintenance projects.

# Charter Township of Mundy

## Management's Discussion and Analysis (Continued)

### Business-type Activities

The following table shows, in a condensed format, the current year's net position and changes in net position, compared to the prior two years:

	Business-type Activities				Percent Change
	2012	2013	2014	Change	
<b>Assets</b>					
Cash and investments	\$ 8,654,189	\$ 8,829,235	\$ 9,045,771	\$ 216,536	2%
Receivables and other current assets	1,424,209	1,314,277	1,271,698	(42,579)	-3%
Net pension asset	-	17,038	17,447	409	100%
Capital assets	6,174,229	5,779,679	5,385,390	(394,289)	-7%
Total assets	16,252,627	15,940,229	15,720,306	(219,923)	-1%
<b>Liabilities</b>					
Current liabilities	553,547	646,533	758,336	111,803	17%
Long-term liabilities	161,079	-	-	-	-100%
Total liabilities	714,626	646,533	758,336	111,803	17%
<b>Net Position</b>					
Net investment in capital assets	6,174,229	5,779,679	5,385,390	(394,289)	-7%
Unrestricted	9,363,772	9,514,017	9,576,580	62,563	1%
Total net position	<u>\$ 15,538,001</u>	<u>\$ 15,293,696</u>	<u>\$ 14,961,970</u>	<u>\$ (331,726)</u>	-2%

	Business-type Activities				Percent Change
	2012	2013	2014	Change	
Operating revenue	\$ 3,441,080	\$ 3,300,920	\$ 3,695,818	\$ 394,898	12%
Operating expenses, other than depreciation	3,438,285	3,384,432	3,702,150	317,718	9%
Depreciation and amortization	380,807	394,550	394,289	(261)	0%
Operating loss	(378,012)	(478,062)	(400,621)	77,441	-16%
Interest income	24,560	21,488	9,575	(11,913)	-55%
Capital contributions	-	212,269	59,320	(152,949)	363%
<b>Decrease in Net Position</b>	<u>\$ (353,452)</u>	<u>\$ (244,305)</u>	<u>\$ (331,726)</u>	<u>\$ (87,421)</u>	36%



# **Charter Township of Mundy**

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

The Township's business-type activities consist of the Water and Sewer Fund. Both water and sewage services are purchased from Genesee County.

The net position of business-type activities decreased 2 percent from a year ago - decreasing from \$15,293,696 to \$14,961,970.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations, increased \$62,563 for the Water and Sewer Fund. This represents an increase of 1 percent. The current level of unrestricted net position for the Water and Sewer Fund is \$9,576,580.

During 2014, the Township passed on increases from Genesee County for sewer services to our customers. In the next couple years, we are anticipating increases in costs for both water and sewer services and will likely need to pass these additional fees onto the residents. We will continue to closely monitor our costs to ensure they are aligning properly with customer charges.

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

Our analysis of the Township's major funds follows the government-wide financial statements. The fund financial statements provide detailed information about individual funds, not the Township as a whole. The Township's major funds consist of the General Fund and the Water and Sewer Fund.

# Charter Township of Mundy

## Management's Discussion and Analysis (Continued)

The General Fund pays for most of the Township's governmental services. A three-year trend, presented on the modified accrual basis of accounting, follows:

	Governmental Funds				Percent
	2012	2013	2014	Change	Change
<b>Revenue</b>					
Property taxes	\$ 2,216,444	\$ 2,129,691	\$ 2,255,916	\$ 126,225	6%
Charges for services	959,848	917,828	917,427	(401)	0%
Licenses and permits	103,037	116,696	159,114	42,418	36%
State-shared revenues	1,099,718	1,121,190	1,172,270	51,080	5%
Federal, state, and local grants	12,449	38,356	19,497	(18,859)	-49%
Fines and forfeitures	60,168	51,618	36,946	(14,672)	-28%
Interest and rentals	13,001	26,857	20,187	(6,670)	-25%
Special assessments	56,479	57,212	54,746	(2,466)	-4%
Other	622,357	625,511	727,479	101,968	16%
<b>Total revenue</b>	<b>5,143,501</b>	<b>5,084,959</b>	<b>5,363,582</b>	<b>278,623</b>	<b>5%</b>
<b>Expenditures</b>					
Current:					
General government	1,040,692	1,008,835	883,011	(125,824)	-12%
Public safety	2,438,962	3,079,413	2,656,507	(422,906)	-14%
Public works	1,318,275	1,043,484	918,101	(125,383)	-12%
Health and welfare	2,174	2,708	42,543	39,835	1471%
Community and economic development	72,256	44,538	76,079	31,541	71%
Capital outlay	273,703	264,477	108,190	(156,287)	-59%
Debt service	5,817	2,376	7,195	4,819	203%
<b>Total expenditures</b>	<b>5,151,879</b>	<b>5,445,831</b>	<b>4,691,626</b>	<b>(754,205)</b>	<b>-14%</b>
<b>Excess of Revenue Over (Under)</b>					
<b>Expenditures</b>	<b>(8,378)</b>	<b>(360,872)</b>	<b>671,956</b>	<b>1,032,828</b>	<b>-286%</b>
<b>Other Financing Sources</b>					
Proceeds from sales of capital assets	50,327	3,853	17,585	13,732	356%
<b>Net Change in Fund Balances</b>	<b>41,949</b>	<b>(357,019)</b>	<b>689,541</b>	<b>1,046,560</b>	<b>-293%</b>
<b>Fund Balances - Beginning of year</b>	<b>5,189,103</b>	<b>5,231,052</b>	<b>4,874,033</b>	<b>(357,019)</b>	<b>-7%</b>
<b>Fund Balances - End of year</b>	<b>\$ 5,231,052</b>	<b>\$ 4,874,033</b>	<b>\$ 5,563,574</b>	<b>\$ 689,541</b>	<b>14%</b>

In 2014, governmental funds revenue was more than its expenditures, increasing the fund balance by \$689,541. This increase was a combination of a \$553,188 increase in the General Fund and a \$136,353 increase in the Capital Improvement Fund.

# **Charter Township of Mundy**

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

### **General Fund Budgetary Highlights**

General Fund actual revenue of \$5,363,310 exceeded budgeted revenue of \$5,073,811 by \$289,499. This variance is attributed to an overall conservative approach to the budgeted revenue line items.

General Fund actual expenditures of \$4,583,436 were less than budgeted expenditures of \$4,747,125 by \$163,689. This variance is due in large part to the postponement of some costly street maintenance projects.

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

At the end of 2014, the Township had \$4,162,726 in governmental activities and \$5,385,390 in business-type activities for a total of \$9,548,116 invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines (see Note 5). In addition, the Township has invested significantly in roads within the Township. These assets are not reported in the Township's financial statements because of Michigan law, which makes these roads the property of the Genesee County Road Commission (along with the responsibility to maintain them).

Also at the end of 2014, the Township had \$42,853 in long-term debt. A total of \$14,667 of long-term debt is the balance of the 2011 Brewer Road Culvert debt (see Note 7), which will be fully paid in 2020. A total of \$28,186 of long-term debt is the amount of accrued wages for police officers that was earned by year end but not paid out. These accrued wages are made up of compensated absences and vacation time that is allowed to be carried over to subsequent years.

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

For the second consecutive year, property taxes are anticipated to increase in 2015. Although an increase in property tax revenue is expected in 2015, there is still a long way to go before getting back to the property values our economy was experiencing in 2009. There still remains a cumulative decrease in property tax revenue from 2009 to 2014 of approximately 19 percent.

The Township's 2015 budget has revenues exceeding expenditures by \$100,986. This was made possible by an increase in state revenue sharing from the cities, villages, and townships revenue sharing program and a decrease in retirement costs due to the additional funding contribution made in 2013.

# **Charter Township of Mundy**

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

Furthermore, the Township board has passed a fund balance policy that does not allow fund balance to drop below a minimum of 25 percent of budgeted revenue. The fund balance policy, coupled with implementation of GASB No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, which segregates fund balance into five components, has been extremely useful in building the 2015 budget, especially since the board can determine future liabilities and commit or assign fund balance early on in an attempt to curtail operating costs that would otherwise deplete the fund balance.

### **Contacting the Township's Management**

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

# Charter Township of Mundy

## Statement of Net Position December 31, 2014

	Primary Government			Component Unit - Corridor Improvement Authority
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 6,083,119	\$ 8,318,056	\$ 14,401,175	\$ 91,572
Investments	739,333	727,715	1,467,048	-
Receivables:				
Property taxes receivable	1,115,974	-	1,115,974	-
Receivables from sales to customers on account	251,519	1,033,269	1,284,788	-
Other receivables	5,545	-	5,545	-
Due from other governmental units	203,045	-	203,045	-
Special assessments receivable	494,239	3,679	497,918	-
Due from component units	102,596	-	102,596	-
Internal balances	(213,332)	213,332	-	-
Inventory	-	10,555	10,555	-
Prepaid expenses and other assets	89,129	10,863	99,992	-
Net pension asset	872,250	17,447	889,697	-
Capital assets (Note 5):				
Assets not subject to depreciation	382,236	-	382,236	-
Assets subject to depreciation	3,780,490	5,385,390	9,165,880	-
<b>Total assets</b>	<b>13,906,143</b>	<b>15,720,306</b>	<b>29,626,449</b>	<b>91,572</b>
<b>Liabilities</b>				
Accounts payable	265,811	756,811	1,022,622	175
Due to other governmental units	12	224	236	-
Due to primary government	-	-	-	102,596
Accrued liabilities and other	118,358	1,301	119,659	-
Unearned revenue - Rubbish and light assessments	700,625	-	700,625	-
Noncurrent liabilities (Note 7):				
Due within one year - Current portion of long-term debt	2,589	-	2,589	-
Due in more than one year:				
Compensated absences	28,186	-	28,186	-
Long-term debt	12,078	-	12,078	-
<b>Total liabilities</b>	<b>1,127,659</b>	<b>758,336</b>	<b>1,885,995</b>	<b>102,771</b>
<b>Deferred Inflows of Resources</b> - Property taxes levied for the following year	2,048,469	-	2,048,469	-
<b>Net Position</b>				
Net investment in capital assets	4,148,059	5,385,390	9,533,449	-
Restricted for:				
Drug forfeitures	1,169	-	1,169	-
Parks and recreation	464	-	464	-
Unrestricted	6,580,323	9,576,580	16,156,903	(11,199)
<b>Total net position</b>	<b>\$ 10,730,015</b>	<b>\$ 14,961,970</b>	<b>\$ 25,691,985</b>	<b>\$ (11,199)</b>

# Charter Township of Mundy

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 942,651	\$ 78,082	\$ -	\$ -
Public safety:				
Police	2,168,249	156,278	11,387	1,017
Fire	372,709	-	-	-
Building inspections	113,534	146,952	-	-
Public works	918,101	726,308	-	-
Community and economic development	42,543	-	-	-
Planning and zoning	76,079	25,166	7,838	-
Interest on long-term debt	1,782	-	-	-
Total governmental activities	4,635,648	1,132,786	19,225	1,017
Business-type activities - Water and Sewer Fund	4,096,439	3,695,818	-	59,320
Total primary government	<u>\$ 8,732,087</u>	<u>\$ 4,828,604</u>	<u>\$ 19,225</u>	<u>\$ 60,337</u>
Component unit - Corridor Improvement Authority	<u>\$ 11,199</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenue:				
Property taxes				
Landfill host community fees				
State-shared revenue				
Investment income				
Cable franchise fees				
Other miscellaneous income				
Gain on sale of fixed assets				
Total general revenue				
<b>Change in Net Position</b>				
<b>Net Position - Beginning of year</b>				
<b>Net Position - End of year</b>				

**Statement of Activities**  
**Year Ended December 31, 2014**

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit - Corridor Improvement Authority
Governmental Activities	Business-type Activities	Total	
\$ (864,569)	\$ -	\$ (864,569)	\$ -
(1,999,567)	-	(1,999,567)	-
(372,709)	-	(372,709)	-
33,418	-	33,418	-
(191,793)	-	(191,793)	-
(42,543)	-	(42,543)	-
(43,075)	-	(43,075)	-
(1,782)	-	(1,782)	-
(3,482,620)	-	(3,482,620)	-
-	(341,301)	(341,301)	-
(3,482,620)	(341,301)	(3,823,921)	-
-	-	-	(11,199)
2,255,916	-	2,255,916	-
354,229	-	354,229	-
1,172,270	-	1,172,270	-
20,187	9,575	29,762	-
255,149	-	255,149	-
25,667	-	25,667	-
35,109	-	35,109	-
4,118,527	9,575	4,128,102	-
635,907	(331,726)	304,181	(11,199)
10,094,108	15,293,696	25,387,804	-
<b>\$ 10,730,015</b>	<b>\$ 14,961,970</b>	<b>\$ 25,691,985</b>	<b>\$ (11,199)</b>

# Charter Township of Mundy

## Governmental Funds Balance Sheet December 31, 2014

	General Fund	Capital Improvement Fund (Nonmajor)	Total
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 5,725,500	\$ 357,619	\$ 6,083,119
Investments	739,333	-	739,333
Receivables:			
Property taxes receivable	1,115,974	-	1,115,974
Special assessments receivable	494,239	-	494,239
Receivables from sales to customers on account	251,519	-	251,519
Other receivables	5,545	-	5,545
Due from other governmental units	203,045	-	203,045
Due from component units (Note 6)	102,596	-	102,596
Prepaid expenses and other assets	89,129	-	89,129
<b>Total assets</b>	<b>\$ 8,726,880</b>	<b>\$ 357,619</b>	<b>\$ 9,084,499</b>
<b>Liabilities</b>			
Accounts payable	\$ 255,697	\$ 10,114	\$ 265,811
Due to other governmental units	12	-	12
Due to other funds	5,477	-	5,477
Advances from other funds (Note 6)	207,855	-	207,855
Accrued liabilities and other:			
Accrued salaries and wages	113,674	-	113,674
Payroll taxes and withholdings	4,684	-	4,684
Unearned revenue - Rubbish and light assessments	700,625	-	700,625
<b>Total liabilities</b>	<b>1,288,024</b>	<b>10,114</b>	<b>1,298,138</b>
<b>Deferred Inflows of Resources</b>			
Road SADs, collectible over 10 years	174,318	-	174,318
Property taxes levied for the following year	2,048,469	-	2,048,469
<b>Total deferred inflows of resources</b>	<b>2,222,787</b>	<b>-</b>	<b>2,222,787</b>
<b>Fund Balances</b>			
Nonspendable - Prepaids	89,129	-	89,129
Restricted:			
Parks and recreation	464	-	464
Police (drug forfeitures)	1,169	-	1,169
Committed - Five-year road plan	492,253	-	492,253
Assigned:			
Pension and OPEB funding	1,100,000	-	1,100,000
Capital projects	-	347,505	347,505
Unassigned (Note 12)	3,533,054	-	3,533,054
<b>Total fund balances</b>	<b>5,216,069</b>	<b>347,505</b>	<b>5,563,574</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 8,726,880</b>	<b>\$ 357,619</b>	<b>\$ 9,084,499</b>



# Charter Township of Mundy

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## Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position December 31, 2014

<b>Fund Balance Reported in Governmental Funds</b>	\$	5,563,574
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds		4,162,726
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures		174,318
Capital lease obligations are not due and payable in the current period and are not reported in the funds		(14,667)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities		(28,186)
Other long-term assets, such as net pension assets, are not available for current financial resources and are not reported as fund assets		872,250
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>10,730,015</u></b>

# Charter Township of Mundy

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2014

	General Fund	Capital Improvement Fund (Nonmajor)	Total
<b>Revenue</b>			
Property taxes	\$ 2,255,916	\$ -	\$ 2,255,916
Licenses and permits	159,114	-	159,114
Federal grants	7,838	272	8,110
State-shared revenue and grants	1,183,657	-	1,183,657
Charges for services	917,427	-	917,427
Fines and forfeitures	36,946	-	36,946
Investment income	20,187	-	20,187
Other revenue:			
Special assessments	54,746	-	54,746
Other miscellaneous income	727,479	-	727,479
	5,363,310	272	5,363,582
<b>Expenditures</b>			
Current:			
General government	883,011	-	883,011
Public safety:			
Police	2,190,722	-	2,190,722
Fire	351,720	-	351,720
Building inspections	114,065	-	114,065
Public works	918,101	-	918,101
Community and economic development	42,543	-	42,543
Planning and zoning	76,079	-	76,079
Capital outlay	-	108,190	108,190
Debt service	7,195	-	7,195
	4,583,436	108,190	4,691,626
<b>Excess of Revenue Over (Under) Expenditures</b>	779,874	(107,918)	671,956
<b>Other Financing Sources</b>			
Proceeds from sale of capital assets	-	17,585	17,585
Transfers in	-	226,686	226,686
Transfers out	(226,686)	-	(226,686)
	(226,686)	244,271	17,585
<b>Net Change in Fund Balances</b>	553,188	136,353	689,541
<b>Fund Balances - Beginning of year</b>	4,662,881	211,152	4,874,033
<b>Fund Balances - End of year</b>	\$ 5,216,069	\$ 347,505	\$ 5,563,574

# Charter Township of Mundy

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2014

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	689,541
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		74,546
Depreciation expense		(244,909)
Net book value of assets disposed of		(439)
Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end		(54,746)
Decrease in net pension asset is shown on the statement of net position, which reduces pension expense in the statement of activities		(10,712)
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		(903)
Repayment of debt principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		5,413
Decrease in net other postemployment benefit obligation		178,116
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>635,907</u></b>

# Charter Township of Mundy

## Proprietary Funds Statement of Net Position December 31, 2014

	Enterprise Fund <u>Water and Sewer Fund</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 8,318,056
Investments	727,715
Receivables:	
Special assessments receivable - Due within one year	3,679
Receivables from sales to customers on account	1,033,269
Due from other funds	5,477
Inventory	10,555
Prepaid expenses and other assets	<u>10,863</u>
Total current assets	10,109,614
Noncurrent assets:	
Advances to other funds (Note 6)	207,855
Net pension asset	17,447
Capital assets (Note 5)	<u>5,385,390</u>
Total noncurrent assets	<u>5,610,692</u>
Total assets	15,720,306
<b>Liabilities - Current liabilities</b>	
Accounts payable	756,811
Due to other governmental units	224
Accrued liabilities and other	<u>1,301</u>
Total liabilities	758,336
<b>Net Position</b>	
Net investment in capital assets	5,385,390
Unrestricted	<u>9,576,580</u>
Total net position	<u><u>\$ 14,961,970</u></u>

# Charter Township of Mundy

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended December 31, 2014

	Enterprise Fund <u>Water and Sewer Fund</u>
<b>Operating Revenue</b>	
Sale of water	\$ 3,678,052
Interest and penalty charges	17,543
Inspection and other fees	<u>223</u>
Total operating revenue	3,695,818
<b>Operating Expenses</b>	
Cost of water	1,391,925
Cost of sewage treatment	1,859,188
Other operation and maintenance	451,037
Depreciation	<u>394,289</u>
Total operating expenses	<u>4,096,439</u>
<b>Operating Loss</b>	(400,621)
<b>Nonoperating Revenue</b> - Investment income	<u>9,575</u>
<b>Loss</b> - Before contributions	(391,046)
<b>Capital Contributions</b> - Other capital contributions	<u>59,320</u>
<b>Change in Net Position</b>	(331,726)
<b>Net Position</b> - Beginning of year	<u>15,293,696</u>
<b>Net Position</b> - End of year	<u><u>\$ 14,961,970</u></u>

# Charter Township of Mundy

## Proprietary Funds Statement of Cash Flows Year Ended December 31, 2014

	Enterprise Fund <u>Water and Sewer Fund</u>
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 3,669,229
Receipts from interfund services and reimbursements	(6,844)
Payments to suppliers	(3,534,243)
Payments to employees	<u>(65,802)</u>
Net cash provided by operating activities	62,340
<b>Cash Flows from Noncapital Financing Activities</b> - Repayments of loans made to other funds	
	72,039
<b>Cash Flows from Capital and Related Financing Activities</b>	
Special assessment collections	13,262
Purchase of capital assets	(101,759)
Payments on contractor advances	<u>161,079</u>
Net cash provided by capital and related financing activities	72,582
<b>Cash Flows from Investing Activities</b>	
Interest received on investments	9,575
Purchase of investment securities	(730,000)
Proceeds from sale and maturities of investment securities	<u>2,285</u>
Net cash used in investing activities	<u>(718,140)</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(511,179)
<b>Cash and Cash Equivalents</b> - Beginning of year	<u>8,829,235</u>
<b>Cash and Cash Equivalents</b> - End of year	<u><b>\$ 8,318,056</b></u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>	
Cash and investments	\$ 9,045,771
Less amounts classified as investments	<u>(727,715)</u>
Total cash and cash equivalents	<u><b>\$ 8,318,056</b></u>
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>	
Operating loss	\$ (400,621)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	394,289
Changes in assets and liabilities:	
Receivables	(26,589)
Due from others	(6,844)
Accounts payable	103,122
Accrued and other liabilities	<u>(1,017)</u>
Net cash provided by operating activities	<u><b>\$ 62,340</b></u>

# Charter Township of Mundy

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## Fiduciary Funds Statement of Fiduciary Net Position December 31, 2014

	<u>Agency Funds</u>
<b>Assets</b> - Cash and cash equivalents	<u>\$ 1,798,717</u>
<b>Liabilities</b> - Due to other governmental units	<u>\$ 1,798,717</u>

# Charter Township of Mundy

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## Notes to Financial Statements December 31, 2014

### Note I - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Mundy (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 Charter Township of Mundy:

#### **Reporting Entity**

The Charter Township of Mundy is governed by an elected seven-member board. The accompanying financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable.

#### **Discretely Presented Component Units**

**Corridor Improvement Authority** - The Charter Township of Mundy Corridor Improvement Authority (the "Authority") board is appointed by the Township. The Township approves the annual budget and provided employees and facilities to the Authority.

All financial information of this component unit has been included in these financial statements. There are no separately issued financial statements.

#### **Fund Accounting**

The Township accounts for its various activities in several different funds, in order to demonstrate accountability for how we have spent certain resources - separate funds allow us to show the particular expenditures that specific revenues were used for. The various funds are aggregated into three broad fund types:

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

- The General Fund, which is the primary operating fund because it accounts for all financial resources used to provide general government services, other than those specifically assigned to another fund.
- The Capital Improvement Fund accounts for amounts set aside by the Township board to fund future capital improvements (note that this is not a "major fund" because the amount of activity is not financially significant).



# Charter Township of Mundy

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## Notes to Financial Statements December 31, 2014

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

**Proprietary funds** include enterprise funds, (which provide goods or services to users in exchange for charges or fees) and internal service funds (which provide goods or services to other funds of the Township). The Township reports the following fund as “major” enterprise fund:

- The Water and Sewer Fund provides water to customers and disposes of sanitary sewage in exchange for quarterly user charges.

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

- The Tax Collection Fund, which collects taxes on behalf of all the taxing authorities (State, County, School District, Township, and the various smaller authorities) and remits the taxes to each authority.

#### **Interfund Activity**

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

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

#### **Basis of Accounting**

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources.

# Charter Township of Mundy

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## Notes to Financial Statements December 31, 2014

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

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

Revenues are not recognized until they are collected, or collected soon enough after the end of the year that they are available to pay for obligations outstanding at the end of the year. For this purpose, the Township considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, capital type special assessments will be collected over a 10-year period; receivables have been recorded for these, along with a "deferred inflow of resources."

Proprietary funds and fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

#### **Report Presentation**

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective, and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes and other items not properly included among program revenues are reported instead as general revenue.

# Charter Township of Mundy

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## Notes to Financial Statements December 31, 2014

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

For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

#### **Specific Balances and Transactions**

**Cash, Cash Equivalents, 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. Certificates of deposit with a maturity date of greater than three months at the time of purchase are recorded as investments on the financial statements. Investments are stated at fair value.

**Inventories and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out (FIFO) basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets** - Capital assets, which include property, plant, equipment, intangible assets, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

# Charter Township of Mundy

## Notes to Financial Statements December 31, 2014

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

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

Capital Asset Class	Lives (years)
Water and sewer lines	50
Buildings and building improvements	15-40
Drain costs (intangible)	25
Road costs (intangible)	20
Vehicles	3-5
Office equipment	5-7
Computer equipment	3

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

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

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Township has no deferred outflows of resources.

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Township has two types of items that qualify for reporting in this category. One item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source which is special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. There are deferred inflows in the governmental funds and in the government-wide statements related to property taxes and special assessments that have been collected by the Township prior to year end but are used to fund 2015 operations.

#### Net Position Flow Assumption

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

#### Fund Balance Flow Assumption

Sometimes the Township will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Township's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

#### Fund Balance Policies

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

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact.

# Charter Township of Mundy

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## Notes to Financial Statements December 31, 2014

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

- Restricted: Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose.
- Committed: Amounts that have been formally set aside by the Township for use for specific purposes. Commitments are made and can be rescinded only via resolutions of the Township board.
- Assigned: Intent to spend resources on specific purposes expressed by the governing body. Assignments must be authorized by resolution and approved by the governing body.
- Unassigned: Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes. Refer to Note 12 for more specific information on the amounts committed, assigned, and earmarked for future emergency purposes.

#### 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 considered delinquent on March 1 of the following year, at which time penalties and interest are assessed. Unpaid property taxes become a lien on the property on March 1 of the second year following the year of the levy.

The Township's 2013 tax is levied and collectible on December 1, 2013 and is recognized as revenue in the year ended December 31, 2014, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2013 taxable valuation of the Township totaled \$442 million, on which taxes levied consisted of 4.564 mills for operating purposes. This resulted in \$2 million of revenue, which was recognized in the General Fund.

# Charter Township of Mundy

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## Notes to Financial Statements December 31, 2014

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

**Pension and Other Postemployment Benefit Costs** - The Township offers pension benefits to retirees and retiree healthcare benefits to police 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.

**Compensated Absences (Vacation and Sick Leave)** - Employees' unused sick and personal time is paid out in cash at the end of the year. Non-police employees' vacation time cannot be carried forward and is forfeited at the end of the year. Police officers are entitled to carryover 100 hours of compensation time and 40 hours of vacation each year. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. All other accrued compensated absences (related to the police officer accruals) are reported in the government-wide financial statements; the General Fund reports each employee's compensation, and is used to liquidate the obligation.

**Proprietary Funds Operating Classification** - Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Fund and internal service funds are charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

# Charter Township of Mundy

## Notes to Financial Statements December 31, 2014

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

**Construction Code Fees** - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at January 1, 2014		\$	(713,343)
Current year permit revenue			41,575
Related expenses:			
Direct costs	\$	58,116	
Estimated indirect costs		10,256	68,372
Current year shortfall			<u>(26,797)</u>
Cumulative shortfall at December 31, 2014		\$	<u><u>(740,140)</u></u>

**Fund Deficits** - At the ended December 31, 2014 the Corridor Improvement Authority ended the year with a negative unrestricted net position of (\$11,199).

### 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 five banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Township's deposits and investment policies are in accordance with the statutory authority.



# Charter Township of Mundy

## Notes to Financial Statements December 31, 2014

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

Township's cash and investments are subject to one type of risk, which is 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 \$13,469,236 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. 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:

Investments - Water & Sewer	Fair Value	Weighted Average Maturity (Years)
Negotiable certificates of deposit	\$ 244,172	1.12
Negotiable certificates of deposit	239,707	1.24
Negotiable certificates of deposit	<u>243,836</u>	1.72
Total	<u>\$ 727,715</u>	

**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:

Investments - Water & Sewer	Fair Value	Rating	Rating Organization
Negotiable certificates of deposit	\$ 244,172	AAA	Fitch
Negotiable certificates of deposit	243,836	A	Fitch
Negotiable certificates of deposit	<u>239,707</u>	BBB-	Fitch
Total	<u>\$ 727,715</u>		

# Charter Township of Mundy

## Notes to Financial Statements December 31, 2014

### Note 4 - Deferred Inflows of Resources

At the end of the current fiscal year, the various components of deferred inflows of resources are as follows:

	Governmental Funds	Governmental Activities
Property taxes levied for the next fiscal year	\$ 2,048,469	\$ 2,048,469
Special assessments - Unavailable	174,318	-
Total deferred inflows	<u>\$ 2,222,787</u>	<u>\$ 2,048,469</u>

### Note 5 - Capital Assets

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

	Balance January 1, 2014	Additions	Disposals	Balance December 31, 2014
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land	\$ 382,236	\$ -	\$ -	\$ 382,236
Capital assets being depreciated:				
Road costs (Lexa Lane)	89,236	-	-	89,236
Drain costs (Howland Drain and Brewer Culvert)	525,681	-	-	525,681
Buildings and improvements	4,916,595	4,500	-	4,921,095
Machinery and equipment	2,261,892	70,046	213,817	2,118,121
Subtotal	7,793,404	74,546	213,817	7,654,133
Accumulated depreciation:				
Road costs (Lexa Lane)	44,618	4,462	-	49,080
Drain costs (Howland Drain and Brewer Culvert)	143,081	21,027	-	164,108
Buildings and improvements	1,761,935	127,508	-	1,889,443
Machinery and equipment	1,892,478	91,912	213,378	1,771,012
Subtotal	3,842,112	244,909	213,378	3,873,643
Net capital assets being depreciated	3,951,292	(170,363)	439	3,780,490
Net capital assets	<u>\$ 4,333,528</u>	<u>\$ (170,363)</u>	<u>\$ 439</u>	<u>\$ 4,162,726</u>

# Charter Township of Mundy

## Notes to Financial Statements December 31, 2014

### Note 5 - Capital Assets (Continued)

Business-type Activities	Balance January 1, 2014	Additions	Disposals	Balance December 31, 2014
Capital assets being depreciated:				
Water and sewer lines	\$ 17,919,727	\$ -	\$ -	\$ 17,919,727
Buildings and improvements	94,189	-	-	94,189
Machinery and equipment	399,056	-	-	399,056
Subtotal	18,412,972	-	-	18,412,972
Accumulated depreciation -				
Water and sewer lines	12,633,293	394,289	-	13,027,582
Net capital assets being depreciated	5,779,679	(394,289)	-	5,385,390
Net capital assets	\$ 5,779,679	\$ (394,289)	\$ -	\$ 5,385,390

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

Governmental activities:

General government	\$ 57,831
Public safety	161,589
Public works	25,489
Total governmental activities	\$ 244,909

Business-type activities - Water and sewer	\$ 394,289
--	------------

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

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
Water and Sewer Fund	General Fund	\$ 5,477
<b>Advances from/to Other Funds</b>		
Water and Sewer Fund	General Fund	\$ 207,855
Receivable Fund	Payable Fund	Amount
<b>Due to/from Primary Government and Component Units</b>		
General Fund	Corridor Improvement Authority	\$ 102,596

Due to/from balance results 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.

# Charter Township of Mundy

## Notes to Financial Statements December 31, 2014

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Advances from the Water and Sewer Fund to the General Fund relate to the Lin Hill and Pilgrim Drive special assessment. The balance will be paid back to the Water and Sewer Fund from the General Fund over 8 and 10 years, respectively, at an interest rate of 3.5 percent.

Advances from the General Fund to the Corridor Improvement Authority relate to the costs to start the Authority. The balance will be paid back to the General Fund from the Authority over two years, at an interest rate of .2 percent.

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

Receivable Fund	Payable Fund	Amount
General Fund	Capital Improvement Fund (Nonmajor)	\$ 226,686

The transfer from the General Fund to the Capital Improvement Fund represents the use of unrestricted resources to finance those projects.

### Note 7 - Noncurrent Liabilities

The Township has the following noncurrent liabilities as of December 31, 2014:

Description	Amount
<b>Governmental Activities</b>	
2011 Brewer Road Culvert, contract payable to Genesee County Road Commission, with variable interest offset by 45 percent interest subsidy, payable through 2020	\$ 14,667
Employee compensated absences	28,186
Total governmental activities long-term debt	\$ 42,853

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Culvert contract payable	\$ 20,080	\$ -	\$ 5,413	\$ 14,667	\$ 2,589
Accumulated compensated absences	27,283	1,918	1,015	28,186	-
Total governmental activities	\$ 47,363	\$ 1,918	\$ 6,428	\$ 42,853	\$ 2,589

# Charter Township of Mundy

## Notes to Financial Statements December 31, 2014

### Note 7 - Noncurrent Liabilities (Continued)

Total interest expense for the year was \$2,376. Annual debt service requirements to maturity for the above bonds and note obligations are as follows, offset by interest subsidy:

<u>Years Ending December 31</u>	<u>Principal</u>
2015	\$ 2,589
2016	2,534
2017	2,476
2018	2,414
2019	2,327
2020	<u>2,327</u>
Total	<u>\$ 14,667</u>

### Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for property loss, torts, errors and omissions, and employee benefits claims and participates in the Michigan Municipal League risk pool for claims relating to employee injuries (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 Michigan Municipal Employees' Retirement System (the "System"), an agent multiple-employer defined benefit pension plan. The plan is made up of two separate divisions: Division 1 covers police employees and Division 2 covers the fire chief and AFSCME employees. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the System. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

# Charter Township of Mundy

## Notes to Financial Statements December 31, 2014

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

**Funding Policy** - The obligation to contribute to and maintain the System for these employees was established by negotiation with the Township's collective bargaining units and requires a contribution from the employees of 6 percent from police and 5 percent from fire chief and AFSCME employees.

#### Annual Pension Cost and Net Pension Asset

Annual required contribution	\$ 140,350
Interest on net pension obligation	(72,000)
Adjustment to annual required contribution	<u>82,303</u>
Annual pension cost (APC)	150,653
Contributions made	<u>140,350</u>
Decrease in net pension asset	10,303
Net pension asset - Beginning of year	<u>(900,000)</u>
Net pension asset - End of year	<u><u>\$ (889,697)</u></u>

For the year ended December 31, 2014, the Township's annual pension cost was \$150,653 for the plan. The Township's required and actual contribution was \$140,350. The annual required contribution was determined as part of an actuarial valuation at December 31, 2012, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.0 investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) 2 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 4.5. 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 percentage of payroll on a closed basis. The remaining amortization period is 25 years.

#### Three-year Trend Information

	Fiscal Year Ended December 31		
	2012	2013	2014
Annual pension cost (APC)	\$ 217,295	\$ 178,152	\$ 150,653
Percentage of APC contributed	100.0 %	605.1 %	93.1 %
Net pension asset	\$ -	\$ 900,000	\$ 889,697

# Charter Township of Mundy

## Notes to Financial Statements December 31, 2014

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

	Actuarial Valuation as of December 31		
	2011	2012	2013
Actuarial value of assets	\$ 4,267,980	\$ 4,541,487	\$ 5,828,034
Actuarial accrued liability (AAL) (entry age)	\$ 5,854,110	\$ 6,108,996	\$ 6,429,737
Unfunded AAL (UAAL)	\$ 1,586,130	\$ 1,567,509	\$ 601,703
Funded ratio	73.0 %	74.3 %	90.6 %
Covered payroll	\$ 1,351,093	\$ 1,673,283	\$ 1,351,858
UAAL as a percentage of covered payroll	117.4 %	93.7 %	110.9 %

### Note 10 - Defined Contribution Pension Plan

The Township provides a defined contribution plan to its elected officials through MERS, administered by ICMA-RC Financial Services. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Officials are eligible to participate from the first day of employment and have immediate vesting. The Township contributes 10 percent of officials' gross earnings and officials are required to contribute 5 percent. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the System. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

During the current year, the Township contributed \$7,549 and officials contributed \$3,775.

The Township supervisor is exempt from this plan, as he is a retiree currently drawing a pension from the Township's police defined benefit plan (see Note 9). Therefore, the Township provides a separate defined contribution plan with the same vesting and participation percentages to the supervisor through Hartford Retirement Services. The finance director is also covered under this plan. During the current year, the Township contributed \$4,590 and the employees contributed \$2,295 to this plan.

# Charter Township of Mundy

## Notes to Financial Statements December 31, 2014

### Note 11 - Retiree Health Care

**Plan Description** - The Township has elected to provide healthcare benefits to police retirees and their spouses. The Township pays the full cost of coverage for these benefits and prefunds them through an agency multiemployer plan administered by MERS.

**Funding Policy** - The plan requires no 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).

**Funding Progress** - For the year ended December 31, 2014 the Township has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2011. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of 27 years. For the year ended December 31, 2014 the Township's annual OPEB cost was \$186,130.

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

Annual required contribution (recommended)	\$ 186,130
Interest on the prior year's net OPEB obligation	8,906
Less adjustment to the annual required contribution	<u>(8,906)</u>
Annual OPEB cost	186,130
Amounts contributed:	
Payments of current premiums	-
Advance funding	<u>(364,246)</u>
Decrease in net OPEB obligation	(178,116)
<b>OPEB obligation - Beginning of year</b>	<u>178,116</u>
<b>OPEB obligation - End of year</b>	<u><u>\$ -</u></u>

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

Fiscal Year Ended	Actuarial Valuation Date	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
12/31/12	12/31/08	\$ 165,059	100.0	\$ -
12/31/13	12/31/11	178,116	-	178,116
12/31/14	12/31/11	184,130	198.0	-



# Charter Township of Mundy

## Notes to Financial Statements December 31, 2014

### Note 11 - Retiree Health Care (Continued)

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/06	\$ -	\$ 1,794,314	\$ 1,794,314	-	\$ 791,701	226.6
12/31/08	187,009	2,031,297	1,844,288	9.2	827,328	222.9
12/31/11	700,409	2,874,745	2,174,336	24.4	939,017	231.6

**Actuarial Methods and Assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of the 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.

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

In the December 31, 2011 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 5.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 9 percent initially, reduced by half-percent decrements each year to an ultimate rate of 4.5 percent after 2020 and later years. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2011 was 24 years.

# Charter Township of Mundy

## Notes to Financial Statements December 31, 2014

### Note 12 - Fund Balance Constraints

The Township board committed and assigned components of the General Fund's fund balance, which are detailed below. On the governmental funds balance sheet, the funds earmarked by the Township board for emergency purposes are reported as unassigned fund balance, since they are not committed for a specific purpose.

Nonspendable (prepaids)	\$ 89,129
Restricted (drug, parks)	1,633
Committed for road plan	492,253
Assigned for OPEB and Pension	1,100,000
Unassigned:	
Earmarked for emergency purposes	1,226,000
Available fund balance	<u>2,307,064</u>
Total fund balance	<u>\$ 5,216,079</u>

### Note 13 - Upcoming Accounting Pronouncements

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The Township is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this Statement are effective for financial statements for the year ended December 31, 2015.

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The Township is currently evaluating the impact this standard will have on the financial statements when adopted, during the Township's December 31, 2016 year end.

## **Required Supplemental Information**

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# Charter Township of Mundy

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 2,163,988	\$ 2,096,988	\$ 2,255,916	\$ 158,928
Licenses and permits	78,443	146,505	159,114	12,609
Federal grants	2,000	7,838	7,838	-
State-shared revenue and grants	1,109,899	1,153,061	1,183,657	30,596
Charges for services	939,619	926,393	917,427	(8,966)
Fines and forfeitures	50,000	30,000	36,946	6,946
Investment income	13,500	9,500	20,187	10,687
Other revenue:				
Special assessments	52,288	52,288	54,746	2,458
Other miscellaneous income	583,074	651,238	727,479	76,241
Total revenue	4,992,811	5,073,811	5,363,310	289,499
<b>Expenditures</b>				
Current:				
General government:				
Trustees	41,438	41,438	37,715	3,723
Supervisor	139,769	139,769	136,909	2,860
Finance	138,291	138,291	133,331	4,960
Township attorney	69,010	69,010	57,673	11,337
Labor relations	15,000	15,000	5,213	9,787
Treasurer	172,412	172,412	164,136	8,276
Assessing	187,463	187,463	174,415	13,048
Clerk	135,409	135,409	122,842	12,567
Elections	18,153	27,153	27,236	(83)
Other general government costs	34,275	34,275	23,541	10,734
Total general government	951,220	960,220	883,011	77,209
Public safety:				
Police	2,089,412	2,203,412	2,190,722	12,690
Fire	364,656	364,656	351,720	12,936
Building inspections	123,296	123,296	114,065	9,231
Total public safety	2,577,364	2,691,364	2,656,507	34,857
Public works	1,141,442	971,753	918,101	53,652
Community and economic development	22,952	37,952	42,543	(4,591)
Planning and zoning	68,697	78,697	76,079	2,618
Debt service	4,450	7,139	7,195	(56)
Total expenditures	4,766,125	4,747,125	4,583,436	163,689
<b>Excess of Revenue Over Expenditures</b>	226,686	326,686	779,874	453,188
<b>Other Financing (Uses) Sources</b>				
Transfers out	(226,686)	(326,686)	(226,686)	100,000
<b>Net Change in Fund Balance</b>	-	-	553,188	553,188
<b>Fund Balance - Beginning of year</b>	4,662,881	4,662,881	4,662,881	-
<b>Fund Balance - End of year</b>	<u>\$ 4,662,881</u>	<u>\$ 4,662,881</u>	<u>\$ 5,216,069</u>	<u>\$ 553,188</u>

# Charter Township of Mundy

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## Note to Required Supplemental Information Year Ended December 31, 2014

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

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

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

	Amended Budget	Actual	Variance
Elections	\$ 27,153	\$ 27,236	\$ (83)
Community and economic development	37,952	42,543	(4,591)
Debt service	7,139	7,195	(56)

Budget overages are primarily related to unexpected costs related to operations.

# Charter Township of Mundy

## Required Supplemental Information Pension System Schedule of Funding Progress Year Ended December 31, 2014

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/08	\$ 3,027,029	\$ 4,731,991	\$ 1,704,962	64.0	\$ 1,657,340	102.9
12/31/09	3,501,048	5,197,379	1,696,331	67.4	1,673,283	101.4
12/31/10	3,958,764	5,501,330	1,542,566	72.0	1,390,875	110.9
12/31/11	4,267,980	5,854,110	1,586,130	72.9	1,351,093	117.4
12/31/12	4,541,487	6,108,996	1,567,509	74.3	1,673,283	93.7
12/31/13	5,828,034	6,429,737	601,703	90.6	1,351,858	44.5

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
12/31/09	12/31/07	\$ 252,350	100.0
12/31/10	12/31/08	258,718	100.0
12/31/11	12/31/09	238,537	100.0
12/31/12	12/31/10	217,295	100.0
12/31/13	12/31/11	178,152	605.1
12/31/14	12/31/11	140,350	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2011, the latest actuarial valuation, follows:

Amortization method	Level percent
Amortization period (perpetual)	26 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	4.5% - 8.5%
*Includes inflation at	4.5%
Cost of living adjustments	None

# Charter Township of Mundy

## Required Supplemental Information OPEB System Schedule of Funding Progress Year Ended December 31, 2014

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/06	\$ -	\$ 1,794,314	\$ 1,794,314	-	\$ 791,701	226.6
12/31/08	187,009	2,031,297	1,844,288	9.2	827,328	222.9
12/31/11	700,409	2,874,745	2,174,336	24.4	939,017	231.6

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
12/31/09	12/31/06	\$ 141,009	100.0
12/31/10	12/31/08	151,150	100.0
12/31/11	12/31/08	157,951	100.0
12/31/12	12/31/08	165,059	100.0
12/31/13	12/31/11	178,116	-
12/31/14	12/31/11	186,130	198.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2011, the latest actuarial valuation, follows:

Amortization method	Level percent
Amortization period (perpetual)	24 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	5.0%
Projected salary increases	4.5% - 12.9%
*Includes inflation at	4.5%
Cost of living adjustments	None

# **Charter Township of Mundy**

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**Report to the Board of Trustees**

**December 31, 2014**



May 26, 2015

To the Board of Trustees  
Charter Township of Mundy

We have audited the financial statements of Charter Township of Mundy (the "Township") as of and for the year ended December 31, 2014 and have issued our report thereon dated May 26, 2015. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Results of the Audit

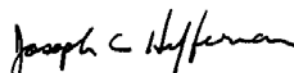
Section II - Informational/Legislative Comments

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 Charter Township of Mundy and is not intended to be and should not be used by anyone other than these specified parties. 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**



Joseph C. Heffernan, CPA  
Partner



Chrystal Simpson, CPA  
Associate

## **Section I - Results of the Audit**

We have audited the financial statements of Charter Township of Mundy as of and for the year ended December 31, 2014 and have issued our report thereon dated May 26, 2015. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter dated March 4, 2015, 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 Charter Township of Mundy. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on March 4, 2015.

### **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 Charter Township of Mundy are described in Note I to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2014.

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

We noted 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 was transactions related to actuarial valuations of the pension and other postemployment benefit obligation. Management's estimate of the actuarial valuations of the pension and other postemployment benefit obligation is based on actuarial valuations provided by a third party. We evaluated the key factors and assumptions used to develop the actuarial valuations of the pension and other postemployment benefit obligation in determining that it is 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.

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

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

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

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

We did not detect any misstatements as a result of audit procedures.

***Significant Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Township, and business plans and strategies that may affect the risks of material misstatement with management each year prior to our 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.

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated May 26, 2015.

***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.

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

**Section II – Informational/Legislative Items**

**New Accounting Standards for Pensions**

Beginning with the Township’s December 31, 2015 year end, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, significantly revises the employer’s accounting and reporting requirements for pensions.

Employers providing defined benefit pensions to their employees will begin to recognize their unfunded pension benefit obligation as a liability for the first time, and must begin to measure the costs of pension benefits as the employees’ service is rendered, rather than as the employer funds the benefit. As a result, the Township’s net pension asset (currently reported as \$868,000) will be replaced by a net pension liability of approximately \$601,000. In addition, we expect that in three years the retiree health care liability will also be required to be reported in this same way. A proforma of how this is expected to impact the Township’s government wide net position is shown below:

	As Currently Reported	With Unfunded Pension	With Unfunded Healthcare
Net position:			
Net investment in capital assets	\$ 9,533,449	\$ 9,533,449	\$ 9,533,449
Restricted	1,633	1,633	1,633
Unrestricted	<u>16,135,297</u>	<u>14,665,503</u>	<u>12,490,503</u>
Total net position	<u>\$ 25,670,379</u>	<u>\$ 24,200,585</u>	<u>\$ 22,025,585</u>

This proforma indicates that the Township will not be significantly impacted by this accounting change. This is because the Township’s pension and retiree healthcare costs have been managed to fund the obligations more closely to the periods that the employees’ services have been rendered. Charter Township of Mundy is clearly in the minority in this respect - most local units of government will see drastic changes once these accounting changes are implemented.

The accounting entries to implement GASB 68 and allocate these costs to the various proprietary funds and governmental functions are complex. We are happy to work with the Township and its actuarial firm over the next year to ensure smooth implementation of this new standard. We would also encourage Township’s accounting personnel to view the free webinars available on Plante & Moran, PLLC’s website, if you have not already done so.

**Revenue Sharing**

In 2014 the Township received \$1,150,000 in constitutional revenue sharing and \$20,000 in statutory (CVTRS) payments. The state of Michigan’s 2014-2015 budget eliminated the Economic Vitality Incentive Program (EVIP) and replaced it with what is now called “City, Village, and Township Revenue Sharing” (CVTRS).

This new revenue-sharing model eliminates two of the three EVIP requirements, but it retains the requirement to publish a citizen's guide and performance dashboard, along with some enhancements related to debt service requirements and future budgets. The City has already met these requirements.

In addition, the 2014-2015 budget added a one-time payment for those receiving no or minimal statutory revenue sharing; as a result, the Township received an additional \$20,000 this year, and will receive another \$20,000 in 2015. We currently do not expect this to continue past September 2015.

The constitutional portion (the \$1,150,000) is projected to increase 3 percent in both 2015 and 2016. With the improvements to Michigan's economy, this appears to be a relatively dependable revenue source for the intermediate future. We will keep you apprised to any changes to CVTRS that occur during the 2015-2016 state budget process.

### **New Freedom of Information Act (FOIA) regulations**

The governor signed PA 563 of 2014 (the "Act") into effect in January 2015. This new Act is effective beginning July 1, 2015 and will change the regulations on how governmental entities charge for FOIA requests. Under the new law, public bodies will need to establish and make publicly available written procedures and guidelines for FOIA requests. This can be done by providing paper copies or a link on the government's website. The written procedures and guidelines, which must be provided free of charge upon request, must include certain items, including fee calculations and procedures for submitting written requests and to appeal denials.

The new Act has numerous other very specific requirements and guidelines that will require a significant change in practice. We strongly advise you to read the entire Act to ensure understanding with all the related provisions. Written documentation and appropriate tracking mechanisms will need to be put in place to ensure compliance by July 1, 2015.

### **New Rules Governing Management of Federal Programs**

The Office of Management and Budget (OMB) has issued significant reforms to the compliance requirements that must be followed by non-federal entities receiving federal funding. All entities receiving federal dollars will need to understand the changes made as a result of these reforms and may be required to make changes to internal procedures, processes, and controls.

These reforms impact three key areas of federal grants management:

- I. **Audit Requirements** - For fiscal years beginning on or after January 1, 2015, the threshold for obtaining a federal awards audit will increase from the current threshold of \$500,000 of annual federal spending to \$750,000. There will also be significant changes to the criteria for qualifying as a low-risk auditee and a reduction in the number of major programs required to be tested for some clients.

The Township has historically been below the current \$500,000 threshold. However, from time to time, depending upon the level of federal spending, the Township may still be subject to an audit requirement even at the new higher \$750,000 threshold.

2. **Cost Principles** - Effective for all federal awards received on or after December 26, 2014, the grant reforms related to cost principles go into effect. Not only were certain changes made to allowable costs under this new guidance, but there were significant changes in the area of time and effort reporting and indirect costs.
3. **Administrative Requirements** - Also effective for all federal awards received on or after December 26, 2014, non-federal entities receiving federal funding must adhere to new rules related to administering federal awards. Most notably, these requirements may impact the Township's procurement systems, including maintaining written conflict of interest policies and disclosures.

These revisions are clearly the most significant change to occur to federal grants management in recent history. Entities receiving federal funding will need to carefully digest these changes. Plante & Moran, PLLC has been on the cutting edge of these reforms, offering our clients free webinars, implementation checklists, and other tools to aid in implementation. The Township will need to ensure that the implementation of the new regulations occurs in a timely and complete manner. Plante & Moran, PLLC has many experts in this area and welcome any questions or needs you may have in this area.