

**Township of Macomb
Macomb County, Michigan**

**Financial Report
with Supplemental Information
June 30, 2014**

Township of Macomb

Contents

Report Letter	1-3
Management's Discussion and Analysis	4-7
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	8
Statement of Activities	9-10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11-12
Reconciliation of the Balance Sheet to the Statement of Net Position	13
Statement of Revenue, Expenditures, and Changes in Fund Balances	14-15
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Proprietary Funds:	
Statement of Net Position	17
Statement of Revenue, Expenses, and Changes in Net Position	18
Statement of Cash Flows	19
Fiduciary Fund:	
Statement of Fiduciary Net Position	20
Statement of Changes in Fiduciary Net Position	21
Notes to Financial Statements	22-50
Required Supplemental Information	51
Budgetary Comparison Schedule - General Fund	52
Budgetary Comparison Schedule - Major Special Revenue Funds	53-55
Pension System Schedule of Funding Progress	56
Retiree Health Care Fund Schedule of Funding Progress	57
Schedule of Investment Returns	58
Schedule of Changes in Township Net Pension Liability and Related Ratios	59
Schedule of Township Contributions	60
Note to Required Supplemental Information	61

Township of Macomb

Contents (Continued)

Other Supplemental Information	62
Nonmajor Governmental Funds:	
Combining Balance Sheet	63
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	64
Fiduciary Funds:	
Combining Statement of Net Position	65
Combining Statement of Changes in Net Position	66

Independent Auditor's Report

To the Board of Trustees
Township of Macomb
Macomb County, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Macomb, Macomb County, Michigan (the "Township"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Township of Macomb'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.

To the Board of Trustees
Township of Macomb
Macomb County, Michigan

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, each major fund, and the aggregate remaining fund information of the Township of Macomb as of June 30, 2014 and the respective changes in its financial position and cash flows, where applicable, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 17 to the basic financial statements, the Township adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result of implementing GASB 65, the Township now reports deferred inflows of resources for governmental fund revenue that is not available, as well as deferred outflows related to the amortization of bond refunding loss.

The Township also adopted GASB 67 which resulted in significant changes to the defined benefit related footnote disclosures as well as the required supplemental information schedules. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplemental Information

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

Other Information

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

To the Board of Trustees
Township of Macomb
Macomb County, Michigan

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

Plante & Moran, PLLC

November 26, 2014

Township of Macomb

Management's Discussion and Analysis

Using this Annual Report

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

In a condensed format, the table below shows the comparison of net position (in millions of dollars) as of June 30, 2014 to the prior year:

Table I

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current assets	\$ 57.2	\$ 58.1	\$ 42.1	\$ 42.2	\$ 99.3	\$ 100.3
Noncurrent assets:						
Restricted assets	-	0.1	6.3	9.5	6.3	9.6
Capital assets	<u>50.4</u>	<u>48.5</u>	<u>157.3</u>	<u>157.1</u>	<u>207.7</u>	<u>205.6</u>
Total assets	107.6	106.7	205.7	208.8	313.3	315.5
Deferred Outflow of Resources -						
Bond refunding loss being amortized	0.8	0.9	0.1	0.1	0.9	1.0
Liabilities						
Current liabilities	5.7	5.3	4.9	5.0	10.6	10.3
Long-term liabilities	<u>31.2</u>	<u>33.3</u>	<u>34.4</u>	<u>36.1</u>	<u>65.6</u>	<u>69.4</u>
Total liabilities	<u>36.9</u>	<u>38.6</u>	<u>39.3</u>	<u>41.1</u>	<u>76.2</u>	<u>79.7</u>
Net Position						
Net investment in capital assets	17.0	14.0	127.1	127.8	144.1	141.8
Restricted	14.1	15.5	0.3	0.8	14.4	16.3
Unrestricted	<u>40.4</u>	<u>39.5</u>	<u>39.1</u>	<u>39.2</u>	<u>79.5</u>	<u>78.7</u>
Total net position	<u>\$ 71.5</u>	<u>\$ 69.0</u>	<u>\$ 166.5</u>	<u>\$ 167.8</u>	<u>\$ 238.0</u>	<u>\$ 236.8</u>

The Township's combined net position increased approximately \$1.2 million from a year ago, increasing from \$236.8 million to \$238.0 million. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$2.5 million in net position, or 3.6 percent, during fiscal year 2014. The increase in total net position is primarily attributable to an increase in capital assets and a reduction in long-term liabilities. The business-type activities net position decreased from the previous year by approximately \$1.3 million, or 0.8 percent, during fiscal year 2014. This was primarily due to a reduction in the unspent bond proceeds and deposits held at Macomb and Oakland County.

Township of Macomb

Management's Discussion and Analysis (Continued)

Unrestricted net position for the governmental activities was \$40.4 million at June 30, 2014. This amount represents the part of net position that is available to finance day-to-day operations and future growth of the Township. The business-type activities restricted net position decreased \$0.5 million from the previous year. This is attributable to project funds being utilized during the fiscal year for the rehabilitation of the Oakland Macomb Interceptor Drainage Districts.

The following table shows the changes in net position (in millions of dollars) during the year ended June 30, 2014 and the prior year:

Table 2

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenue						
Program revenue:						
Charges for services	\$ 5.3	\$ 5.5	\$ 21.1	\$ 20.2	\$ 26.4	\$ 25.7
Operating grants and contributions	0.1	0.1	0.2	0.3	0.3	0.4
Capital grants and contributions	-	-	1.6	2.0	1.6	2.0
General revenue:						
Property taxes	10.1	9.7	-	-	10.1	9.7
State-shared revenue	6.0	6.0	-	-	6.0	6.0
Interest	0.2	0.1	0.1	0.1	0.3	0.2
Cable fees and other	1.3	1.3	-	-	1.3	1.3
Gain on sale of fixed assets	0.5	-	-	-	0.5	-
Total revenue	23.5	22.7	23.0	22.6	46.5	45.3
Program Expenses						
General government	6.4	5.6	-	-	6.4	5.6
Public safety	8.2	8.3	-	-	8.2	8.3
Public works	1.4	1.7	-	-	1.4	1.7
Recreation and culture	3.6	3.3	-	-	3.6	3.3
Interest on long-term debt	1.4	1.4	-	-	1.4	1.4
Water and sewer	-	-	24.3	22.6	24.3	22.6
Total program expenses	21.0	20.3	24.3	22.6	45.3	42.9
Change in Net Position	2.5	2.4	(1.3)	-	1.2	2.4
Net Position - Beginning of year	69.0	66.6	167.8	167.8	236.8	234.4
Net Position - End of year	<u>\$ 71.5</u>	<u>\$ 69.0</u>	<u>\$ 166.5</u>	<u>\$ 167.8</u>	<u>\$ 238.0</u>	<u>\$ 236.8</u>

Governmental Activities

The Township's total governmental revenue increased by approximately \$0.8 million from the last fiscal year. Even though tax rates stayed the same as the previous year, property tax revenue increased by \$0.4 million, caused by an approximately 3.2 percent increase in taxable value in the Township. The increase has been seen in overall property values in southeast Michigan.

Total expenses increased by about \$0.7 million, or 3.4 percent over the last fiscal year. The increase was primarily the result of increased land acquisitions during the year and an 11.8 percent increase in health care expenses.

Township of Macomb

Management's Discussion and Analysis (Continued)

Business-type Activities

The Township's business-type activities are recorded in the Water and Sewer Fund. Revenue of the Township's business-type activities increased 1.8 percent to \$23.0 million. Revenue of the Township's business-type activities increased by \$0.4 million primarily as a result of an increase in sale of water to customers during the year ended June 30, 2014. Charges for services increased mainly as a result of increased water and sewer rates.

Expenses increased 7.5 percent to \$24.3 million for the year ended June 30, 2014. The increase in expenses is primarily attributable to the continued growth of the water and sewer system and increases in the cost of water and sewer purchases in the last year. The Township provides water, which is purchased from the City of Detroit water system, to nearly all its residents. The Township also provides sewage treatment to nearly all of its residents through the Macomb County sewage treatment plant.

The Township's Funds

Our analysis of the Township's major funds begins on pages 11 and 12, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as show accountability for certain activities. The Township's major funds for 2014 include the General Fund, Parks and Recreation Operating Fund, Fire Operating Fund, Law Enforcement Sheriff Fund, Building Authority Debt Service Fund, and Municipal Street Fund.

General Fund Budgetary Highlights

Over the course of the year, the Township reallocated the budget to take into account unanticipated events during the year. Actual revenue exceeded budgeted revenue by 6.9 percent. Actual expenditures were 16.2 percent below budget. The Township completed the year with actual revenue over expenditures of \$2.9 million.

Capital Assets and Debt Administration

At the end of fiscal year 2014, the Township had approximately \$207.7 million invested in a wide range of capital assets, including land, buildings, fire equipment, computer equipment, and water and sewer lines. In addition, the Township is reporting infrastructure assets, which include roads and bridges in which it has invested since 1980. The value of the infrastructure assets, net of depreciation, contained in this report is \$7.2 million and \$4.0 million for fiscal years 2014 and 2013, respectively (see Note 4 of the notes to financial statements for additional information). Additionally, the value of buildings and improvements, net of depreciation, for the governmental activities is \$37.9 million and \$34.1 million for fiscal years 2014 and 2013, respectively.

Debt reported in these financial statements is related to the construction of the above-mentioned buildings and improvements assets and is reported as a liability on the statement of net position (see Note 6 of the notes to financial statements for additional information).

Township of Macomb

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

The Township of Macomb's 2014 tax rate stayed consistent with the 2013 tax rate. Strong expenditure controls and past growth in the Township's tax base have helped to accomplish keeping the tax rates low. Property taxes make up nearly 15.9 percent of the General Fund budget. Annual new growth and development in the Township has declined 8.6 percent compared to the previous year but is expected to remain stable for the next few years. In addition, state revenue sharing, which represents nearly 50.7 percent of the General Fund budget, is likely to remain stable.

On the expenditure side, the Township continues to operate with relatively low personnel costs and an efficient labor force. While our pension system is 99.4 percent funded, we do not anticipate further increases in pension fund contributions over the next year due to a conservative investment approach. We also expect continued annual increases in medical costs of nearly 1 percent to 5 percent per year. Despite these increased costs, our expense increases are anticipated to average between 1 percent and 3 percent per year. We will adjust expenses to mirror the revenue base, ensuring the continuation of our usual trend of excess of revenue over expenses established over 10 years ago.

Contacting the Township's Management

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

Township of Macomb

Statement of Net Position June 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments (Note 3)	\$ 51,385,377	\$ 34,722,161	\$ 86,107,538
Receivables - Net:			
Property taxes	29,694	-	29,694
Customers	7,292	6,395,739	6,403,031
Other receivables	9,537	-	9,537
Due from other governmental units	2,010,820	116,008	2,126,828
Special assessments	67,550	17,997	85,547
Inventory	-	94,264	94,264
Restricted assets (Note 7)	-	6,320,047	6,320,047
Land held for resale	205,740	-	205,740
Net OPEB asset (Note 9)	3,132,661	781,987	3,914,648
Net pension asset (Note 14)	331,547	-	331,547
Capital assets:			
Capital assets not being depreciated (Note 4)	3,204,152	9,421,348	12,625,500
Capital assets being depreciated (Note 4)	47,208,130	147,832,733	195,040,863
Total assets	107,592,500	205,702,284	313,294,784
Deferred Outflows of Resources -			
Bond refunding loss being amortized	847,783	152,792	1,000,575
Liabilities			
Accounts payable	395,608	2,319,001	2,714,609
Due to other governmental units	-	185,454	185,454
Accrued liabilities and other	2,517,817	480,241	2,998,058
Noncurrent liabilities:			
Due within one year (Note 6)	2,849,060	1,921,493	4,770,553
Due in more than one year (Note 6)	31,155,531	34,411,342	65,566,873
Total liabilities	36,918,016	39,317,531	76,235,547
Net Position			
Net investment in capital assets	17,013,918	127,131,253	144,145,171
Restricted for:			
Fire	8,417,340	-	8,417,340
Debt service	641,335	-	641,335
County drains	-	335,551	335,551
Parks and recreation	5,052,586	-	5,052,586
Unrestricted	40,397,088	39,070,741	79,467,829
Total net position	<u>\$ 71,522,267</u>	<u>\$ 166,537,545</u>	<u>\$ 238,059,812</u>

Township of Macomb

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 6,423,533	\$ 132,737	\$ 69,736	\$ -
Public safety	8,193,006	2,044,055	20,386	-
Public works	1,378,159	806,561	-	-
Recreation and culture	3,618,444	2,296,647	-	-
Interest on long-term debt	1,341,843	-	-	-
Total governmental activities	20,954,985	5,280,000	90,122	-
Business-type activities - Water and sewer	24,271,664	21,150,727	232,463	1,566,621
Total primary government	\$ 45,226,649	\$ 26,430,727	\$ 322,585	\$ 1,566,621
General revenue:				
Property taxes				
State-shared revenue				
Interest				
Cable fees and other - Unrestricted				
Gain on sale of fixed assets				
Total general revenue				
Change in Net Position				
Net Position - Beginning of year				
Net Position - End of year				

**Statement of Activities
Year Ended June 30, 2014**

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (6,221,060)	\$ -	\$ (6,221,060)
(6,128,565)	-	(6,128,565)
(571,598)	-	(571,598)
(1,321,797)	-	(1,321,797)
(1,341,843)	-	(1,341,843)
(15,584,863)	-	(15,584,863)
-	(1,321,853)	(1,321,853)
(15,584,863)	(1,321,853)	(16,906,716)
10,152,829	-	10,152,829
6,001,688	-	6,001,688
162,361	80,894	243,255
1,273,824	-	1,273,824
526,300	-	526,300
18,117,002	80,894	18,197,896
2,532,139	(1,240,959)	1,291,180
68,990,128	167,778,504	236,768,632
<u>\$ 71,522,267</u>	<u>\$ 166,537,545</u>	<u>\$ 238,059,812</u>

Township of Macomb

	General Fund	Parks and Recreation Operating Fund	Fire Operating Fund	Law Enforcement Sheriff Fund
Assets				
Cash and investments (Note 3)	\$ 28,926,930	\$ 5,352,945	\$ 7,577,287	\$ 1,514,160
Receivables - Net	2,121,908	-	2,985	-
Land held for resale	205,740	-	-	-
Total assets	\$31,254,578	\$ 5,352,945	\$ 7,580,272	\$ 1,514,160
Liabilities				
Accounts payable	\$ 201,147	\$ 163,942	\$ 29,806	\$ 547
Accrued liabilities and other	255,725	136,417	98,600	-
Total liabilities	456,872	300,359	128,406	547
Deferred Inflows of Resources - Unavailable revenue				
	1,089,676	-	-	-
Fund Balances				
Nonspendable - Land held for resale	205,740	-	-	-
Restricted:				
Fire	-	-	7,451,866	-
Debt service	-	-	-	-
Parks and recreation	-	5,052,586	-	-
Assigned:				
Subsequent year's budget	5,422,889	-	-	-
Capital outlay	-	-	-	-
Road projects	-	-	-	-
Debt service	-	-	-	-
Law enforcement	-	-	-	1,513,613
Unassigned	24,079,401	-	-	-
Total fund balances	29,708,030	5,052,586	7,451,866	1,513,613
Total liabilities, deferred inflows of resources, and fund balances	\$31,254,578	\$ 5,352,945	\$ 7,580,272	\$ 1,514,160

**Governmental Funds
Balance Sheet
June 30, 2014**

Building Authority Debt Service Fund	Municipal Street Fund	Other Nonmajor Governmental Funds	Total
\$ 43,750	\$ 3,347,668	\$ 4,622,637	\$ 51,385,377
-	-	-	2,124,893
-	-	-	205,740
\$ 43,750	\$ 3,347,668	\$ 4,622,637	\$53,716,010
\$ -	\$ 166	\$ -	\$ 395,608
-	1,696,693	-	2,187,435
-	1,696,859	-	2,583,043
-	-	-	1,089,676
-	-	-	205,740
-	-	965,474	8,417,340
-	-	641,335	641,335
-	-	-	5,052,586
-	-	-	5,422,889
-	-	3,015,828	3,015,828
-	1,650,809	-	1,650,809
43,750	-	-	43,750
-	-	-	1,513,613
-	-	-	24,079,401
43,750	1,650,809	4,622,637	50,043,291
\$ 43,750	\$ 3,347,668	\$ 4,622,637	\$53,716,010

Township of Macomb

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position June 30, 2014

Fund Balance Reported in Governmental Funds	\$ 50,043,291
Amounts reported for governmental activities in the statement of net position are different because:	
Governmental funds report capital outlays as expenditures; in the statement of net position, these costs are capitalized and allocated over their estimated useful lives as depreciation	50,412,282
A net other postemployment benefit asset is recorded on the statement of net position	3,132,661
Debt refunding deferred charges are not financial resources and are not reported in the funds	847,783
Certain receivables are expected to be collected after 60 days and are not available to pay for current year expenditures; therefore, they are deferred on the balance sheet	1,089,676
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(34,004,591)
Accrued interest is not due and payable in the current period and is not reported in the funds	(330,382)
A net pension asset is recorded on the statement of net position	<u>331,547</u>
Net Position of Governmental Activities	<u><u>\$ 71,522,267</u></u>

Township of Macomb

	General Fund	Parks and Recreation Operating Fund	Fire Operating Fund	Law Enforcement Sheriff Fund
Revenue				
Property taxes and fees	\$ 1,921,810	\$ 2,333,907	\$ 2,891,547	\$ 3,005,565
Licenses and permits	2,793,449	-	-	-
Federal grants and other	69,736	-	-	-
State-shared revenue and grants	5,966,044	-	-	20,386
Charges for services	244,421	2,296,647	-	-
Fines and forfeitures	119,424	-	-	-
Interest	76,495	26,231	41,647	4,235
Other revenue:				
Special assessments	869,048	-	-	-
Other	265,383	-	5,225	-
Total revenue	12,325,810	4,656,785	2,938,419	3,030,186
Expenditures				
Current:				
General government	6,714,036	-	-	-
Public safety	1,505,333	-	2,969,231	3,283,445
Public works	1,024,013	-	-	-
Recreation and culture	184,233	2,628,026	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	76,042	-	-
Interest on long-term debt	-	-	-	-
Total expenditures	9,427,615	2,704,068	2,969,231	3,283,445
Excess of Revenue Over (Under) Expenditures	2,898,195	1,952,717	(30,812)	(253,259)
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	703,946	-	8,760	-
Transfers in (Note 5)	-	-	-	370,000
Transfers out (Note 5)	(4,881,655)	(2,538,185)	(809,800)	-
Total other financing (uses) sources	(4,177,709)	(2,538,185)	(801,040)	370,000
Net Change in Fund Balances	(1,279,514)	(585,468)	(831,852)	116,741
Fund Balances - Beginning of year	30,987,544	5,638,054	8,283,718	1,396,872
Fund Balances - End of year	\$ 29,708,030	\$ 5,052,586	\$ 7,451,866	\$ 1,513,613

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2014

Building Authority Debt Service Fund	Municipal Street Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 10,152,829
-	-	-	2,793,449
-	-	-	69,736
-	-	-	5,986,430
-	-	-	2,541,068
-	-	-	119,424
414	2,343	10,996	162,361
-	-	-	869,048
-	22,714	-	293,322
414	25,057	10,996	22,987,667
-	13	-	6,714,049
-	-	-	7,758,009
-	-	-	1,024,013
-	-	-	2,812,259
-	3,390,671	385,936	3,776,607
2,130,000	-	-	2,206,042
1,355,355	-	-	1,355,355
3,485,355	3,390,684	385,936	25,646,334
(3,484,941)	(3,365,627)	(374,940)	(2,658,667)
-	-	-	712,706
3,486,339	4,000,000	450,000	8,306,339
-	-	(76,699)	(8,306,339)
3,486,339	4,000,000	373,301	712,706
1,398	634,373	(1,639)	(1,945,961)
42,352	1,016,436	4,624,276	51,989,252
\$ 43,750	\$ 1,650,809	\$ 4,622,637	\$ 50,043,291

Township of Macomb

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2014

Net Change in Fund Balances - Total Governmental Funds	\$ (1,945,961)
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	4,348,639
Depreciation expense	(2,128,518)
Net book value of assets disposed of	(276,113)
Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection	(26,843)
The increase in the other postemployment benefit asset creates a decrease in benefit payment expenses that is recorded on the statement of activities but not in the governmental funds	556,531
Debt proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position	(274,051)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	2,130,000
Change in accrued interest payable and deferred amounts on refundings	13,512
An increase in the net pension asset is recorded as a reduction to expenditures on the statement of activities	49,552
Debt service payments are expensed when due in the governmental funds; they are recorded as a reduction to long-term debt on the statement of net position when paid	131,454
Accumulated employee sick and vacation pay is recorded when earned in the statement of activities	(46,063)
Change in Net Position of Governmental Activities	\$ 2,532,139

Township of Macomb

Proprietary Fund Statement of Net Position June 30, 2014

	<u>Enterprise Fund - Water and Sewer</u>
Assets	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 34,722,161
Receivables - Net:	
Special assessments receivable - Due within one year	17,997
Receivables from sales to customers on account	6,395,739
Due from other governmental units	116,008
Inventory	<u>94,264</u>
Total current assets	41,346,169
Noncurrent assets:	
Restricted assets (Note 7)	6,320,047
Net OPEB asset (Note 9)	781,987
Capital assets:	
Capital assets not being depreciated (Note 4)	9,421,348
Capital assets being depreciated (Note 4)	<u>147,832,733</u>
Total noncurrent assets	<u>164,356,115</u>
Total assets	205,702,284
Deferred Outflows of Resources -	
Bond refunding loss being amortized	152,792
Liabilities	
Current liabilities:	
Accounts payable	2,319,001
Due to other governmental units	185,454
Accrued liabilities and other liabilities	480,241
Current portion of compensated absences (Note 6)	167,736
Current portion of long-term debt (Note 6)	<u>1,753,757</u>
Total current liabilities	4,906,189
Noncurrent liabilities:	
Compensated absences - Net of current portion (Note 6)	57,775
Long-term debt - Net of current portion (Note 6)	<u>34,353,567</u>
Total noncurrent liabilities	<u>34,411,342</u>
Total liabilities	<u>39,317,531</u>
Net Position	
Net investment in capital assets	127,131,253
Restricted for county drains (Note 7)	335,551
Unrestricted	<u>39,070,741</u>
Total net position	<u><u>\$ 166,537,545</u></u>

Township of Macomb

Proprietary Fund Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2014

	<u>Enterprise Fund - Water and Sewer</u>
Operating Revenue	
Sale of water	\$ 10,582,942
Sewage disposal charges	9,980,553
Charges for services	587,232
	<hr/>
Total operating revenue	21,150,727
Operating Expenses	
Cost of water	8,458,183
Cost of sewage disposal	7,612,066
Operation and maintenance	696,009
General and administrative	2,335,638
Contributions to Retiree Health Fund	319,971
Depreciation (Note 4)	3,558,389
	<hr/>
Total operating expenses	22,980,256
Operating Loss	(1,829,529)
Nonoperating Revenue (Expenses)	
Investment income	80,894
Interest expense	(1,241,408)
Debt issuance expense	(50,000)
Operating grants	232,463
	<hr/>
Total nonoperating expenses	(978,051)
Loss - Before contributions	(2,807,580)
Capital Contributions	
Developers and other governmental units	180,049
Tap fees and frontage charges	1,386,572
	<hr/>
Total capital contributions	1,566,621
Change in Net Position	(1,240,959)
Net Position - Beginning of year	<hr/> 167,778,504
Net Position - End of year	<hr/> \$ 166,537,545 <hr/>

Township of Macomb

Proprietary Fund Statement of Cash Flows Year Ended June 30, 2014

	<u>Enterprise Fund - Water and Sewer</u>
Cash Flows from Operating Activities	
Receipts from customers	\$ 21,138,809
Payments to suppliers	(17,928,601)
Payments to employees	(1,383,337)
	1,826,871
Cash Flows from Capital and Related Financing Activities	
Issuance of bonds	2,085,000
Collection of special assessments	18,770
Collection of customer tap fees	1,386,572
Purchase of capital assets	(632,592)
Principal and interest paid on long-term debt	(5,218,044)
Debt issuance costs	(50,000)
	(2,410,294)
Cash Flows from Investing Activities - Interest received on investments	80,894
Net Decrease in Cash and Cash Equivalents	(502,529)
Cash and Cash Equivalents - Beginning of year	37,082,561
Cash and Cash Equivalents - End of year	\$ 36,580,032
Balance Sheet Classification of Cash and Cash Equivalents	
Cash and cash equivalents	\$ 34,722,161
Restricted cash (Note 7)	1,857,871
	\$ 36,580,032
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (1,829,529)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	3,558,389
Changes in assets and liabilities:	
Receivables	(453,885)
Due from others	441,967
Inventory	16,722
Prepaid and other	(101,552)
Accounts payable	117,909
Accrued and other liabilities	64,821
Compensated absences	12,029
	1,826,871
Net cash provided by operating activities	\$ 1,826,871

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2014, developers constructed water and sewer lines with a value of approximately \$180,000 and donated them to the Township's Water and Sewer Enterprise Fund. Also during the year, approximately \$2.8 million of capital assets were recorded. These assets were paid for using cash on hand at Oakland and Macomb Counties relating to the North Gratiot Interceptor project and the OMIDD interceptor. Approximately \$10,000 in related debt was recorded on the balance sheet during the year relating to the Oakland and Macomb County MIDD and OMIDD drain and interceptor projects, which related to infrastructure additions. See the long-term debt footnote for more details.

Township of Macomb

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2014

	Trust Funds - Pensions and Other Retirement Benefits	Agency Funds
Assets		
Cash and cash equivalents	\$ 612,389	\$ 672,194
Investments (Note 3):		
U.S. Treasury bonds	1,206,989	-
Agency securities	1,819,637	-
Corporate bonds	3,933,717	-
Money market funds	29,873	-
Mutual funds	11,939,217	-
Total assets	19,541,822	<u>\$ 672,194</u>
Liabilities - Cash bonds and deposits	<u>-</u>	<u>\$ 672,194</u>
Net Position Held in Trust for Pension and Other Employee Benefits	<u>\$ 19,541,822</u>	

Township of Macomb

Fiduciary Funds Statement of Changes in Fiduciary Net Position Year Ended June 30, 2014

	Trust Funds - Pensions and Other Retirement Benefits
Additions	
Investment income (loss):	
Interest and dividends	\$ 464,018
Net increase in fair value of investments	1,364,756
Investment-related expenses	<u>(75,006)</u>
Net investment income	1,753,768
Contributions:	
Employer	1,947,124
Employee	<u>28,613</u>
Total contributions	<u>1,975,737</u>
Total additions	3,729,505
Deductions	
Benefit payments	426,117
Administrative expenses	<u>2,128</u>
Total deductions	<u>428,245</u>
Net Increase	3,301,260
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	<u>16,240,562</u>
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	<u><u>\$ 19,541,822</u></u>

Township of Macomb

Notes to Financial Statements June 30, 2014

Note I - Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used by the Township of Macomb, Macomb County, Michigan (the "Township"):

Reporting Entity

The Township of Macomb, Macomb County, Michigan 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. Although blended component units are legal separate entities, in substance, they are part of the Township's operations.

Blended Component Units

The fire retirement system is governed by a five-member pension board that includes the Macomb Township treasurer, two individuals chosen by the Township's board of trustees, and two elected fire department members. The system is reported as if it were part of the primary government because of the fiduciary responsibilities that the Township retains relative to the operations of the retirement system.

The Macomb Township Building Authority is governed by a three-member board that is appointed by the Township's board of trustees. Although it is legally separate from the Township, it is reported as if it were part of the primary government because its primary purpose is to provide certain facilities necessary for the operation of the Township's government and to finance and construct the Township's public buildings.

Jointly Governed Organization - The Township, in conjunction with Clinton Township, has created the Clinton Macomb District Library (the "Library"). The Library's board is composed of three members appointed by Clinton Township's board of trustees and three members appointed by Macomb Township's board of trustees. The Library is funded through property taxes, specifically through a separate property tax millage that is not recorded as revenue by Macomb Township. The Library currently does not receive a subsidy from the Township. The financial statements for the Library can be obtained from the Library's administrative office at 43245 Garfield Rd., Clinton Township, Michigan. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments of the above joint venture in the near future.

Accounting and Reporting Principles

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

Note I - Summary of Significant Accounting Policies (Continued)

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.

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.

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:

Note I - Summary of Significant Accounting Policies (Continued)

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, and capital project funds. The Township reports the following funds as “major” governmental funds:

- The General Fund 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 Parks and Recreation Operating Fund accounts for the resources from dedicated property tax revenue and user charges for all activities of the parks and recreation department.
- The Fire Operating Fund accounts for the resources from property tax revenue that are restricted for all of the activities of the Township’s fire department, except for equipment purchased in the Fire Improvement Fund.
- The Law Enforcement Sheriff Fund accounts for the resources from property tax revenue that are restricted for all of the activities of the Township’s law enforcement activities.
- The Building Authority Debt Service Fund accounts for all debt payments made related to construction activities for new Township facilities.
- The Municipal Street Fund accounts for activities related to construction and maintenance of roads throughout the Township.

Proprietary funds include enterprise funds (which provide goods or services to users in exchange for charges or fees). The Township reports the following “major” enterprise fund:

- The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system provided to Township residents.

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

- The Pension Trust Fund and Retiree Health Care Fund account for the activities of employee benefit plans, and accumulate resources for pension and other postemployment benefit payments to qualified employees.
- The Bond Escrow Agency Fund accounts for assets held by the Township in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. The Bond Escrow Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Note I - Summary of Significant Accounting Policies (Continued)

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.

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

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.

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 health care 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: property taxes, state-shared revenue, and interest associated with the current fiscal period. Conversely, special assessments and state-shared revenue will be collected after the period of availability; receivables have been recorded for these, along with a "deferred inflow".

Note I - Summary of Significant Accounting Policies (Continued)

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.

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. Investments are stated at fair value. Pooled investment income from the relevant funds is generally allocated to each fund using a weighted average.

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

Restricted Assets - Amounts on deposit at the County being held for the construction or debt service of the Township's water and sewer lines have been classified as restricted assets. In addition, unspent bond proceeds that are required to be set aside for construction have also been classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, 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 \$1,000 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.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. There was no interest expense capitalized during the current year.

Township of Macomb

Notes to Financial Statements June 30, 2014

Note I - Summary of Significant Accounting Policies (Continued)

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

Capital Asset Class	Lives
Roads and bridges	25
Water and sewer lines	50-70
Water meters	50
Buildings and building improvements	40
Vehicles	5
Office furnishings	7
Other tools and equipment	5-7

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 debt service funds are generally used to liquidate governmental long-term debt.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Township has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide and proprietary fund statements of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Note I - Summary of Significant Accounting Policies (Continued)

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The government has one item that qualifies for reporting in this category. The deferred inflows of resources related to unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: special assessments and state-shared revenue. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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

Note I - Summary of Significant Accounting Policies (Continued)

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

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

Property Tax Revenue

Properties are assessed as of December 31. The related property taxes become a lien on December 1 of the following year. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2013 tax is levied and collectible on December 1, 2013 and is recognized as revenue in the year ended June 30, 2014, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2013 taxable valuation of the Township totaled \$2.8 billion, on which ad valorem taxes levied consisted of 0.6757 mills for operating purposes, 1.0588 mills for fire operating services, 0.0747 mills for fire pension, 1.0601 mills for police protection, and 0.8232 mills for parks and recreation. This resulted in \$1.9 million for operating, \$2.9 million for fire operations, \$.2 million for fire pension, \$3.0 million for police protection, and \$2.3 million for parks and recreation. These amounts are recognized in the respective General Fund and Special Revenue Fund financial statements as tax revenue. The Fire Pension Fund's tax revenue is recorded as an employer contribution to the Fire Retirement System.

Note I - Summary of Significant Accounting Policies (Continued)

Pension and Other Postemployment Benefit Costs - The Township offers both pension and retiree health care benefits to retirees. The Township receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, pension and OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the Township reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any. The net pension obligations and net OPEB obligations have generally been liquidated from the funds from which the individual employee's salaries are paid, which are generally the General Fund, Parks and Recreation Operating Fund, Fire Operating Fund, and Water and Sewer Fund.

Compensated Absences (Vacation and Sick Leave) - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. All other accrued compensated absences are reported in the government-wide financial statements; generally the funds that report each employee's compensation (the General Fund, Parks and Recreation Operating Fund, Fire Operating Fund, and Water and Sewer Fund, primarily) are 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 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 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.

Township of Macomb

Notes to Financial Statements June 30, 2014

Note 2 - Stewardship, Compliance, and Accountability

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

Cumulative expenditures over revenue - June 30, 2013		\$ (8,053,731)
Current year permit revenue		1,472,061
Related expenses:		
Direct costs	\$ 1,357,257	
Estimated indirect costs	<u>661,077</u>	<u>2,018,334</u>
Net shortfall for the year ended June 30, 2014		<u>(546,273)</u>
Cumulative expenditures over revenue - June 30, 2014		<u>\$ (8,600,004)</u>

Note 3 - Deposits and Investments

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

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

The Township has designated 12 banks for the deposit of its funds. The investment policy adopted by the board has authorized investments in accordance with Public Act 196 of 1997. The Township's deposits are in accordance with statutory requirements.

Township of Macomb

Notes to Financial Statements June 30, 2014

Note 3 - Deposits and Investments (Continued)

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$49,126,878 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name:

<u>Investment Type</u>	<u>Fair Value of Primary Government Deposits and Investments</u>	<u>Fair Value of Pension Trust and Retiree Healthcare Funds</u>	<u>How Held</u>
U.S. government agency securities	\$ 10,399,530	\$ 1,481,582	Counterparty
Corporate bonds	-	3,933,717	Counterparty
Municipal bonds	10,981,878	-	Counterparty
Certificates of deposit - Negotiable	<u>5,149,388</u>	<u>-</u>	Counterparty
Total investments	<u>\$ 26,530,796</u>	<u>\$ 5,415,299</u>	

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.

Township of Macomb

Notes to Financial Statements June 30, 2014

Note 3 - Deposits and Investments (Continued)

At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity (Years)
Primary Government		
U.S. Treasury bonds	\$ 6,162,258	1.04
U.S. government agency securities	10,399,530	1.77
Municipal bonds	10,981,878	0.90
Certificates of deposit - Negotiable	5,149,388	1.10
Total	<u>\$ 32,693,054</u>	
Fiduciary Funds		
U.S. Treasury bonds	\$ 1,206,989	11.48
U.S. government agency securities	1,819,637	24.40
Corporate bonds	3,933,717	7.96
Total	<u>\$ 6,960,343</u>	

Township of Macomb

Notes to Financial Statements June 30, 2014

Note 3 - Deposits and Investments (Continued)

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

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Primary Government			
Bank investment pools	\$ 723,872	AAA	Standard & Poor's
U.S. government agency securities	10,399,530	AAA	Standard & Poor's
U.S. Treasury bonds	6,162,258	AAA	Standard & Poor's
Municipal bonds	10,981,878	AAA to SP-I	Moody's
Certificates of deposit - Negotiable	<u>5,149,388</u>	Not rated	Not rated
Total	<u>\$ 33,416,926</u>		
Fiduciary Funds			
U.S. government agency securities	\$ 1,765,155		
U.S. Treasury bonds	1,206,990	AAA	Standard & Poor's
Corporate bond	3,933,717	AAA to BBB+	Standard & Poor's
Municipal bonds	<u>54,482</u>	AAA to SP-I	Moody's
Total	<u>\$ 6,960,344</u>		

Township of Macomb

Notes to Financial Statements June 30, 2014

Note 4 - Capital Assets

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

	Balance July 1, 2013	Additions	Disposals and Reclassifications	Balance June 30, 2014
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 3,454,825	\$ 19,201	\$ (269,874)	\$ 3,204,152
Construction in progress	4,936,786	43,901	(4,980,687)	-
Subtotal	8,391,611	63,102	(5,250,561)	3,204,152
Capital assets being depreciated:				
Infrastructure	6,615,272	3,535,439	-	10,150,711
Buildings and improvements	45,251,357	15,638	4,980,687	50,247,682
Vehicles	3,728,887	287,163	(30,238)	3,985,812
Office furnishings	3,770,432	379,108	(107,399)	4,042,141
Other tools and equipment	1,482,427	68,189	(66,180)	1,484,436
Subtotal	60,848,375	4,285,537	4,776,870	69,910,782
Accumulated depreciation:				
Infrastructure	2,604,060	335,320	-	2,939,380
Buildings and improvements	11,190,642	1,195,376	-	12,386,018
Vehicles	2,861,177	280,522	(30,238)	3,111,461
Office furnishings	3,009,568	254,229	(101,011)	3,162,786
Other tools and equipment	1,106,265	63,071	(66,329)	1,103,007
Subtotal	20,771,712	2,128,518	(197,578)	22,702,652
Net capital assets being depreciated	40,076,663	2,157,019	4,974,448	47,208,130
Net capital assets	\$ 48,468,274	\$ 2,220,121	\$ (276,113)	\$ 50,412,282
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 91,700	\$ -	\$ -	\$ 91,700
Construction in progress	8,229,941	2,891,181	(1,791,474)	9,329,648
Subtotal	8,321,641	2,891,181	(1,791,474)	9,421,348
Capital assets being depreciated:				
Water and sewer mains	190,668,881	387,455	1,791,474	192,847,810
Buildings and improvements	2,558,702	-	-	2,558,702
Water meters	4,861,851	96,767	-	4,958,618
Vehicles	635,215	24,060	-	659,275
Furniture and equipment	834,030	276,064	(112,112)	997,982
Subtotal	199,558,679	784,346	1,679,362	202,022,387
Accumulated depreciation:				
Water and sewer mains	46,943,754	3,334,067	-	50,277,821
Buildings and improvements	1,035,722	63,968	-	1,099,690
Water meters	1,368,332	97,503	-	1,465,835
Vehicles	593,362	23,753	-	617,115
Furniture and equipment	796,755	39,098	(106,660)	729,193
Subtotal	50,737,925	3,558,389	(106,660)	54,189,654
Net capital assets being depreciated	148,820,754	(2,774,043)	1,786,022	147,832,733
Net capital assets	\$ 157,142,395	\$ 117,138	\$ (5,452)	\$ 157,254,081

Township of Macomb

Notes to Financial Statements June 30, 2014

Note 4 - Capital Assets (Continued)

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

Governmental activities:	
General government	\$ 384,210
Public safety	556,212
Public works	354,146
Recreation and culture	833,950
Total governmental activities	<u>\$ 2,128,518</u>
Business-type activities - Water and sewer	<u>\$ 3,558,389</u>

Construction Commitments - The Township has approved certain road paving construction projects prior to June 30, 2014. At year end, the Township's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Road paving projects	<u>\$ -</u>	<u>\$ 589,710</u>

Note 5 - Interfund Transfers

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

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Amount</u>
General Fund	Law Enforcement Sheriff Fund	\$ 370,000
	Municipal Street Fund	4,000,000
	Building Authority Debt Service Fund	511,655
	Total General Fund	4,881,655
Fire Operating Fund	Building Authority Debt Service Fund	359,800
	Other nonmajor governmental funds	450,000
	Total Fire Operating Fund	809,800
Parks and Recreation Operating Fund	Building Authority Debt Service Fund	2,538,185
	Nonmajor governmental funds	76,699
	Total	<u>\$ 8,306,339</u>

Township of Macomb

Notes to Financial Statements June 30, 2014

Note 5 - Interfund Transfers (Continued)

Interfund transfers provided funding for operating assistance, capital projects, capital acquisitions, and debt service.

Note 6 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the Township) are received.

Long-term debt activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bonds:							
2005 Building Authority Refund Bonds:							
Amount of issue - \$9,800,000	3.50% -	\$50,000 -					
Maturing through 2022	5.00%	\$1,070,000	\$ 8,765,000	\$ -	\$ 730,000	\$ 8,035,000	\$ 800,000
2006 Building Authority Bonds:							
Amount of issue - \$10,000,000	4.00% -	\$300,000 -					
Maturing through 2025	4.375%	\$900,000	400,000	-	400,000	-	-
2009 Building Authority Bonds:							
Amount of issue - \$5,000,000	3.00% -	\$250,000 -					
Maturing through 2023	5.00%	\$550,000	4,100,000	-	300,000	3,800,000	300,000
2011 Building Authority Refunding Bonds:							
Amount of issue - \$8,470,000	2.00% -	\$260,000-					
Maturing through 2027	4.875%	\$940,000	7,930,000	-	275,000	7,655,000	295,000
2012 Building Authority Refunding Bonds:							
Amount of issue - \$13,390,000	2.00% -	\$235,000 -					
Maturing through 2025	4.00%	\$1,640,000	13,155,000	-	425,000	12,730,000	870,000
Unamortized bond premium			1,069,477	-	89,123	980,354	89,123
Total bonds payable			35,419,477	-	2,219,123	33,200,354	2,354,123
Other long-term obligations:							
Compensated absences			560,164	46,063	-	606,227	418,895
Capital leases			55,413	274,051	131,454	198,010	76,042
Total governmental activities			\$ 36,035,054	\$ 320,114	\$ 2,350,577	\$ 34,004,591	\$ 2,849,060

Compensated absences attributable to the governmental activities will be liquidated primarily by the General Fund, Parks and Recreation Operating Fund, and Fire Operating Fund. The capital leases obligation will be liquidated from the Parks and Recreation Operating Fund.

Township of Macomb

Notes to Financial Statements June 30, 2014

Note 6 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
General obligation bonds:							
2004 GO Refund Bond:							
Amount of issue - \$4,915,000	3.25% -	\$175,000 -					
Maturing through 2019	3.80%	\$760,000	\$ 2,795,000	\$ -	\$ 2,795,000	\$ -	\$ -
2010 Capital Improvement and Refunding Bond:							
Amount of issue - \$9,805,000	2.00% -	\$280 -					
Maturing through 2031	5.00%	\$695,000	8,725,000	-	580,000	8,145,000	600,000
2014 GO Refund Bond:							
Amount of issue - \$2,085,000		\$380,000 -					
Maturing through 2019	1.37%	\$450,000	-	2,085,000	-	2,085,000	380,000
County drain contract obligations:							
2008 North Gratiot Interceptor Drainage District:							
Amount of issue - \$1,113,386	3.50% -	\$37,379 -					
Maturing through 2033	5.00%	59,806	989,289	-	37,379	951,910	37,379
2010B OMID Drainage District:							
Amount of issue - \$452,552	1.15% -	\$16,886 -					
Maturing through 2030	5.90%	\$35,124	408,985	-	16,211	392,774	16,886
2010A OMID Drainage District:							
Amount of issue - \$1,750,840		\$73,962 -					
Maturing through 2031	2.50%	\$110,429	1,611,642	10,461	72,273	1,549,830	73,962
2010 North Gratiot Interceptor Drainage District:							
Amount of issue - \$103,529	1.00% -	\$3,265 -					
Maturing through 2035	6.35%	\$5,950	95,201	-	3,234	91,967	3,265
2010A MID Drainage District:							
Amount of issue - \$15,808,421	1.25% -	\$510,856 -					
Maturing through 2035	5.375%	\$930,782	14,816,451	-	504,242	14,312,209	510,856
2013 OMID Drainage District -							
Amount of issue - \$4,619,982		\$190,076 -					
Maturing through 2034	2.00%	\$276,958	4,619,982	-	-	4,619,982	-
2011 Clintondale Pump Station Improvements Drainage District:							
Amount of issue - \$4,039,605		\$118,040 -					
Maturing through 2031	5.00%	\$327,890	3,842,871	-	111,483	3,731,388	118,040
Unamortized bond premium			240,633	-	13,369	227,264	13,369
Total bonds payable			38,145,054	2,095,461	4,133,191	36,107,324	1,753,757
Other long-term obligations -							
Compensated absences							
			213,482	12,029	-	225,511	167,736
Total business-type activities			\$ 38,358,536	\$ 2,107,490	\$ 4,133,191	\$ 36,332,835	\$ 1,921,493

Township of Macomb

Notes to Financial Statements June 30, 2014

Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental bond and note obligations, excluding amortization of bond premiums and deferred amounts on refunding, are as follows:

Years Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 2,265,000	\$ 1,280,128	\$ 3,545,128	\$ 1,740,388	\$ 1,112,875	\$ 2,853,263
2016	2,610,000	1,194,678	3,804,678	2,019,609	1,087,224	3,106,833
2017	2,800,000	1,096,003	3,896,003	2,055,134	1,042,017	3,097,151
2018	3,310,000	982,003	4,292,003	2,096,179	991,351	3,087,530
2019	3,385,000	850,673	4,235,673	2,121,185	936,869	3,058,054
2020-2024	15,545,000	2,087,089	17,632,089	8,565,537	3,796,529	12,362,066
2025-2029	2,305,000	163,044	2,468,044	8,634,537	2,344,546	10,979,083
2030-2034	-	-	-	7,433,805	785,563	8,219,368
2035-2039	-	-	-	1,213,686	18,887	1,232,573
Total	<u>\$ 32,220,000</u>	<u>\$ 7,653,618</u>	<u>\$ 39,873,618</u>	<u>\$ 35,880,060</u>	<u>\$ 12,115,861</u>	<u>\$ 47,995,921</u>

The Macomb Interceptor Drainage District (MID) is a construction and rehabilitation project that began in 2010 and is projected to continue through 2015. The MID issued county bonds that were used to acquire the MID Interceptor system and to assume amounts owed related to the Garfield Interceptor. Additional county bonds were issued to improve and repair the North Gratiot Interceptor and Clintondale Pump Station. These bonds were issued as Federally Taxable Recovery Zone Economic Development Bonds and are eligible to recover tax credit payments from the United States Treasury equal to 45 percent (for the North Gratiot bond) and 35 percent (for the MID bond) of the interest payable on the bonds.

The Oakland-Macomb Interceptor Drainage District (OMID) is also a construction and rehabilitation project that began in 2010 and is projected to continue through 2015.

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

Macomb Interceptor Drainage District (MID)

	Total Issued	Township Portion	Tax Credit
MID Series 2010A	\$ 95,955,000	\$ 15,808,421	\$ 3,059,520
North Gratiot Interceptor 2010	16,965,000	103,529	-
North Gratiot Interceptor 2008	22,340,000	1,113,386	-
Clintondale Pump Station 2011	30,800,000	4,039,599	-

Township of Macomb

Notes to Financial Statements June 30, 2014

Note 6 - Long-term Debt (Continued)

Oakland-Macomb Interceptor Drainage District (OMID)

	Total Issued	Township Portion
2010A (SRF)	\$ 26,076,000	\$ 6,381,283
2010B	6,700,000	452,550

The OMID 2010A project is funded through the Michigan State Revolving Loan Fund Program (SRF), with total loans of \$26 million after \$16 million of debt forgiveness which was recorded in 2010. The amount disclosed represents principal and interest for the current expenditures incurred as of June 30, 2014. The principal and interest schedule will be finalized upon completion of the project.

Current Bond Refunding - During the year ended June 30, 2014, the Township issued \$2,085,000 in bonds with an average interest rate of 1.37 percent. The proceeds of these bonds were used to current refund \$2,035,000 of outstanding 2004 GO Refund Bonds with an average interest rate of 3.67 percent. The net proceeds of \$2,071,687 (after payment of \$50,000 in underwriting fees, insurance, and other issuance costs) were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the Water and Sewer Fund long-term debt. The current refunding reduced total debt service payments over the next five years by \$74,012, which represents an economic gain of \$71,069.

In 2012, the Township defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2014, \$13,200,000 of bonds outstanding are considered defeased.

Note 7 - Restricted Assets

Specific assets of the Water and Sewer Fund and the Building Authority Capital Projects Fund have been restricted for operations and maintenance and replacement as well as unspent bond proceeds. Additionally, specific assets of the Water and Sewer Fund are restricted as the result of external governments issuing bonds for which state law requires the proceeds of the issue to be used exclusively for the purpose for which the bonds were issued or the repayment of the bonds.

Township of Macomb

Notes to Financial Statements June 30, 2014

Note 7 - Restricted Assets (Continued)

The following is the detail of restricted assets at June 30, 2014:

Water and Sewer Fund - Unspent bond proceeds and deposits held at County:

Due from Oakland County*	\$ 3,337,822
Due from Macomb County**	1,124,354
Water and Sewer Fund - Unspent bond proceeds	1,857,871

* This amount is held by Oakland County in a construction fund maintained on behalf of the Township for improvements to the Oakland-Macomb Interceptor Drainage District.

** This amount is held by Macomb County in construction and debt retirement funds maintained on behalf of the Township by the Macomb County Department of Public Works for drain construction projects of the Township.

Net position has been restricted for these amounts, net of related debt at June 30, 2014.

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 specific property, such as vehicles, computers, and employee medical claims. The Township also participates in the Michigan Municipal League risk pool for claims relating to all other property losses, torts, errors and omissions, and employee injuries. 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 - Other Postemployment Benefits (OPEB)

Plan Description - The Township provides retiree healthcare benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, the plan has 23 retirees that are eligible for postemployment health benefits. The Township includes pre-Medicare retirees and their dependents in its insured healthcare plan with no contribution recognized by the participant.

Township of Macomb

Notes to Financial Statements June 30, 2014

Note 9 - Other Postemployment Benefits (OPEB) (Continued)

This is a single-employer defined benefit plan administered by the Township. The benefits are provided under collective bargaining. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions.

Funding Policy - In the current year, the Township paid postemployment healthcare costs of \$272,061 and made pre-funding contributions of \$1,448,487 to the Retiree Health Care Fund. Retiree healthcare costs are recognized by the Township on a “pay-as-you-go” basis; however, at the end of the current year, the Township maintains approximately \$17.1 million in a prefunded retiree healthcare fund, which is reported in the financial statements as a pension and other employee benefit trust fund type.

Funding Progress - For the year ended June 30, 2014, the Township has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of July 1, 2014. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation’s computed contribution and actual funding are summarized as follows:

Annual required contribution (ARC) (recommended)	\$ 1,150,262
Adjustments to ARC:	
Interest on prior year OPEB asset	(162,828)
ARC adjustment	<u>75,031</u>
Annual OPEB cost	1,062,465
Amounts contributed:	
Payments of current premiums	(272,061)
Employer contributions to the fund	<u>(1,448,487)</u>
Increase in net OPEB asset	(658,083)
OPEB asset - Beginning of year	<u>(3,256,565)</u>
OPEB asset - End of year	<u>\$ (3,914,648)</u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB asset for the current and previous years are as follows:

<u>Fiscal Years Ended</u>	<u>Annual OPEB Costs</u>	<u>Percentage Contributed</u>	<u>Net OPEB Asset</u>
6/30/14	\$ 1,062,465	162 %	\$ 3,914,648
6/30/13	1,256,932	136	3,256,565
6/30/12	1,268,615	134	2,801,615

Township of Macomb

Notes to Financial Statements June 30, 2014

Note 9 - Other Postemployment Benefits (OPEB) (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
7/1/14	\$ 17,107,119	\$ 19,993,872	\$ 2,886,753	86 %	\$ 4,822,901	60 %
4/1/11	10,673,324	16,974,869	6,301,545	63	4,671,044	135
7/1/08	6,455,955	8,850,729	2,394,774	73	4,193,152	57

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The 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 July 1, 2014 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 inflation rate of 10 percent for three years, graded down to 4 percent in 0.5 percent increments over 12 years. Average annual salary increases were assumed at 3 percent. 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 payroll over 30 years.

Note 10 - Pension Plan Description

Plan Administration - The Retirement System Board administers the Macomb Township Act 345 Fire Retirement System - a single employer defined benefit pension plan that provides pensions for all full-time firefighters of the Township. Benefit terms have been established by contractual agreements between the Township and the various employee union representation; amendments are subject to the same process.

Management of the Plan is vested in the Retirement System Board, which consists of five members-two elected by plan members, two appointed by the Township board of trustees, and the Township treasurer, who serves as an ex-officio member.

Plan Membership - At June 30, 2014, pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	4
Inactive plan members entitled to but not yet receiving benefits	-
Active plan members	10

Benefits Provided - The Retirement Plan provides retirement, disability, and death benefits. Retirement benefits for plan members are calculated as 2.5 percent of the member's final three-year average final compensation times the member's first 25 years of service plus 1 percent of the member's final three-year average final compensation times the years of service in excess of 25 years. Plan members with 10 years of continuous service are eligible to retire at age 60 and plan members with 25 years of continuous service are eligible to retire at age 50. All plan members are eligible for non-duty disability benefits after five years of service and for duty-related disability benefits upon hire. Upon reaching the age of 55, disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Prior to reaching the age of 55, disability retirement benefits are paid at a reduced rate of their three-year average final compensation. Duty death benefits equal the same amount paid by workers' compensation and non-duty death benefits equal the member's actuarially reduced pension benefit.

Contributions - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the Retirement System Board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the Township Charter, union contracts, and plan provisions. For the year ended June 30, 2014, the average active member contribution rate was 5 percent of annual pay, and the Township's average contribution rate was 17.2 percent of annual payroll.

Township of Macomb

Notes to Financial Statements June 30, 2014

Note 11 - Pension Plan Investments - Policy and Rate of Return

Investment Policy - The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Retirement System Board by a majority vote of its members. It is the policy of the Retirement System Board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the board's adopted asset allocation policy as of June 30, 2014:

<u>Asset Class</u>	<u>Target Allocation</u>
Equity	40 - 65%
Fixed-income securities	35 - 60%
Cash or cash equivalents	0 - 15%

Rate of Return - For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 11.27 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 12 - Pension Plan Reserves

In accordance with ACT 345, the following reserves are required to be set aside within the pension plan:

The retiree reserve is to be computed annually by the actuary as the present value of estimated benefit payments for all current retirees. The amounts reserved may be used solely to pay monthly retiree benefit payments. The legally required reserve for retired benefit payments has not been calculated.

The employee reserve is credited as employee contributions are received throughout the year. For any employee who terminates before vesting in the pension plan, their balance is returned to them; for those who stay until retirement, the balance is transferred into the retiree reserve.

The balances of the reserve accounts at June 30, 2014 are as follows:

	<u>Required Reserve</u>	<u>Amount Funded</u>
Retiree reserve	Undetermined	\$ -
Employee reserve	\$ 183,541	183,541
Employer reserve	N/A	2,251,163

Township of Macomb

Notes to Financial Statements June 30, 2014

Note 13 - Net Pension Liability of the Township

The Township reports pension expense based on funding requirements, as directed by GASB 27. Beginning next year, the Township will adopt GASB 68 which will require the measurement of pension expense as it is earned, rather than as it is funded. The net pension liability of the Township has been measured as of June 30, 2014 and is composed of the following:

Total pension liability	\$ 2,450,075
Plan fiduciary net position	<u>2,434,704</u>
Township's net position liability	<u>\$ 15,371</u>

Plan fiduciary net position as a percentage of the total pension liability	99.4 %
--	--------

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of June 30, 2014. The valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 %
Salary increases	3.0-6.8 % average, including inflation
Investment rate of return	5.0 % net of pension plan investment expense, including inflation

Mortality rates were based on the 1971 Group Annuity Mortality Table projected to 1984.

Discount Rate - The discount rate used to measure the total pension liability was 5.0 percent. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that Township contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Township of Macomb

Notes to Financial Statements June 30, 2014

Note 13 - Net Pension Liability of the Township (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2014 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table.

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
Equity	9.00 %
Fixed-income securities	4.60 %
Cash or cash equivalents	3.00 %

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the Township, calculated using the discount rate of 5.0 percent, as well as what the Township's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (4.0 percent) or one percentage point higher (6.0 percent) than the current rate:

	<u>1% Decrease (4.0%)</u>	<u>Current Discount Rate (5.0%)</u>	<u>1% Increase (6.0%)</u>
Net pension liability of the Township	\$ 315,340	\$ 15,371	\$ (253,718)

Township of Macomb

Notes to Financial Statements June 30, 2014

Note 14 - Township Pension Cost and Related Asset/Obligation

The pension plan does not issue a separate financial report.

Annual Pension Cost and Net Pension Asset

Annual required contribution	\$	136,519
Interest on net pension asset		(14,100)
Adjustment to annual required contribution		<u>39,674</u>
Annual pension cost (APC)		162,093
Contributions made		<u>(211,645)</u>
Increase in net pension asset		(49,552)
Net pension asset - Beginning of year		<u>(281,995)</u>
Net pension asset - End of year	\$	<u>(331,547)</u>

Annual Pension Cost - For the year ended June 30, 2014, the Township's annual pension cost was \$162,093, of which the Township contributed \$211,645. The pension cost for the three most recent years is as follows:

	Fiscal Year Ended June 30		
	2014	2013	2012
Annual pension cost (APC)	\$ 162,093	\$ 145,184	\$ 98,061
Percentage of annual required contribution actually contributed	155.0 %	148.0 %	209.0 %
Net pension asset	\$ 331,547	\$ 281,995	\$ 230,512

Funding Status and Funding Progress - As of June 30, 2014, the most recent actuarial valuation date, the plan was 99.4 percent funded. The actuarial accrued liability for benefits was approximately \$2.45 million, and the actuarial value of assets was approximately \$2.43 million, resulting in an unfunded actuarial accrued liability of approximately \$15,000. The covered payroll (annual payroll to active employees covered by the plan) was \$607,771, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 2.5 percent.

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Township of Macomb

Notes to Financial Statements June 30, 2014

Note 14 - Township Pension Cost and Related Asset/Obligation (Continued)

Actuarial Methods and Assumptions - For the year ended June 30, 2014, the Township's annual required pension contribution was \$136,519, of which the Township contributed \$211,645. The annual required contribution was determined as part of an actuarial valuation at June 30, 2012, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 5.0 percent investment rate of return, (b) projected salary increases of 3.0 percent per year, (c) additional projected salary increases ranging from 0.2 percent to 3.8 percent per year, attributable to seniority/merit and age, and (d) no postretirement benefit increases. Assumption (b) includes an inflation component of 3.0 percent. The actuarial value of assets was based on market value. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is eight years.

Note 15 - Pension and Other Employee Benefit Trust Funds

The following are condensed financial statements for the Fire Retirement System and the Retiree Health Care Fund:

	Fire Retirement System	Retiree Health Care Fund	Total
<u>Statement of Net Position</u>			
Cash and cash equivalents	\$ 86,817	\$ 525,572	\$ 612,389
Investments	2,347,887	16,581,546	18,929,433
Net position	<u>\$ 2,434,704</u>	<u>\$ 17,107,118</u>	<u>\$ 19,541,822</u>
<u>Statement of Changes in Net Position</u>			
Investment income	\$ 227,723	\$ 1,526,045	\$ 1,753,768
Contributions	240,258	1,735,479	1,975,737
Benefit payments	154,056	272,061	426,117
Other deductions	2,128	-	2,128
Net change in net position	<u>\$ 311,797</u>	<u>\$ 2,989,463</u>	<u>\$ 3,301,260</u>

Note 16 - Defined Contribution Pension Plan

All full-time employees, excluding members of the Macomb Township Act 345 Fire Retirement System, belong to a 401(a) retirement plan that was established by the Township. Annually, the Township contributes 10 percent of base pay for each member into the plan; members are required to contribute 5 percent of base pay.

During the year ended June 30, 2014, the Township made contributions of \$470,449 and the plan members contributed \$235,225 to the plan.

Township of Macomb

Notes to Financial Statements June 30, 2014

Note 17 - Change in Accounting

During the current year, the Township adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead to classify them as deferred inflows of resources, deferred outflows of resources, or as outflows of resources.

As a result of implementing this statement, the following liabilities have been reclassified, as indicated:

<u>Item</u>	<u>June 30, 2014 Amount</u>	<u>Prior reporting classification/Treatment</u>	<u>New Classification after Adoption of GASB 65</u>
Deferred amounts on debt refundings	\$ 1,000,575	Adjustment to the bonds payable liability	Deferred outflow or deferred inflow of resources
Revenue in governmental funds not collected within 60 days of year end	1,089,676	Liability	Deferred inflow of resources

Note 18 - 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 supplemental information (RSI). The Township is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this Statement will be effective for financial statements for the year ending June 30, 2015.

Required Supplemental Information

Township of Macomb

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes and fees	\$ 1,835,000	\$ 1,835,000	\$ 1,921,810	\$ 86,810
Licenses and permits	2,258,500	2,258,500	2,793,449	534,949
Federal grants and other	-	-	69,736	69,736
State-shared revenue and grants	5,850,000	5,850,000	5,966,044	116,044
Charges for services	239,628	239,628	244,421	4,793
Fines and forfeitures	96,400	96,400	119,424	23,024
Interest	82,200	82,200	76,495	(5,705)
Other revenue:				
Special assessments	805,785	805,785	869,048	63,263
Donations	200	200	-	(200)
Other	365,000	365,000	265,383	(99,617)
Total revenue	<u>11,532,713</u>	<u>11,532,713</u>	<u>12,325,810</u>	<u>793,097</u>
Expenditures - Current				
General government	8,106,173	8,298,399	6,714,036	1,584,363
Public safety	1,732,091	1,590,091	1,505,333	84,758
Public works	1,126,000	1,126,000	1,024,013	101,987
Recreation and culture	235,850	235,850	184,233	51,617
Total expenditures	<u>11,200,114</u>	<u>11,250,340</u>	<u>9,427,615</u>	<u>1,822,725</u>
Excess of Revenue Over Expenditures	332,599	282,373	2,898,195	2,615,822
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	703,946	703,946
Transfers out	(4,932,075)	(4,881,850)	(4,881,655)	195
Total other financing uses	<u>(4,932,075)</u>	<u>(4,881,850)</u>	<u>(4,177,709)</u>	<u>704,141</u>
Net Change in Fund Balance	(4,599,476)	(4,599,477)	(1,279,514)	3,319,963
Fund Balance - Beginning of year	<u>30,917,544</u>	<u>30,917,544</u>	<u>30,917,544</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 26,318,068</u>	<u>\$ 26,318,067</u>	<u>\$ 29,638,030</u>	<u>\$ 3,319,963</u>

Township of Macomb

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Parks and Recreation Operating Fund Year Ended June 30, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes and fees	\$ 2,200,000	\$ 2,200,000	\$ 2,333,907	\$ 133,907
Charges for services	1,910,200	1,910,200	2,296,647	386,447
Interest	8,000	8,000	26,231	18,231
Total revenue	<u>4,118,200</u>	<u>4,118,200</u>	<u>4,656,785</u>	<u>538,585</u>
Expenditures				
Current - Recreation and culture	2,748,199	2,748,199	2,628,026	120,173
Debt service	-	-	76,042	(76,042)
Total expenditures	<u>2,748,199</u>	<u>2,748,199</u>	<u>2,704,068</u>	<u>44,131</u>
Excess of Revenue Over Expenditures	1,370,001	1,370,001	1,952,717	582,716
Other Financing Uses - Transfers out	<u>(2,539,010)</u>	<u>(2,539,010)</u>	<u>(2,538,185)</u>	<u>825</u>
Net Change in Fund Balance	(1,169,009)	(1,169,009)	(585,468)	583,541
Fund Balance - Beginning of year	<u>5,638,054</u>	<u>5,638,054</u>	<u>5,638,054</u>	<u>-</u>
Fund Balance - End of year	<u><u>\$ 4,469,045</u></u>	<u><u>\$ 4,469,045</u></u>	<u><u>\$ 5,052,586</u></u>	<u><u>\$ 583,541</u></u>

Township of Macomb

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Fire Operating Fund Year Ended June 30, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes and fees	\$ 2,600,000	\$ 2,600,000	\$ 2,891,547	\$ 291,547
Charges for services	500	500	-	(500)
Interest	30,000	30,000	41,647	11,647
Other	-	-	5,225	5,225
Total revenue	2,630,500	2,630,500	2,938,419	307,919
Expenditures - Current - Public safety	3,332,719	3,332,719	2,969,231	363,488
Excess of Expenditures Over Revenue	(702,219)	(702,219)	(30,812)	671,407
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	8,760	8,760
Transfers out	(635,292)	(635,262)	(809,800)	(174,538)
Total other financing uses	(635,292)	(635,262)	(801,040)	(165,778)
Net Change in Fund Balance	(1,337,511)	(1,337,481)	(831,852)	505,629
Fund Balance - Beginning of year	8,283,718	8,283,718	8,283,718	-
Fund Balance - End of year	<u>\$ 6,946,207</u>	<u>\$ 6,946,237</u>	<u>\$ 7,451,866</u>	<u>\$ 505,629</u>

Township of Macomb

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Law Enforcement Sheriff Fund Year Ended June 30, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes and fees	\$ 2,900,000	\$ 2,900,000	\$ 3,005,565	\$ 105,565
State-shared revenue and grants	19,000	19,000	20,386	1,386
Interest	2,400	2,400	4,235	1,835
Total revenue	2,921,400	2,921,400	3,030,186	108,786
Expenditures - Current - Public safety	3,288,425	3,288,425	3,283,445	4,980
Excess of Expenditures Over Revenue	(367,025)	(367,025)	(253,259)	113,766
Other Financing Sources - Transfers in	370,000	370,000	370,000	-
Net Change in Fund Balance	2,975	2,975	116,741	113,766
Fund Balance - Beginning of year	1,396,872	1,396,872	1,396,872	-
Fund Balance - End of year	<u>\$ 1,399,847</u>	<u>\$ 1,399,847</u>	<u>\$ 1,513,613</u>	<u>\$ 113,766</u>

Township of Macomb

Required Supplemental Information Pension System Schedule of Funding Progress Year Ended June 30, 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
6/30/04	\$ 968,361	\$ 1,323,015	\$ 354,654	73.2	\$ 225,485	157.3
6/30/06	1,235,360	1,456,615	221,255	84.8	527,659	41.9
6/30/08	1,527,110	1,878,379	351,269	81.3	637,673	55.1
6/30/10	1,798,531	2,089,721	291,190	86.1	476,483	61.1
6/30/12	2,041,728	2,402,539	360,811	85.0	521,004	69.3
6/30/14	2,434,704	2,450,074	15,370	99.4	607,771	2.5

The schedule of employer contributions is as follows:

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
6/30/09	\$ 175,998	100
6/30/10	184,798	100
6/30/11	93,391	232
6/30/12	98,061	209
6/30/13	132,543	148
6/30/14	136,519	155

The information presented above was determined as part of the actuarial valuations at the dates indicated. The most recent valuations as of June 30, 2014 contain the following assumptions:

Actuarial cost method	Entry age
Amortization method	Level percent, closed
Amortization period (perpetual)	7 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	5.00%
Projected salary increases*	3.00% - 6.80%
*Includes inflation at	3.00%
Cost of living adjustments	None

Township of Macomb

Required Supplemental Information Retiree Health Care Fund Schedule of Funding Progress Year Ended June 30, 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
7/1/08	\$ 6,455,955	\$ 8,850,729	\$ 2,394,774	72.9	\$ 4,193,152	57.1
4/1/11	10,673,324	16,974,869	6,301,545	62.9	4,671,044	134.9
7/1/14	17,107,119	19,993,872	2,886,753	85.6	4,822,901	59.9

The schedule of employer contributions is as follows:

Fiscal Year Ended	Annual OPEB costs	Percentage Contributed
6/30/09	\$ 636,520	504.0
6/30/10	636,520	126.0
6/30/11	1,324,308	72.0
6/30/12	1,268,615	134.0
6/30/13	1,256,932	136.0
6/30/14	1,062,465	162.0

Township of Macomb

Required Supplemental Information Schedule of Investment Returns Last Four Fiscal Years

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual money-weighted rate of return, net of investment expense	11.3 %	3.8 %	(3.4)%	11.5 %

Township of Macomb

Required Supplemental Information Schedule of Changes in Township Net Pension Liability and Related Ratios Year Ended June 30, 2014

Total Pension Liability	
Service cost	\$ 100,679
Interest	117,093
Changes in benefit terms	-
Differences between expected and actual experience	17,813
Changes in assumptions	-
Benefit payments, including refunds	<u>(154,056)</u>
Net Change in Total Pension Liability	81,529
Total Pension Liability - Beginning of year	<u>2,368,546</u>
Total Pension Liability - End of yer	<u>\$ 2,450,075</u>
Plan Fiduciary Net Position	
Contributions - Employer	\$ 211,645
Contributions - Member	28,613
Net investment income	227,723
Administrative expenses	(2,128)
Benefit payments, including refunds	(154,056)
Other	<u>-</u>
Net Change in Plan Fiduciary Net Position	311,797
Plan Fiduciary Net Position - Beginning of year	<u>2,122,907</u>
Plan Fiduciary Net Position - End of year	<u>\$ 2,434,704</u>
Township's Net Pension Liability - Ending	<u>\$ 15,371</u>
Plan Fiduciary Net Position as a % of Total Pension Liability	99.37 %
Covered Employee Payroll	\$ 607,770
Township's Net Pension Liability as a % of Covered Employee Payroll	2.5 %

Township of Macomb

Note to Required Supplemental Information Year Ended June 30, 2014

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all special revenue funds. The Township adopted GASB Statement No. 54 during 2011. The Township did not amend the General Fund budget to take into account the additional activity accounted for in the General Fund as a result of implementation of GASB Statement No. 54. The table below reconciles the actual fiscal year activity in the General Fund budget to the General Fund activity reported in the governmental funds statement of revenue, expenditures, and changes in fund balances. In the General Fund, capital outlay and employee benefits and insurance were budgeted for as separate budget line items; actual expenditures were expensed by function classification. 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.

Encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2014 has not been calculated. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The supervisor presents the preliminary budget to the board of trustees in May and the final budget is legally adopted at the last board meeting in June to commence on the first of July.

	Fund Balance - Beginning of Year	Fund Balance - End of Year
	<u> </u>	<u> </u>
General Fund:		
Fund balance per the governmental funds statement of revenue, expenditures, and changes in fund balances	\$ 30,987,544	\$ 29,708,030
The fund balance of the previous Budget Stabilization Fund was not included in the beginning and ending fund balance of the General Fund for the year ended June 30, 2014 budget	<u>(70,000)</u>	<u>(70,000)</u>
Fund balance per General Fund budget statement	<u>\$ 30,917,544</u>	<u>\$ 29,638,030</u>

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Township incurred expenditures that were in excess of the amended budget as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Parks and Recreation Operating Fund - Debt service	\$ -	\$ 76,042	\$ (76,042)
Fire Operating Fund - Transfer out	635,262	809,800	(174,538)

The unfavorable variance was caused by unanticipated expenditures that became necessary during the current year.

Other Supplemental Information

Township of Macomb

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2014

	Capital Projects Funds				
Parks and Recreation Revolving - Debt Service Fund	Public Improvement	Fire Improvement	Building Authority Capital Projects Fund	Total Nonmajor Governmental Funds	
Assets - Cash and investments	\$ 641,335	\$ 3,015,828	\$ 965,474	\$ -	\$ 4,622,637
Fund Balances					
Restricted:					
Fire	\$ -	\$ -	\$ 965,474	\$ -	\$ 965,474
Debt service	641,335	-	-	-	641,335
Assigned - Capital outlay	-	3,015,828	-	-	3,015,828
Total fund balances	\$ 641,335	\$ 3,015,828	\$ 965,474	\$ -	\$ 4,622,637

Township of Macomb

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2014

	Parks and Recreation Revolving - Debt Service Fund	Nonmajor Capital Projects Funds			Total Nonmajor Governmental Funds
		Public Improvement	Fire Improvement	Building Authority Capital Projects Fund	
Revenue - Interest	\$ 1,281	\$ 6,026	\$ 3,621	\$ 68	\$ 10,996
Expenditures - Capital outlay	-	-	342,035	43,901	385,936
Excess of Revenue Over (Under) Expenditures	1,281	6,026	(338,414)	(43,833)	(374,940)
Other Financing Sources (Uses)					
Transfers in	-	-	450,000	-	450,000
Transfers out	-	-	(74,400)	(2,299)	(76,699)
Total other financing sources (uses)	-	-	375,600	(2,299)	373,301
Net Change in Fund Balances	1,281	6,026	37,186	(46,132)	(1,639)
Fund Balances - Beginning of year	640,054	3,009,802	928,288	46,132	4,624,276
Fund Balances - End of year	<u>\$ 641,335</u>	<u>\$ 3,015,828</u>	<u>\$ 965,474</u>	<u>\$ -</u>	<u>\$ 4,622,637</u>

Township of Macomb

Other Supplemental Information Combining Statement of Net Position Fiduciary Funds June 30, 2014

	<u>Pension and Other Retirement Benefit Funds</u>			
	Fire	Retiree		
	Retirement	Health Care		Bond Escrow
	<u>System</u>	<u>Fund</u>	<u>Total</u>	<u>Agency Fund</u>
Assets				
Cash and cash equivalents	\$ 86,817	\$ 525,572	\$ 612,389	\$ 672,194
Investments:				
U.S. Treasury bonds	-	1,206,989	1,206,989	-
Agency securities	-	1,819,637	1,819,637	-
Corporate bonds	-	3,933,717	3,933,717	-
Money market funds	29,873	-	29,873	-
Mutual funds	<u>2,318,014</u>	<u>9,621,203</u>	<u>11,939,217</u>	<u>-</u>
Total assets	2,434,704	17,107,118	19,541,822	<u>\$ 672,194</u>
Liabilities - Cash bonds and deposits	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 672,194</u>
Net Position - Held in trust for pension and other employee benefits	<u>\$ 2,434,704</u>	<u>\$ 17,107,118</u>	<u>\$ 19,541,822</u>	

Township of Macomb

Other Supplemental Information Combining Statement of Changes in Net Position Fiduciary Funds Year Ended June 30, 2014

	Pension and Other Retirement Benefit Funds		Total
	Fire Retirement System	Retiree Health Care Fund	
Additions			
Investment income (loss):			
Interest and dividends	\$ 60,589	\$ 403,429	\$ 464,018
Net increase in fair value of investments	171,291	1,193,465	1,364,756
Investment-related expenses	(4,157)	(70,849)	(75,006)
Net income	227,723	1,526,045	1,753,768
Contributions:			
Employer	211,645	1,735,479	1,947,124
Employee	28,613	-	28,613
Total contributions	240,258	1,735,479	1,975,737
Total additions - Net	467,981	3,261,524	3,729,505
Deductions			
Benefit payments	154,056	272,061	426,117
Administrative expenses	2,128	-	2,128
Total deductions	156,184	272,061	428,245
Net Increase	311,797	2,989,463	3,301,260
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	<u>2,122,907</u>	<u>14,117,655</u>	<u>16,240,562</u>
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	<u>\$ 2,434,704</u>	<u>\$ 17,107,118</u>	<u>\$ 19,541,822</u>

November 26, 2014

To the Board of Trustees
Township of Macomb
Macomb County, Michigan

Dear Board Members:

We have audited the financial statements of the Township of Macomb (the "Township") as of and for the year ended June 30, 2014 and have issued our report thereon dated November 26, 2014. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Required Communications with Those Charged with Governance

Section II - Legislative and Informational Items

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

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

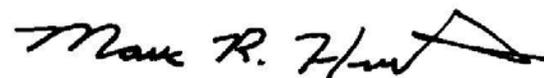
We would like to take this opportunity to thank the Township's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

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

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



Mark R. Hurst



Lisa C. Manetta

Section I - Required Communications with Those Charged with Governance

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 24, 2014, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the Township. 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 letter about planning matters dated October 1, 2014.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except for the adoption of GASB Statements No. 65 and No. 67, which is disclosed in Note 17 to the financial statements.

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

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

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were the calculations of the actuarial accrued liability and annual required contribution for the Fire Fighters' Pension Fund and the Retiree Health Care Trust Fund. Management's estimate of the Township's obligation for retiree benefits is based on actuarial assumptions. The actuarial assumptions involve estimates of the value of the reported amounts and assumptions about the probability of occurrence of events into the future. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

As indicated earlier in this communication, the Township applied GASB Statement No. 67 with respect to additional pension-related actuarial disclosures during the current year. In our review of the related actuarial report, we noted the most recent actuarial mortality table was not utilized. Standards require that the most recent mortality table be utilized when available.

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

Difficulties Encountered in Performing the Audit

The Township of Macomb, along with a number of other communities, has become party to the Macomb Interceptor Drainage District (MID) and the Oakland-Macomb Interceptor Drainage District (OMID), relating to various construction projects that are being administered by Oakland and Macomb counties. Given the complexity of the accounting and related financial statement disclosures, we performed research, met with members of Oakland and Macomb Counties, and consulted with internal accounting staff in order to provide guidance to the Township and ensure that these activities were appropriately reflected and disclosed within the Township's financial statements.

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. Uncorrected misstatements of the financial statements include a passed disclosure for the legally required pension reserve for retiree benefits in accordance with Act 345. Management has determined that the effect of the passed disclosure is immaterial to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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 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 November 26, 2014.

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.

Section II - Legislative and Informational Items

New Pension Standards

Beginning with the Township's June 30, 2014 year end, two new accounting standards issued by the Governmental Accounting Standards Board (GASB) will significantly impact the Township's financial statements. GASB Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, significantly revise the current accounting and reporting requirements for pensions, both from an employer perspective as well as from a plan perspective.

Employers providing defined benefit pensions to its employees must now recognize their unfunded pension benefit obligation as a liability for the first time, and must more comprehensively and comparably measure the annual costs of pension benefits. The Statements also enhance accountability and transparency through revised and expanded note disclosures and required supplemental information (RSI). As a result of implementing these two new standards, the Township's net pension asset will be replaced by a net pension liability, resulting in a significant impact to the Township's governmental and business-type activities. In addition, the Township will also have to determine if the annual required contributions should be calculated using the assumption stipulated by GASB Statement No. 67 or if the actuary should continue to calculate the funding requirements using the same assumptions used in recent years.

Significant coordination between the Township, the actuary, and Plante & Moran, PLLC will be required in order to implement these pronouncements effectively. Statement No. 67 is required to be adopted for the Township's June 30, 2014 year end and GASB Statement No. 68 one year later. We are happy to work with the Township over the next two years to ensure smooth implementations of the new standards. We would also encourage Township personnel to view the free webinars available on Plante & Moran, PLLC's website, if you have not already done so.

New Rules Governing Management of Federal Programs

In December 2013, the Office of Management and Budget (OMB) issued long-awaited 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 some changes to their 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 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 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 many experts in these rules who can assist you in understanding the changes and how they impact the Township. As we continue to delve into these new rules, we will keep you informed and updated.

Personal Property Tax

Significant personal property tax legislation has recently passed. Key provisions of the new acts include the following:

1. In August 2014, Michigan voters overwhelmingly approved Proposal 1. As a result, there will be a shift in use tax dollars to create a replacement fund. The eligible manufacturing exemption described below will occur, and the \$40,000 Small Taxpayer Exemption under PA 48 of 2012 will be effective for 2014 and subsequent tax years.
2. The much-talked about local Essential Services Assessment (ESA) will be replaced with a State-assessed ESA, which is actually a tax but is being referred to as an assessment simply so that it is recognized as the substitute for the local ESA.
3. The new bills increase the reimbursement to local units for lost personal property tax revenue to an amount stated as 100 percent replacement.

Two key provisions under the previous personal property tax reform legislation (PA 408 of 2012) remain. Businesses will benefit from the following provisions:

1. Under PA 408 of 2012, businesses with less than \$40,000 of combined industrial and commercial personal property TV (\$80,000 true cash value) would not have to file PPT returns or pay any personal property tax. This provision remains unchanged in these new bills. This exemption begins with the 2014 tax year (December 31, 2013 assessments).
2. "Eligible Manufacturing" property would be exempt from PPT. This would be phased in beginning in 2016 (December 31, 2015 assessment date), with the following provisions:

- a. Any property purchased subsequent to December 31, 2012 would be exempt immediately effective in 2016.
- b. Property purchased prior to December 31, 2012 would be reduced to zero by its 10th year of existence (should take nine years).

Determining the Amount of Community Loss:

Communities will first need to calculate their losses. Losses are classified as either debt loss or non-debt loss, as follows:

- **Debt Loss** - Debt loss is defined as the amount of ad valorem and dedicated taxes that go toward debt that are lost as a result of the personal property tax exemption. During FY 2014-2015 and 2015-2016, revenue distributed by the newly created Local Community Stabilization Authority (LCSA) would equal either a community's debt loss or, in the case of a TIF, the small taxpayer loss. Through the 2015-2016 fiscal year, the losses are limited to the impact of the \$40,000 small business exemption. When the phase-out of Eligible Manufacturing property would begin to occur when tax bills go out in 2016, the debt loss (and corresponding reimbursement) will increase.
- **Non-debt Loss** - Non-debt loss is calculated using the lowest rate of each individual millage levied in the period between 2012 and the year immediately preceding the current year. This will exclude debt millage. The department will compute the loss by comparing the current year taxable value of commercial and industrial property to the taxable value that existed at December 31, 2012 (2013 tax year). In 2016, cities will be reimbursed for non-debt loss for 2014 and 2015 related to the small taxpayer exemption loss. This is for cities only. For 2014 and 2015, townships will be getting reimbursed for the debt loss related to the small business exemption, but not the other losses created by the small business exemption. Starting in 2016, all municipalities are reimbursed for non-debt loss.

Reimbursement Mechanisms:

Beginning in 2015-2016, the LCSA would reimburse local units. Reimbursements to communities for the losses comes from two funding sources:

- **Use Tax Shift** - a portion of use tax will shift to the LCSA.
- **Essential Services Reimbursement** - Beginning in 2015-2016, the LCSA would receive a portion of the use tax as well as the full Essential Services Assessments in which to reimburse local units. This assessment is set at a prescribed millage rate based on the acquisition cost of property (depreciation will no longer apply). The rate is set at 2.4 mills for a property's first five years; then 1.25 mills for the next five; then 0.9 mills thereafter. Essential services are defined as ambulance, fire, and police services as well as jail operations. This includes the cost of related pension funding.

The losses described by the bill are to be paid in this order of priority: school debt; Intermediate School District losses; school operations; government essential services; debt and TIFA forgone increases; and all other reimbursements (defined below). In theory, if there is not enough money available, the lower priority items may not be fully reimbursed. However, that department has indicated that it expects the fund to have enough to cover all reimbursements.

All other reimbursements - These reimbursements come from the use tax and would also begin in 2015-2016 and initially be proportional to each local unit's share of total "qualified losses," taking into account the losses of all municipalities. Over time, the reimbursement will shift to be based on each entity's share of eligible manufacturing personal property (based on the amount used in the ESA calculation above). Beginning in FY 2017-2018, 5 percent of the revenue would be distributed proportionally based on each local unit's share of eligible manufacturing personal property. The 5 percent portion would increase in 5 percent increments in each subsequent year. By FY 2036-2037, all revenue in the last category of reimbursements would be distributed based on the local unit's share of eligible manufacturing personal property. In short, in the beginning, the reimbursement is closely tied to the amount of lost personal property taxes, but over time, the community's reimbursement will be tied to the level of eligible manufacturing personal property.

Retro-pay Prohibition - Proposed Changes

Public Act 54 of 2011, which was signed by the Governor on June 7, 2011, prohibits retroactive pay on an expired contract and calls for employees working under an expired agreement to bear the cost of any increased healthcare costs until a new contract is in effect. During that period, the public employer is authorized to make payroll deductions necessary to pay the increased cost of maintaining those benefits.

The Legislature has been working over the past two years to pass a bill to amend PA 54 of 2011 to allow those who are eligible to negotiate contracts under PA 312 of 1969 to be exempt from PA 54. HB 5097 of 2013, which has now been signed into law by the Governor as PA 301 of 2014, provides for exceptions to the retro-pay prohibition for public safety personnel that are subject to compulsory arbitration of labor disputes under PA 312 of 1969. The passing of this legislation would mean that police, fire, and emergency medical personnel would be eligible to receive retroactive increases in compensation (this includes wage or benefit increases and step increases) that cover the period after a bargaining agreement expires and before a new agreement is in place if those higher benefit levels are a result of arbitration under PA 312 or included in a negotiated bargaining agreement after expiration of their collective bargaining agreement. In addition, these employees would only be required to pay increases in insurance benefits after a collective bargaining agreement expired and before a new agreement is in place that would not exceed the amount of the employee's share under the Publicly Funded Health Insurance Contribution Act.

Potential Change in Audited Financial Statement Due Date

Senate Bill 949 of 2014 was recently introduced. Among other things, the bill changes the due date for audits.

- The audit deadline would be moved to 150 days from 180 days(effective for fiscal years ending after June 30, 2014).
- If the deadline cannot be met, the State can move in and either perform or contract for and charge the local unit for the audit services.
- There would be a requirement that budgets conform to the Uniform Chart of Accounts.
- The biennial audit exception for units with a population under 4,000 would be removed.
- Very specific language is added to say a unit cannot adopt or operate under a deficit budget, nor incur an operating deficit. If a unit is operating under a deficit, the State is to be notified. In that situation, a deficit elimination plan is due to the State within 90 days. Failure to comply will allow the State to withhold state funds as necessary to gain compliance.