

**Township of Macomb
Macomb County, Michigan**

**Financial Report
with Supplemental Information
June 30, 2017**

Township of Macomb

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-6
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8-9
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	10-11
Reconciliation of the Balance Sheet to the Statement of Net Position	12
Statement of Revenue, Expenditures, and Changes in Fund Balances	13-14
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Proprietary Fund:	
Statement of Net Position	16
Statement of Revenue, Expenses, and Changes in Net Position	17
Statement of Cash Flows	18
Fiduciary Funds:	
Statement of Fiduciary Net Position	19
Statement of Changes in Fiduciary Net Position	20
Notes to Financial Statements	21-55

Township of Macomb

Contents (Continued)

Required Supplemental Information	56
Budgetary Comparison Schedule - General Fund	57
Budgetary Comparison Schedule - Major Special Revenue Funds	58-60
Retiree Health Care Fund Schedule of Funding Progress	61
OPEB Plan Schedule of Investment Returns	62
OPEB Plan Schedule of Changes in the Township's Net OPEB Liability and Related Ratios	63
OPEB Plan Schedule of Township Contributions	64
Fire Retirement System Schedule of Investment Returns	65
Fire Retirement System Schedule of Changes in the Township's Net Pension Liability and Related Ratios	66
Fire Retirement System Schedule of Township Contributions	67
Note to Required Supplemental Information	68
Other Supplemental Information	69
Nonmajor Governmental Funds:	
Combining Balance Sheet	70
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	71
Fiduciary Funds:	
Statement of Assets and Liabilities	72
Combining Statement of Changes in Net Position	73

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Macomb (the "Township") as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the Township of Macomb's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, each major fund, and the aggregate remaining fund information of the Township of Macomb as of June 30, 2017 and the respective changes in its financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Other Matters

Required Supplemental Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Macomb's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for purposes 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 & Moran, PLLC

December 12, 2017

Township of Macomb

Management's Discussion and Analysis

Using this Annual Report

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

In a condensed format, the table below shows the comparison of net position (in millions of dollars) as of June 30, 2017 to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current assets	\$ 58.0	\$ 57.3	\$ 45.7	\$ 45.8	\$ 103.7	\$ 103.1
Noncurrent assets:						
Restricted assets	-	-	4.6	2.3	4.6	2.3
Capital assets	<u>50.2</u>	<u>49.7</u>	<u>165.9</u>	<u>159.3</u>	<u>216.1</u>	<u>209.0</u>
Total assets	108.2	107.0	216.2	207.4	324.4	314.4
Deferred Outflows of Resources						
Bond refunding loss being amortized	0.8	0.9	0.1	0.1	0.9	1.0
Deferred pension outflow	0.8	0.5	-	-	0.8	0.5
Liabilities						
Current and other liabilities	6.9	5.7	4.9	5.8	11.8	11.5
Long-term liabilities	<u>22.7</u>	<u>25.7</u>	<u>38.9</u>	<u>31.4</u>	<u>61.6</u>	<u>57.1</u>
Total liabilities	29.6	31.4	43.8	37.2	73.4	68.6
Deferred Inflow of Resources -						
Deferred pension inflow	<u>0.2</u>	<u>0.2</u>	<u>-</u>	<u>-</u>	<u>0.2</u>	<u>0.2</u>
Net Position						
Net investment in capital assets	24.7	21.4	128.7	127.0	153.4	148.4
Restricted	10.8	11.9	0.5	1.1	11.3	13.0
Unrestricted	<u>44.5</u>	<u>43.5</u>	<u>43.3</u>	<u>42.2</u>	<u>87.8</u>	<u>85.7</u>
Total net position	<u>\$ 80.0</u>	<u>\$ 76.8</u>	<u>\$ 172.5</u>	<u>\$ 170.3</u>	<u>\$ 252.5</u>	<u>\$ 247.1</u>

Township of Macomb

Management's Discussion and Analysis (Continued)

The Township's combined net position increased approximately \$5.4 million from a year ago, increasing from \$247.1 million to \$252.5 million. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$3.2 million in net position, or 4.2 percent, during fiscal year 2017. The increase in total net position is primarily attributable to a reduction in long-term liabilities. The business-type activities net position increased from the previous year by approximately \$2.2 million, or 1.3 percent, during fiscal year 2017. This was primarily due to an increase in investment of capital assets.

Unrestricted net position for the governmental activities was \$44.5 million at June 30, 2017. This amount represents the part of net position that is available to finance day-to-day operations and future growth of the Township. The business-type activities restricted net position decreased \$0.6 million from the previous year. This is attributable to project funds being utilized during the fiscal year for the rehabilitation of the Oakland Macomb Interceptor Drainage Districts.

The following table shows the changes in net position (in millions of dollars) during the year ended June 30, 2017 and the prior year:

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenue						
Program revenue:						
Charges for services	\$ 5.6	\$ 5.1	\$ 28.5	\$ 26.9	\$ 34.1	\$ 32.0
Operating grants and contributions	0.3	-	0.2	0.2	0.5	0.2
Capital grants and contributions	-	-	4.3	4.0	4.3	4.0
General revenue:						
Property taxes	11.3	11.0	-	-	11.3	11.0
State-shared revenue	6.8	6.4	-	-	6.8	6.4
Interest	0.2	0.2	0.1	0.1	0.3	0.3
Cable fees and other	1.4	1.4	-	-	1.4	1.4
Total revenue	25.6	24.1	33.1	31.2	58.7	55.3
Program Expenses						
General government	6.7	6.2	-	-	6.7	6.2
Public safety	9.4	8.3	-	-	9.4	8.3
Public works	2.1	1.5	-	-	2.1	1.5
Recreation and culture	3.3	3.7	-	-	3.3	3.7
Interest on long-term debt	0.9	1.0	-	-	0.9	1.0
Water and sewer	-	-	30.9	28.0	30.9	28.0
Total program expenses	22.4	20.7	30.9	28.0	53.3	48.7
Change in Net Position	3.2	3.4	2.2	3.2	5.4	6.6
Net Position - Beginning of year	76.8	73.4	170.3	167.1	247.1	240.5
Net Position - End of year	<u>\$ 80.0</u>	<u>\$ 76.8</u>	<u>\$ 172.5</u>	<u>\$ 170.3</u>	<u>\$ 252.5</u>	<u>\$ 247.1</u>

Township of Macomb

Management's Discussion and Analysis (Continued)

Governmental Activities

The Township's total governmental revenue increased by approximately \$1.5 million from the last fiscal year. Even though tax rates decreased from the previous year, property tax revenue increased by \$0.3 million, caused by an approximately 3.0 percent increase in taxable value in the Township. The increase has been seen in overall property values in southeast Michigan.

Total governmental expenses increased by about \$1.7 million, or 8.2 percent, from the last fiscal year. The increase was primarily the result of the growth in the number of full-time fire fighters during the year and an increase in expenses associated with the Township's sidewalk gap program.

Business-type Activities

The Township's business-type activities are recorded in the Water and Sewer Fund. Revenue of the Township's business-type activities increased 6.1 percent to \$33.1 million. Revenue of the Township's business-type activities increased by \$1.9 million primarily as a result of an increase in sale of water and sewer services to customers during the year ended June 30, 2017.

Expenses increased 10.4 percent to \$30.9 million for the year ended June 30, 2017. The increase in expenses is primarily attributable to the continued growth of the water and sewer system and increases in the cost of water and sewer purchases in the last year. The Township provides water, which is purchased from the Great Lakes Water Authority, to nearly all its residents. The Township also provides sewage treatment to nearly all of its residents through the Macomb County sewage treatment plant.

The Township's Funds

Our analysis of the Township's major funds begins on pages 10 and 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as show accountability for certain activities. The Township's major funds for 2017 include the General Fund, Parks and Recreation Operating Fund, Fire Operating Fund, Law Enforcement Sheriff Fund, Building Authority Debt Service Fund, and Municipal Street Fund.

General Fund Budgetary Highlights

Over the course of the year, the Township reallocated the budget to take into account unanticipated events during the year. Actual revenue exceeded budgeted revenue by 9.9 percent. Actual expenditures were 21.6 percent below budget, primarily due to planned property acquisitions that did not take place during the fiscal year. The Township completed the year with actual revenue over expenditures of \$3.9 million.

Township of Macomb

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

At the end of fiscal year 2017, the Township had approximately \$216.1 million invested in a wide range of capital assets, including land, buildings, fire equipment, computer equipment, and water and sewer lines. In addition, the Township is reporting infrastructure assets, which include roads and bridges in which it has invested since 1980. The value of the infrastructure assets, net of depreciation, contained in this report is \$10.7 million and \$8.9 million for fiscal years 2017 and 2016, respectively (see Note 4 of the notes to financial statements for additional information). Additionally, the value of buildings and improvements, net of depreciation, for the governmental activities is \$34.8 million and \$35.9 million for fiscal years 2017 and 2016, respectively.

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

Economic Factors and Next Year's Budgets and Rates

The Township of Macomb's 2017 tax rate decreased slightly when compared with the 2016 tax rate. Strong expenditure controls and past growth in the Township's tax base have helped to accomplish keeping the tax rates low. Property taxes make up nearly 16.0 percent of the General Fund budget. Annual new growth and development in the Township has decreased 3.9 percent compared to the previous year and is expected to remain stable for the next few years. In addition, state revenue sharing, which represents nearly 48.1 percent of the General Fund budget, is likely to remain stable.

On the expenditure side, the Township continues to operate with relatively low personnel costs and an efficient labor force. While our pension system is 83.8 percent funded, we do not anticipate further increases in pension fund contributions over the next year due to a conservative investment approach. We also expect continued annual increases in medical costs of nearly 3 to 5 percent per year. Despite these increased costs, our operating expense increases are anticipated to average between 1 and 3 percent per year. The Township will adjust expenses to mirror the revenue base having a goal of maintaining revenue in excess of or equal to expenditures unless the need arises to fund large capital projects.

Contacting the Township's Management

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

Township of Macomb

Statement of Net Position June 30, 2017

	Primary Government		Total
	Governmental Activities	Business-type Activities	
Assets			
Cash and investments (Note 3)	\$ 51,731,004	\$ 35,792,059	\$ 87,523,063
Receivables - Net:			
Property taxes	34,002	-	34,002
Customers	5,087	8,405,464	8,410,551
Other receivables	7,493	-	7,493
Due from other governmental units	1,139,501	110,157	1,249,658
Special assessments	-	72,712	72,712
Internal balances (Note 5)	(2,842)	2,842	-
Inventory	-	103,115	103,115
Restricted assets (Note 7)	-	4,617,416	4,617,416
Land held for resale	468,849	-	468,849
Net OPEB asset (Notes 9 and 10)	4,670,336	1,259,604	5,929,940
Capital assets:			
Assets not subject to depreciation (Note 4)	3,184,951	10,656,702	13,841,653
Assets subject to depreciation (Note 4)	46,980,249	155,199,643	202,179,892
Total assets	108,218,630	216,219,714	324,438,344
Deferred Outflows of Resources			
Bond refunding loss being amortized	768,577	125,829	894,406
Deferred pension outflow (Note 14)	785,574	-	785,574
Total deferred outflows of resources	1,554,151	125,829	1,679,980
Liabilities			
Accounts payable	963,703	2,040,358	3,004,061
Accrued liabilities and other	1,715,626	268,096	1,983,722
Noncurrent liabilities:			
Due within one year (Note 6)	4,201,523	2,613,356	6,814,879
Due in more than one year:			
Compensated absences (Note 6)	150,190	62,795	212,985
Net pension liability (Note 14)	542,672	-	542,672
Long-term debt (Note 6)	22,015,136	38,853,132	60,868,268
Total liabilities	29,588,850	43,837,737	73,426,587
Deferred Inflows of Resources - Deferred pension inflows (Note 14)	165,890	-	165,890
Net Position			
Net investment in capital assets	24,656,791	128,722,072	153,378,863
Restricted for:			
Fire	6,654,126	-	6,654,126
Debt service	645,642	-	645,642
County drains	-	500,215	500,215
Parks and recreation	3,555,342	-	3,555,342
Unrestricted	44,506,140	43,285,519	87,791,659
Total net position	\$ 80,018,041	\$ 172,507,806	\$ 252,525,847

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

Township of Macomb

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 6,630,951	\$ 152,876	\$ 288,181	\$ -
Public safety	9,410,420	2,463,441	-	-
Public works	2,112,084	840,564	-	-
Recreation and culture	3,351,833	2,133,474	-	-
Interest on long-term debt	886,288	-	-	-
Total governmental activities	22,391,576	5,590,355	288,181	-
Business-type activities - Water and sewer	30,935,943	28,503,047	222,552	4,326,105
Total primary government	\$ 53,327,519	\$ 34,093,402	\$ 510,733	\$ 4,326,105
General revenue:				
Property taxes				
State-shared revenue				
Interest				
Cable fees and other - Unrestricted				
Gain on sale of fixed assets				
Total general revenue				
Change in Net Position				
Net Position - Beginning of year				
Net Position - End of year				

**Statement of Activities
Year Ended June 30, 2017**

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (6,189,894)	\$ -	\$ (6,189,894)
(6,946,979)	-	(6,946,979)
(1,271,520)	-	(1,271,520)
(1,218,359)	-	(1,218,359)
(886,288)	-	(886,288)
(16,513,040)	-	(16,513,040)
-	2,115,761	2,115,761
(16,513,040)	2,115,761	(14,397,279)
11,324,009	-	11,324,009
6,776,711	-	6,776,711
176,544	113,708	290,252
1,499,050	-	1,499,050
-	13,792	13,792
19,776,314	127,500	19,903,814
3,263,274	2,243,261	5,506,535
76,754,767	170,264,545	247,019,312
\$ 80,018,041	\$ 172,507,806	\$ 252,525,847

Township of Macomb

	General Fund	Parks and Recreation Operating Fund	Fire Operating Fund	Law Enforcement Sheriff Fund
Assets				
Cash and investments (Note 3)	\$ 30,351,058	\$ 3,737,246	\$ 4,872,459	\$ 2,128,875
Receivables - Net	1,183,098	-	2,985	-
Land held for resale	468,849	-	-	-
Total assets	\$ 32,003,005	\$ 3,737,246	\$ 4,875,444	\$ 2,128,875
Liabilities				
Accounts payable	\$ 285,007	\$ 78,462	\$ 46,447	\$ 321,473
Due to other funds (Note 5)	2,842	-	-	-
Accrued liabilities and other	251,534	103,442	89,409	-
Total liabilities	539,383	181,904	135,856	321,473
Deferred Inflows of Resources - Unavailable revenue	1,139,501	-	-	-
Fund Balances				
Nonspendable - Land held for resale	468,849	-	-	-
Restricted:				
Fire	-	-	4,739,588	-
Debt service	-	-	-	-
Parks and recreation	-	3,555,342	-	-
Assigned:				
Subsequent year's budget	4,628,084	-	-	-
Capital outlay	-	-	-	-
Road projects	-	-	-	-
Debt service	-	-	-	-
Law enforcement	-	-	-	1,807,402
Unassigned	25,227,188	-	-	-
Total fund balances	30,324,121	3,555,342	4,739,588	1,807,402
Total liabilities, deferred inflows of resources, and fund balances	\$ 32,003,005	\$ 3,737,246	\$ 4,875,444	\$ 2,128,875

**Governmental Funds
Balance Sheet
June 30, 2017**

Building Authority Debt Service Fund	Municipal Street Fund	Other Nonmajor Governmental Funds	Total
\$ 41,114	\$ 4,661,860	\$ 5,938,392	\$ 51,731,004
-	-	-	1,186,083
-	-	-	468,849
\$ 41,114	\$ 4,661,860	\$ 5,938,392	\$ 53,385,936
\$ -	\$ 228,057	\$ 4,257	\$ 963,703
-	-	-	2,842
-	1,032,054	-	1,476,439
-	1,260,111	4,257	2,442,984
-	-	-	1,139,501
-	-	-	468,849
-	-	1,914,538	6,654,126
-	-	645,642	645,642
-	-	-	3,555,342
-	-	-	4,628,084
-	-	3,373,955	3,373,955
-	3,401,749	-	3,401,749
41,114	-	-	41,114
-	-	-	1,807,402
-	-	-	25,227,188
41,114	3,401,749	5,934,135	49,803,451
\$ 41,114	\$ 4,661,860	\$ 5,938,392	\$ 53,385,936

Township of Macomb

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position June 30, 2017

Fund Balance Reported in Governmental Funds	\$ 49,803,451
Amounts reported for governmental activities in the statement of net position are different because:	
Governmental funds report capital outlays as expenditures; in the statement of net position, these costs are capitalized and allocated over their estimated useful lives as depreciation	50,165,200
A net other postemployment benefit asset is recorded on the statement of net position	4,670,336
Debt refunding deferred charges are not financial resources and are not reported in the funds	768,577
Certain receivables are expected to be collected after 60 days and are not available to pay for current year expenditures; therefore, they are deferred on the balance sheet	1,139,501
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(26,366,849)
Accrued interest is not due and payable in the current period and is not reported in the funds	(239,187)
Net pension liability, net of associated deferred inflows and outflows, is not due and payable in the current period and is not reported in the governmental funds	<u>77,012</u>
Net Position of Governmental Activities	<u>\$ 80,018,041</u>

Township of Macomb

	General Fund	Parks and Recreation Operating Fund	Fire Operating Fund	Law Enforcement Sheriff Fund
Revenue				
Property taxes and fees	\$ 2,131,107	\$ 2,582,409	\$ 3,247,637	\$ 3,362,856
Licenses and permits	3,267,121	-	-	-
Federal grants and other	288,181	-	-	-
State-shared revenue and grants	6,702,959	-	-	21,365
Charges for services	284,316	2,133,474	-	-
Fines and forfeitures	226,950	-	-	-
Interest	113,093	13,802	24,096	3,827
Other revenue:				
Special assessments	840,564	-	-	-
Other	275,741	-	5,000	-
Total revenue	14,130,032	4,729,685	3,276,733	3,388,048
Expenditures				
Current:				
General government	7,064,522	-	-	-
Public safety	1,724,742	-	3,430,173	4,142,639
Public works	1,202,030	-	-	-
Recreation and culture	250,184	2,553,942	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	67,395	-	-
Interest on long-term debt	-	-	-	-
Total expenditures	10,241,478	2,621,337	3,430,173	4,142,639
Excess of Revenue Over (Under) Expenditures	3,888,554	2,108,348	(153,440)	(754,591)
Other Financing Sources (Uses)				
Face value of debt issued	-	246,395	-	-
Proceeds from sale of capital assets	2,300	12,571	10,734	-
Transfers in (Note 5)	-	-	-	570,000
Transfers out (Note 5)	(4,495,550)	(2,707,800)	(821,400)	-
Total other financing (uses) sources	(4,493,250)	(2,448,834)	(810,666)	570,000
Net Change in Fund Balances	(604,696)	(340,486)	(964,106)	(184,591)
Fund Balances - Beginning of year	30,928,817	3,895,828	5,703,694	1,991,993
Fund Balances - End of year	\$ 30,324,121	\$ 3,555,342	\$ 4,739,588	\$ 1,807,402

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2017

Building Authority Debt Service Fund	Municipal Street Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 11,324,009
-	-	-	3,267,121
-	-	-	288,181
-	-	-	6,724,324
-	-	-	2,417,790
-	-	-	226,950
279	6,939	14,508	176,544
-	-	-	840,564
-	56,239	-	336,980
279	63,178	14,508	25,602,463
-	-	-	7,064,522
-	-	36,959	9,334,513
-	322,737	-	1,524,767
-	-	-	2,804,126
-	1,753,734	-	1,753,734
2,755,000	-	-	2,822,395
1,062,571	-	-	1,062,571
3,817,571	2,076,471	36,959	26,366,628
(3,817,292)	(2,013,293)	(22,451)	(764,165)
-	-	-	246,395
-	-	-	25,605
3,817,250	3,000,000	637,500	8,024,750
-	-	-	(8,024,750)
3,817,250	3,000,000	637,500	272,000
(42)	986,707	615,049	(492,165)
41,156	2,415,042	5,319,086	50,295,616
\$ 41,114	\$ 3,401,749	\$ 5,934,135	\$ 49,803,451

Township of Macomb

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds \$ (492,165)

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

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

Capital outlay	2,914,738
Depreciation expense	(2,378,669)
Net book value of assets disposed of	(86,558)

Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection	52,387
-------------------------------------------------------------------------------------------------------------------------	--------

The increase in the other postemployment benefit asset creates a decrease in benefit payment expenses that is recorded on the statement of activities but not in the governmental funds	665,622
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------

Debt proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position	(246,395)
----------------------------------------------------------------------------------------------------------------------------------------------------	-----------

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	2,884,553
---------------------------------------------------------------------------------------------------------------------------------------------------	-----------

Change in accrued interest payable and deferred amounts on refundings	114,125
-----------------------------------------------------------------------	---------

Pension expense is recognized in the statement of activities, but not in the governmental funds	22,572
-------------------------------------------------------------------------------------------------	--------

Accumulated employee sick and vacation pay is recorded when earned in the statement of activities	(186,936)
---------------------------------------------------------------------------------------------------	-----------

Change in Net Position of Governmental Activities \$ 3,263,274

Township of Macomb

Proprietary Fund Statement of Net Position June 30, 2017

	Enterprise Fund - Water and Sewer
Assets	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 35,792,059
Receivables - Net:	
Special assessments receivable - Due within one year	72,712
Receivables from sales to customers on account	8,405,464
Due from other governmental units	110,157
Due from other funds	2,842
Inventory	103,115
	<hr/>
Total current assets	44,486,349
Noncurrent assets:	
Restricted assets (Note 7)	4,617,416
Net OPEB asset (Note 9)	1,259,604
Capital assets:	
Assets not subject to depreciation (Note 4)	10,656,702
Assets subject to depreciation (Note 4)	155,199,643
	<hr/>
Total noncurrent assets	171,733,365
	<hr/>
Total assets	216,219,714
Deferred Outflows of Resources -	
Bond refunding loss being amortized	125,829
Liabilities	
Current liabilities:	
Accounts payable	2,040,358
Accrued liabilities and other	268,096
Current portion of compensated absences (Note 6)	215,014
Current portion of long-term debt (Note 6)	2,398,342
	<hr/>
Total current liabilities	4,921,810
Noncurrent liabilities:	
Compensated absences - Net of current portion (Note 6)	62,795
Long-term debt - Net of current portion (Note 6)	38,853,132
	<hr/>
Total noncurrent liabilities	38,915,927
	<hr/>
Total liabilities	43,837,737
Net Position	
Net investment in capital assets	128,722,072
Restricted for county drains (Note 7)	500,215
Unrestricted	43,285,519
	<hr/>
Total net position	<u><u>\$ 172,507,806</u></u>

Township of Macomb

Proprietary Fund Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2017

	<u>Enterprise Fund - Water and Sewer</u>
Operating Revenue	
Sale of water	\$ 14,388,602
Sewage disposal charges	13,271,882
Charges for services	<u>842,563</u>
Total operating revenue	28,503,047
Operating Expenses	
Cost of water	10,949,193
Cost of sewage disposal	9,586,017
Operation and maintenance	2,418,317
General and administrative	2,429,679
Contributions to Retiree Health Fund	273,092
Depreciation (Note 4)	<u>3,938,454</u>
Total operating expenses	<u>29,594,752</u>
Operating Loss	(1,091,705)
Nonoperating Revenue (Expenses)	
Investment income	113,708
Interest expense	(1,205,912)
Debt issuance expense	(135,279)
Gain on sale of assets	13,792
Operating grants	<u>222,552</u>
Total nonoperating expenses	<u>(991,139)</u>
Loss - Before contributions	(2,082,844)
Capital Contributions	
Capital grants	1,389,626
Developers and other governmental units	1,623,307
Tap fees and frontage charges	<u>1,313,172</u>
Total capital contributions	<u>4,326,105</u>
Change in Net Position	2,243,261
Net Position - Beginning of year	<u>170,264,545</u>
Net Position - End of year	<u><u>\$ 172,507,806</u></u>

Township of Macomb

Proprietary Fund Statement of Cash Flows Year Ended June 30, 2017

	<u>Enterprise Fund - Water and Sewer</u>
Cash Flows from Operating Activities	
Receipts from customers	\$ 29,178,670
Payments for interfund services	(2,842)
Payments to suppliers	(25,391,936)
Payments to employees	(1,632,942)
	2,150,950
Cash Flows from Capital and Related Financing Activities	
Receipt of capital grants	1,389,626
Collection of special assessments	10,387
Collection of customer tap fees	1,313,172
Proceeds from sales of capital assets	13,792
Purchase of capital assets	(2,122,393)
Principal and interest paid on long-term debt	(2,739,653)
Debt issuance costs	(135,279)
	(2,270,348)
	113,708
Cash Flows from Investing Activities - Interest received on investments	113,708
Net Decrease in Cash and Cash Equivalents	(5,690)
Cash and Cash Equivalents - Beginning of year	35,797,749
Cash and Cash Equivalents - End of year	\$ 35,792,059
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (1,091,705)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	3,938,454
Changes in assets and liabilities:	
Receivables	323,704
Due from others	351,919
Inventory	(4,171)
Prepaid and other	(205,461)
Accounts payable	(957,570)
Due from other funds	(2,842)
Accrued and other liabilities	(15,474)
Due to other government units	(188,426)
Compensated absences	2,522
	2,522
	\$ 2,150,950

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2017, developers constructed water and sewer lines with a value of approximately \$1.6 million and donated them to the Township's Water and Sewer Enterprise Fund. Also during the year, approximately \$6.8 million of capital assets were recorded in connection with the Oakland and Macomb County MIDD and OMIDD drain and interceptor projects. These assets were paid for using cash on hand at Oakland and Macomb counties. Approximately \$6.5 million in related debt was recorded on the balance sheet during the year relating to the Oakland and Macomb County MIDD and OMIDD drain and interceptor projects, which related to infrastructure additions. See the long-term debt footnote for more details.

Township of Macomb

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2017

	Trust Funds - Pensions and Other Retirement Benefits	Agency Funds
Assets		
Cash and cash equivalents	\$ 472,068	\$ 2,584,773
Investments (Note 3):		
Municipal bonds	1,964,829	-
Agency securities	2,247,120	-
Corporate bonds	5,919,532	-
Money market funds	19,906	-
Mutual funds	15,496,660	-
Total assets	26,120,115	<u>\$ 2,584,773</u>
Liabilities - Cash bonds and deposits	<u>-</u>	<u>\$ 2,584,773</u>
Net Position Held in Trust for Pension and Other Employee Benefits	<u>\$ 26,120,115</u>	

Township of Macomb

Fiduciary Funds Statement of Changes in Fiduciary Net Position Year Ended June 30, 2017

	Trust Funds - Pensions and Other Retirement Benefits
Additions	
Investment income (loss):	
Interest and dividends	\$ 696,602
Net increase in fair value of investments	1,459,469
Investment-related expenses	<u>(91,423)</u>
Net investment income	2,064,648
Contributions:	
Employer	1,750,786
Employee	<u>30,044</u>
Total contributions	<u>1,780,830</u>
Total additions	3,845,478
Deductions	
Benefit payments	520,009
Administrative expenses	<u>8,826</u>
Total deductions	<u>528,835</u>
Net Increase	3,316,643
Net Position Restricted for Pension and Other Employee Benefits - Beginning of year	<u>22,803,472</u>
Net Position Restricted for Pension and Other Employee Benefits - End of year	<u><u>\$ 26,120,115</u></u>

Township of Macomb

Notes to Financial Statements June 30, 2017

Note I - Summary of Significant Accounting Policies

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

Reporting Entity

The Township of Macomb is governed by an elected seven-member board. The accompanying financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. Although blended component units are legally separate entities, in substance, they are part of the Township's operations.

Blended Component Units

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

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

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

Accounting and Reporting Principles

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

Note I - Summary of Significant Accounting Policies (Continued)

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. 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 revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (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 revenue 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 revenue reported for the various functions concerned.

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

Fund Accounting

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

Note I - Summary of Significant Accounting Policies (Continued)

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

- The General Fund is the primary operating fund because it accounts for all financial resources used to provide general government services, other than those specifically assigned to another fund.
- The Parks and Recreation Operating Fund accounts for the resources from dedicated property tax revenue and user charges for all activities of the parks and recreation department.
- The Fire Operating Fund accounts for the resources from property tax revenue that are restricted for all of the activities of the Township's fire department, except for equipment purchased in the Fire Improvement Fund.
- The Law Enforcement Sheriff Fund accounts for the resources from property tax revenue that are restricted for all of the activities of the Township's law enforcement activities.
- The Building Authority Debt Service Fund accounts for all debt payments made related to construction activities for new township facilities.
- The Municipal Street Fund accounts for activities related to construction and maintenance of roads throughout the Township.

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

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

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

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

Note I - Summary of Significant Accounting Policies (Continued)

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

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.

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

Township of Macomb

Notes to Financial Statements June 30, 2017

Note I - Summary of Significant Accounting Policies (Continued)

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

Specific Balances and Transactions

Cash, Cash Equivalents, and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the relevant funds is generally allocated to each fund using a weighted average.

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

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

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value.

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

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

<u>Capital Asset Class</u>	<u>Lives (Years)</u>
Roads and bridges	25
Water and sewer lines	50-70
Water meters	50
Buildings and building improvements	40
Vehicles	5
Office furnishings	7
Other tools and equipment	5-7

Note I - Summary of 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 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 two items that qualify for reporting in this category, which include the deferred charge on refunding reported in the government-wide and proprietary fund statements of net position and the deferred pension outflow reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to the pension plan result from the variance between the plan's actual investment earnings compared to the plan's assumed investment earnings and changes in assumptions.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Township has two items that qualify for reporting in this category, which include unavailable revenue reported only in the governmental funds balance sheet and deferred pension inflows reported in the government-wide statement of net position. The governmental funds report unavailable revenue from two sources: special assessments and state-shared revenue. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The deferred inflows of resources related to the pension plan result from the variance between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability.

Note I - Summary of Significant Accounting Policies (Continued)

Net Position Flow Assumption

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

Fund Balance Flow Assumption

Sometimes the Township will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Township's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. 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 government 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 of trustees is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Note I - Summary of Significant Accounting Policies (Continued)

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

Property Tax Revenue

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

The Township's 2016 tax is levied and collectible on December 1, 2016 and is recognized as revenue in the year ended June 30, 2017, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2016 taxable valuation of the Township totaled \$3.2 billion, on which ad valorem taxes levied consisted of 0.6656 mills for operating purposes, 1.0588 mills for fire operating services, 0.0747 mills for fire pension, 1.0601 mills for police protection, and 0.8109 mills for parks and recreation. This resulted in \$2.1 million for operating, \$3.2 million for fire operations, \$0.2 million for fire pension, \$3.3 million for police protection, and \$2.6 million for parks and recreation. These amounts are recognized in the respective General Fund and Special Revenue Fund financial statements as tax revenue. The Fire Pension Fund's tax revenue is recorded as an employer contribution to the Fire Retirement System.

Pension - The Township offers a defined benefit pension plan to its fire employees. The Township records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Macomb Township Act 345 Fire Retirement System and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note I - Summary of Significant Accounting Policies (Continued)

Other Postemployment Benefit Costs - The Township offers 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, OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the Township reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

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

Proprietary Funds Operating Classification - Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue 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 revenue of the Water and Sewer Fund is charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

Township of Macomb

Notes to Financial Statements June 30, 2017

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 expenditures over revenue - June 30, 2016		\$ (10,155,852)
Current year permit revenue		1,742,744
Related expenses:		
Direct costs	\$ 1,285,017	
Estimated indirect costs	<u>371,667</u>	<u>1,656,684</u>
Net surplus for the year ended June 30, 2017		<u>86,060</u>
Cumulative expenditures over revenue - June 30, 2017		<u><u>\$ (10,069,792)</u></u>

Note 3 - Deposits and Investments

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

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

The Township has designated 13 banks for the deposit of its funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997. The Township's deposits and investment policies are in accordance with statutory requirements.

Township of Macomb

Notes to Financial Statements June 30, 2017

Note 3 - Deposits and Investments (Continued)

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township's investment policy indicates that credit risks will be minimized by diversifying the portfolio, which includes investing in Certificate of Deposit Account Registry Service (CDARS) accounts in order to maximize its FDIC coverage and minimize potential losses on individual securities. At year end, the Township had \$54,823,276 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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 specified time periods based on the type of investment.

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

Investment	Fair Value	Weighted Average Maturity (Years)
Primary Government		
U.S. government agency securities	\$ 9,256,851	1.52
Commercial paper	899,163	0.10
Municipal bonds	14,765,116	1.28
Certificates of deposit - Negotiable	<u>6,806,496</u>	0.41
Total	<u>\$ 31,727,626</u>	
Fiduciary Funds		
U.S. government agency securities	\$ 2,247,120	24.46
Municipal bonds	1,964,829	13.21
Corporate bonds	<u>5,919,532</u>	6.32
Total	<u>\$ 10,131,481</u>	

Township of Macomb

Notes to Financial Statements June 30, 2017

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's investment policy further limits its investment choices to certain ratings classes issued by the rating organizations. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Primary Government			
U.S. government agency securities	\$ 9,256,851	AA+	Standard & Poor's
Commercial paper	899,163	A-1	Standard & Poor's
Municipal bonds	14,465,641	AAA to SP-1	Moody's
Certificates of deposit - Negotiable	<u>6,806,496</u>	Not rated	Not rated
Total	<u>\$ 31,428,151</u>		
Fiduciary Funds			
U.S. government agency securities	\$ 2,080,110	AA+	Standard & Poor's
Municipal bonds	29,351	AAA to SP-1	Moody's
Corporate bonds	<u>5,919,532</u>	AAA to BBB	Standard & Poor's
Total	<u>\$ 8,028,993</u>		

The Township categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Township's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Township of Macomb

Notes to Financial Statements June 30, 2017

Note 3 - Deposits and Investments (Continued)

The Township has the following recurring fair value measurements as of June 30, 2017:

Assets Measured at Fair Value on a Recurring Basis

	Balance at June 30, 2017	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Municipal bonds	\$ 16,729,645	\$ -	\$ 16,729,945	\$ -
U.S. government agency securities	11,503,971	-	11,503,971	-
Corporate bonds	5,919,532	-	5,919,532	-
Stock mutual fund	15,496,660	15,496,660	-	-
Certificate of deposit - Negotiable	6,806,496	6,806,496	-	-
Land held for resale	468,849	-	468,849	-
Commercial paper	899,163	-	899,163	-
Total investments by fair value level	<u>\$ 57,824,316</u>	<u>\$ 22,303,156</u>	<u>\$ 35,521,460</u>	<u>\$ -</u>

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of certain assets at June 30, 2017 was determined primarily based on Level 2 inputs. The Township estimates the fair value of these investments using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Township of Macomb

Notes to Financial Statements June 30, 2017

Note 4 - Capital Assets

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

Governmental Activities	Balance July 1, 2016	Additions	Disposals and Reclassifications	Balance June 30, 2017
Capital assets not being depreciated -				
Land	\$ 3,184,951	\$ -	\$ -	\$ 3,184,951
Capital assets being depreciated:				
Infrastructure	12,737,756	2,329,333	-	15,067,089
Buildings and improvements	50,770,771	-	-	50,770,771
Vehicles	4,034,888	70,052	(31,749)	4,073,191
Office furnishings	4,230,938	135,256	(224,138)	4,142,056
Other tools and equipment	1,955,526	380,097	(307,677)	2,027,946
Subtotal	73,729,879	2,914,738	(563,564)	76,081,053
Accumulated depreciation:				
Infrastructure	3,854,486	556,097	-	4,410,583
Buildings and improvements	14,898,902	1,105,481	-	16,004,383
Vehicles	3,568,174	249,817	(31,749)	3,786,242
Office furnishings	3,621,569	240,068	(224,138)	3,637,499
Other tools and equipment	1,256,010	227,206	(221,119)	1,262,097
Subtotal	27,199,141	2,378,669	(477,006)	29,100,804
Net capital assets being depreciated	46,530,738	536,069	(86,558)	46,980,249
Net capital assets	\$ 49,715,689	\$ 536,069	\$ (86,558)	\$ 50,165,200
Business-type Activities	Balance July 1, 2016	Additions	Disposals and Reclassifications	Balance June 30, 2017
Capital assets not being depreciated:				
Land	\$ 91,700	\$ -	\$ -	\$ 91,700
Construction in progress	12,419,540	8,948,612	(10,803,150)	10,565,002
Subtotal	12,511,240	8,948,612	(10,803,150)	10,656,702
Capital assets being depreciated:				
Water and sewer mains	198,858,636	1,711,506	10,467,322	211,037,464
Buildings and improvements	2,558,702	-	-	2,558,702
Water meters	5,023,453	114,075	-	5,137,528
Vehicles	738,096	58,923	(67,710)	729,309
Furniture and equipment	973,788	15,995	(153,318)	836,465
Subtotal	208,152,675	1,900,499	10,246,294	220,299,468
Accumulated depreciation:				
Water and sewer mains	57,074,461	3,600,332	-	60,674,793
Buildings and improvements	1,227,625	63,967	-	1,291,592
Water meters	1,664,228	100,907	-	1,765,135
Vehicles	602,825	108,549	(67,711)	643,663
Furniture and equipment	811,681	64,699	(151,738)	724,642
Subtotal	61,380,820	3,938,454	(219,449)	65,099,825
Net capital assets being depreciated	146,771,855	(2,037,955)	10,465,743	155,199,643
Net capital assets	\$ 159,283,095	\$ 6,910,657	\$ (337,407)	\$ 165,856,345

Township of Macomb

Notes to Financial Statements June 30, 2017

Note 4 - Capital Assets (Continued)

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

Governmental activities:	
General government	\$ 504,792
Public safety	306,485
Public works	587,317
Recreation and culture	980,075
	<u>2,378,669</u>
Total governmental activities	<u>\$ 2,378,669</u>
Business-type activities - Water and sewer	<u>\$ 3,938,454</u>

Construction Commitments - The Township has approved certain road paving construction projects prior to June 30, 2017. At year end, the Township's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Road paving projects	<u>\$ 1,400,911</u>	<u>\$ 1,334,089</u>

Note 5 - Interfund Receivables, Payables, and Transfers

As of June 30, 2017, interfund balances reported in the fund financial statements are comprised of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from Other Funds		
Water and Sewer Fund	General Fund	<u>\$ 2,842</u>

This balance results from the time lag between the dates that payments between funds are made.

Township of Macomb

Notes to Financial Statements June 30, 2017

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

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

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Amount</u>
General Fund	Law Enforcement Sheriff Fund	\$ 570,000
	Municipal Street Fund	3,000,000
	Building Authority Debt Service Fund	613,050
	Other nonmajor governmental funds	312,500
	Total General Fund	4,495,550
Fire Operating Fund	Building Authority Debt Service Fund	496,400
	Other nonmajor governmental funds	325,000
	Total Fire Operating Fund	821,400
Parks and Recreation Operating Fund	Building Authority Debt Service Fund	2,707,800
	Total	<u>\$ 8,024,750</u>

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

Note 6 - Long-term Debt

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

Township of Macomb

Notes to Financial Statements June 30, 2017

Note 6 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bonds:							
2009 Building Authority Bonds:							
Amount of issue - \$5,000,000	3.00% -	\$250,000 -					
Maturing through 2023	5.00%	\$550,000	\$ 3,150,000	\$ -	\$ 350,000	\$ 2,800,000	\$ 400,000
2011 Building Authority Refunding Bonds:							
Amount of issue - \$8,470,000	2.00% -	\$260,000-					
Maturing through 2027	4.875%	\$940,000	7,085,000	-	420,000	6,665,000	710,000
2012 Building Authority Refunding Bonds:							
Amount of issue - \$13,390,000	2.00% -	\$235,000-					
Maturing through 2025	4.000%	\$1,640,000	10,875,000	-	1,030,000	9,845,000	1,130,000
Unamortized bond premium			802,108	-	89,123	712,985	89,123
2015 Building Authority Refunding Bonds:							
Amount of issue - \$6,805,000	3.00% -	\$950,000 -					
Maturing through 2022	4.00%	\$1,015,000	5,850,000	-	955,000	4,895,000	1,015,000
Unamortized bond premium			490,518	-	81,753	408,765	81,753
Total bonds payable			28,252,626	-	2,925,876	25,326,750	3,425,876
Other long-term obligations:							
Compensated absences			671,504	186,936	-	858,440	708,250
Capital leases			64,817	246,395	129,553	181,659	67,397
Total governmental activities			\$ 28,988,947	\$ 433,331	\$ 3,055,429	\$ 26,366,849	\$ 4,201,523

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

Township of Macomb

Notes to Financial Statements June 30, 2017

Note 6 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
General obligation bonds:							
2010 Capital Improvement and Refunding Bond:							
Amount of issue - \$9,805,000	2.00% -	\$280 -					
Maturing through 2031	5.00%	\$695,000	\$ 6,950,000	\$ -	\$ 615,000	\$ 6,335,000	\$ 640,000
2014 GO Refund Bond:							
Amount of issue - \$2,085,000		\$380,000 -					
Maturing through 2019	1.37%	\$450,000	1,255,000	-	435,000	820,000	420,000
County drain contract obligations:							
2010B OMID Drainage District:							
Amount of issue - \$452,552	1.15% -	\$16,886 -					
Maturing through 2030	5.90%	\$35,124	358,329	-	18,238	340,091	18,913
2010A OMID Drainage District:							
Amount of issue - \$1,750,840		\$73,962 -					
Maturing through 2031	2.50%	\$110,429	1,399,879	-	78,014	1,321,865	79,704
2010 North Gratiot Interceptor Drainage District:							
Amount of issue - \$103,529	1.00% -	\$3,265 -					
Maturing through 2035	6.35%	\$5,950	85,375	-	3,387	81,988	3,478
Amount of issue - \$846,752	3.50% -	\$34,887 -					
Maturing through 2033	5.00%	\$56,068	846,752	-	34,887	811,865	35,136
2010A MID Drainage District:							
Amount of issue - \$15,808,421	1.25% -	\$510,856 -					
Maturing through 2035	5.375%	\$930,782	13,282,232	-	13,282,232	-	-
2015A MID Drainage District:							
Amount of issue - \$499,851		\$19,722 -					
Maturing through 2036	2.50%	\$31,283	499,851	-	19,722	480,129	19,722
2013 OMID Drainage District:							
Amount of issue - \$4,619,982		\$190,076 -					
Maturing through 2034	2.00%	\$276,958	4,429,906	-	193,977	4,235,929	197,878
2011 Clintondale Pump Station Improvements Drainage District:							
Amount of issue - \$4,039,605		\$118,040 -					
Maturing through 2031	5.00%	\$327,890	3,482,192	-	144,272	3,337,920	157,387
Unamortized bond premium			200,526	-	13,369	187,157	13,369
2014 OMID Drainage District:							
Amount of issue - \$675,494	2.00% -	\$26,142 -					
Maturing through 2035	3.125%	\$44,348	649,352	-	26,609	622,743	27,076
2017A MID Drainage District and Refunding Bonds							
Amount of issue - \$19,249,777		\$417,014 -					
Maturing through 2042	5.00%	\$1,287,443	-	19,249,777	-	19,249,777	617,446
Unamortized bond premium			-	3,427,010	-	3,427,010	168,233
Total bonds payable			33,439,394	22,676,787	14,864,707	41,251,474	2,398,342
Other long-term obligations -							
Compensated absences							
			275,287	2,522	-	277,809	215,014
Total business-type activities			\$ 33,714,681	\$ 22,679,309	\$ 14,864,707	\$ 41,529,283	\$ 2,613,356

Township of Macomb

Notes to Financial Statements June 30, 2017

Note 6 - Long-term Debt (Continued)

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

Years Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 3,255,000	\$ 956,750	\$ 4,211,750	\$ 2,216,739	\$ 1,397,062	\$ 3,613,801
2019	3,320,000	836,700	4,156,700	2,205,879	1,451,757	3,657,636
2020	3,610,000	705,900	4,315,900	1,883,325	1,379,447	3,262,772
2021	3,895,000	563,725	4,458,725	1,966,832	1,304,449	3,271,281
2022	4,015,000	407,300	4,422,300	2,020,490	1,225,608	3,246,098
2023-2027	6,110,000	548,725	6,658,725	9,005,453	5,024,883	14,030,336
2028-2032	-	-	-	10,174,543	2,932,156	13,106,699
2033-2037	-	-	-	5,672,984	1,113,503	6,786,487
2038-2042	-	-	-	2,491,062	385,790	2,876,852
Total	<u>\$ 24,205,000</u>	<u>\$ 4,019,100</u>	<u>\$ 28,224,100</u>	<u>\$ 37,637,307</u>	<u>\$ 16,214,655</u>	<u>\$ 53,851,962</u>

The Macomb Interceptor Drainage District (MID) is a construction and rehabilitation project that began in 2010 and is projected to continue through 2018. The MID issued county bonds that were used to acquire the MID Interceptor system and to assume amounts owed related to the Garfield Interceptor. Additional county bonds were issued to improve and repair the North Gratiot Interceptor and Clintondale Pump Station. These bonds were issued as Federally Taxable Recovery Zone Economic Development Bonds and are eligible to recover tax credit payments from the United States Treasury equal to 45 percent (for the North Gratiot bond) and 35 percent (for the MID bond) of the interest payable on the bonds.

The Oakland-Macomb Interceptor Drainage District (OMID) is also a construction and rehabilitation project that began in 2010 and is projected to continue through 2018.

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

Macomb Interceptor Drainage District (MID)

	Total Issued	Township Portion	Tax Credit
North Gratiot Interceptor 2010	\$ 16,965,000	\$ 103,529	\$ -
North Gratiot Interceptor 2015	16,990,000	846,752	-
Clintondale Pump Station 2011	30,800,000	4,039,599	-
MID Series 2015A	3,675,000	499,851	-
MID Series 2017A	126,425,000	19,249,777	-

Township of Macomb

Notes to Financial Statements June 30, 2017

Note 6 - Long-term Debt (Continued)

Oakland-Macomb Interceptor Drainage District (OMID)

	Total Issued	Township Portion
2010A (SRF)	\$ 26,076,000	\$ 6,381,283
2010B	6,700,000	452,550
2014A	7,235,000	675,494

The OMID 2010A project is funded through the Michigan State Revolving Loan Fund Program (SRF), with total loans of \$26 million after \$16 million of debt forgiveness which was recorded in 2010. The amount disclosed represents principal and interest.

Current Bond Refunding - In June 2017, the Macomb Interceptor Drainage District issued Drain Refunding Bonds, Series 2017, in the amount of \$66,305,000, of which \$10,961,874 was allocated to the Township. The debt refunded amounted to \$77,135,000 of Macomb Interceptor Drainage District Drain Bonds, Series 2010A, maturing in years 2018 through 2035. The Township's allocated share of the refunded bonds amounted to \$12,752,364. The refunding was undertaken to reduce the debt service payment over the next 18 years with net savings of \$5,924,012 and to obtain an economic (present value) gain of \$4,727,646. The Township's allocated net savings is \$979,387 and the Township's economic gain resulting from the refunding is \$781,598.

In 2015, the Township defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2017, \$5,235,000 of bonds outstanding are considered defeased.

In 2014, the Township defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2017, \$830,000 of bonds outstanding are considered defeased.

In 2012, the Township defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2017, \$10,200,000 of bonds outstanding are considered defeased.

Township of Macomb

Notes to Financial Statements June 30, 2017

Note 7 - Restricted Assets

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

The following is the detail of restricted assets at June 30, 2017:

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

Due from Oakland County*	\$ 531,661
Due from Macomb County**	4,085,755

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

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

Net position has been restricted for these amounts, net of related debt at June 30, 2017.

Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for specific property, such as vehicles, computers, and employee medical claims. The Township also participates in the Michigan Municipal League risk pool for claims relating to all other property losses, torts, errors and omissions, and employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Other Postemployment Benefits (OPEB)

Plan Description - The Township provides retiree healthcare benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, the plan has 28 retirees that are eligible for postemployment health benefits. The Township includes pre-Medicare retirees and their dependents in its insured healthcare plan with no contribution recognized by the participants.

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

Funding Policy - In the current year, the Township paid postemployment healthcare costs of \$357,394 and made prefunding contributions of \$1,156,564 to the Retiree Health Care Fund. Retiree healthcare costs are recognized by the Township on a “pay-as-you-go” basis; however, at the end of the current year, the Township maintains approximately \$23.3 million in a prefunded retiree healthcare fund, which is reported in the financial statements as a pension and other employee benefit trust fund type.

Funding Progress - For the year ended June 30, 2017, the Township has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of July 1, 2017. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (ARC) (recommended)	\$ 779,267
Interest on the prior year's net OPEB obligation	(252,944)
ARC adjustment	<u>116,552</u>
Annual OPEB cost	642,875
Amounts contributed:	
Payments of current premiums	(357,394)
Advance funding	<u>(1,156,564)</u>
Decrease in net OPEB obligation	(871,083)
OPEB obligation - Beginning of year	<u>(5,058,857)</u>
OPEB obligation - End of year	<u><u>\$ (5,929,940)</u></u>

Township of Macomb

Notes to Financial Statements June 30, 2017

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

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

Fiscal Year Ended	Annual OPEB Costs	Employer Contributions Percentage OPEB Costs Contributed	Net OPEB Obligation
6/30/17	\$ 642,875	235.0 %	\$ 5,929,940
6/30/16	1,096,084	141.0	5,058,857
6/30/15	1,079,228	164.0	4,607,714

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
7/1/17	\$ 23,320,740	\$ 20,496,848	\$ (2,823,892)	113.8	\$ 4,700,040	(60.1)
7/1/14	17,107,119	19,993,872	2,886,753	85.6	4,822,901	59.9
4/1/11	10,673,324	16,974,869	6,301,545	62.9	4,671,044	134.9

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

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

Township of Macomb

Notes to Financial Statements June 30, 2017

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

In the July 1, 2017 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 5.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare inflation rate of 6 percent for one year, graded down to 5 percent in 0.1 percent increments over 10 years. Average annual salary increases were assumed at 3 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is not being amortized as assets exceed actuarial accrued liabilities.

Note 10 - OPEB Plan

Plan Administration - The Township administers the Macomb Township Retiree Health Care Benefit Plan (the "Plan"), a single-employer defined benefit OPEB plan that is used to provide postemployment benefits other than pensions (OPEB) for all full-time employees upon retirement in accordance with labor contracts.

Management of the Plan is vested with the board of the Macomb Township Retiree Health Care Benefit Plan, which consists of five members - the township supervisor, township treasurer, township clerk, township finance director, and township human resource director.

Plan Membership - At June 30, 2017, plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	27
Inactive plan members entitled to but not yet receiving benefits	1
Active plan members	<u>72</u>
Total	<u><u>100</u></u>

Benefits Provided - The Plan provides healthcare, vision, and dental benefits for retirees and their dependents. Benefits are provided through a third-party insurer and the full cost of benefits is covered by the Plan.

Contributions - The board establishes contribution rates based on an actuarially determined rate per a funding valuation. For the year ended June 30, 2017, the Township's average contribution rate was 16.58 percent of covered employee payroll. Plan members are not required to contribute to the Plan.

Note 10 - OPEB Plan (Continued)

OPEB Plan Investments

Investment Policy - The Plan's policy in regard to the allocation of invested assets is established and may be amended by the board of the Retiree Health Care Benefit Plan by a majority vote of its members. It is the policy of the board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the board's adopted asset allocation policy as of June 30, 2017:

<u>Asset Class</u>	<u>Target Allocation (%)</u>
Fixed-income type investments	50.00 %
Equity-type investments	50.00

Concentrations - At June 30, 2017, the Plan held approximately 28.2 percent of its investment portfolio in the following investments, which each represented over 5 percent of the Plan's investment portfolio:

Harbor International Fund - \$1,210,398
 American Europacific Growth Fund - F3 - \$1,218,199
 MFS International Value Fund - \$1,221,099
 Vanguard 500 Index Fund - \$2,920,554

Rate of Return - For the year ended June 30, 2017, the annual money-weighted rate of return on plan investments, net of investment expense, was 8.98 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Asset

The Township reports OPEB expense based on funding requirements, as directed by GASB Statement No. 45. Beginning next year, the Township will adopt GASB Statement No. 75, which will require the measurement of OPEB expense as it is earned, rather than as it is funded. The net OPEB asset of the Township has been measured as of June 30, 2017 and is composed of the following:

Total OPEB liability	\$ 20,496,848
Plan fiduciary net position	<u>23,320,740</u>
Net OPEB asset	<u>\$ 2,823,892</u>
Plan fiduciary net position as a percentage of the total OPEB liability	114 %

Note 10 - OPEB Plan (Continued)

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017. The valuation used the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.00 %	
Healthcare cost trend rate	6.0 - 5.0 %	
Salary increases	3.0 - 6.8 %	Including inflation
Investment rate of return	5.00 %	Net of OPEB plan investment expense, including inflation

Mortality rates were based on the RP-2014 Mortality Tables.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2017 for each major asset class included in the target asset allocation are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
Fixed-income type investments	4.80 %
Equity-type investments	9.10

Discount Rate The discount rate used to measure the total OPEB liability was 5.0 percent. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rates.

Projected Cash Flows

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

Township of Macomb

Notes to Financial Statements June 30, 2017

Note 10 - OPEB Plan (Continued)

Sensitivity of the Net OPEB Asset to Changes in the Discount Rate - The following presents the net OPEB asset, calculated using the discount rate of 5.0 percent, as well as what the net OPEB asset would be if it were calculated using a discount rate that is 1 percentage point lower (4.0 percent) or 1 percentage point higher (6.0 percent) than the current rate:

	1 Percent Decrease (4.0%)	Current Discount Rate (5.0%)	1 Percent Increase (6.0%)
Net OPEB (liability) asset	\$ (678,589)	\$ 2,823,892	\$ 5,653,126

Sensitivity of the Net OPEB Asset to Changes in the Healthcare Cost Trend Rates - The following presents the net OPEB asset, calculated using the healthcare cost trend rate of 6.0 percent decreasing to 5.0 percent, as well as what the net OPEB asset would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (5.0 percent, decreasing to 4.0 percent) or 1 percentage point higher (7.0 percent, decreasing to 6.0 percent) than the current rate:

	1 Percent Decrease (5.0% decreasing to 4.0%)	Current Healthcare Cost Trend Rate (6.0% decreasing to 5.0%)	1 Percent Increase (7.0% decreasing to 6.0%)
Net OPEB asset (liability)	\$ 4,503,858	\$ 2,823,892	\$ (3,647,097)

Note 11 - Pension Plan Description

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

The financial statements of the plan are included in these financial statements as a pension and other employee benefit trust fund (a fiduciary fund).

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

Township of Macomb

Notes to Financial Statements June 30, 2017

Note 11 - Pension Plan Description (Continued)

Employees Covered by Benefit Terms - At June 30, 2017, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	4
Active plan members	<u>9</u>
Total employees covered by the plan	<u><u>13</u></u>

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

Contributions - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the Retirement System Board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the township charter, union contracts, and plan provisions. For the year ended June 30, 2017, the average active member contribution rate was 5 percent of annual pay and the Township's average contribution rate was 14.8 percent of annual payroll.

Township of Macomb

Notes to Financial Statements June 30, 2017

Note 12 - Pension Plan Investments - Policy and Rate of Return

Investment Policy - The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Retirement System Board by a majority vote of its members. It is the policy of the Retirement System Board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the board's adopted asset allocation policy as of June 30, 2017:

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

Rate of Return - For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 10.14 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 13 - Pension Plan Reserves

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

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

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

The balances of the reserve accounts at June 30, 2017 are as follows:

	<u>Required Reserve</u>	<u>Amount Funded</u>
Retiree reserve	Undetermined \$	-
Employee reserve	\$ 282,280	282,280
Employer reserve	N/A	2,517,095

Township of Macomb

Notes to Financial Statements June 30, 2017

Note 14 - Net Pension Liability

The components of the net pension liability of the Township at June 30, 2017 were as follows:

Total pension liability	\$ 3,342,047
Plan fiduciary net position	<u>2,799,375</u>
Township's net pension liability	<u>\$ 542,672</u>
Plan fiduciary net position as a percentage of the total pension liability	83.8 %

The Township has chosen to use June 30, 2017 as its measurement date for the net pension liability. The June 30, 2017 reported net pension liability was determined using a measure of the total pension liability and the pension net position as of June 30, 2017. The June 30, 2017 total pension liability was determined by an actuarial valuation performed as of June 30, 2016, which used updated procedures to roll forward the estimated liability to June 30, 2017.

Changes in the net pension liability during the measurement year were as follows:

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at June 30, 2016	\$ 2,726,731	\$ 2,461,901	\$ 264,830
Changes for the year:			
Service cost	106,931	-	106,931
Interest	134,944	-	134,944
Changes in benefits:			
Differences between expected and actual experience	(18,056)	-	(18,056)
Changes in assumptions	554,112	-	554,112
Contributions - Employer	-	236,827	(236,827)
Contributions - Employee	-	30,044	(30,044)
Net investment income	-	242,093	(242,093)
Benefit payments, including refunds	(162,615)	(162,615)	-
Administrative expenses	-	(8,875)	8,875
Net changes	<u>615,316</u>	<u>337,474</u>	<u>277,842</u>
Balance at June 30, 2017	<u>\$ 3,342,047</u>	<u>\$ 2,799,375</u>	<u>\$ 542,672</u>

Township of Macomb

Notes to Financial Statements June 30, 2017

Note 14 - Net Pension Liability (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the Township recognized pension expense of \$214,256. At June 30, 2017, the Township reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 165,890
Changes in assumptions	673,545	-
Net difference between projected and actual earnings on pension plan investments	<u>112,029</u>	<u>-</u>
Total	<u>\$ 785,574</u>	<u>\$ 165,890</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30	Amount
2018	\$ 119,029
2019	119,029
2020	77,320
2021	36,687
2022	60,009
Thereafter	207,609

Actuarial Assumptions - The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on the RP 2014 Healthy Annuitant Mortality Table.

Township of Macomb

Notes to Financial Statements June 30, 2017

Note 14 - Net Pension Liability (Continued)

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

Projected Cash Flows

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of June 30, 2017 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table.

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
Equity	9.1 %
Fixed-income securities	4.8
Cash or cash equivalents	3.4

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the Township, calculated using the discount rate of 5.0 percent, as well as what the Township's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.0 percent) or 1 percentage point higher (6.0 percent) than the current rate:

	<u>1% Decrease (4.0%)</u>	<u>Current Discount Rate (5.0%)</u>	<u>1% Increase (6.0%)</u>
Net pension liability of the Township	\$ 1,010,709	\$ 542,672	\$ 156,006

Township of Macomb

Notes to Financial Statements June 30, 2017

Note 14 - Net Pension Liability (Continued)

Pension Plan Fiduciary Net Position - Detailed information about the plan's fiduciary net position is not available in a separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the plan's fiduciary net position and addition to/deduction from fiduciary net position have been determined on the same basis as they are reported by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Note 15 - Pension and Other Employee Benefit Trust Funds

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

	Fire Retirement System	Retiree Health Care Fund	Total
<u>Statement of Net Position</u>			
Cash and cash equivalents	\$ 173,170	\$ 298,898	\$ 472,068
Investments	2,626,205	23,021,842	25,648,047
Net position	<u>\$ 2,799,375</u>	<u>\$ 23,320,740</u>	<u>\$ 26,120,115</u>
<u>Statement of Changes in Net Position</u>			
Investment income	\$ 242,043	\$ 1,822,605	\$ 2,064,648
Contributions	266,872	1,513,958	1,780,830
Benefit payments	162,615	357,394	520,009
Other deductions	8,826	-	8,826
Net change in net position	<u>\$ 337,474</u>	<u>\$ 2,979,169</u>	<u>\$ 3,316,643</u>

Note 16 - Defined Contribution Pension Plan

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

During the year ended June 30, 2017, the Township made contributions of \$514,129 and the plan members contributed \$257,065 to the plan.

Note 17 - Tax Abatements

The Township currently has several businesses that are receiving the industrial facilities tax exemption (PA 198 of 1974), which encourages local businesses to construct new industrial facilities or rehabilitate historical facilities. This exemption applies to both real and personal property taxes. IFT abatements use a reduced (specific tax) millage rate of 50 percent of the normal millage rate that is applied to a taxable value that is calculated in the same manner as all of the properties that are contained on the regular (ad valorem) assessment roll. For the fiscal year ended June 30, 2017, the Township abated \$193,187 of taxes under these programs. There are no significant abatements made by other governments that reduce the Township's tax revenue.

Note 18 - Upcoming Accounting Pronouncements

In June 2015, the Governmental Auditing Standards Board (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 net OPEB liability related to its participation in the OPEB plan. 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 June 30, 2018.

In January 2017, the Governmental Accounting Standards Board issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and improves guidance for accounting and financial reporting related to how these activities should be reported. 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 2019-2020 fiscal year.

In March 2017, the Governmental Accounting Standards Board issued GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB statements. The statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits (OPEB)). 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 2017-2018 fiscal year.

Note 18 - Upcoming Accounting Pronouncements (Continued)

In May 2017, the Governmental Accounting Standards Board issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. 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 2017-2018 fiscal year.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. 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 2020-2021 fiscal year.

Required Supplemental Information

Township of Macomb

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes and fees	\$ 2,110,400	\$ 2,110,400	\$ 2,131,107	\$ 20,707
Licenses and permits	2,764,500	2,649,500	3,267,121	617,621
Federal grants and other	250,000	250,000	288,181	38,181
State-shared revenue and grants	6,306,500	6,306,500	6,702,959	396,459
Charges for services	226,598	226,598	284,316	57,718
Fines and forfeitures	133,000	133,000	226,950	93,950
Interest	85,000	85,000	113,093	28,093
Other revenue:				
Special assessments	828,675	828,675	840,564	11,889
Donations	1,000	-	-	-
Other	292,975	268,975	275,741	6,766
Total revenue	<u>12,998,648</u>	<u>12,858,648</u>	<u>14,130,032</u>	<u>1,271,384</u>
Expenditures - Current				
General government	10,680,468	10,025,481	7,064,522	2,960,959
Public safety	1,372,110	1,640,135	1,724,742	(84,607)
Public works	1,120,000	1,120,000	1,202,030	(82,030)
Recreation and culture	312,950	272,410	250,184	22,226
Total expenditures	<u>13,485,528</u>	<u>13,058,026</u>	<u>10,241,478</u>	<u>2,816,548</u>
Excess of Revenue (Under) Over Expenditures	(486,880)	(199,378)	3,888,554	4,087,932
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	25,000	2,300	(22,700)
Transfers out	(4,183,050)	(4,495,552)	(4,495,550)	2
Total other financing uses	<u>(4,183,050)</u>	<u>(4,470,552)</u>	<u>(4,493,250)</u>	<u>(22,698)</u>
Net Change in Fund Balance	(4,669,930)	(4,669,930)	(604,696)	4,065,234
Fund Balance - Beginning of year	<u>30,858,817</u>	<u>30,858,817</u>	<u>30,858,817</u>	<u>-</u>
Fund Balance - End of year	<u><u>\$ 26,188,887</u></u>	<u><u>\$ 26,188,887</u></u>	<u><u>\$ 30,254,121</u></u>	<u><u>\$ 4,065,234</u></u>

Township of Macomb

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Parks and Recreation Operating Fund Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes and fees	\$ 2,565,000	\$ 2,565,000	\$ 2,582,409	\$ 17,409
Charges for services	2,098,300	2,098,300	2,133,474	35,174
Interest	22,500	22,500	13,802	(8,698)
Total revenue	4,685,800	4,685,800	4,729,685	43,885
Expenditures - Current				
Recreation and culture	2,746,703	2,746,703	2,553,942	192,761
Debt service	-	-	67,395	(67,395)
Total expenditures	2,746,703	2,746,703	2,621,337	125,366
Excess of Revenue Over Expenditures	1,939,097	1,939,097	2,108,348	169,251
Other Financing Sources (Uses)				
Debt proceeds	-	-	246,395	246,395
Proceeds from sale of capital assets	-	-	12,571	12,571
Transfers out	(2,808,100)	(2,808,100)	(2,707,800)	100,300
Total other financing uses	(2,808,100)	(2,808,100)	(2,448,834)	359,266
Net Change in Fund Balance	(869,003)	(869,003)	(340,486)	528,517
Fund Balance - Beginning of year	3,895,828	3,895,828	3,895,828	-
Fund Balance - End of year	<u>\$ 3,026,825</u>	<u>\$ 3,026,825</u>	<u>\$ 3,555,342</u>	<u>\$ 528,517</u>

Township of Macomb

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Fire Operating Fund Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes and fees	\$ 3,224,000	\$ 3,224,000	\$ 3,247,637	\$ 23,637
Interest	23,000	23,000	24,096	1,096
Other	-	-	5,000	5,000
	<u>3,247,000</u>	<u>3,247,000</u>	<u>3,276,733</u>	<u>29,733</u>
Expenditures - Current - Public safety	<u>3,535,286</u>	<u>3,535,286</u>	<u>3,430,173</u>	<u>105,113</u>
Excess of Expenditures Over Revenue	(288,286)	(288,286)	(153,440)	134,846
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	500	500	10,734	10,234
Transfers out	(966,210)	(966,210)	(821,400)	144,810
	<u>(965,710)</u>	<u>(965,710)</u>	<u>(810,666)</u>	<u>155,044</u>
Net Change in Fund Balance	(1,253,996)	(1,253,996)	(964,106)	289,890
Fund Balance - Beginning of year	<u>5,703,694</u>	<u>5,703,694</u>	<u>5,703,694</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 4,449,698</u>	<u>\$ 4,449,698</u>	<u>\$ 4,739,588</u>	<u>\$ 289,890</u>

Township of Macomb

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Law Enforcement Sheriff Fund Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes and fees	\$ 3,332,000	\$ 3,332,000	\$ 3,362,856	\$ 30,856
State-shared revenue and grants	20,000	20,000	21,365	1,365
Interest	4,000	4,000	3,827	(173)
Total revenue	3,356,000	3,356,000	3,388,048	32,048
Expenditures - Current - Public safety	3,831,335	3,831,335	4,142,639	(311,304)
Excess of Expenditures Over Revenue	(475,335)	(475,335)	(754,591)	(279,256)
Other Financing Sources - Transfers in	570,000	570,000	570,000	-
Net Change in Fund Balance	94,665	94,665	(184,591)	(279,256)
Fund Balance - Beginning of year	1,991,993	1,991,993	1,991,993	-
Fund Balance - End of year	<u>\$ 2,086,658</u>	<u>\$ 2,086,658</u>	<u>\$ 1,807,402</u>	<u>\$ (279,256)</u>

Township of Macomb

Required Supplemental Information Retiree Health Care Fund Schedule of Funding Progress Year Ended June 30, 2017

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
4/1/11	\$ 10,673,324	\$ 16,974,869	\$ 6,301,545	62.9	\$ 4,671,044	134.9
7/1/14	17,107,119	19,993,872	2,886,753	85.6	4,822,901	59.9
7/1/17	23,320,740	20,496,848	(2,823,892)	113.8	4,700,040	(60.1)

The schedule of employer contributions is as follows:

Fiscal Year Ended	Annual OPEB Costs	Percentage Contributed
6/30/12	\$ 1,268,615	134.0
6/30/13	1,256,932	136.0
6/30/14	1,062,465	162.0
6/30/15	1,079,229	164.0
6/30/16	1,096,084	141.0
6/30/17	642,875	235.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of July 1, 2017, the latest actuarial valuation, follows:

Amortization method	Level percentage of payroll
Amortization period (perpetual)	30 years
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return	5 percent
Medical care inflation	6.0 percent graded down to 5 percent in 0.1 percent increments over 10 years
Salary increases	3 percent

Township of Macomb

Required Supplemental Information
OPEB Plan
Schedule of Investment Returns
Last Ten Fiscal Years
(schedule is built prospectively upon implementation of GASB 74)

	<u>2017</u>
Annual money-weighted rate of return - Net of investment expense	9.0 %

Township of Macomb

Required Supplemental Information Schedule of Changes in the Township's Net OPEB Liability and Related Ratios Last Ten Fiscal Years (in thousands) (schedule is built prospectively upon implementation of GASB 74)

	<u>2017</u>
Total OPEB Liability	
Service cost	\$ 761
Interest	1,017
Differences between expected and actual experience	(874)
Benefit payments, including refunds	<u>(357)</u>
Net Change in Total OPEB Liability	547
Total OPEB Liability - Beginning of year	<u>19,950</u>
Total OPEB Liability - End of year	<u>\$ 20,497</u>
Plan Fiduciary Net Position	
Contributions - Employer	\$ 1,514
Net investment income	1,822
Benefit payments, including refunds	<u>(357)</u>
Net Change in Plan Fiduciary Net Position	2,979
Plan Fiduciary Net Position - Beginning of year	<u>20,342</u>
Plan Fiduciary Net Position - End of year	<u>\$ 23,321</u>
Net OPEB Asset - Ending	<u>\$ (2,824)</u>
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	113.78 %
Covered Employee Payroll	\$ 4,700
Net OPEB Liability as a Percentage of Covered Employee Payroll	(60.1)%

Township of Macomb

Required Supplemental Information Fire Retirement System Schedule of Investment Returns Last Ten Fiscal Years (schedule is built prospectively upon implementation of GASB 67)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual money-weighted rate of return - Net of investment expense	10.1 %	(3.1)%	(3.4)%	11.3 %	3.8 %	(3.4)%	11.5 %

Township of Macomb

Required Supplemental Information Fire Retirement System Schedule of Changes in the Township's Net Pension Liability and Related Ratios Year Ended June 30 (schedule is built prospectively upon implementation of GASB 67)

	2017	2016	2015	2014
Total Pension Liability				
Service cost	\$ 106,931	\$ 132,825	\$ 132,825	\$ 100,679
Interest	134,944	138,699	121,973	117,093
Differences between expected and actual experience	(18,056)	(175,330)	(23,304)	17,813
Changes in assumptions	554,112	-	257,079	-
Benefit payments, including refunds	(162,615)	(154,056)	(154,055)	(154,056)
Net Change in Total Pension Liability	615,316	(57,862)	334,518	81,529
Total Pension Liability - Beginning of year	2,726,731	2,784,593	2,450,075	2,368,546
Total Pension Liability - End of year	<u>\$ 3,342,047</u>	<u>\$ 2,726,731</u>	<u>\$ 2,784,593</u>	<u>\$ 2,450,075</u>
Plan Fiduciary Net Position				
Contributions - Employer	\$ 236,827	\$ 230,009	\$ 219,782	\$ 211,645
Contributions - Member	30,044	32,417	30,906	28,613
Net investment income	242,093	(78,706)	(84,618)	227,723
Administrative expenses	(8,875)	(5,612)	(8,870)	(2,128)
Benefit payments, including refunds	(162,615)	(154,056)	(154,055)	(154,056)
Net Change in Plan Fiduciary Net Position	337,474	24,052	3,145	311,797
Plan Fiduciary Net Position - Beginning of year	2,461,901	2,437,849	2,434,704	2,122,907
Plan Fiduciary Net Position - End of year	<u>\$ 2,799,375</u>	<u>\$ 2,461,901</u>	<u>\$ 2,437,849</u>	<u>\$ 2,434,704</u>
Township's Net Pension Liability - Ending	<u>\$ 542,672</u>	<u>\$ 264,830</u>	<u>\$ 346,744</u>	<u>\$ 15,371</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	83.76 %	90.29 %	87.55 %	99.37 %
Covered Employee Payroll	\$ 690,413	\$ 506,370	\$ 626,003	\$ 607,770
Township's Net Pension Liability as a Percentage of Covered Employee Payroll	78.6 %	52.3 %	55.4 %	2.5 %

Township of Macomb

Note to Required Supplemental Information Year Ended June 30, 2017

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

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

Encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2017 has not been calculated. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

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

	Fund Balance - Beginning of Year	Fund Balance - End of Year
	<u>Year</u>	<u>Year</u>
General Fund:		
Fund balance per the governmental funds statement of revenue, expenditures, and changes in fund balances	\$ 30,928,817	\$ 30,324,121
The fund balance of the previous Budget Stabilization Fund was not included in the beginning and ending fund balance of the General Fund for the year ended June 30, 2017 budget	<u>(70,000)</u>	<u>(70,000)</u>
Fund balance per General Fund budget statement	<u>\$ 30,858,817</u>	<u>\$ 30,254,121</u>

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

	Budget	Actual	Variance
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund - Public safety	\$ 1,640,135	\$ 1,724,742	\$ (84,607)
General Fund - Public works	1,120,000	1,202,030	(82,030)
Parks and Recreation Operating Fund - Debt service	-	67,395	(67,395)
Law Enforcement Sheriff Fund - Public safety	3,831,335	4,142,639	(311,304)

The unfavorable variances were caused by unanticipated expenditures that became necessary during the current year.

Other Supplemental Information

Township of Macomb

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2017

	Nonmajor Capital Projects Funds				Total Nonmajor Governmental Funds
	Parks and Recreation Revolving - Debt Service Fund	Public Improvement	Fire Improvement	Building Authority Capital Projects Fund	
Assets - Cash and investments	\$ 645,642	\$ 3,373,955	\$ 1,918,795	\$ -	\$ 5,938,392
Liabilities - Accounts payable	\$ -	\$ -	\$ 4,257	\$ -	\$ 4,257
Fund Balances					
Restricted:					
Fire	-	-	1,914,538	-	1,914,538
Debt service	645,642	-	-	-	645,642
Assigned - Capital outlay	-	3,373,955	-	-	3,373,955
Total liabilities and fund balances	\$ 645,642	\$ 3,373,955	\$ 1,918,795	\$ -	\$ 5,938,392

Township of Macomb

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2017

	Parks and Recreation Revolving - Debt Service Fund	Nonmajor Capital Projects Funds			Total Nonmajor Governmental Funds
		Public Improvement	Fire Improvement	Building Authority Capital Projects Fund	
Excess of Revenue Over Expenditures	\$ 1,735	\$ 8,523	\$ (32,709)	\$ -	\$ (22,451)
Other Financing Sources -					
Transfers in	-	312,500	325,000	-	637,500
Net Change in Fund Balances	1,735	321,023	292,291	-	615,049
Fund Balances - Beginning of year	643,907	3,052,932	1,622,247	-	5,319,086
Fund Balances - End of year	<u>\$ 645,642</u>	<u>\$ 3,373,955</u>	<u>\$ 1,914,538</u>	<u>\$ -</u>	<u>\$ 5,934,135</u>

Township of Macomb

Other Supplemental Information Statement of Assets and Liabilities Fiduciary Funds June 30, 2017

	<u>Pension and Other Employee Benefit Trust Funds</u>			<u>Agency Funds</u>
	Fire Retirement System	Retiree Health Care Fund	Total Pension and Other Employee Benefit Trust Funds	Bond Escrow Agency Fund
Assets				
Cash and cash equivalents	\$ 173,170	\$ 298,898	\$ 472,068	\$ 2,584,773
Investments:				
Municipal bonds	-	1,964,829	1,964,829	-
Agency securities	-	2,247,120	2,247,120	-
Corporate bonds	-	5,919,532	5,919,532	-
Money market funds	19,906	-	19,906	-
Mutual funds	2,606,299	12,890,361	15,496,660	-
Total assets	2,799,375	23,320,740	26,120,115	<u>\$ 2,584,773</u>
Liabilities - Refundable deposits, bonds, etc.	-	-	-	<u>\$ 2,584,773</u>
Net Position Held in Trust for Pension and Other Employee Benefits	<u>\$ 2,799,375</u>	<u>\$ 23,320,740</u>	<u>\$ 26,120,115</u>	

Township of Macomb

Other Supplemental Information Combining Statement of Changes in Net Position Fiduciary Funds Year Ended June 30, 2017

	Pension and Other Retirement Benefit Funds		Total
	Fire Retirement System	Retiree Health Care Fund	
Additions			
Investment income (loss):			
Interest and dividends	\$ 86,456	\$ 610,146	\$ 696,602
Net increase in fair value of investments	160,587	1,298,882	1,459,469
Investment-related expenses	(5,000)	(86,423)	(91,423)
Net income	242,043	1,822,605	2,064,648
Contributions:			
Employer	236,828	1,513,958	1,750,786
Employee	30,044	-	30,044
Total contributions	266,872	1,513,958	1,780,830
Total additions - Net	508,915	3,336,563	3,845,478
Deductions			
Benefit payments	162,615	357,394	520,009
Administrative expenses	8,826	-	8,826
Total deductions	171,441	357,394	528,835
Net Increase	337,474	2,979,169	3,316,643
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	2,461,901	20,341,571	22,803,472
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	\$ 2,799,375	\$ 23,320,740	\$ 26,120,115