

# **Charter Township of Independence**

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

# Charter Township of Independence

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## Contents

|   |       |
|---|-------|
| <b>Report Letter</b>  | 1-2   |
| <b>Management's Discussion and Analysis</b>   | 3-9   |
| <b>Basic Financial Statements</b>   |       |
| Government-wide Financial Statements:   |       |
| Statement of Net Position   | 10    |
| Statement of Activities   | 11-12 |
| Fund Financial Statements:  |       |
| Governmental Funds:   |       |
| Balance Sheet   | 13    |
| Reconciliation of the Balance Sheet to the Statement of<br>Net Position   | 14    |
| Statement of Revenue, Expenditures, and Changes in Fund Balances  | 15    |
| Reconciliation of the Statement of Revenue, Expenditures,<br>and Changes in Fund Balances of Governmental Funds<br>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   | 19-20 |
| Fiduciary Funds - Statement of Fiduciary Assets and Liabilities   | 21    |
| Notes to Financial Statements   | 22-44 |
| <b>Required Supplemental Information</b>  | 45    |
| Budgetary Comparison Schedule - General Fund (Excluding Parks and<br>Recreation Department)   | 46    |
| Budgetary Comparison Schedule - Major Special Revenue Fund  | 47-48 |
| Schedule of Funding Progress - Pension  | 49    |
| Schedule of Funding Progress - OPEB   | 50    |
| Note to Required Supplemental Information   | 51    |

# Charter Township of Independence

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## Contents (Continued)

|  |       |
|--|-------|
| <b>Other Supplemental Information</b>  | 52    |
| Nonmajor Governmental Funds:   |       |
| Combining Balance Sheet  | 53-54 |
| Combining Statement of Revenue, Expenditures, and Changes in Fund Balances               | 55-56 |
| Special Assessment Schedules:  |       |
| Consolidating Balance Sheet  | 57-60 |
| Consolidating Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) | 61-64 |
| Fiduciary Funds - Statement of Net Position  | 65    |

## Independent Auditor's Report

To the Board of Trustees  
Charter Township of Independence

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

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

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

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

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

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

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

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

### ***Opinion***

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

To the Board of Trustees  
Charter Township of Independence

***Emphasis of Matter***

As discussed in Note 13, in prior years the Township had included the Clarkston Independence District Library (the "Library") as a discretely presented component unit. During 2014, the Township evaluated the criteria of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, an amendment of GASB Statements No. 14 and No. 34, and has determined that the Library no longer meets the criteria for inclusion as a component unit. The Library is no longer included in the Township's reporting entity. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplemental Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension and OPEB system schedules of funding progress and employer contributions, and the major fund budgetary comparison schedules on pages 46-48 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 Charter Township of Independence'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.

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 & Morse, PLLC*

June 17, 2015

# **Charter Township of Independence**

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

Our discussion and analysis of the Charter Township of Independence, Michigan's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2014. Please read it in conjunction with the Township's financial statements.

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

- Independence Township is currently going through a controlled growth spurt after six years of economic stagnation. Both residential and commercial properties are finally starting to see market values increase. Approximately 500 new homes are planned to be built over the next several years. Development along the Sashabaw corridor includes an 80-room hotel, a restaurant, a 70,000 square-foot medical rehabilitation center, and more projects in various stages of planning. All of this growth will have the benefit of diversifying the Township's revenue stream and minimizing the burden on the individual homeowners.
- From an economic viewpoint, the Township continues to improve. Fund balance continues to improve Township-wide with the exception of the Police Fund, which incurred a one-time accounting adjustment to align the Oakland County sheriff invoices with the Township's fiscal calendar. Staffing increases have been held in check as the economy improves. Employees consistently take advantage of educational opportunities for ongoing professional development in their field. Operational efficiencies are also being implemented in both the DPW and treasurer's offices with new billing procedures saving countless man-hours processing bills and receiving payments. The Township also received an incremental \$91,000 from the State of Michigan by adding new financial transparency tools on our website. A township-wide document management/imaging system is being implemented for improved transparency and internal efficiencies.
- From a community perspective, there are several capital projects that were approved that will have a positive impact on our community. The long-planned I-75/Sashabaw road construction project has been approved to help relieve Sashabaw congestion. Other capital projects include: funding for the Senior Center expansion, approvals for new tennis courts, basketball courts, pickle ball courts at Clintonwood Park, and upgrades to Brady Lodge located in Baycourt Park. The partnership with the Independence Public Access Television station and Clarkston Community Schools continues to pay dividends with more sporting, civic, school, and community shows being broadcast.

# Charter Township of Independence

## Management's Discussion and Analysis (Continued)

### Using this Annual Report

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

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

### Governmental Activities

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

|                                      | Governmental Activities |                      |                      |                   | Percent<br>Change |
|--------------------------------------|-------------------------|----------------------|----------------------|-------------------|-------------------|
|                                      | 2012                    | 2013                 | 2014                 | Change            |                   |
| <b>Assets</b>                        |                         |                      |                      |                   |                   |
| Other assets                         | \$ 22,898,385           | \$ 24,614,910        | \$ 25,399,725        | \$ 784,815        | 3%                |
| Capital assets                       | <u>16,716,144</u>       | <u>14,772,192</u>    | <u>14,914,010</u>    | <u>141,818</u>    | 1%                |
| Total assets                         | 39,614,529              | 39,387,102           | 40,313,735           | 926,633           | 2%                |
| <b>Liabilities</b>                   |                         |                      |                      |                   |                   |
| Current liabilities                  | 1,721,738               | 1,254,269            | 1,095,390            | (158,879)         | -13%              |
| Long-term liabilities                | <u>452,695</u>          | <u>427,085</u>       | <u>305,272</u>       | <u>(121,813)</u>  | -29%              |
| Total liabilities                    | 2,174,433               | 1,681,354            | 1,400,662            | (280,692)         | -17%              |
| <b>Deferred Inflows of Resources</b> | <u>10,536,742</u>       | <u>10,284,953</u>    | <u>10,646,765</u>    | <u>361,812</u>    | 4%                |
| <b>Net Position</b>                  |                         |                      |                      |                   |                   |
| Net investment in capital assets     | 16,584,878              | 14,618,410           | 14,805,103           | 186,693           | 1%                |
| Restricted                           | 7,336,994               | 8,180,565            | 8,777,305            | 596,740           | 7%                |
| Unrestricted                         | <u>2,981,482</u>        | <u>4,621,820</u>     | <u>4,683,900</u>     | <u>62,080</u>     | 1%                |
| Total net position                   | <u>\$ 26,903,354</u>    | <u>\$ 27,420,795</u> | <u>\$ 28,266,308</u> | <u>\$ 845,513</u> | 3%                |

# Charter Township of Independence

## Management's Discussion and Analysis (Continued)

|                                    | Governmental Activities |                   |                   |                   | Percent |
|------------------------------------|-------------------------|-------------------|-------------------|-------------------|---------|
|                                    | 2012                    | 2013              | 2014              | Change            | Change  |
| <b>Revenue</b>                     |                         |                   |                   |                   |         |
| Program revenue:                   |                         |                   |                   |                   |         |
| Charges for services               | \$ 2,529,274            | \$ 2,325,826      | \$ 3,260,768      | \$ 934,942        | 40%     |
| Operating grants                   | 204,175                 | 59,337            | 88,337            | 29,000            | 49%     |
| Capital grants                     | -                       | -                 | 100               | 100               | 100%    |
| General revenue:                   |                         |                   |                   |                   |         |
| Property taxes                     | 10,652,679              | 10,222,485        | 10,187,745        | (34,740)          | 0%      |
| State-shared revenue               | 2,528,796               | 2,578,172         | 2,695,635         | 117,463           | 5%      |
| Investment earnings                | 197,854                 | 49,488            | 115,119           | 65,631            | 133%    |
| Other revenue                      | 2,013,826               | 2,232,020         | 1,432,819         | (799,201)         | -36%    |
| Total revenue                      | 18,126,604              | 17,467,328        | 17,780,523        | 313,195           | 2%      |
| <b>Program Expenses</b>            |                         |                   |                   |                   |         |
| General government                 | 2,778,764               | 3,094,369         | 3,517,439         | 423,070           | 14%     |
| Public safety                      | 9,855,728               | 9,506,864         | 9,600,543         | 93,679            | 1%      |
| Public works                       | 419,539                 | 351,593           | 642,059           | 290,466           | 83%     |
| Community and economic development | 166,280                 | 29,023            | 51,535            | 22,512            | 78%     |
| Recreation and culture             | 4,000,674               | 2,531,605         | 3,086,480         | 554,875           | 22%     |
| Interest on long-term debt         | 2,168                   | 2,168             | 86,676            | 84,508            | 3898%   |
| Total expenses                     | 17,223,153              | 15,515,622        | 16,984,732        | 1,469,110         | 9%      |
| Transfer to District Library       | -                       | 1,434,265         | -                 | (1,434,265)       | -100%   |
| <b>Transfers</b>                   | -                       | -                 | 49,722            | 49,722            | 100%    |
| <b>Change in Net Position</b>      | <b>\$ 903,451</b>       | <b>\$ 517,441</b> | <b>\$ 845,513</b> | <b>\$ 328,072</b> | 63%     |

The governmental net position increased 3 percent from a year ago - increasing from \$27,420,795 to \$28,266,308. In contrast, last year's net position increased by only 1.9 percent.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations, decreased by \$62,080 for the governmental activities. This represents a decrease of approximately 1 percent. The current level of unrestricted net position for our governmental activities stands at \$4,683,900, or about 28 percent of expenditures.

The Township's total governmental revenues increased by approximately \$313,000, or 2 percent, compared to 2013, while expenses increased by 9 percent during the year mainly due to Sashabaw road street lighting, public safety, and recreation and culture costs.



# Charter Township of Independence

## Management's Discussion and Analysis (Continued)

### Business-type Activities

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

|                                      | Business-type Activities |                      |                      |                     | Percent<br>Change |
|--------------------------------------|--------------------------|----------------------|----------------------|---------------------|-------------------|
|                                      | 2012                     | 2013                 | 2014                 | Change              |                   |
| <b>Assets</b>                        |                          |                      |                      |                     |                   |
| Other assets                         | \$ 12,385,718            | \$ 13,642,280        | \$ 13,507,018        | \$ (135,262)        | -1%               |
| Capital assets                       | <u>57,365,790</u>        | <u>56,074,408</u>    | <u>56,172,767</u>    | <u>98,359</u>       | 0%                |
| Total assets                         | 69,751,508               | 69,716,688           | 69,679,785           | (36,903)            | 0%                |
| <b>Liabilities</b>                   |                          |                      |                      |                     |                   |
| Current liabilities                  | 996,804                  | 1,236,757            | 2,235,341            | 998,584             | 81%               |
| Long-term liabilities                | <u>14,712,386</u>        | <u>14,427,998</u>    | <u>13,818,420</u>    | <u>(609,578)</u>    | -4%               |
| Total liabilities                    | 15,709,190               | 15,664,755           | 16,053,761           | 389,006             | 2%                |
| <b>Deferred Inflows of Resources</b> | <u>-</u>                 | <u>199,259</u>       | <u>-</u>             | <u>(199,259)</u>    |                   |
| <b>Net Position</b>                  |                          |                      |                      |                     |                   |
| Net investment in capital assets     | 42,770,367               | 41,763,374           | 41,175,712           | (587,662)           | -1%               |
| Unrestricted                         | <u>11,271,951</u>        | <u>12,089,300</u>    | <u>12,450,312</u>    | <u>361,012</u>      | 3%                |
| Total net position                   | <u>\$ 54,042,318</u>     | <u>\$ 53,852,674</u> | <u>\$ 53,626,024</u> | <u>\$ (226,650)</u> | 0%                |

# Charter Township of Independence

## Management's Discussion and Analysis (Continued)

|   | Business-type Activities   |                            |                            |                           |                |
|---|----------------------------|----------------------------|----------------------------|---------------------------|----------------|
|   | 2012                       | 2013                       | 2014                       | Change                    | Percent Change |
| Operating revenue                           | \$ 7,023,945               | \$ 7,238,200               | \$ 7,656,794               | \$ 418,594                | 6%             |
| Operating expenses, other than depreciation | 5,127,111                  | 5,376,896                  | 6,321,793                  | 944,897                   | 18%            |
| Depreciation and amortization               | <u>2,347,466</u>           | <u>2,324,300</u>           | <u>2,158,284</u>           | <u>(166,016)</u>          | -7%            |
| Total operating loss                        | (450,632)                  | (462,996)                  | (823,283)                  | (360,287)                 | -78%           |
| Investment income                           | 63,515                     | 29,995                     | 156,657                    | 126,662                   | 422%           |
| Interest expense                            | 371,576                    | 360,175                    | 280,155                    | (80,020)                  | -22%           |
| Gain on sale of assets                      | -                          | 7,510                      | 4,415                      | (3,095)                   | -41%           |
| Capital contributions                       | 415,384                    | 596,022                    | 765,438                    | 169,416                   | 28%            |
| Transfers                                   | <u>(63,000)</u>            | <u>-</u>                   | <u>(49,722)</u>            | <u>(49,722)</u>           | 100%           |
| <b>Change in Net Position</b>               | <b><u>\$ (406,309)</u></b> | <b><u>\$ (189,644)</u></b> | <b><u>\$ (226,650)</u></b> | <b><u>\$ (37,006)</u></b> | 20%            |

The Township's business-type activities consist of the Water and Sewer Fund. The Township provides water to the residents using a community well system owned, operated, and maintained by the Township. The Township provides sewage treatment through the Clinton-Oakland sewage system.

In 2014, the net position of business-type activities' both operating revenue and expenses have remained relatively consistent.

### The Township's Funds

Our analysis of the Township's major funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2014 include the General Fund, Police Millage Fund, and Fire Millage Fund.

The General Fund pays for most of the Township's governmental services. The most significant expenditure of the General Fund is the support of Parks and Recreation. Parks and Recreation charges for participation in many of the programs it offers; however, these charges do not cover all costs. Also, there are some programs and activities of Parks and Recreation for which the participants are not charged.

# Charter Township of Independence

## Management's Discussion and Analysis (Continued)

The following table shows the total governmental fund activity, on a modified accrual basis:

|  | Governmental Funds   |                      |                      |                   | Percent<br>Change |
|--|----------------------|----------------------|----------------------|-------------------|-------------------|
|  | 2012                 | 2013                 | 2014                 | Change            |                   |
| <b>Revenue</b>                             |                      |                      |                      |                   |                   |
| Property taxes                             | \$ 10,755,216        | \$ 10,292,168        | \$ 10,200,377        | \$ (91,791)       | -1%               |
| Charges for services                       | 2,555,341            | 2,351,114            | 2,304,206            | (46,908)          | -2%               |
| Licenses and permits                       | 500,871              | 725,460              | 522,319              | (203,141)         | -28%              |
| State-shared revenue and grants            | 2,554,965            | 2,602,670            | 2,720,617            | 117,947           | 5%                |
| Federal grants                             | 185,174              | 72,522               | 80,784               | 8,262             | 11%               |
| Fines and forfeitures                      | 90,425               | 118,451              | 222,497              | 104,046           | 88%               |
| Investment income                          | 155,172              | 43,740               | 115,119              | 71,379            | 163%              |
| Other revenue                              | <u>1,497,203</u>     | <u>1,400,086</u>     | <u>1,234,143</u>     | <u>(165,943)</u>  | -12%              |
|  |                      |                      |                      | -                 |                   |
| Total revenue                              | 18,294,367           | 17,606,211           | 17,400,062           | (206,149)         | -1%               |
| <b>Expenditures</b>                        |                      |                      |                      |                   |                   |
| Current:                                   |                      |                      |                      |                   |                   |
| General government                         | 2,760,951            | 2,592,246            | 2,760,489            | 168,243           | 6%                |
| Public safety                              | 10,869,505           | 9,559,000            | 9,780,533            | 221,533           | 2%                |
| Public works                               | 360,658              | 397,236              | 605,555              | 208,319           | 52%               |
| Community and economic development         | 166,280              | 29,021               | 51,535               | 22,514            | 78%               |
| Recreation and culture                     | 3,317,343            | 2,817,664            | 2,840,146            | 22,482            | 1%                |
| Capital outlay                             | -                    | 41,060               | 795,133              | 754,073           | 1837%             |
| Debt service                               | <u>32,168</u>        | <u>30,727</u>        | <u>36,224</u>        | <u>5,497</u>      | 18%               |
| Total expenditures                         | <u>17,506,905</u>    | <u>15,466,954</u>    | <u>16,869,615</u>    | <u>1,402,661</u>  | 9%                |
| <b>Excess of Revenue Over Expenditures</b> | 787,462              | 2,139,257            | 530,447              | (1,608,810)       | -75%              |
| <b>Other Financing Sources (Uses)</b>      |                      |                      |                      |                   |                   |
| Proceeds from sales of capital assets      | 90,060               | 100,471              | 57,126               | (43,345)          | -43%              |
| Transfers - Net                            | (551,157)            | 11,659               | 49,722               | 38,063            | 326%              |
| Issuance of debt/debt defeasance           | <u>-</u>             | <u>36,134</u>        | <u>-</u>             | <u>(36,134)</u>   | -100%             |
| Total other financing (uses) sources       | <u>(461,097)</u>     | <u>148,264</u>       | <u>106,848</u>       | <u>(41,416)</u>   | -28%              |
| <b>Net Change in Fund Balances</b>         | 326,365              | 2,287,521            | 637,295              | (1,650,226)       | -72%              |
| <b>Fund Balances - Beginning of year</b>   | <u>11,708,282</u>    | <u>12,034,647</u>    | <u>14,322,168</u>    | <u>2,287,521</u>  | 19%               |
| <b>Fund Balances - End of year</b>         | <u>\$ 12,034,647</u> | <u>\$ 14,322,168</u> | <u>\$ 14,959,463</u> | <u>\$ 637,295</u> | 4%                |

# **Charter Township of Independence**

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

### **General Fund Budgetary Highlights**

Over the course of the year, the Township monitored and amended the budget to take into account events during the year. At year end, actual General Fund revenue (excluding parks and recreation department) was \$19,829 less than budget. Expenditures were \$351,905 under budget.

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

At the end of 2014, the Township had \$71.0 million invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines.

At December 31, 2014, the Township had approximately \$15.4 million related to long-term bonds and contracts payable, compared to approximately \$14.9 million owed at December 31, 2013. The increase is primarily due to additional draw-downs on the Oakland-Macomb Interceptor Drain Bonds.

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

The Township's budget for 2015 has been based on consistent property tax rates. This can be accomplished because of the strong growth in our tax base. Because of the impact of Proposal A, however, the Township needs to continue to watch its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow less than by inflation, before considering new property additions.

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

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

# Charter Township of Independence

## Statement of Net Position December 31, 2014

|  | Primary Government         |                             |                      | Component Unit -<br>Sashabaw Road<br>Corridor<br>Improvement<br>Authority |
|--|----------------------------|-----------------------------|----------------------|---|
|  | Governmental<br>Activities | Business-type<br>Activities | Total                |   |
| <b>Assets</b>  |                            |                             |                      |   |
| Cash and cash equivalents (Note 3)   | \$ 17,673,664              | \$ 9,295,439                | \$ 26,969,103        | \$ 56,338   |
| Receivables - Net of allowance:  |                            |                             |                      |   |
| Property taxes receivable  | 7,296,714                  | -                           | 7,296,714            | 47,370  |
| Customer usage   | -                          | 1,976,768                   | 1,976,768            | -   |
| Accrued interest receivable  | 31,394                     | 22,679                      | 54,073               | 1,021   |
| Other receivables  | 439,042                    | 211,875                     | 650,917              | 130,000   |
| Due from other governmental units  | 466,903                    | -                           | 466,903              | -   |
| Special assessments receivable   | 282,016                    | 91,636                      | 373,652              | -   |
| Internal balances  | (1,699,066)                | 1,699,066                   | -                    | -   |
| Prepaid expenses and other assets  | 404,571                    | 24,484                      | 429,055              | -   |
| Restricted assets - Cash on hand at the County                                 | -                          | 39,917                      | 39,917               | -   |
| Wetland mitigation rights held for sale  | 268,228                    | -                           | 268,228              | -   |
| Net other postemployment benefits asset  | 233,742                    | 145,154                     | 378,896              | -   |
| Capital assets (Note 5):   |                            |                             |                      |   |
| Assets not subject to depreciation   | 2,250,488                  | 4,282,084                   | 6,532,572            | -   |
| Assets subject to depreciation   | 12,663,522                 | 51,890,683                  | 64,554,205           | -   |
| Deposits   | 2,517                      | -                           | 2,517                | -   |
| <b>Total assets</b>  | <b>40,313,735</b>          | <b>69,679,785</b>           | <b>109,993,520</b>   | <b>234,729</b>  |
| <b>Liabilities</b>   |                            |                             |                      |   |
| Accounts payable   | 774,183                    | 639,556                     | 1,413,739            | 6,555   |
| Due to other governmental units  | 5,357                      | 55,200                      | 60,557               | -   |
| Refundable escrow deposits and bonds   | -                          | 4,740                       | 4,740                | -   |
| Accrued liabilities and other  | 315,850                    | 281,203                     | 597,053              | -   |
| Noncurrent liabilities:  |                            |                             |                      |   |
| Due within one year (Note 6)   | 79,580                     | 1,254,642                   | 1,334,222            | -   |
| Due in more than one year (Note 6)   | 225,692                    | 13,818,420                  | 14,044,112           | -   |
| <b>Total liabilities</b>   | <b>1,400,662</b>           | <b>16,053,761</b>           | <b>17,454,423</b>    | <b>6,555</b>  |
| <b>Deferred Inflows of Resources</b> - Property taxes levied for the next year | <b>10,646,765</b>          | <b>-</b>                    | <b>10,646,765</b>    | <b>39,664</b>   |
| <b>Net Position</b>  |                            |                             |                      |   |
| Net investment in capital assets   | 14,805,103                 | 41,175,712                  | 55,980,815           | -   |
| Restricted for:  |                            |                             |                      |   |
| Police   | 1,215,962                  | -                           | 1,215,962            | -   |
| Fire   | 3,054,424                  | -                           | 3,054,424            | -   |
| Safety path millage  | 1,671,310                  | -                           | 1,671,310            | -   |
| Public access programming  | 481,095                    | -                           | 481,095              | -   |
| Cemetery care  | 692,112                    | -                           | 692,112              | -   |
| Grant  | 935                        | -                           | 935                  | -   |
| Debt service   | 593,925                    | -                           | 593,925              | -   |
| Capital projects   | 1,067,542                  | -                           | 1,067,542            | -   |
| Unrestricted   | 4,683,900                  | 12,450,312                  | 17,134,212           | 188,510   |
| <b>Total net position</b>  | <b>\$ 28,266,308</b>       | <b>\$ 53,626,024</b>        | <b>\$ 81,892,332</b> | <b>\$ 188,510</b>   |

# Charter Township of Independence

| Functions/Programs  | Program Revenues     |                      |                                    |                                  |
|---|----------------------|----------------------|------------------------------------|----------------------------------|
|   | Expenses             | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary government:   |                      |                      |                                    |                                  |
| Governmental activities:                                      |                      |                      |                                    |                                  |
| General government  | \$ 3,517,439         | \$ 195,500           | \$ 11,757                          | \$ -                             |
| Public safety   | 9,600,543            | 1,998,396            | -                                  | -                                |
| Public works  | 642,059              | 12,256               | -                                  | 100                              |
| Community and economic development                            | 51,535               | -                    | 53,660                             | -                                |
| Recreation and culture  | 3,086,480            | 1,054,616            | 22,920                             | -                                |
| Interest on long-term debt                                    | 86,676               | -                    | -                                  | -                                |
| Total governmental activities                                 | 16,984,732           | 3,260,768            | 88,337                             | 100                              |
| Business-type activities:                                     |                      |                      |                                    |                                  |
| Water Fund  | 3,749,419            | 3,161,617            | -                                  | -                                |
| Sewer Fund  | 5,010,813            | 4,495,177            | -                                  | 765,438                          |
| Total business-type activities                                | 8,760,232            | 7,656,794            | -                                  | 765,438                          |
| Total primary government                                      | <u>\$ 25,744,964</u> | <u>\$ 10,917,562</u> | <u>\$ 88,337</u>                   | <u>\$ 765,538</u>                |
| Component unit - Sashabaw Road Corridor Improvement Authority | <u>\$ 473,218</u>    | <u>\$ -</u>          | <u>\$ -</u>                        | <u>\$ -</u>                      |
| General revenues:   |                      |                      |                                    |                                  |
| Property taxes  |                      |                      |                                    |                                  |
| State-shared revenue  |                      |                      |                                    |                                  |
| Investment income   |                      |                      |                                    |                                  |
| Cable franchise fees  |                      |                      |                                    |                                  |
| Other miscellaneous income                                    |                      |                      |                                    |                                  |
| Gain on sale of fixed assets                                  |                      |                      |                                    |                                  |
| Total general revenues  |                      |                      |                                    |                                  |
| Transfers   |                      |                      |                                    |                                  |
| <b>Change in Net Position</b>                                 |                      |                      |                                    |                                  |
| <b>Net Position - Beginning of year (as restated)</b>         |                      |                      |                                    |                                  |
| <b>Net Position - End of year</b>                             |                      |                      |                                    |                                  |

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

| Net (Expense) Revenue and Changes in Net Position |                             |                      |   |
|---|-----------------------------|----------------------|---|
| Primary Government                                |                             |                      | Component<br>Unit - Sashabaw<br>Road Corridor<br>Improvement<br>Authority |
| Governmental<br>Activities                        | Business-type<br>Activities | Total                |   |
| \$ (3,310,182)                                    | \$ -                        | \$ (3,310,182)       | \$ -  |
| (7,602,147)                                       | -                           | (7,602,147)          | -   |
| (629,703)   | -                           | (629,703)            | -   |
| 2,125   | -                           | 2,125                | -   |
| (2,008,944)                                       | -                           | (2,008,944)          | -   |
| (86,676)  | -                           | (86,676)             | -   |
| (13,635,527)                                      | -                           | (13,635,527)         | -   |
| -   | (587,802)                   | (587,802)            | -   |
| -   | 249,802                     | 249,802              | -   |
| -   | (338,000)                   | (338,000)            | -   |
| (13,635,527)                                      | (338,000)                   | (13,973,527)         | -   |
| -   | -                           | -                    | (473,218)   |
| 10,187,745  | -                           | 10,187,745           | 40,155  |
| 2,695,635   | -                           | 2,695,635            | -   |
| 115,119   | 156,657                     | 271,776              | 1,228   |
| 857,572   | -                           | 857,572              | -   |
| 468,845   | -                           | 468,845              | 379,358   |
| 106,402   | 4,415                       | 110,817              | -   |
| 14,431,318  | 161,072                     | 14,592,390           | 420,741   |
| 49,722  | (49,722)                    | -                    | -   |
| 845,513   | (226,650)                   | 618,863              | (52,477)  |
| 27,420,795  | 53,852,674                  | 81,273,469           | 240,987   |
| <b>\$ 28,266,308</b>                              | <b>\$ 53,626,024</b>        | <b>\$ 81,892,332</b> | <b>\$ 188,510</b>   |

# Charter Township of Independence

## Governmental Funds Balance Sheet December 31, 2014

|  | General Fund        | Police Millage Fund | Fire Millage Fund   | Nonmajor Governmental Funds | Total                |
|--|---------------------|---------------------|---------------------|-----------------------------|----------------------|
| <b>Assets</b>  |                     |                     |                     |                             |                      |
| Cash and cash equivalents (Note 3)   | \$ 5,881,220        | \$ 2,828,768        | \$ 4,637,130        | \$ 4,326,546                | \$ 17,673,664        |
| Receivables:   |                     |                     |                     |                             |                      |
| Property taxes receivable  | 988,210             | 2,748,144           | 3,278,604           | 281,756                     | 7,296,714            |
| Special assessments receivable   | 85,181              | -                   | -                   | 196,835                     | 282,016              |
| Accrued interest receivable  | 12,167              | 3,239               | 4,944               | 11,044                      | 31,394               |
| Other receivables  | 186,181             | 35,511              | 33,135              | 184,215                     | 439,042              |
| Due from other governmental units  | 466,903             | -                   | -                   | -                           | 466,903              |
| Due from other funds   | 120,472             | -                   | -                   | -                           | 120,472              |
| Prepaid expenses and other assets  | 363,931             | 167                 | 39,291              | 1,182                       | 404,571              |
| Wetland mitigation rights held for sale                                    | 268,228             | -                   | -                   | -                           | 268,228              |
| Deposits   | 17                  | -                   | -                   | 2,500                       | 2,517                |
| <b>Total assets</b>  | <b>\$ 8,372,510</b> | <b>\$ 5,615,829</b> | <b>\$ 7,993,104</b> | <b>\$ 5,004,078</b>         | <b>\$ 26,985,521</b> |
| <b>Liabilities</b>   |                     |                     |                     |                             |                      |
| Accounts payable   | \$ 234,989          | \$ 364,576          | \$ 155,716          | \$ 18,902                   | \$ 774,183           |
| Due to other governmental units  | 5,357               | -                   | -                   | -                           | 5,357                |
| Due to other funds   | -                   | -                   | -                   | 120,472                     | 120,472              |
| Accrued liabilities and other  | 129,293             | 14,634              | 163,291             | 8,632                       | 315,850              |
| <b>Total liabilities</b>   | <b>369,639</b>      | <b>379,210</b>      | <b>319,007</b>      | <b>148,006</b>              | <b>1,215,862</b>     |
| <b>Deferred Inflows of Resources</b><br>(Note 8)                           | 1,435,385           | 4,020,657           | 4,790,184           | 563,970                     | 10,810,196           |
| <b>Fund Balances</b>   |                     |                     |                     |                             |                      |
| Nonspendable - Prepays   | 363,931             | 167                 | 39,291              | 1,182                       | 404,571              |
| Restricted:  |                     |                     |                     |                             |                      |
| Police   | -                   | 1,215,795           | -                   | -                           | 1,215,795            |
| Fire   | -                   | -                   | 2,844,622           | 170,511                     | 3,015,133            |
| Safety paths   | -                   | -                   | -                   | 1,670,208                   | 1,670,208            |
| Public access programming  | -                   | -                   | -                   | 481,015                     | 481,015              |
| Cemetery care  | 692,112             | -                   | -                   | -                           | 692,112              |
| Debt Service Funds   | -                   | -                   | -                   | 441,401                     | 441,401              |
| Capital Projects Funds   | -                   | -                   | -                   | 1,067,542                   | 1,067,542            |
| Assigned:  |                     |                     |                     |                             |                      |
| Corridor Improvement Authority Project                                     | 923,000             | -                   | -                   | -                           | 923,000              |
| Capital Projects Funds   | -                   | -                   | -                   | 460,243                     | 460,243              |
| Unassigned   | 4,588,443           | -                   | -                   | -                           | 4,588,443            |
| <b>Total fund balances</b>   | <b>6,567,486</b>    | <b>1,215,962</b>    | <b>2,883,913</b>    | <b>4,292,102</b>            | <b>14,959,463</b>    |
| <b>Total liabilities, deferred inflows of resources, and fund balances</b> | <b>\$ 8,372,510</b> | <b>\$ 5,615,829</b> | <b>\$ 7,993,104</b> | <b>\$ 5,004,078</b>         | <b>\$ 26,985,521</b> |



# Charter Township of Independence

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

|   |           |                          |
|---|-----------|--------------------------|
| <b>Fund Balance Reported in Governmental Funds</b>  | \$        | 14,959,463               |
| Amounts reported for governmental activities in the statement of net position are different because:  |           |                          |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds  |           | 12,595,827               |
| Special assessments and other long-term receivables are not available to pay liabilities outstanding at year end, and are not reported as revenue in the funds until they are available |           | 163,431                  |
| Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds   |           | (108,907)                |
| Employee-compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities |           | (196,365)                |
| The net OPEB asset is reported only at the government-wide level, because it does not provide current financial resources   |           | 233,742                  |
| Internal Service Funds are included as part of governmental activities  |           | 619,117                  |
| <b>Net Position of Governmental Activities</b>  | <b>\$</b> | <b><u>28,266,308</u></b> |

# Charter Township of Independence

## Governmental Funds

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

|  | General Fund               | Police Millage<br>Fund     | Fire Millage<br>Fund       | Nonmajor<br>Governmental<br>Funds | Total                      |
|--|----------------------------|----------------------------|----------------------------|-----------------------------------|----------------------------|
| <b>Revenue</b>                                     |                            |                            |                            |                                   |                            |
| Property taxes                                     | \$ 1,341,496               | \$ 3,855,567               | \$ 4,607,743               | \$ 395,571                        | \$ 10,200,377              |
| Licenses and permits                               | 522,319                    | -                          | -                          | -                                 | 522,319                    |
| Federal grants                                     | 27,124                     | -                          | -                          | 53,660                            | 80,784                     |
| State-shared revenue and grants                    | 2,695,635                  | 24,982                     | -                          | -                                 | 2,720,617                  |
| Charges for services                               | 1,179,399                  | 378,597                    | 733,954                    | 12,256                            | 2,304,206                  |
| Fines and forfeitures                              | 46                         | 222,451                    | -                          | -                                 | 222,497                    |
| Investment income                                  | 46,049                     | 14,639                     | 25,597                     | 28,834                            | 115,119                    |
| Other revenue                                      | 947,567                    | -                          | 39,113                     | 247,463                           | 1,234,143                  |
| Total revenue                                      | <u>6,759,635</u>           | <u>4,496,236</u>           | <u>5,406,407</u>           | <u>737,784</u>                    | <u>17,400,062</u>          |
| <b>Expenditures</b>                                |                            |                            |                            |                                   |                            |
| Current:   |                            |                            |                            |                                   |                            |
| General government                                 | 2,760,489                  | -                          | -                          | -                                 | 2,760,489                  |
| Public safety                                      | 566,887                    | 4,647,241                  | 4,566,405                  | -                                 | 9,780,533                  |
| Public works                                       | 356,513                    | -                          | -                          | 249,042                           | 605,555                    |
| Community and economic development                 | -                          | -                          | -                          | 51,535                            | 51,535                     |
| Recreation and culture                             | 2,552,859                  | -                          | -                          | 287,287                           | 2,840,146                  |
| Capital outlay                                     | -                          | -                          | -                          | 795,133                           | 795,133                    |
| Debt service                                       | 36,224                     | -                          | -                          | -                                 | 36,224                     |
| Total expenditures                                 | <u>6,272,972</u>           | <u>4,647,241</u>           | <u>4,566,405</u>           | <u>1,382,997</u>                  | <u>16,869,615</u>          |
| <b>Excess of Revenue Over (Under) Expenditures</b> | 486,663                    | (151,005)                  | 840,002                    | (645,213)                         | 530,447                    |
| <b>Other Financing Sources (Uses)</b>              |                            |                            |                            |                                   |                            |
| Proceeds from sale of capital assets               | 14,926                     | -                          | 40,700                     | 1,500                             | 57,126                     |
| Transfers in                                       | 402,431                    | 851                        | 4,843                      | 691,893                           | 1,100,018                  |
| Transfers out                                      | (143,671)                  | -                          | (500,000)                  | (406,625)                         | (1,050,296)                |
| Total other financing sources (uses)               | <u>273,686</u>             | <u>851</u>                 | <u>(454,457)</u>           | <u>286,768</u>                    | <u>106,848</u>             |
| <b>Net Change in Fund Balances</b>                 | 760,349                    | (150,154)                  | 385,545                    | (358,445)                         | 637,295                    |
| <b>Fund Balances - Beginning of year</b>           | <u>5,807,137</u>           | <u>1,366,116</u>           | <u>2,498,368</u>           | <u>4,650,547</u>                  | <u>14,322,168</u>          |
| <b>Fund Balances - End of year</b>                 | <u><b>\$ 6,567,486</b></u> | <u><b>\$ 1,215,962</b></u> | <u><b>\$ 2,883,913</b></u> | <u><b>\$ 4,292,102</b></u>        | <u><b>\$14,959,463</b></u> |

The Notes to Financial Statements are an Integral Part of this Statement.

# Charter Township of Independence

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

|  |           |                |
|--|-----------|----------------|
| <b>Net Change in Fund Balances - Total Governmental Funds</b>  | \$        | 637,295        |
| 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   |           | 1,309,786      |
| Depreciation expense   |           | (1,099,785)    |
| Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end   |           | (28,728)       |
| Previous expenses that were expensed when paid in the funds and allocated over future period in the the government-wide statements were expensed in the government-wide statements during the current year                         |           | (236,652)      |
| Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)  |           | 44,875         |
| Decreases in accumulated employee sick and vacation pay reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements until they come due for payment |           | 76,938         |
| Increase in other postemployment benefits asset is shown on the statement of net position, which reduces other postemployment benefit expense in the statement of activities   |           | 2,506          |
| Internal Service Funds are included as part of governmental activities   |           | 139,278        |
| <b>Change in Net Position of Governmental Activities</b>   | <b>\$</b> | <b>845,513</b> |

# Charter Township of Independence

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

|   | Enterprise Funds |               |                      | Governmental<br>Activities              |
|---|------------------|---------------|----------------------|---|
|   | Water Fund       | Sewer Fund    | Total                | Proprietary<br>Internal Service<br>Fund |
| <b>Assets</b>                                     |                  |               |                      |   |
| Current assets:                                   |                  |               |                      |   |
| Cash and cash equivalents                         | \$ 2,655,578     | \$ 6,639,861  | \$ 9,295,439         | \$ -                                    |
| Receivables - Net of allowance:                   |                  |               |                      |   |
| Special assessments and other                     | -                | 91,636        | 91,636               | -                                       |
| Customer usage                                    | 708,791          | 1,267,977     | 1,976,768            | -                                       |
| Accrued interest receivable                       | 8,481            | 14,198        | 22,679               | -                                       |
| Other receivables                                 | -                | 211,875       | 211,875              | -                                       |
| Prepaid expenses and other assets                 | 12,511           | 11,973        | 24,484               | -                                       |
| Total current assets                              | 3,385,361        | 8,237,520     | 11,622,881           | -                                       |
| Noncurrent assets:                                |                  |               |                      |   |
| Restricted assets - Cash on hand at the County    | -                | 39,917        | 39,917               | -                                       |
| Advances to other funds (Note 4)                  | 831,130          | 867,936       | 1,699,066            | -                                       |
| Net other postemployment benefits asset (Note 12) | 32,693           | 112,461       | 145,154              | -                                       |
| Capital assets (Note 5):                          |                  |               |                      |   |
| Assets not subject to depreciation                | 24,620           | 4,257,464     | 4,282,084            | -                                       |
| Assets subject to depreciation                    | 34,586,876       | 17,303,807    | 51,890,683           | 2,318,183                               |
| Total noncurrent assets                           | 35,475,319       | 22,581,585    | 58,056,904           | 2,318,183                               |
| Total assets                                      | 38,860,680       | 30,819,105    | 69,679,785           | 2,318,183                               |
| <b>Liabilities</b>                                |                  |               |                      |   |
| Current liabilities:                              |                  |               |                      |   |
| Accounts payable                                  | 329,489          | 310,067       | 639,556              | -                                       |
| Due to other governmental units (Note 4)          | 55,200           | -             | 55,200               | -                                       |
| Refundable escrow deposits and bonds              | 1,000            | 3,740         | 4,740                | -                                       |
| Accrued liabilities and other                     | 99,981           | 181,222       | 281,203              | -                                       |
| Compensated absences (Note 6)                     | 15,353           | 20,737        | 36,090               | -                                       |
| Current portion of long-term debt (Note 6)        | 1,035,000        | 183,552       | 1,218,552            | -                                       |
| Total current liabilities                         | 1,536,023        | 699,318       | 2,235,341            | -                                       |
| Noncurrent liabilities:                           |                  |               |                      |   |
| Advances from other funds (Note 4)                | -                | -             | -                    | 1,699,066                               |
| Long-term debt (Note 6)                           | 10,600,000       | 3,218,420     | 13,818,420           | -                                       |
| Total noncurrent liabilities                      | 10,600,000       | 3,218,420     | 13,818,420           | 1,699,066                               |
| Total liabilities                                 | 12,136,023       | 3,917,738     | 16,053,761           | 1,699,066                               |
| <b>Net Position</b>                               |                  |               |                      |   |
| Net investment in capital assets                  | 22,976,496       | 18,199,216    | 41,175,712           | 2,318,183                               |
| Unrestricted                                      | 3,748,161        | 8,702,151     | 12,450,312           | (1,699,066)                             |
| Total net position                                | \$ 26,724,657    | \$ 26,901,367 | 53,626,024           | \$ 619,117                              |
| <b>Net Position of Business-type Activities</b>   |                  |               | <b>\$ 53,626,024</b> |   |

# Charter Township of Independence

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

|   | Enterprise Funds     |                      |                      | Governmental<br>Activities              |
|---|----------------------|----------------------|----------------------|---|
|   | Water Fund           | Sewer Fund           | Total                | Proprietary<br>Internal Service<br>Fund |
|   | Water Fund           | Sewer Fund           | Total                | Fund                                    |
| <b>Operating Revenue</b>                    |                      |                      |                      |   |
| Customer usage                              | \$ 2,639,653         | \$ 4,060,324         | \$ 6,699,977         | \$ -                                    |
| Interest and penalty charges                | 47,219               | 76,809               | 124,028              | -                                       |
| Meters and installation charges             | 326,535              | -                    | 326,535              | -                                       |
| Other services and charges                  | 148,210              | 358,044              | 506,254              | -                                       |
| Rental income                               | -                    | -                    | -                    | 302,787                                 |
| Total operating revenue                     | 3,161,617            | 4,495,177            | 7,656,794            | 302,787                                 |
| <b>Operating Expenses</b>                   |                      |                      |                      |   |
| Cost of water                               | 57,883               | -                    | 57,883               | -                                       |
| Cost of sewage treatment                    | -                    | 2,766,348            | 2,766,348            | -                                       |
| Personnel services                          | 715,946              | 658,052              | 1,373,998            | -                                       |
| Supplies                                    | 70,463               | 193,198              | 263,661              | -                                       |
| Other services and charges                  | 1,386,265            | 473,638              | 1,859,903            | -                                       |
| Depreciation                                | 1,238,732            | 919,552              | 2,158,284            | 68,182                                  |
| Total operating expenses                    | 3,469,289            | 5,010,788            | 8,480,077            | 68,182                                  |
| <b>Operating (Loss) Income</b>              | (307,672)            | (515,611)            | (823,283)            | 234,605                                 |
| <b>Nonoperating Revenue (Expenses)</b>      |                      |                      |                      |   |
| Investment income                           | 23,032               | 133,625              | 156,657              | -                                       |
| Interest expense                            | (280,130)            | (25)                 | (280,155)            | (95,327)                                |
| Gain on sale of assets                      | 1,540                | 2,875                | 4,415                | -                                       |
| Total nonoperating (expense) revenue        | (255,558)            | 136,475              | (119,083)            | (95,327)                                |
| <b>(Loss) Income - Before contributions</b> | (563,230)            | (379,136)            | (942,366)            | 139,278                                 |
| <b>Capital Contributions</b>                |                      |                      |                      |   |
| Capital grants                              | -                    | 211,875              | 211,875              | -                                       |
| Capital charge/tap-in fees                  | -                    | 553,563              | 553,563              | -                                       |
| Total capital contributions                 | -                    | 765,438              | 765,438              | -                                       |
| <b>Transfers Out</b>                        | -                    | (49,722)             | (49,722)             | -                                       |
| <b>Change in Net Position</b>               | (563,230)            | 336,580              | (226,650)            | 139,278                                 |
| <b>Net Position - Beginning of year</b>     | 27,287,887           | 26,564,787           | 53,852,674           | 479,839                                 |
| <b>Net Position - End of year</b>           | <u>\$ 26,724,657</u> | <u>\$ 26,901,367</u> | <u>\$ 53,626,024</u> | <u>\$ 619,117</u>                       |

# Charter Township of Independence

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

|   | Enterprise Funds    |                     |                     | Governmental<br>Activities              |
|---|---------------------|---------------------|---------------------|---|
|   | Water Fund          | Sewer Fund          | Total               | Proprietary<br>Internal Service<br>Fund |
| <b>Cash Flows from Operating Activities</b>                             |                     |                     |                     |   |
| Receipts from customers   | \$ 3,066,525        | \$ 4,076,348        | \$ 7,142,873        | \$ 302,787                              |
| Payments to suppliers   | (1,288,530)         | (3,833,745)         | (5,122,275)         | -                                       |
| Payments to employees   | (733,998)           | (683,181)           | (1,417,179)         | -                                       |
| Other receipts  | 629                 | -                   | 629                 | -                                       |
| Net cash provided by (used in) operating activities                     | 1,044,626           | (440,578)           | 604,048             | 302,787                                 |
| <b>Cash Flows from Noncapital Financing Activities</b>                  |                     |                     |                     |   |
| Repayments of loans made to other funds                                 | 103,295             | 104,165             | 207,460             | -                                       |
| Transfers to other funds  | -                   | (49,722)            | (49,722)            | -                                       |
| Repayments of loans from other funds                                    | -                   | -                   | -                   | (207,460)                               |
| Net cash provided by (used in) noncapital financing activities          | 103,295             | 54,443              | 157,738             | (207,460)                               |
| <b>Cash Flows from Capital and Related Financing Activities</b>         |                     |                     |                     |   |
| Special assessment collections  | 90,989              | 103,166             | 194,155             | -                                       |
| Capital charges and tap-in fees   | -                   | 354,303             | 354,303             | -                                       |
| Proceeds from sales of capital assets                                   | 1,540               | 2,875               | 4,415               | -                                       |
| Purchase of capital assets  | (266,485)           | (59,944)            | (326,429)           | -                                       |
| Principal and interest paid on capital debt                             | (1,299,947)         | (208,637)           | (1,508,584)         | (95,327)                                |
| Net cash (used in) provided by capital and related financing activities | (1,473,903)         | 191,763             | (1,282,140)         | (95,327)                                |
| <b>Cash Flows from Investing Activities -</b>                           |                     |                     |                     |   |
| Interest received on investments  | 24,481              | 37,688              | 62,169              | -                                       |
| <b>Net Decrease in Cash and Cash Equivalents</b>                        | (301,501)           | (156,684)           | (458,185)           | -                                       |
| <b>Cash and Cash Equivalents - Beginning of year</b>                    | 2,957,079           | 6,836,462           | 9,793,541           | -                                       |
| <b>Cash and Cash Equivalents - End of year</b>                          | <b>\$ 2,655,578</b> | <b>\$ 6,679,778</b> | <b>\$ 9,335,356</b> | <b>\$ -</b>                             |
| <b>Balance Sheet Classification of Cash and Cash Equivalents</b>        |                     |                     |                     |   |
| Cash and investments  | \$ 2,655,578        | \$ 6,639,861        | \$ 9,295,439        | \$ -                                    |
| Restricted cash   | -                   | 39,917              | 39,917              | -                                       |
| Total cash and cash equivalents   | <b>\$ 2,655,578</b> | <b>\$ 6,679,778</b> | <b>\$ 9,335,356</b> | <b>\$ -</b>                             |

# Charter Township of Independence

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

|   | Enterprise Funds    |                     |                   | Governmental<br>Activities              |
|---|---------------------|---------------------|-------------------|---|
|   | Water Fund          | Sewer Fund          | Total             | Proprietary<br>Internal Service<br>Fund |
| <b>Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities</b>  |                     |                     |                   |   |
| Operating (loss) income   | \$ (307,672)        | \$ (515,611)        | \$ (823,283)      | \$ 234,605                              |
| Adjustments to reconcile operating (loss) income to net cash from operating activities: |                     |                     |                   |   |
| Depreciation and amortization   | 1,238,732           | 919,552             | 2,158,284         | 68,182                                  |
| Changes in assets and liabilities:  |                     |                     |                   |   |
| Receivables   | (95,092)            | (418,829)           | (513,921)         | -                                       |
| Prepaid and other assets  | (2,969)             | (163)               | (3,132)           | -                                       |
| Accounts payable  | 229,050             | (400,398)           | (171,348)         | -                                       |
| Accrued and other liabilities   | (18,052)            | (25,129)            | (43,181)          | -                                       |
| Other   | 629                 | -                   | 629               | -                                       |
| Net cash provided by (used in) operating activities                                     | <u>\$ 1,044,626</u> | <u>\$ (440,578)</u> | <u>\$ 604,048</u> | <u>\$ 302,787</u>                       |

Noncash investing, capital, and financing activities - During the year ended December 31, 2014, the Sewer Fund recorded debt draw-downs totaling \$1,694,222. The Sewer Fund also spent \$1,604,674 for construction related to the new Oakland-Macomb Interceptor Drain Drainage District project. This activity is all considered noncash since it is administered by the Oakland-Macomb Interceptor Drain Drainage District.

# Charter Township of Independence

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## Fiduciary Fund Statement of Fiduciary Assets and Liabilities December 31, 2014

|   | <u>Agency Funds</u>        |
|---|----------------------------|
| <b>Assets -</b> Cash and cash equivalents | <b><u>\$ 1,303,299</u></b> |
| <b>Liabilities</b>                        |                            |
| Accounts payable                          | \$ 2,480                   |
| Due to other governmental units           | 478,551                    |
| Accrued liabilities and other             | 10,920                     |
| Cash bonds and deposits                   | <u>811,348</u>             |
| Total liabilities                         | <b><u>\$ 1,303,299</u></b> |



# Charter Township of Independence

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## Notes to Financial Statements December 31, 2014

### Note 1 - Nature of Business and Significant Accounting Policies

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

#### **Reporting Entity**

The Charter Township of Independence is governed by an elected seven-member board of trustees. The accompanying financial statements present the Township and its component unit, an entity for which the Township is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Township (see discussion below for description).

#### **Discretely Presented Component Unit**

The Sashabaw Road Corridor Improvement Authority (the "CIA") was created to enhance existing business districts and promote economic development efforts within these districts. One of the features of a CIA is the ability to fund improvements through tax increment financing. The CIA has focused its attention on identifying those public improvements that are needed in the development area and which, if provided, will result in the enhancement of existing business activity and stimulation of new private investment that is in keeping with the policies of Independence Township.

The Clarkston Independence District Library (the "Library") was previously reported as a component unit but no longer meets the requirements under GASB Statement No. 61 as the Township no longer has a financial benefit or burden related to the Library. The effect of this change was a decrease of \$1,703,576 in the beginning net position for the component units on the statement of net position.

#### **Fund Accounting**

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

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

- **General Fund** - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

# Charter Township of Independence

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## Notes to Financial Statements December 31, 2014

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

- **Police Millage Fund** - The Police Millage Fund accounts for all financial resources of public safety. Activities are financed through a dedicated millage and other sources.
- **Fire Millage Fund** - The Fire Millage Fund accounts for all financial resources of the fire department. Activities are financed through a dedicated millage and other sources.

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

- **Water and Sewer Funds** - The Water and Sewer Funds are used to account for the provision of water and sewer services to the residents of the Township financed primarily by user charges. All activities necessary to provide such services are accounted for in these funds including, but not limited to, administration, operations, maintenance, billings, and collections

Additionally, the Township reports the following internal service and fiduciary activities:

**Internal Service Fund** - The Internal Service Fund accounts for the purchase of the new Township hall.

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

#### **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.

# Charter Township of Independence

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## Notes to Financial Statements December 31, 2014

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

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

#### **Basis of Accounting**

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

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

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

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

# Charter Township of Independence

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## Notes to Financial Statements December 31, 2014

### **Note I - Nature of Business and 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.

#### **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, based on quoted market prices.

# Charter Township of Independence

## Notes to Financial Statements December 31, 2014

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**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** - Assets are restricted in the Sewer Fund for unspent bond proceeds at the County being held for the construction of the Oakland-Macomb Interceptor Drain Project.

**Capital Assets** - Capital assets, which include property, plant, equipment, intangible assets, and infrastructure assets (e.g., sidewalks and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,500 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.

Capital assets are depreciated using the straight-line method over the following useful lives:

| Capital Asset Class                                 | Lives          |
|---|----------------|
| Land improvements                                   | 5 to 30 years  |
| Safety paths  | 20 to 40 years |
| Buildings and building improvements                 | 5 to 40 years  |
| Machinery and equipment, including leased equipment | 3 to 20 years  |
| Office equipment                                    | 3 to 15 years  |
| Vehicles  | 3 to 20 years  |
| Infrastructure - Roads                              | 30 years       |
| Utility systems                                     | 5 to 50 years  |

# Charter Township of Independence

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## Notes to Financial Statements December 31, 2014

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method; bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as an "other financing source," as well as bond premiums and discounts. The General Fund and 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 no deferred outflows of resources.

In addition to liabilities, the statement of net position/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 governmental funds report unavailable revenues from three sources: grants, charges for services, and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The Township also has property taxes received before the period levied. These property taxes are shown as deferred inflows of resources on both the governmental funds balance sheet as well as the statement of net position. Those property taxes will be recognized as revenue next year, as those amounts were levied for the subsequent year's budgeted operations.

#### **Net Position Flow Assumption**

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

# Charter Township of Independence

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## Notes to Financial Statements December 31, 2014

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

#### **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 except in the Police Millage Fund, Fire Millage Fund, and Safety Paths Fund. In these funds, the Township's policy is to first apply unrestricted resources. Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

#### **Fund Balance Policies**

Fund 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 Township itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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 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 Township board has by resolution authorized the Township supervisor or finance director to assign fund balance. The board may also assign 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.

# Charter Township of Independence

## Notes to Financial Statements December 31, 2014

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

#### Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed. Unpaid property taxes become a lien on the property on March 1 of the second year following the year of the levy.

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

The 2013 taxable valuation of the Township totaled \$1.329 billion. Taxes were levied as follows:

| <u>Purpose</u>                                      | <u>Millage Rate</u> | <u>Revenue</u>       |
|---|---------------------|----------------------|
| General operating                                   | 1.0193              | \$ 1,386,780         |
| Fire millage - Operations and advanced life support | 3.5188              | 4,756,072            |
| Library operating                                   | 0.6910              | -                    |
| Police millage - Operations                         | 2.9500              | 3,885,727            |
| Safety paths millage - Construction                 | 0.3023              | 263,586              |
| Total   | <u>8.4814</u>       | <u>\$ 10,292,165</u> |

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

**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 and sick pay is accrued when incurred in the government-wide, 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, Water Fund, and Sewer Fund, primarily) are used to liquidate obligation.



# Charter Township of Independence

## Notes to Financial Statements December 31, 2014

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

**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 Funds and internal service funds are charges to customers for sales and services. The Water and Sewer Funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

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

|   |                       |
|---|-----------------------|
| Cumulative shortfall at January 1, 2014   | \$ (1,722,391)        |
| Current year building permit revenue      | 450,430               |
| Related expenses - Direct costs           | <u>568,580</u>        |
| Current year shortfall                    | <u>(118,150)</u>      |
| Cumulative shortfall at December 31, 2014 | <u>\$ (1,840,541)</u> |

# Charter Township of Independence

## Notes to Financial Statements December 31, 2014

### Note 3 - Deposits and Investments

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

The Township has designated six banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in the state statutory authority as listed above. The Township's deposits and investment policies are in accordance with statutory authority.

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 bank deposits of \$8,125,184 (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy restricts investment maturities to a maturity of no more than seven years from the date of purchase and commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

| Investment                       | Fair Value   | Weighted Average Maturity |
|----------------------------------|--------------|---------------------------|
| U.S. agency securities           | \$ 1,847,621 | 3.5 years                 |
| U.S. government securities       | 12,405,220   | 5.1 years                 |
| State of Michigan Genesee County | 724,333      | 1.7 years                 |

# Charter Township of Independence

## Notes to Financial Statements December 31, 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 an investment policy that further limits its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

| Investment                       | Fair Value   | Rating    | Rating Organization |
|----------------------------------|--------------|-----------|---------------------|
| Interlocal agreement fund        | \$ 5,072,135 | Not rated | N/A                 |
| State of Michigan Genesee County | 724,333      | SPI +     | S&P                 |
| U.S. agency securities           | 1,847,621    | AAA       | Moody's             |
| U.S. agency pools                | 12,405,220   | AAA       | Moody's             |

**Concentration of Credit Risk** - The Township's investment policy limits the amount that may be invested in a single issuer to no more than 25 percent of the market value of the portfolio and limits the amount that may be invested in a single security type to no more than 60 percent of the market value of the portfolio, with the exception of U.S. Treasury securities and authorized investment pools. As of December 31, 2014, the Township had no more than 25 percent of its portfolio invested in a single issuer except for approximately \$5.5 million, 27.6 percent of the portfolio, invested in the Federal Home Loan Mortgage Corporation and approximately \$5.1 million, 25.3 percent of the portfolio, invested in the Oakland County Investment Pool.

**Risks and Uncertainties** - Due to the level of risk associated with certain investment securities, as described above, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net position.

### Note 4 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

| Receivable Fund                     | Payable Fund             | Amount              |
|-------------------------------------|--------------------------|---------------------|
| <b>Due to/from Other Funds</b>      |                          |                     |
| General Fund                        | Other governmental funds | \$ 120,472          |
| Receivable Fund                     | Payable Fund             | Amount              |
| <b>Advances from/to Other Funds</b> |                          |                     |
| Water Fund                          | Internal Service Fund    | \$ 831,130          |
| Sewer Fund                          | Internal Service Fund    | 867,936             |
|                                     | Total                    | <u>\$ 1,699,066</u> |

# Charter Township of Independence

## Notes to Financial Statements December 31, 2014

### Note 4 - Interfund Receivables, Payables, and Transfers (Continued)

The advance from the Water and Sewer Funds to the Internal Service Fund relates to a loan from the Water and Sewer Funds for the purchase of the new Township hall.

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

| Fund Providing Resources            | Fund Receiving Resources                 | Amount              |
|-------------------------------------|--|---------------------|
| General Fund                        | Fire Millage Fund                        | \$ 1,500            |
|                                     | Nonmajor funds:                          |                     |
|                                     | Capital Projects Fund                    | 120,000             |
|                                     | Cable TV Fund                            | 21,450              |
|                                     | Eastview/Westview                        | <u>721</u>          |
|                                     | Total General Fund                       | <u>\$ 143,671</u>   |
| Sewer Fund                          | Townsend Lake Fund                       | <u>\$ 49,722</u>    |
| Fire Millage Fund                   | Capital Projects Fire Fund<br>(nonmajor) | \$ 500,000          |
| Capital Projects Fund<br>(nonmajor) | General Fund                             | 401,029             |
| Debt Service Fund (nonmajor)        | General Fund                             | 1,402               |
|                                     | Police Millage Fund                      | 851                 |
|                                     | Fire Millage Fund                        | <u>3,343</u>        |
|                                     | Total Debt Service<br>Fund (nonmajor)    | <u>5,596</u>        |
|                                     | Total                                    | <u>\$ 1,100,018</u> |

The Township transferred unrestricted resources from the General Fund to the Fire Fund as well as the Cable Television Fund to help cover operating expenses that are not covered by the charges for services. The Township also transferred unrestricted resources from the General Fund to the Capital Projects Fund in order to fund the capital plan.

Funds transferred from the General Fund to the Eastview/Westview Special Assessments Fund and from the Sewer Fund to the other governmental funds were in accordance with the Township's state approved 2013 Deficit Elimination Plan.

# Charter Township of Independence

## Notes to Financial Statements December 31, 2014

### Note 4 - Interfund Receivables, Payables, and Transfers (Continued)

The transfer from the Fire Millage Fund to other governmental funds was to set aside funds for capital outlay expenditures. The transfer of unrestricted resources from other governmental funds to the General Fund was to fund current year capital outlay expenditures.

The transfer from other governmental funds to the Police Millage Fund was to close out the debt service fund. The transfers from other governmental funds to the Fire Millage Fund were to close out debt service fund.

### Note 5 - Capital Assets

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

| <b>Governmental Activities</b>                | Balance<br>January 1, 2014 | Reclassifications | Additions  | Disposals | Balance<br>December 31,<br>2014 |
|---|----------------------------|-------------------|------------|-----------|---------------------------------|
| Capital assets not being depreciated:         |                            |                   |            |           |                                 |
| Land  | \$ 1,149,701               | \$ -              | \$ -       | \$ -      | \$ 1,149,701                    |
| Construction in progress                      | -                          | -                 | 100,787    | -         | 100,787                         |
| Development rights                            | 1,000,000                  | -                 | -          | -         | 1,000,000                       |
| Total capital assets not<br>being depreciated | 2,149,701                  | -                 | 100,787    | -         | 2,250,488                       |
| Capital assets being depreciated:             |                            |                   |            |           |                                 |
| Buildings and improvements                    | 9,514,617                  | 5,645             | 35,429     | -         | 9,555,691                       |
| Machinery and equipment                       | 4,176,409                  | -                 | 330,830    | 19,896    | 4,487,343                       |
| Vehicles                                      | 5,003,735                  | 402,276           | 728,763    | 479,519   | 5,655,255                       |
| Office equipment                              | 1,632,775                  | (126,582)         | -          | -         | 1,506,193                       |
| Land improvements                             | 2,879,499                  | (81)              | 46,932     | -         | 2,926,350                       |
| Infrastructure - Roads                        | 990,412                    | -                 | -          | -         | 990,412                         |
| Safety paths                                  | 8,188,219                  | (843)             | 67,045     | -         | 8,254,421                       |
| Total capital assets being<br>depreciated     | 32,385,666                 | 280,415           | 1,208,999  | 499,415   | 33,375,665                      |
| Accumulated depreciation:                     |                            |                   |            |           |                                 |
| Buildings and improvements                    | 3,806,530                  | (68,803)          | 286,803    | -         | 4,024,530                       |
| Machinery and equipment                       | 3,837,108                  | (32,520)          | 184,208    | 19,896    | 3,968,900                       |
| Vehicles                                      | 2,217,504                  | 383,903           | 303,529    | 479,519   | 2,425,417                       |
| Office furnishings                            | 1,371,411                  | (2,165)           | 54,124     | -         | 1,423,370                       |
| Land improvements                             | 2,082,883                  | -                 | 80,273     | -         | 2,163,156                       |
| Infrastructure - Roads                        | 264,120                    | -                 | 33,017     | -         | 297,137                         |
| Safety paths                                  | 6,183,619                  | -                 | 226,014    | -         | 6,409,633                       |
| Total accumulated<br>depreciation             | 19,763,175                 | 280,415           | 1,167,968  | 499,415   | 20,712,143                      |
| Net capital assets being depreciated          | 12,622,491                 | -                 | 41,031     | -         | 12,663,522                      |
| Net capital assets                            | \$ 14,772,192              | \$ -              | \$ 141,818 | \$ -      | \$ 14,914,010                   |

# Charter Township of Independence

## Notes to Financial Statements December 31, 2014

### Note 5 - Capital Assets (Continued)

| Business-type Activities                   | Balance         | Reclassifications | Additions   | Disposals | Balance           |
|--|-----------------|-------------------|-------------|-----------|-------------------|
|  | January 1, 2014 |                   |             |           | December 31, 2014 |
| Capital assets not being depreciated:      |                 |                   |             |           |                   |
| Land                                       | \$ 34,873       | \$ -              | \$ -        | \$ -      | \$ 34,873         |
| Construction in progress                   | 2,433,969       | -                 | 1,813,242   | -         | 4,247,211         |
| Total capital assets not being depreciated | 2,468,842       | -                 | 1,813,242   | -         | 4,282,084         |
| Capital assets being depreciated:          |                 |                   |             |           |                   |
| Utility system                             | 99,606,667      | -                 | 253,685     | -         | 99,860,352        |
| Buildings and improvements                 | 1,158,174       | -                 | 2           | -         | 1,158,176         |
| Machinery and equipment                    | 1,458,687       | -                 | 15,527      | -         | 1,474,214         |
| Vehicles                                   | 740,926         | (31,612)          | 57,223      | 131,765   | 634,772           |
| Office equipment                           | 137,044         | -                 | -           | -         | 137,044           |
| Land improvements                          | 61,392          | -                 | -           | -         | 61,392            |
| Total capital assets being depreciated     | 103,162,890     | (31,612)          | 326,437     | 131,765   | 103,325,950       |
| Accumulated depreciation:                  |                 |                   |             |           |                   |
| Utility system                             | 46,423,042      | -                 | 2,012,293   | -         | 48,435,335        |
| Buildings and improvements                 | 1,053,420       | (58,070)          | 36,234      | -         | 1,031,584         |
| Machinery and equipment                    | 1,297,489       | -                 | 28,633      | -         | 1,326,122         |
| Vehicles                                   | 532,340         | (31,612)          | 76,972      | 131,765   | 445,935           |
| Office equipment                           | 134,069         | -                 | 831         | -         | 134,900           |
| Land improvements                          | -               | 58,070            | 3,321       | -         | 61,391            |
| Total accumulated depreciation             | 49,440,360      | (31,612)          | 2,158,284   | 131,765   | 51,435,267        |
| Net capital assets being depreciated       | 53,722,530      | -                 | (1,831,847) | -         | 51,890,683        |
| Net capital assets                         | \$ 56,191,372   | \$ -              | \$ (18,605) | \$ -      | \$ 56,172,767     |

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

|                                |              |
|--------------------------------|--------------|
| Governmental activities:       |              |
| General government             | \$ 244,729   |
| Public safety                  | 327,091      |
| Public works                   | 36,504       |
| Recreation and culture         | 559,644      |
| Total governmental activities  | \$ 1,167,968 |
| Business-type activities:      |              |
| Water                          | \$ 1,238,732 |
| Sewer                          | 919,552      |
| Total business-type activities | \$ 2,158,284 |

# Charter Township of Independence

## Notes to Financial Statements December 31, 2014

### Note 5 - Capital Assets (Continued)

**Construction Commitments** - After year end, but prior to the report date, the Township entered into a contract for the Sashabaw/Waldon/I-75 Road Construction Project. The Township's commitments with contractors total \$5,100,000.

### 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 district) are received.

Long-term debt activity can be summarized as follows:

|  | Interest Rate<br>Ranges | Principal<br>Maturity<br>Ranges | Beginning<br>Balance | Additions         | Reductions        | Ending<br>Balance | Due Within<br>One Year |
|--|-------------------------|---------------------------------|----------------------|-------------------|-------------------|-------------------|------------------------|
| <b>Governmental Activities -</b>                               |                         |                                 |                      |                   |                   |                   |                        |
| Financing contract   |                         |                                 | \$ 153,782           | \$ -              | \$ 44,875         | \$ 108,907        | \$ 44,580              |
| Other long-term obligations -<br>Accumulated employee benefits |                         |                                 | 273,303              | 497,740           | 574,678           | 196,365           | 35,000                 |
| Total governmental<br>activities                               |                         |                                 | <u>\$ 427,085</u>    | <u>\$ 497,740</u> | <u>\$ 619,553</u> | <u>\$ 305,272</u> | <u>\$ 79,580</u>       |

# Charter Township of Independence

## Notes to Financial Statements December 31, 2014

### Note 6 - Long-term Debt (Continued)

|   | Interest Rate<br>Ranges | Principal<br>Maturity<br>Ranges | Beginning<br>Balance | Additions           | Reductions          | Ending<br>Balance    | Due Within<br>One Year |
|---|-------------------------|---------------------------------|----------------------|---------------------|---------------------|----------------------|------------------------|
| <b>Business-type Activities</b>   |                         |                                 |                      |                     |                     |                      |                        |
| DEQ - Drinking Water Revolving Fund:  |                         |                                 |                      |                     |                     |                      |                        |
| Amount of issue: \$18,625,000   |                         | \$820,000 -                     |                      |                     |                     |                      |                        |
| Maturing through 2025   | 2.215%                  | \$1,130,000                     | \$ 11,260,000        | \$ -                | \$ 915,000          | \$ 10,345,000        | \$ 940,000             |
| Capital Improvement Bonds Series 2005-B:                                      |                         |                                 |                      |                     |                     |                      |                        |
| Amount of issue: \$2,000,000  | 3.90% -                 | \$85,000 -                      |                      |                     |                     |                      |                        |
| Maturing through 2025   | 4.25%                   | \$145,000                       | 1,380,000            | -                   | 90,000              | 1,290,000            | 95,000                 |
| Oakland-Macomb Interceptor Drain Drainage District Drain Bond Series 2010 A:  |                         |                                 |                      |                     |                     |                      |                        |
| Amount issued: \$824,575  |                         | \$32,128 -                      |                      |                     |                     |                      |                        |
| Maturing through 2031   | 2.50%                   | \$51,702                        | 759,402              | -                   | 33,836              | 725,566              | 34,626                 |
| Oakland-Macomb Interceptor Drain Drainage District Bonds Series 2010 B:       |                         |                                 |                      |                     |                     |                      |                        |
| Amount issued: \$211,867  |                         | \$6,008 -                       |                      |                     |                     |                      |                        |
| Maturing through 2030   | 2.50%                   | \$16,443                        | 191,471              | -                   | 7,589               | 183,882              | 7,906                  |
| Oakland-Macomb Interceptor Drain Drainage District Drain Bonds Series 2011 A: |                         |                                 |                      |                     |                     |                      |                        |
| Amount issued: \$809,805, net of \$171,378 not yet drawn                      |                         |                                 |                      |                     |                     |                      |                        |
| Maturing through 2033   | 2.50%                   | \$38,824 - \$61,925             | 624,517              | 234,112             | 38,824              | 819,805              | 39,795                 |
| Oakland-Macomb Interceptor Drain Drainage District Drain Bonds Series 2013 A: |                         |                                 |                      |                     |                     |                      |                        |
| Amount issued: \$1,356,477, net of \$806,423 not yet drawn                    |                         |                                 |                      |                     |                     |                      |                        |
| Maturing through 2034   | 2.50%                   | \$88,987 - \$129,661            | 212,608              | 1,143,869           | -                   | 1,356,477            | 88,986                 |
| Oakland-Macomb Interceptor Drain Drainage District Bonds Series 2014:         |                         |                                 |                      |                     |                     |                      |                        |
| Amount issued: \$316,242  |                         |                                 |                      |                     |                     |                      |                        |
| Maturing through 2034   | 2.50%                   | \$12,239 - \$20,762             | -                    | 316,242             | -                   | 316,242              | 12,239                 |
| Total business-type activities  |                         |                                 | 14,427,998           | 1,694,223           | 1,085,249           | 15,036,972           | 1,218,552              |
| Accumulated compensated absences  |                         |                                 | -                    | 91,480              | 55,390              | 36,090               | 36,090                 |
| Total business-type activities  |                         |                                 | <u>\$ 14,427,998</u> | <u>\$ 1,785,703</u> | <u>\$ 1,140,639</u> | <u>\$ 15,073,062</u> | <u>\$ 1,254,642</u>    |



# Charter Township of Independence

## Notes to Financial Statements December 31, 2014

### Note 6 - Long-term Debt (Continued)

#### Debt Service Requirements

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

| Years Ending<br>December 31 | Governmental Activities |          |            | Business-type Activities |              |               |
|-----------------------------|-------------------------|----------|------------|--------------------------|--------------|---------------|
|                             | Principal               | Interest | Total      | Principal                | Interest     | Total         |
| 2015                        | \$ 44,580               | \$ -     | \$ 44,580  | \$ 1,218,552             | \$ 354,777   | \$ 1,573,329  |
| 2016                        | 32,164                  | -        | 32,164     | 1,247,832                | 327,891      | 1,575,723     |
| 2017                        | 32,163                  | -        | 32,163     | 1,272,112                | 299,284      | 1,571,396     |
| 2018                        | -                       | -        | -          | 1,296,647                | 270,039      | 1,566,686     |
| 2019                        | -                       | -        | -          | 1,326,085                | 240,219      | 1,566,304     |
| 2020-2024                   | -                       | -        | -          | 7,131,301                | 723,764      | 7,855,065     |
| 2025-2029                   | -                       | -        | -          | 1,222,003                | 124,725      | 1,346,728     |
| 2030-2034                   | -                       | -        | -          | 322,440                  | 12,786       | 335,226       |
| Total                       | \$ 108,907              | \$ -     | \$ 108,907 | \$ 15,036,972            | \$ 2,353,485 | \$ 17,390,457 |

**County Contractual Obligations** - During 2009, Macomb and Oakland counties jointly established the Oakland-Macomb Interceptor Drain - Drainage District (OMID), an inter-county drainage district, under Chapter 21 of the Drain Code. The OMID was created to acquire, operate, and maintain the Oakland-Macomb Interceptor (OMI); title to the OMI was transferred from the City of Detroit to the OMID as part of a settlement agreement with the City of Detroit reached in May 2009. The OMID apportioned the responsibility to pay the debt required to finance this project to the participating cities, townships, and villages located in the two counties. As of December 31, 2014, the Township's portion of debt issued to date is \$725,567 for the Series 2010A Bonds, \$183,882 for the Series 2010B Bonds, \$819,805 for the Series 2011A Bonds, \$1,356,477 for the Series 2013A Bonds, and \$316,241 for the Series 2014A Bonds. Series 2010A, 2010B, and 2014A were fully issued at year end, while \$171,378 and \$806,423 remained to be issued on Series 2011A and Series 2013A, respectively. The principal and interest payments above reflect the future payment amounts for the Township's share of the Series 2011A and Series 2013A OMID debt once they are fully issued. At December 31, 2014, the Township's share of unspent bond proceeds held by the County was \$39,917. This amount is reflected on the Sewer Fund's balance sheet as a restricted asset.

# Charter Township of Independence

## Notes to Financial Statements December 31, 2014

### Note 7 - 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 medical benefits and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to general liability and property, unemployment compensation, 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 Risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

### Note 8 - Deferred Inflows of Resources

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

|   | Governmental<br>Funds | Governmental<br>Activities |
|---|-----------------------|----------------------------|
| Property taxes levied for the next year | \$ 10,646,765         | \$ 10,646,765              |
| Special assessments - Unavailable       | 152,524               | -                          |
| Grant revenue - Unavailable             | 935                   | -                          |
| Charges for services - Unavailable      | 9,972                 | -                          |
| Total deferred inflows                  | <u>\$ 10,810,196</u>  | <u>\$ 10,646,765</u>       |

The Sashabaw Road Corridor Improvement Authority also reported deferred inflows related to property taxes levied for the next year of \$39,664.

### Note 9 - Healthcare Savings Plan

The Township provides a healthcare savings plan to all of its full-time employees who were hired after June 5, 2007. In a healthcare savings plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Township board, the Township contributes 3 percent of employees' base wages annually. For the period from June 5, 2007 through December 31, 2013, the Township did not contribute into the Plan and made a catch-up contribution of \$34,476 during the year ended December 31, 2014. In addition, in accordance with the requirements of the Plan, the Township contributed \$20,324 subsequent to year end based on employees' base wages for the year ended December 31, 2014.

# Charter Township of Independence

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## Notes to Financial Statements December 31, 2014

### Note 10 - Defined Contribution Pension Plan

The Township provides a defined contribution pension plan to all of its full-time employees, excluding full-time employees of the fire department, who have elected to be covered under the Municipal Employees' Retirement System of Michigan (MERS). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Township board, the Township contributes up to 10 percent of employees' gross earnings. In accordance with these requirements, the Township contributed approximately \$208,000 and the employee contributions were immaterial.

### Note 11 - Defined Benefit Pension Plan

**Plan Description** - The Township participates in the Michigan Municipal Employees' Retirement System (the "System"), an agent multiple-employer defined benefit pension plan that covers only full-time firefighters of the Township. The System provides retirement benefits, as well as death and disability benefits. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the System. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

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

**Annual Pension Cost** - For the year ended December 31, 2014, the Township's annual pension cost of \$211,136 for the plan was equal to the Township's required and actual contribution.

#### **Actuarial Methods and Assumptions**

The annual required contribution was determined as part of an actuarial valuation at December 31, 2013, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) 0 percent to 13 percent merit and longevity adjustments. Both (a) and (b) include an inflation component of 4.5 percent. For calendar years 2014, 2015, and 2016, the wage inflations assumption is 1, 2, and 3 percent, respectively. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a 10-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 25 years.

# Charter Township of Independence

## Notes to Financial Statements December 31, 2014

### Note 11 - Defined Benefit Pension Plan (Continued)

#### Three-year Trend Information

|   | Fiscal Year Ended December 31         |              |               |
|---|---------------------------------------|--------------|---------------|
|   | 2012                                  | 2013         | 2014          |
| Annual pension cost (APC)               | \$ 220,944                            | \$ 215,280   | \$ 211,136    |
| Percentage of APC contributed           | 100.0 %                               | 100.0 %      | 100.0 %       |
|   | Actuarial Valuation as of December 31 |              |               |
|   | 2011                                  | 2012         | 2013          |
| Actuarial value of assets               | \$ 6,391,120                          | \$ 6,855,093 | \$ 7,509,891  |
| Actuarial accrued liability (AAL)       |                                       |              |               |
| (entry age)                             | \$ 8,063,578                          | \$ 8,854,347 | \$ 10,184,451 |
| Unfunded AAL (UAAL)                     | \$ 1,672,458                          | \$ 1,999,254 | \$ 2,674,560  |
| Funded ratio                            | 79.3 %                                | 77.4 %       | 73.7 %        |
| Covered payroll                         | \$ 2,285,725                          | \$ 2,197,676 | \$ 2,100,660  |
| UAAL as a percentage of covered payroll | 73.2 %                                | 91.0 %       | 127.3 %       |

### Note 12 - Other Postemployment Benefits

**Plan Description** - The Township provides retiree healthcare benefits to eligible employees and their spouses. This is an agent, multiple-employer defined benefit plan administered by the Municipal Employees' Retirement System of Michigan Health Funding Vehicle. The benefits are provided under collective bargaining agreements. As of December 31, 2014, the market value of assets held in the Health Funding Vehicle was \$5,818,275.

**Funding Policy** - The Township has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). However, as shown below, the Township has made contributions to advance-fund these benefits, as determined by the Township through annual budget resolutions. AFSCME and nonunion employees are not required to make a contribution into the plan; however, all employees covered by the Independence Professional Fire Fighters Association (IAFF) labor agreement are required to contribute 1 percent of their base wage into this plan annually.

# Charter Township of Independence

## Notes to Financial Statements December 31, 2014

### Note 12 - Other Postemployment Benefits (Continued)

**Funding Progress** - For the year ended December 31, 2014, the Township has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2011. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

|   |                          |
|---|--------------------------|
| Annual required contribution (recommended)          | \$ 448,749               |
| Interest on the prior year's net OPEB asset         | (30,111)                 |
| Less adjustment to the annual required contribution | <u>35,749</u>            |
| Annual OPEB cost                                    | 454,387                  |
| Amounts contributed:                                |                          |
| Payments of current premiums                        | 309,526                  |
| Advance funding                                     | 147,367                  |
| Total contributions                                 | <u>456,893</u>           |
| Increase in net OPEB asset                          | 2,506                    |
| OPEB asset - Beginning of year                      | <u>376,390</u>           |
| OPEB asset - End of year                            | <u><u>\$ 378,896</u></u> |

The total net OPEB asset of \$378,896 at the end of the year consists of a business-type activities asset of \$145,154 and a governmental activities asset of \$233,742.

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

| Fiscal Years<br>Ended | Actuarial Valuation Date | Annual OPEB<br>Cost | Percentage<br>Contributed | Net OPEB<br>Asset |
|-----------------------|--------------------------|---------------------|---------------------------|-------------------|
| 12/31/12              | 12/31/11                 | \$ 448,749          | 150                       | \$ 216,599        |
| 12/31/13              | 12/31/11                 | 448,749             | 136                       | 376,390           |
| 12/31/14              | 12/31/11                 | 454,387             | 101                       | 378,896           |

# Charter Township of Independence

## Notes to Financial Statements December 31, 2014

### Note 12 - Other Postemployment Benefits (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 |
|--------------------------|-------------------------------|---------------------------------------|---------------------------|------------------------------|---------------------|---|
| 9/30/05                  | \$ -                          | \$4,772,934                           | \$4,772,934               | - %                          | \$4,960,617         | 96 %                                    |
| 12/31/08                 | 1,906,147                     | 7,536,207                             | 5,630,060                 | 25.3                         | 5,478,060           | 103                                     |
| 12/31/11                 | 3,601,908                     | 7,307,273                             | 3,705,365                 | 49.3                         | 4,659,233           | 80                                      |

**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.

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

In the December 31, 2011 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included (a) an 8 percent investment rate of return (net of administrative expenses), which is the rate of the expected long-term investment returns on plan assets, and (b) an annual healthcare cost trend rate of 8.3 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after 10 years. All rates included a 4.5 percent inflation assumption. The UAAL is being amortized on a level dollar normal cost basis. The remaining amortization period at December 31, 2011 was 26 years.

### Note 13 - Change in Accounting

During the current year, the Township evaluated the criteria of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*. As a result, the Clarkston Independence District Library is no longer included in these financial statements as part of the Township reporting entity.

# Charter Township of Independence

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## Notes to Financial Statements December 31, 2014

### Note 14 - 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 are effective for financial statements for the year ending December 31, 2015.

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

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Township to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the Municipal Employees' Retirement System of Michigan Health Funding Vehicle. 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 are effective for the Township's financial statements for the year ending December 31, 2018.

## **Required Supplemental Information**

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# Charter Township of Independence

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Excluding Parks and Recreation Department) Year Ended December 31, 2014

|  | Original Budget     | Amended Budget      | Actual              | Variance with<br>Amended Budget |
|--|---------------------|---------------------|---------------------|---------------------------------|
| <b>Revenue</b>                             |                     |                     |                     |                                 |
| Property taxes                             | \$ 1,398,816        | \$ 1,398,816        | \$ 1,341,496        | \$ (57,320)                     |
| Licenses and permits                       | 420,000             | 522,500             | 522,319             | (181)                           |
| Federal grants                             | -                   | 11,900              | 11,757              | (143)                           |
| State-shared revenue and grants            | 2,600,000           | 2,675,000           | 2,695,635           | 20,635                          |
| Charges for services to external parties   | 86,500              | 111,000             | 109,520             | (1,480)                         |
| Fines and forfeitures                      | 750                 | 750                 | 46                  | (704)                           |
| Investment income                          | 60,000              | 60,000              | 41,613              | (18,387)                        |
| Other revenue:                             |                     |                     |                     |                                 |
| Special assessments                        | 61,800              | 61,800              | 57,773              | (4,027)                         |
| Cable franchise fees                       | 525,000             | 600,000             | 630,883             | 30,883                          |
| Other miscellaneous income                 | 179,563             | 240,463             | 251,358             | 10,895                          |
| Total revenue                              | 5,332,429           | 5,682,229           | 5,662,400           | (19,829)                        |
| <b>Expenditures</b>                        |                     |                     |                     |                                 |
| Current:                                   |                     |                     |                     |                                 |
| General government:                        |                     |                     |                     |                                 |
| Township board                             | 367,238             | 408,738             | 376,813             | 31,925                          |
| Supervisor                                 | 179,977             | 201,570             | 191,237             | 10,333                          |
| Data processing                            | 56,330              | 39,830              | 30,817              | 9,013                           |
| Treasurer                                  | 298,841             | 294,091             | 278,061             | 16,030                          |
| Assessing                                  | 464,291             | 430,259             | 401,832             | 28,427                          |
| Board of review                            | 6,320               | 6,320               | 2,540               | 3,780                           |
| Clerk                                      | 598,405             | 561,664             | 512,891             | 48,773                          |
| Elections                                  | 126,770             | 112,320             | 95,757              | 16,563                          |
| Buildings and grounds                      | 505,480             | 595,099             | 499,959             | 95,140                          |
| Legal                                      | 130,000             | 181,000             | 117,307             | 63,693                          |
| Human resources                            | 81,800              | 95,274              | 92,529              | 2,745                           |
| Retiree health care                        | -                   | 162,155             | 160,746             | 1,409                           |
| Total general government                   | 2,815,452           | 3,088,320           | 2,760,489           | 327,831                         |
| Public safety                              | 637,181             | 624,665             | 566,887             | 57,778                          |
| Public works                               | 280,372             | 382,172             | 356,228             | 25,944                          |
| Debt service                               | -                   | 36,224              | 36,224              | -                               |
| Total expenditures                         | 3,733,005           | 4,131,381           | 3,719,828           | 411,553                         |
| <b>Excess of Revenue Over Expenditures</b> | 1,599,424           | 1,550,848           | 1,942,572           | 391,724                         |
| <b>Other Financing Sources (Uses)</b>      |                     |                     |                     |                                 |
| Proceeds from sale of capital assets       | 7,500               | 19,514              | 1,102               | (18,412)                        |
| Transfers in                               | 22,000              | 275,395             | 217,133             | (58,262)                        |
| Transfers out                              | (1,533,841)         | (1,500,382)         | (1,285,458)         | 214,924                         |
| Total other financing uses                 | (1,504,341)         | (1,205,473)         | (1,067,223)         | 138,250                         |
| <b>Net Change in Fund Balance</b>          | 95,083              | 345,375             | 875,349             | 529,974                         |
| <b>Fund Balance - Beginning of year</b>    | 5,000,025           | 5,000,025           | 5,000,025           | -                               |
| <b>Fund Balance - End of year</b>          | <b>\$ 5,095,108</b> | <b>\$ 5,345,400</b> | <b>\$ 5,875,374</b> | <b>\$ 529,974</b>               |

# Charter Township of Independence

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Police Millage Fund Year Ended December 31, 2014

|  | Original Budget     | Amended Budget      | Actual              | Variance with<br>Amended Budget |
|--|---------------------|---------------------|---------------------|---------------------------------|
| <b>Revenue</b>   |                     |                     |                     |                                 |
| Property taxes   | \$ 3,902,220        | \$ 3,900,220        | \$ 3,855,567        | \$ (44,653)                     |
| State-shared revenue and grants                        | 23,000              | 25,000              | 24,982              | (18)                            |
| Charges for services                                   | 394,020             | 374,020             | 378,597             | 4,577                           |
| Fines and forfeitures                                  | 80,000              | 210,000             | 222,451             | 12,451                          |
| Investment income                                      | 34,000              | 34,000              | 14,639              | (19,361)                        |
| Total revenue  | 4,433,240           | 4,543,240           | 4,496,236           | (47,004)                        |
| <b>Expenditures - Current - Public safety</b>          | 4,431,701           | 4,400,791           | 4,647,241           | (246,450)                       |
| <b>Excess of Revenue Over (Under)<br/>Expenditures</b> | 1,539               | 142,449             | (151,005)           | (293,454)                       |
| <b>Other Financing Sources (Uses)</b>                  |                     |                     |                     |                                 |
| Transfers in   | -                   | -                   | 851                 | 851                             |
| Transfers out  | -                   | (10,000)            | -                   | 10,000                          |
| <b>Net Change in Fund Balance</b>                      | 1,539               | 132,449             | (150,154)           | (282,603)                       |
| <b>Fund Balance - Beginning of year</b>                | 1,366,116           | 1,366,116           | 1,366,116           | -                               |
| <b>Fund Balance - End of year</b>                      | <u>\$ 1,367,655</u> | <u>\$ 1,498,565</u> | <u>\$ 1,215,962</u> | <u>\$ (282,603)</u>             |

# Charter Township of Independence

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Fire Millage Fund Year Ended December 31, 2014

|  | Original Budget     | Amended Budget      | Actual              | Variance with<br>Amended Budget |
|--|---------------------|---------------------|---------------------|---------------------------------|
| <b>Revenue</b>   |                     |                     |                     |                                 |
| Property taxes   | \$ 4,654,620        | \$ 4,654,620        | \$ 4,607,743        | \$ (46,877)                     |
| Charges for services                                   | 662,557             | 662,557             | 733,954             | 71,397                          |
| Investment income                                      | 35,000              | 35,000              | 25,597              | (9,403)                         |
| Other revenue - Other miscellaneous<br>income          | 3,500               | 3,500               | 39,113              | 35,613                          |
| Total revenue  | 5,355,677           | 5,355,677           | 5,406,407           | 50,730                          |
| <b>Expenditures - Current - Public safety</b>          | 4,861,950           | 5,773,192           | 4,566,405           | 1,206,787                       |
| <b>Excess of Revenue Over (Under)<br/>Expenditures</b> | 493,727             | (417,515)           | 840,002             | 1,257,517                       |
| <b>Other Financing Sources (Uses)</b>                  |                     |                     |                     |                                 |
| Proceeds from sale of capital assets                   | 50,000              | 84,252              | 40,700              | (43,552)                        |
| Transfers in   | -                   | 777,529             | 11,273              | (766,256)                       |
| Transfers out  | (500,000)           | (500,000)           | (500,000)           | -                               |
| Total other financing (uses)<br>sources                | (450,000)           | 361,781             | (448,027)           | (809,808)                       |
| <b>Net Change in Fund Balance</b>                      | 43,727              | (55,734)            | 391,975             | 447,709                         |
| <b>Fund Balance - Beginning of year</b>                | 2,491,938           | 2,491,938           | 2,491,938           | -                               |
| <b>Fund Balance - End of year</b>                      | <u>\$ 2,535,665</u> | <u>\$ 2,436,204</u> | <u>\$ 2,883,913</u> | <u>\$ 447,709</u>               |

# Charter Township of Independence

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

The schedule of funding progress is as follows:

| Actuarial<br>Valuation Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability (AAL)<br>(b) | Unfunded<br>AAL (UAAL)<br>(b-a) | Funded Ratio<br>(Percent)<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Covered<br>Payroll |
|-----------------------------|--|--|---------------------------------|------------------------------------|---------------------------|--|
| 12/31/11                    | \$ 6,391,120                           | \$ 8,063,578                                   | \$ 1,672,458                    | 79.3 %                             | \$ 2,285,725              | 73.2 %   |
| 12/31/12                    | 6,855,093                              | 8,854,347                                      | 1,999,254                       | 77.4                               | 2,197,676                 | 91.0   |
| 12/31/13                    | 7,509,891                              | 10,184,451                                     | 2,674,560                       | 73.7                               | 2,100,660                 | 127.3  |

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2013, the latest actuarial valuation, follows:

|                              |                         |
|------------------------------|-------------------------|
| Amortization method          | Level percent           |
| Amortization period (closed) | 25 years                |
| Asset valuation method       | 10-year smoothed market |
| Actuarial assumptions:       |                         |
| Investment rate of return    | 8%                      |
| Projected salary increases   | 1%                      |
| *Includes inflation at       | 3% - 4%                 |
| Cost of living adjustments   | None                    |

# Charter Township of Independence

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

The schedule of funding progress is as follows:

| Actuarial<br>Valuation Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability (AAL)<br>(b) | Unfunded<br>AAL (UAAL)<br>(b-a) | Funded Ratio<br>(Percent)<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Covered<br>Payroll |
|-----------------------------|--|--|---------------------------------|------------------------------------|---------------------------|--|
| 09/30/05                    | \$ -                                   | \$ 4,772,934                                   | \$ 4,772,934                    | - %                                | \$ 4,960,617              | 96.2 %   |
| 12/31/08                    | 1,906,147                              | 7,536,207                                      | 5,630,060                       | 25.3                               | 5,478,060                 | 102.8  |
| 12/31/11                    | 3,601,908                              | 7,307,273                                      | 3,705,365                       | 49.3                               | 4,659,233                 | 79.5   |
| 12/31/14                    | 5,168,411                              | 9,566,925                                      | 4,398,514                       | 54.0                               | 4,112,265                 | 107.0  |

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

|                                     |  |
|-------------------------------------|--|
| Amortization method                 | Level dollars                            |
| Amortization period (perpetual)     | 26 years                                 |
| Asset valuation method              | 4-year smoothed market                   |
| Actuarial assumptions:              |  |
| Investment rate of return           | 8.0%                                     |
| Projected healthcare inflation rate | 8.3%, reducing to 4.5%<br>after 10 years |

# Charter Township of Independence

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

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

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level. Each Special Revenue Fund represents a separate department.

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

The General Fund, as presented in the basic financial statements, includes the parks and recreation department. However, the Township board adopts the parks and recreation department budget separately from the General Fund budget. The reconciliation of the General Fund budgetary comparison schedule to the General Fund statement of revenue, expenditures, and changes in fund balance is as follows:

|  | <u>Total Revenue</u> | <u>Total Expenditures</u> | <u>Fund Balance</u> |
|--|----------------------|---------------------------|---------------------|
| General Fund - Amounts per budget statement    | \$ 5,662,400         | \$ 3,721,251              | \$ 5,875,374        |
| Parks and recreation department                | <u>1,097,235</u>     | <u>2,516,942</u>          | <u>692,112</u>      |
| General Fund - Amounts per operating statement | <u>\$ 6,759,635</u>  | <u>\$ 6,238,193</u>       | <u>\$ 6,567,486</u> |

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the Charter Township of Independence incurred significant expenditures that were in excess of the amounts budgeted, as follows:

|                                     | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|-------------------------------------|---------------|---------------|-----------------|
| Police Millage Fund - Public safety | \$ 4,400,791  | \$ 4,647,241  | \$ (246,450)    |

**Police Millage Fund** - Public safety expenditures exceeded budget as a result of the correction of the expenditures related to the Oakland County Sheriff Department Contract in the current year which resulted in 13 months of expenditures. Without this additional month of expenditures, the amount would have been below the budgeted amount.

## **Other Supplemental Information**

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# Charter Township of Independence

|  | Special Revenue Funds             |                   |                   |                     | Debt Service Funds |
|--|-----------------------------------|-------------------|-------------------|---------------------|--------------------|
|  | Community Development Block Grant | Cable TV          | Library Fund      | Safety Paths Fund   | Debt Service       |
|  |                                   |                   |                   |                     |                    |
| <b>Assets</b>  |                                   |                   |                   |                     |                    |
| Cash and cash equivalents  | \$ -                              | \$ 433,617        | \$ -              | \$ 1,801,390        | \$ -               |
| Receivables - Net of allowance:  |                                   |                   |                   |                     |                    |
| Property taxes receivable  | -                                 | -                 | -                 | 281,756             | -                  |
| Special assessments receivable   | -                                 | -                 | -                 | -                   | -                  |
| Accrued interest receivable  | -                                 | 1,098             | -                 | 3,349               | -                  |
| Other receivables  | 25,473                            | 52,080            | 106,662           | -                   | -                  |
| Prepaid expenses and other assets  | -                                 | 80                | -                 | 1,102               | -                  |
| Deposits   | -                                 | -                 | -                 | -                   | -                  |
| <b>Total assets</b>  | <b>\$ 25,473</b>                  | <b>\$ 486,875</b> | <b>\$ 106,662</b> | <b>\$ 2,087,597</b> | <b>\$ -</b>        |
| <b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>       |                                   |                   |                   |                     |                    |
| <b>Liabilities</b>   |                                   |                   |                   |                     |                    |
| Accounts payable   | \$ 11,663                         | \$ 1,143          | \$ -              | \$ 846              | \$ -               |
| Due to other funds   | 13,810                            | -                 | 106,662           | -                   | -                  |
| Accrued liabilities and other  | -                                 | 4,637             | -                 | 3,995               | -                  |
| <b>Total liabilities</b>   | <b>25,473</b>                     | <b>5,780</b>      | <b>106,662</b>    | <b>4,841</b>        | <b>-</b>           |
| <b>Deferred Inflows of Resources</b>                                       | -                                 | -                 | -                 | 411,446             | -                  |
| <b>Fund Balances</b>   |                                   |                   |                   |                     |                    |
| Nonspendable   | -                                 | 80                | -                 | 1,102               | -                  |
| Restricted:  |                                   |                   |                   |                     |                    |
| Fire   | -                                 | -                 | -                 | -                   | -                  |
| Safety path millage  | -                                 | -                 | -                 | 1,670,208           | -                  |
| Public access programming  | -                                 | 481,015           | -                 | -                   | -                  |
| Debt service   | -                                 | -                 | -                 | -                   | -                  |
| Capital Projects Funds   | -                                 | -                 | -                 | -                   | -                  |
| Assigned - Capital projects  | -                                 | -                 | -                 | -                   | -                  |
| <b>Total fund balances</b>   | <b>-</b>                          | <b>481,095</b>    | <b>-</b>          | <b>1,671,310</b>    | <b>-</b>           |
| <b>Total liabilities, deferred inflows of resources, and fund balances</b> | <b>\$ 25,473</b>                  | <b>\$ 486,875</b> | <b>\$ 106,662</b> | <b>\$ 2,087,597</b> | <b>\$ -</b>        |



**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
December 31, 2014**

| Capital Projects Funds |                          | Various                |                                   | Total |
|------------------------|--------------------------|------------------------|-----------------------------------|-------|
| Capital Projects       | Capital Projects<br>Fire | Special<br>Assessments | Nonmajor<br>Governmental<br>Funds |       |
| \$ 457,808             | \$ 169,659               | \$ 1,464,072           | \$ 4,326,546                      |       |
| -                      | -                        | -                      | 281,756                           |       |
| -                      | -                        | 196,835                | 196,835                           |       |
| 2,435                  | 852                      | 3,310                  | 11,044                            |       |
| -                      | -                        | -                      | 184,215                           |       |
| -                      | -                        | -                      | 1,182                             |       |
| 2,500                  | -                        | -                      | 2,500                             |       |
| <b>\$ 462,743</b>      | <b>\$ 170,511</b>        | <b>\$ 1,664,217</b>    | <b>\$ 5,004,078</b>               |       |
|                        |                          |                        |                                   |       |
| \$ 2,500               | \$ -                     | \$ 2,750               | \$ 18,902                         |       |
| -                      | -                        | -                      | 120,472                           |       |
| -                      | -                        | -                      | 8,632                             |       |
| 2,500                  | -                        | 2,750                  | 148,006                           |       |
| -                      | -                        | 152,524                | 563,970                           |       |
| -                      | -                        | -                      | 1,182                             |       |
| -                      | 170,511                  | -                      | 170,511                           |       |
| -                      | -                        | -                      | 1,670,208                         |       |
| -                      | -                        | -                      | 481,015                           |       |
| -                      | -                        | 441,401                | 441,401                           |       |
| -                      | -                        | 1,067,542              | 1,067,542                         |       |
| 460,243                | -                        | -                      | 460,243                           |       |
| 460,243                | 170,511                  | 1,508,943              | 4,292,102                         |       |
|                        |                          |                        |                                   |       |
| <b>\$ 462,743</b>      | <b>\$ 170,511</b>        | <b>\$ 1,664,217</b>    | <b>\$ 5,004,078</b>               |       |

# Charter Township of Independence

|  | Special Revenue Funds                   |            |              |                      | Debt Service |
|--|---|------------|--------------|----------------------|--------------|
|  |   |            |              |                      | Funds        |
|  | Community<br>Development<br>Block Grant | Cable TV   | Library Fund | Safety Paths<br>Fund | Debt Service |
| <b>Revenue</b>                                     |   |            |              |                      |              |
| Property taxes                                     | \$ -                                    | \$ -       | \$ -         | \$ 395,571           | \$ -         |
| Federal grants                                     | 53,660                                  | -          | -            | -                    | -            |
| Charges for services                               | -                                       | -          | -            | -                    | -            |
| Investment income                                  | -                                       | 2,436      | -            | 10,374               | 1            |
| Other revenue                                      | -                                       | 226,689    | 15,060       | 5,614                | -            |
| Total revenue                                      | 53,660                                  | 229,125    | 15,060       | 411,559              | 1            |
| <b>Expenditures</b>                                |   |            |              |                      |              |
| Current:   |   |            |              |                      |              |
| Public works                                       | -                                       | -          | -            | 173,136              | -            |
| Community and economic development                 | 51,535                                  | -          | -            | -                    | -            |
| Recreation and culture                             | -                                       | 287,287    | -            | -                    | -            |
| Capital outlay                                     | -                                       | -          | -            | -                    | -            |
| Total expenditures                                 | 51,535                                  | 287,287    | -            | 173,136              | -            |
| <b>Excess of Revenue Over (Under) Expenditures</b> | 2,125                                   | (58,162)   | 15,060       | 238,423              | 1            |
| <b>Other Financing Sources (Uses)</b>              |   |            |              |                      |              |
| Proceeds from sale of capital assets               | -                                       | -          | -            | 1,500                | -            |
| Transfers in                                       | -                                       | 21,450     | -            | -                    | -            |
| Transfers out                                      | -                                       | -          | -            | -                    | (5,596)      |
| Total other financing sources (uses)               | -                                       | 21,450     | -            | 1,500                | (5,596)      |
| <b>Net Change in Fund Balances</b>                 | 2,125                                   | (36,712)   | 15,060       | 239,923              | (5,595)      |
| <b>Fund Balances - Beginning of year</b>           | (2,125)                                 | 517,807    | (15,060)     | 1,431,387            | 5,595        |
| <b>Fund Balances - End of year</b>                 | \$ -                                    | \$ 481,095 | \$ -         | \$ 1,671,310         | \$ -         |

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes in**  
**Fund Balances (Deficit)**  
**Nonmajor Governmental Funds**  
**Year Ended December 31, 2014**

| Capital Projects Fund |                          | Various                | Total<br>Nonmajor<br>Governmental<br>Funds |
|-----------------------|--------------------------|------------------------|--|
| Capital<br>Projects   | Capital<br>Projects Fire | Special<br>Assessments |  |
| \$ -                  | \$ -                     | \$ -                   | \$ 395,571                                 |
| -                     | -                        | -                      | 53,660                                     |
| -                     | -                        | 12,256                 | 12,256                                     |
| 5,994                 | 2,266                    | 7,763                  | 28,834                                     |
| -                     | -                        | 100                    | 247,463                                    |
| 5,994                 | 2,266                    | 20,119                 | 737,784                                    |
| -                     | -                        | 75,906                 | 249,042                                    |
| -                     | -                        | -                      | 51,535                                     |
| -                     | -                        | -                      | 287,287                                    |
| 463,378               | 331,755                  | -                      | 795,133                                    |
| 463,378               | 331,755                  | 75,906                 | 1,382,997                                  |
| (457,384)             | (329,489)                | (55,787)               | (645,213)                                  |
| -                     | -                        | -                      | 1,500                                      |
| 120,000               | 500,000                  | 50,443                 | 691,893                                    |
| (401,029)             | -                        | -                      | (406,625)                                  |
| (281,029)             | 500,000                  | 50,443                 | 286,768                                    |
| (738,413)             | 170,511                  | (5,344)                | (358,445)                                  |
| 1,198,656             | -                        | 1,514,287              | 4,650,547                                  |
| <b>\$ 460,243</b>     | <b>\$ 170,511</b>        | <b>\$ 1,508,943</b>    | <b>\$ 4,292,102</b>                        |

# Charter Township of Independence

|  | Baycourt CP       | Bowpointe CP     | Bowpointe DS    | Curtis Lane CP   | Cranberry<br>Pointe Lights<br>CP |
|--|-------------------|------------------|-----------------|------------------|----------------------------------|
| <b>Assets</b>  |                   |                  |                 |                  |                                  |
| Cash and cash equivalents  | \$ 224,291        | \$ 60,425        | \$ 1,000        | \$ 46,023        | \$ 1,431                         |
| Receivables - Net of allowance:                                      |                   |                  |                 |                  |                                  |
| Special assessments receivable                                       | -                 | -                | -               | -                | -                                |
| Accrued interest receivable  | 524               | 139              | 1               | 107              | 5                                |
| <b>Total assets</b>  | <b>\$ 224,815</b> | <b>\$ 60,564</b> | <b>\$ 1,001</b> | <b>\$ 46,130</b> | <b>\$ 1,436</b>                  |
| <b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b> |                   |                  |                 |                  |                                  |
| <b>Liabilities</b> - Accounts payable                                | \$ -              | \$ -             | \$ -            | \$ -             | \$ -                             |
| <b>Deferred Inflows of Resources</b>                                 | -                 | -                | -               | -                | -                                |
| <b>Fund Balances</b>   | 224,815           | 60,564           | 1,001           | 46,130           | 1,436                            |
| <b>Total liabilities, deferred inflows,<br/>and fund balances</b>    | <b>\$ 224,815</b> | <b>\$ 60,564</b> | <b>\$ 1,001</b> | <b>\$ 46,130</b> | <b>\$ 1,436</b>                  |

**Other Supplemental Information  
Special Assessment Schedules  
Consolidating Balance Sheet  
December 31, 2014**

| Deerwood<br>Manors CP | Deerwood<br>8 & 9 CP | Deerwood CP     | Eastview<br>Westview DS | Flemings Lake<br>CP | Rohr Road DS | Sashabaw Road<br>DS | Sashabaw<br>Drain CP |
|-----------------------|----------------------|-----------------|-------------------------|---------------------|--------------|---------------------|----------------------|
| \$ 23,639             | \$ 12,976            | \$ 5,187        | \$ -                    | \$ 314,279          | \$ -         | \$ -                | \$ -                 |
| -                     | -                    | -               | -                       | -                   | -            | -                   | -                    |
| 55                    | 30                   | 14              | -                       | 739                 | -            | -                   | -                    |
| <b>\$ 23,694</b>      | <b>\$ 13,006</b>     | <b>\$ 5,201</b> | <b>\$ -</b>             | <b>\$ 315,018</b>   | <b>\$ -</b>  | <b>\$ -</b>         | <b>\$ -</b>          |
| \$ -                  | \$ -                 | \$ -            | \$ -                    | \$ -                | \$ -         | \$ -                | \$ -                 |
| -                     | -                    | -               | -                       | -                   | -            | -                   | -                    |
| 23,694                | 13,006               | 5,201           | -                       | 315,018             | -            | -                   | -                    |
| <b>\$ 23,694</b>      | <b>\$ 13,006</b>     | <b>\$ 5,201</b> | <b>\$ -</b>             | <b>\$ 315,018</b>   | <b>\$ -</b>  | <b>\$ -</b>         | <b>\$ -</b>          |

# Charter Township of Independence

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|  | Sashabaw<br>Drain DS     | Silverman<br>Sashabaw CP | Simler Drive<br>CP       | Townsend CP        | Woodhul CP              |
|--|--------------------------|--------------------------|--------------------------|--------------------|-------------------------|
| <b>Assets</b>  |                          |                          |                          |                    |                         |
| Cash and cash equivalents  | \$ 384,727               | \$ 50,366                | \$ 156,827               | \$ -               | \$ 44,785               |
| Receivables - Net of allowance:  |                          |                          |                          |                    |                         |
| Special assessments receivable   | 196,835                  | -                        | -                        | -                  | -                       |
| Accrued interest receivable  | 765                      | 139                      | 368                      | -                  | 105                     |
|  | <u>          </u>        | <u>          </u>        | <u>          </u>        | <u>          </u>  | <u>          </u>       |
| Total assets   | <b><u>\$ 582,327</u></b> | <b><u>\$ 50,505</u></b>  | <b><u>\$ 157,195</u></b> | <b><u>\$ -</u></b> | <b><u>\$ 44,890</u></b> |
| <b>Liabilities, Deferred Inflows of Resources, and<br/>Fund Balances</b> |                          |                          |                          |                    |                         |
| <b>Liabilities</b> - Accounts payable                                    | \$ -                     | \$ -                     | \$ -                     | \$ -               | \$ -                    |
| <b>Deferred Inflows of Resources</b>                                     | 152,524                  | -                        | -                        | -                  | -                       |
| <b>Fund Balances</b>   | <u>429,803</u>           | <u>50,505</u>            | <u>157,195</u>           | <u>-</u>           | <u>44,890</u>           |
|  | <u>          </u>        | <u>          </u>        | <u>          </u>        | <u>          </u>  | <u>          </u>       |
| Total liabilities, deferred inflows,<br>and fund balances                | <b><u>\$ 582,327</u></b> | <b><u>\$ 50,505</u></b>  | <b><u>\$ 157,195</u></b> | <b><u>\$ -</u></b> | <b><u>\$ 44,890</u></b> |

**Other Supplemental Information**  
**Special Assessment Schedules**  
**Consolidating Balance Sheet (Continued)**  
**December 31, 2014**

| Special<br>Assessment DS | Walters Lake<br>Board CP | Silverman-<br>Sashabaw II CP | Total                      |
|--------------------------|--------------------------|------------------------------|----------------------------|
| \$ 10,574                | \$ 114,772               | \$ 12,770                    | \$ 1,464,072               |
| -                        | -                        | -                            | 196,835                    |
| <u>23</u>                | <u>265</u>               | <u>31</u>                    | <u>3,310</u>               |
| <b><u>\$ 10,597</u></b>  | <b><u>\$ 115,037</u></b> | <b><u>\$ 12,801</u></b>      | <b><u>\$ 1,664,217</u></b> |
|                          |                          |                              |                            |
| \$ -                     | \$ 2,750                 | \$ -                         | \$ 2,750                   |
| -                        | -                        | -                            | 152,524                    |
| <u>10,597</u>            | <u>112,287</u>           | <u>12,801</u>                | <u>1,508,943</u>           |
| <b><u>\$ 10,597</u></b>  | <b><u>\$ 115,037</u></b> | <b><u>\$ 12,801</u></b>      | <b><u>\$ 1,664,217</u></b> |

# Charter Township of Independence

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|  | <u>Baycourt CP</u>       | <u>Bowpointe CP</u>     | <u>Bowpointe DS</u>    | <u>Curtis Lane CP</u>   | <u>Cranberry<br/>Pointe Lights<br/>CP</u> |
|--|--------------------------|-------------------------|------------------------|-------------------------|---|
| <b>Revenue</b>                                     |                          |                         |                        |                         |   |
| Charges for services                               | \$ -                     | \$ -                    | \$ -                   | \$ -                    | \$ (49)                                   |
| Interest and rentals                               | 1,219                    | 327                     | 5                      | 249                     | (565)                                     |
| Other revenue:                                     |                          |                         |                        |                         |   |
| Special assessments                                | -                        | -                       | -                      | -                       | -   |
| Total revenue                                      | <u>1,219</u>             | <u>327</u>              | <u>5</u>               | <u>249</u>              | <u>(614)</u>                              |
| <b>Expenditures - Other current services</b>       | -                        | -                       | -                      | -                       | -   |
| Other  | -                        | -                       | -                      | -                       | -   |
| Total expenditures                                 | <u>-</u>                 | <u>-</u>                | <u>-</u>               | <u>-</u>                | <u>-</u>                                  |
| <b>Excess of Revenue Over (Under) Expenditures</b> | 1,219                    | 327                     | 5                      | 249                     | (614)                                     |
| <b>Transfers In</b>                                | -                        | -                       | -                      | -                       | -   |
| <b>Change in Fund Balances</b>                     | 1,219                    | 327                     | 5                      | 249                     | (614)                                     |
| <b>Fund Balances (Deficit) - Beginning of year</b> | <u>223,596</u>           | <u>60,237</u>           | <u>996</u>             | <u>45,881</u>           | <u>2,050</u>                              |
| <b>Fund Balances - End of year</b>                 | <u><u>\$ 224,815</u></u> | <u><u>\$ 60,564</u></u> | <u><u>\$ 1,001</u></u> | <u><u>\$ 46,130</u></u> | <u><u>\$ 1,436</u></u>                    |



**Other Supplemental Information  
Special Assessment Schedules  
Consolidating Statement of Revenue, Expenditures, and  
Changes in Fund Balances (Deficit)  
Year Ended December 31, 2014**

| Deerwood<br>Manors CP | Deerwood<br>8 & 9 CP | Deerwood CP     | Eastview<br>Westview DS | Flemings Lake<br>CP | Rohr Road DS | Sashabaw Road<br>DS | Sashabaw<br>Drain CP |
|-----------------------|----------------------|-----------------|-------------------------|---------------------|--------------|---------------------|----------------------|
| \$ -                  | \$ -                 | \$ -            | \$ -                    | \$ -                | \$ -         | \$ -                | \$ -                 |
| 128                   | 71                   | 28              | -                       | 1,707               | (15)         | -                   | -                    |
| -                     | -                    | -               | -                       | -                   | -            | -                   | -                    |
| 128                   | 71                   | 28              | -                       | 1,707               | (15)         | -                   | -                    |
| -                     | -                    | -               | -                       | -                   | -            | -                   | -                    |
| -                     | -                    | -               | -                       | -                   | -            | -                   | -                    |
| 128                   | 71                   | 28              | -                       | 1,707               | (15)         | -                   | -                    |
| -                     | -                    | -               | 721                     | -                   | -            | -                   | 6                    |
| 128                   | 71                   | 28              | 721                     | 1,707               | (15)         | -                   | 6                    |
| 23,566                | 12,935               | 5,173           | (721)                   | 313,311             | 15           | -                   | (6)                  |
| <b>\$ 23,694</b>      | <b>\$ 13,006</b>     | <b>\$ 5,201</b> | <b>\$ -</b>             | <b>\$ 315,018</b>   | <b>\$ -</b>  | <b>\$ -</b>         | <b>\$ -</b>          |

# Charter Township of Independence

|  | Sashabaw<br>Drain DS | Silverman<br>Sashabaw CP | Simler Drive<br>CP | Thendara Road<br>DS | Townsend CP |
|--|----------------------|--------------------------|--------------------|---------------------|-------------|
| <b>Revenue</b>                                     |                      |                          |                    |                     |             |
| Charges for services                               | \$ 12,305            | \$ -                     | \$ -               | \$ -                | \$ -        |
| Interest and rentals                               | 2,307                | 465                      | 853                | -                   | 2           |
| Other revenue:                                     |                      |                          |                    |                     |             |
| Special assessments                                | -                    | -                        | -                  | -                   | -           |
| Total revenue                                      | 14,612               | 465                      | 853                | -                   | 2           |
| <b>Expenditures - Other current services</b>       | -                    | -                        | -                  | -                   | -           |
| Other  | 34,146               | -                        | -                  | -                   | -           |
| Total expenditures                                 | 34,146               | -                        | -                  | -                   | -           |
| <b>Excess of Revenue Over (Under) Expenditures</b> | (19,534)             | 465                      | 853                | -                   | 2           |
| <b>Transfers In</b>                                | -                    | -                        | -                  | -                   | 49,716      |
| <b>Change in Fund Balances</b>                     | (19,534)             | 465                      | 853                | -                   | 49,718      |
| <b>Fund Balances (Deficit) - Beginning of year</b> | 449,337              | 50,040                   | 156,342            | -                   | (49,718)    |
| <b>Fund Balances - End of year</b>                 | <u>\$ 429,803</u>    | <u>\$ 50,505</u>         | <u>\$ 157,195</u>  | <u>\$ -</u>         | <u>\$ -</u> |

**Other Supplemental Information  
Special Assessment Schedules  
Consolidating Statement of Revenue, Expenditures, and  
Changes in Fund Balances (Deficit) (Continued)  
Year Ended December 31, 2014**

| Woodhul CP       | Special<br>Assessment DS | Walters Lake<br>Board CP | Silverman-<br>Sashabaw II CP | Total               |
|------------------|--------------------------|--------------------------|------------------------------|---------------------|
| \$ -             | \$ -                     | \$ -                     | \$ -                         | \$ 12,256           |
| 243              | 57                       | 602                      | 80                           | 7,763               |
| 100              | -                        | -                        | -                            | 100                 |
| 343              | 57                       | 602                      | 80                           | 20,119              |
| -                | -                        | 41,760                   | -                            | 41,760              |
| -                | -                        | -                        | -                            | 34,146              |
| -                | -                        | 41,760                   | -                            | 75,906              |
| 343              | 57                       | (41,158)                 | 80                           | (55,787)            |
| -                | -                        | -                        | -                            | 50,443              |
| 343              | 57                       | (41,158)                 | 80                           | (5,344)             |
| 44,547           | 10,540                   | 153,445                  | 12,721                       | 1,514,287           |
| <b>\$ 44,890</b> | <b>\$ 10,597</b>         | <b>\$ 112,287</b>        | <b>\$ 12,801</b>             | <b>\$ 1,508,943</b> |

# Charter Township of Independence

## Other Supplemental Information Statement of Net Position Fiduciary Funds December 31, 2014

|   | Agency Funds                |                     |                       |
|---|-----------------------------|---------------------|-----------------------|
|   | Trust and<br>Agency - Taxes | Trust and<br>Agency | Total Agency<br>Funds |
| <b>Assets - Cash and cash equivalents</b> | <b>\$ 480,193</b>           | <b>\$ 823,106</b>   | <b>\$ 1,303,299</b>   |
| <b>Liabilities</b>                        |                             |                     |                       |
| Accounts payable                          | \$ -                        | \$ 2,480            | \$ 2,480              |
| Due to other governmental units           | 478,551                     | -                   | 478,551               |
| Accrued liabilities and other             | 1,642                       | 9,278               | 10,920                |
| Cash bonds and deposits                   | -                           | 811,348             | 811,348               |
| Total liabilities                         | <b>\$ 480,193</b>           | <b>\$ 823,106</b>   | <b>\$ 1,303,299</b>   |

# **Charter Township of Independence**

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**Audit Observations and Comments  
December 31, 2014**

June 17, 2015

To the Township Board of Trustees  
Charter Township of Independence  
Oakland County, Michigan

We have audited the financial statements of the Charter Township of Independence (the "Township") as of and for the year ended December 31, 2014 and have issued our report thereon dated June 17, 2015. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Internal Control Related Matters Identified in an Audit

Section II - Audit Observations

Section III - Comments and Informational Items

Section I includes any deficiencies we observed in the Township's accounting principles or internal control that we believe are significant. Current auditing standards require us to formally communicate annually matters we note about the Township's accounting policies and internal control. Section II 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 Charter Township of Independence.

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 were invaluable.


This report is intended solely for the use of the board of trustees and management of the Charter Township of Independence and is not intended to be and should not be used by anyone other than these specified parties. We welcome any questions you may have regarding the following communications and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

**Plante & Moran, PLLC**



Joseph C. Heffernan, CPA  
Partner



Chrystal Simpson, CPA  
Manager

### **Section I - Internal Control Related Matters Identified in an Audit**

In planning and performing our audit of the financial statements of the Charter Township of Independence as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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

We consider the following deficiency in the Township's internal control to be a material weakness:

- We identified that the Township's cash receipts functions are not appropriately segregated as the same individuals that receipt cash at the Township office are the same individuals that balance the cash drawers and take the deposits to the bank. The lack of segregation of duties surrounding cash receipting could result in a misappropriation of Township assets.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Township's internal control to be significant deficiencies:

- During the audit, we identified Sewer Fund grant receivables that were earned and improperly recorded as deferred inflows. There were also special assessments that were collected within the period of availability and improperly recorded as deferred inflows and amounts not collected within the period of availability that were not reported as deferred inflows in a governmental fund. The Township did not have a review process in place to determine that deferred inflows are properly recorded. Sewer Fund grant revenue would have been understated by approximately \$212,000 and special assessments revenue and deferred inflows would have been understated by approximately \$26,000 if the amounts were not properly reported in the general ledger. Management provided and posted an adjustment related to these items.
- Our audit identified overtime worked by a Township fire department employee that was not included on the payroll register. The Township has a process in place that includes department head review of payroll to ensure that fire department employees' payroll in the system appears reasonable. However, that level of review did not identify the discrepancy between the employee's timesheet and the payroll register. The lack of this control could result in misstatement of employee compensation expenditures as well as underpayment or overpayment to Township employees.



## **Section II - Audit Observations**

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

As stated in our engagement letter dated December 16, 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 Charter Township of Independence. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

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

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

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters in March 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 Charter Township of Independence are described in Note I to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2014, other than the change in the facts that required the library to be presented as a component unit in the past. The Clarkston Independence District Library no longer meets the requirements of a component unit under GASB Statement No. 61 and therefore is no longer reported in the Township's financial statements. See Note I for a description of this change.

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 those related to the recording of the other postemployment benefit (the "OPEB") asset to recognize the cost of providing retiree healthcare expenses over the working life of the employee and the estimation of liabilities related to pension.

Management's estimate of the OPEB asset is based on the annual required contribution as calculated by an actuary and the obligation related to pension is based on estimates also provided by an actuary. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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

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

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

***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. Management has corrected all such misstatements.

***Noncompliance with Laws and Regulations***

We have noted the following instance of noncompliance with laws and regulations during the course of our audit:

We did not see evidence that a quarterly investment report is being presented to the Township board, as required by Public Act 213 of 2007.

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated June 17, 2015.

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

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

### **Section III - Comments and Informational Items**

#### **Special Assessment Funds**

The Township currently has 21 special assessment funds. Only one of them (Sashabaw Drain debt service) had special assessment collection activity during the year; the remainder have had the assessments paid off. These other 20 funds have accumulated a residual fund balance of approximately \$1,000,000 at December 31, 2014. We recommend that the Township perform a comparison of those funds' original assessments to the cumulative costs incurred to determine whether there is any requirement for refunds; for any amounts that can be retained by the Township, we recommend these funds be closed and the excess funds be transferred back to the General Fund.

#### **Number of Funds and Interfund Transfers**

As we look at the detail of interfund transfers reported in Note 4 to the financial statements, we believe the volume of transfers may make it difficult to obtain an easily understandable overview of the Township's finances. For instance, we note a transfer from the General Fund to the Capital Projects Fund, followed by a transfer from the Capital Projects Fund back to the General Fund as well as to the Capital Projects Fire Fund. We then note a transfer from the Capital Projects Fire Fund to the Fire Millage Fund, as well as a transfer from the Fire Millage Fund to the Capital Projects Fire Fund.

We believe this volume of interfund transfers can make it more difficult to understand the Township's finances. We recommend evaluating the usefulness of each fund and consider consolidating the number of funds in order to reduce the number of funds and simplify the Township's financial picture.

#### **New Accounting Standards for Pensions**

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

Employers providing defined benefit pensions to their employees will begin to recognize their unfunded pension benefit obligation as a liability for the first time and must begin to measure the costs of pension benefits as the employees' service is rendered, rather than as the employer funds the benefit. As a result, the Township will be required to report a net pension liability of approximately \$2.7 million.

In addition, in three years the retiree healthcare liability will also be required to be reported in this same way. The Township currently reports a net OPEB asset of \$379,000 and has an unfunded liability of \$4,398,000. This change will then cause the reported amount of net position to decline another \$4.8 million.

A proforma of how this is expected to impact the Township’s government-wide net position is shown below:

|                                  | As Currently<br>Reported | With Unfunded<br>Pension | With Unfunded<br>Healthcare |
|----------------------------------|--------------------------|--------------------------|-----------------------------|
| Net position:                    |                          |                          |                             |
| Net investment in capital assets | \$ 55,980,815            | \$ 55,980,815            | \$ 55,980,815               |
| Restricted                       | 8,777,305                | 8,777,305                | 8,777,305                   |
| Unrestricted                     | 17,134,212               | 14,459,652               | 9,682,652                   |
| Total net position               | <u>\$ 81,892,332</u>     | <u>\$ 79,217,772</u>     | <u>\$ 74,440,772</u>        |

This proforma indicates that the Township will not be as significantly impacted by this accounting change as most communities. This is because the Township’s pension and retiree healthcare costs have been managed to fund the obligations more closely to the periods that the employees’ services have been rendered.

The accounting entries to implement GASB No. 68 and allocate these costs to the various proprietary funds and governmental functions are complex. We are happy to work with the Township and its actuarial firm over the next year to ensure smooth implementation of this new standard. We would also encourage the Township’s accounting personnel to view the free webinars available on Plante & Moran, PLLC’s website, if you have not already done so.

**Revenue Sharing**

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

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

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

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

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

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

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

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

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

These reforms impact three key areas of federal grants management:

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

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

2. **Cost Principles** - Effective for all federal awards received on or after December 26, 2014, the grant reforms related to cost principles go into effect. Not only were certain changes made to allowable costs under this new guidance, but there were significant changes in the area of time and effort reporting and indirect costs.
3. **Administrative Requirements** - Also effective for all federal awards received on or after December 26, 2014, nonfederal 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.

To the Township Board of Trustees  
Charter Township of Independence

June 17, 2015

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