

**Tyrone Township
Livingston County, Michigan**

**Financial Report
with Supplemental Information
March 31, 2012**

Tyrone Township

List of Elected Officials

Supervisor

Mike Cunningham

Clerk

Keith Kremer

Treasurer

David Kurtz

Trustee

Don Peitz

Trustee

Jim Kolhoff

Trustee

Steve Hasbrouck

Trustee

Colleen Ameel

Tyrone Township

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9-10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11
Reconciliation of the Balance Sheet to the Statement of Net Assets	12
Statement of Revenue, Expenditures, and Changes in Fund Balances	13
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Proprietary Funds:	
Statement of Net Assets	15
Statement of Revenue, Expenses, and Changes in Net Assets	16
Statement of Cash Flows	17
Fiduciary Funds - Statement of Assets and Liabilities	18
Notes to Financial Statements	19-35
Required Supplemental Information	36
Budgetary Comparison Schedule - General Fund	37-38
Budgetary Comparison Schedule - Public Safety Fund	39
Budgetary Comparison Schedule - Parkin Lane Road Construction Maintenance Fund	40
Note to Required Supplemental Information	41-42
Other Supplemental Information	43
Nonmajor Governmental Funds:	
Fund Descriptions	44
Combining Balance Sheet	45-46
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	47-48
Budgetary Comparison	49-56

Independent Auditor's Report

To the Honorable Members of the
Township Board of Tyrone Township

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 Tyrone Township (the "Township") as of and for the year ended March 31, 2012, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township as of March 31, 2012 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, and the budgetary comparison schedules, 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.

To the Honorable Members of the
Township Board of Tyrone Township

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

During the year, the Township implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, as discussed in Notes I and II. As a result of this required implementation, the Road Improvement Fund, Building and Site Fund, Township Improvement Revolving Fund, Technology Fund, and Beautification Fund, formerly special revenue funds, have been reported within General Fund effective April 1, 2011. In addition, fund balance classifications in the governmental fund financial statements have been changed to reflect the five new classifications under GASB No. 54.

Plante & Moran, PLLC

July 16, 2012

Tyrone Township

Management's Discussion and Analysis

Our discussion and analysis of Tyrone Township, Michigan's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2012. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2012:

- The Township's total net assets are \$13.7 million.
- During the year, the Township's total net assets increased \$370,000. Governmental activities realized an \$840,000 increase in net assets. Business-type activities realized a decrease of \$470,000 in net assets.
- General Fund revenue exceeded expenditures by \$776,000, leaving a fund balance of \$2,520,000.

Using This Annual Report

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

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

Tyrone Township

Management's Discussion and Analysis (Continued)

Governmental Activities

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

	Governmental Activities				Percent
	2010	2011	2012	Change	Change
Assets					
Other assets	\$ 1,834,913	\$ 3,150,996	\$ 3,972,358	\$ 821,362	26%
Capital assets	<u>168,056</u>	<u>195,208</u>	<u>218,101</u>	<u>22,893</u>	12%
Total assets	2,002,969	3,346,204	4,190,459	844,255	25%
Liabilities					
Current liabilities	92,520	711,045	772,502	61,457	9%
Long-term liabilities	<u>220,000</u>	<u>628,000</u>	<u>571,200</u>	<u>(56,800)</u>	-9%
Total liabilities	<u>312,520</u>	<u>1,339,045</u>	<u>1,343,702</u>	<u>4,657</u>	0%
Net Assets					
Invested in capital assets -					
Net of related debt	168,056	195,208	218,101	22,893	12%
Restricted	233,204	686,857	797,232	110,375	16%
Unrestricted	<u>1,289,189</u>	<u>1,125,094</u>	<u>1,831,424</u>	<u>706,330</u>	63%
Total net assets	<u>\$ 1,690,449</u>	<u>\$ 2,007,159</u>	<u>\$ 2,846,757</u>	<u>\$ 839,598</u>	42%

Tyrone Township

Management's Discussion and Analysis (Continued)

	Governmental Activities				Percent
	2010	2011	2012	Change	Change
Revenue					
Program revenue:					
Charges for services	\$ 322,708	\$ 883,651	\$ 306,323	\$ (577,328)	-65%
Capital grants	-	53,969	-	(53,969)	100%
General revenue:					
Property taxes	406,196	378,934	355,849	(23,085)	-6%
Public safety special assessment	-	-	578,950	578,950	100%
State-shared revenue	508,511	560,212	787,886	227,674	41%
Investment earnings	19,288	22,027	9,088	(12,939)	-59%
Other revenue	94,563	104,103	263,840	159,737	153%
Total revenue	<u>1,351,266</u>	<u>2,002,896</u>	<u>2,301,936</u>	<u>299,040</u>	15%
Program Expenses					
General government	694,568	604,567	631,249	26,682	4%
Public safety	461,182	511,640	615,859	104,219	20%
Public works	89,167	519,681	186,822	(332,859)	-64%
Health and welfare	4,035	4,000	4,000	-	0%
Interest on long-term debt	5,459	15,344	24,408	9,064	59%
Total expenses	<u>1,254,411</u>	<u>1,655,232</u>	<u>1,462,338</u>	<u>(192,894)</u>	-12%
Change in Net Assets	<u>\$ 96,855</u>	<u>\$ 347,664</u>	<u>\$ 839,598</u>	<u>\$ 491,934</u>	141%

The governmental net assets increased 42 percent from a year ago - increasing from \$2,007,159 to \$2,846,757- due in part to a new public safety special assessment that was approved by the public. Last year's net assets increased by 19 percent.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by \$706,330 for the governmental activities due mainly to the new public safety special assessment. This represents an increase of approximately 63 percent. The current level of unrestricted net assets for our governmental activities stands at \$1,831,424, or about 125 percent of expenditures.

The Township's total governmental net revenue increased by \$299,040. The increase, which represents 15 percent, was primarily due to an increase in state-shared revenue, first year recognition of public safety special assessment, and recognition of PEG fees. Note that a decrease on charges for services of approximately \$577,000 between fiscal year 2011 and 2012 is primarily due to the recognition of Parkin Lane special assessments during fiscal year 2011.

Expenses decreased by \$192,894 during the year.

Tyrone Township

Management's Discussion and Analysis (Continued)

Business-type Activities

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

	Business-type Activities				Percent Change
	2010	2011	2012	Change	
Assets					
Other assets	\$ 9,827,554	\$ 9,419,954	\$ 8,717,076	\$ (702,878)	-7%
Capital assets	15,917,080	15,415,696	14,914,312	(501,384)	-3%
Total assets	25,744,634	24,835,650	23,631,388	(1,204,262)	-5%
Liabilities					
Current liabilities	1,223,528	1,249,019	1,258,496	9,477	1%
Long-term liabilities	12,986,851	12,257,864	11,513,875	(743,989)	-6%
Total liabilities	14,210,379	13,506,883	12,772,371	(734,512)	-5%
Net Assets					
Invested in capital assets - Net of related debt	3,390,620	3,623,031	3,387,304	(235,727)	-7%
Restricted	7,445,655	6,774,329	7,136,684	362,355	5%
Unrestricted	697,980	931,407	335,029	(596,378)	-64%
Total net assets	<u>\$ 11,534,255</u>	<u>\$ 11,328,767</u>	<u>\$ 10,859,017</u>	<u>\$ (469,750)</u>	-4%

	Business-type Activities				Percent Change
	2010	2011	2012	Change	
Operating revenue	\$ 283,287	\$ 388,310	\$ 444,186	\$ 55,876	14%
Operating expenses, other than depreciation	190,206	222,174	282,836	60,662	27%
Nonoperating expense	1,004,022	-	-	-	0%
Depreciation and amortization	549,455	501,384	501,384	-	0%
Operating loss	(1,460,396)	(335,248)	(340,034)	(4,786)	
Interest income	22,955	12,526	5,376	(7,150)	-57%
Interest expense	538,376	510,511	489,615	(20,896)	-4%
Nonoperating expenses	-	3,800	53,709	49,909	1313%
Gain on sale of assets	-	72,300	-	(72,300)	-100%
Capital contributions	424,212	559,245	408,232	(151,013)	-27%
Change in Net Assets	<u>\$ (1,551,605)</u>	<u>\$ (205,488)</u>	<u>\$ (469,750)</u>	<u>\$ (264,262)</u>	129%

Tyrone Township

Management's Discussion and Analysis (Continued)

The Township's business-type activities consist of the Sewer Fund.

The net assets of business-type activities decreased 4 percent from a year ago - decreasing from \$11,328,767 to \$10,859,017 due to an operating loss and other changes in net assets. Last year's net assets decreased by 2 percent.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - decreased by \$596,378.

The Township's Funds

Our analysis of the Township's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages and public safety assessment. The Township's major funds for 2012 include the General Fund, Public Safety Fund, and Parkin Lane Road Construction Maintenance Fund.

General Fund Budgetary Highlights

Over the course of the year, the Township amended the budget to take into account events during the year. Over the past year, with a few exceptions, Township departments overall stayed below budget, resulting in total expenditures \$76,000 below budget and actual revenue being \$223,000 greater than budget. This allowed the General Fund's fund balance (excluding other funds that were reclassified to the General Fund due to implementation of GASB No. 54) to increase from \$1,054,000 a year ago to \$1,591,000 at March 31, 2012. The increase in fund balance is mainly due to the creation of a Public Safety Fund. All public safety expenses were mainly paid by the Public Safety Fund starting in fiscal year 2012.

Capital Asset and Debt Administration

At the end of 2012, the Township had \$15 million invested in a broad range of capital assets, including buildings, equipment, and sewer lines. The Township has \$571,200 in governmental activities debt and \$11,513,875 in business-type activities debt (substantially for sewer improvement bonds).

Contacting the Township's Management

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

Tyrone Township

Statement of Net Assets March 31, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,233,854	\$ 406,955	\$ 2,640,809
Investments	422,067	-	422,067
Receivables (Note 4)	816,322	6,254,018	7,070,340
Internal balances	427,162	(427,162)	-
Prepaid expenses and other	72,953	-	72,953
Capital assets:			
Assets not subject to depreciation	7,500	-	7,500
Assets subject to depreciation - Net of depreciation	210,601	14,914,312	15,124,913
Cash and equivalents - Restricted	-	2,377,668	2,377,668
Cash held with agent - Restricted	-	39,725	39,725
Bond issuance cost	-	65,872	65,872
Total assets	4,190,459	23,631,388	27,821,847
Liabilities			
Accounts payable	126,546	62,035	188,581
Due to other governmental units	-	1,004,022	1,004,022
Refundable deposits, bonds, etc.	-	20,000	20,000
Accrued liabilities and other	38,066	172,439	210,505
Deferred revenue (Note 4)	607,890	-	607,890
Unamortized bond premium and loss on refinancing (Note 7)	-	(66,125)	(66,125)
Noncurrent liabilities:			
Due within one year (Note 7)	32,800	750,000	782,800
Due in more than one year (Note 7)	538,400	10,830,000	11,368,400
Total liabilities	1,343,702	12,772,371	14,116,073
Net Assets			
Invested in capital assets - Net of related debt	218,101	3,387,304	3,605,405
Restricted for:			
Debt service	622,080	7,136,684	7,758,764
Public access programming	148,073	-	148,073
Streets and right of way	4,092	-	4,092
Various special assessed services	22,987	-	22,987
Unrestricted	1,831,424	335,029	2,166,453
Total net assets	\$ 2,846,757	\$ 10,859,017	\$ 13,705,774

Tyrone Township

Functions/Programs	Expenses	Program Revenue	
		Charges for Services	Capital Grants and Contributions
Primary government:			
Governmental activities:			
General government	\$ 631,249	\$ 201,831	\$ -
Public safety	615,859	71,136	-
Public works	186,822	33,356	-
Health and welfare - Seniors	4,000	-	-
Interest on long-term debt	24,408	-	-
Total governmental activities	1,462,338	306,323	-
Business-type activities	1,327,544	444,186	408,232
Total primary government	<u>\$ 2,789,882</u>	<u>\$ 750,509</u>	<u>\$ 408,232</u>
General revenue:			
Property taxes			
Public safety special assessment			
State-shared revenue			
Investment income			
Cable franchise fees			
Other miscellaneous income			
Total general revenue			
Change in Net Assets			
Net Assets - Beginning of year			
Net Assets - End of year			

**Statement of Activities
Year Ended March 31, 2012**

Net (Expense) Revenue and Changes in Net Assets

Primary Government

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (429,418)	\$ -	\$ (429,418)
(544,723)	-	(544,723)
(153,466)	-	(153,466)
(4,000)	-	(4,000)
<u>(24,408)</u>	<u>-</u>	<u>(24,408)</u>
(1,156,015)	-	(1,156,015)
<u>-</u>	<u>(475,126)</u>	<u>(475,126)</u>
(1,156,015)	(475,126)	(1,631,141)
355,849	-	355,849
578,950	-	578,950
787,886	-	787,886
9,088	5,376	14,464
254,172	-	254,172
9,668	-	9,668
<u>1,995,613</u>	<u>5,376</u>	<u>2,000,989</u>
839,598	(469,750)	369,848
<u>2,007,159</u>	<u>11,328,767</u>	<u>13,335,926</u>
<u>\$ 2,846,757</u>	<u>\$ 10,859,017</u>	<u>\$ 13,705,774</u>

Tyrone Township

Governmental Funds Balance Sheet March 31, 2012

	General Fund	Public Safety Fund	Parkin Lane Road Construction Maintenance Fund	Nonmajor Funds	Total
Assets					
Cash and cash equivalents	\$ 1,402,674	\$ 603,850	\$ 132,275	\$ 95,055	\$ 2,233,854
Investments	422,067	-	-	-	422,067
Receivables:					
Special assessments receivable	2,533	-	411,872	27,019	441,424
Other receivables	149,272	-	-	-	149,272
Due from other governmental units	175,174	42,137	6,570	1,745	225,626
Due from other funds (Note 6)	2,162	50	-	-	2,212
Advances to other funds (Note 6)	425,000	-	-	-	425,000
Prepaid expenses	4,103	68,850	-	-	72,953
Total assets	\$ 2,582,985	\$ 714,887	\$ 550,717	\$ 123,819	\$ 3,972,408
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 29,824	\$ 96,560	\$ -	\$ 162	\$ 126,546
Due to other funds	50	-	-	-	50
Accrued liabilities and other	30,034	-	-	-	30,034
Deferred revenue (Note 4)	2,533	582,675	411,872	52,234	1,049,314
Total liabilities	62,441	679,235	411,872	52,396	1,205,944
Fund Balances					
Nonspendable:					
Prepays	4,103	35,652	-	-	39,755
Long-term advance	425,000	-	-	-	425,000
Restricted:					
Debt service	-	-	138,845	44,344	183,189
Public access programming	148,073	-	-	-	148,073
Waste removal	-	-	-	9,395	9,395
Snow removal	-	-	-	6,835	6,835
Other maintenance	-	-	-	6,228	6,228
Lighting districts	-	-	-	529	529
Right of way	-	-	-	4,092	4,092
Assigned:					
Technology	23,272	-	-	-	23,272
Township improvement	371,360	-	-	-	371,360
Building and site	3,856	-	-	-	3,856
Road improvement	531,908	-	-	-	531,908
Unassigned	1,012,972	-	-	-	1,012,972
Total fund balances	2,520,544	35,652	138,845	71,423	2,766,464
Total liabilities and fund balances	\$ 2,582,985	\$ 714,887	\$ 550,717	\$ 123,819	\$ 3,972,408

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

Tyrone Township

Governmental Funds **Reconciliation of the Balance Sheet to the Statement of Net Assets** **March 31, 2012**

Fund Balance Reported in Governmental Funds	\$ 2,766,464
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	218,101
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	441,424
Bonds payable are not due and payable in the current period and are not reported in the funds	(571,200)
Accrued interest is not due and payable in the current period and is not reported in the funds	<u>(8,032)</u>
Net Assets of Governmental Activities	<u>\$ 2,846,757</u>

Tyrone Township

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2012

	General Fund	Public Safety Fund	Parkin Lane Road Construction Maintenance Fund	Nonmajor Funds	Total
Revenue					
Property taxes	\$ 355,849	\$ -	\$ -	\$ -	\$ 355,849
Licenses and permits	12,758	-	-	-	12,758
State-shared revenue	787,886	-	-	8,571	796,457
Charges for services	67,581	15,324	-	2,275	85,180
Interest	8,019	765	-	304	9,088
Other revenue:					
Special assessments	-	578,950	36,792	43,476	659,218
Cable franchise fees	254,172	-	-	-	254,172
Fees	154,364	-	-	-	154,364
Other miscellaneous income	30,232	-	-	101	30,333
Total revenue	1,670,861	595,039	36,792	54,727	2,357,419
Expenditures - Current					
General government	632,697	-	-	-	632,697
Public safety	13,197	600,387	-	2,275	615,859
Public works	143,674	-	1,890	41,258	186,822
Health and welfare - Seniors	4,000	-	-	-	4,000
Capital outlay	21,445	-	-	-	21,445
Debt service	-	39,000	21,115	21,093	81,208
Total expenditures	815,013	639,387	23,005	64,626	1,542,031
Excess of Revenue Over (Under) Expenditures	855,848	(44,348)	13,787	(9,899)	815,388
Other Financing Sources (Uses)					
Transfers in	-	80,000	-	-	80,000
Transfers out	(80,000)	-	-	-	(80,000)
Net Change in Fund Balances	775,848	35,652	13,787	(9,899)	815,388
Fund Balances - As restated - Beginning of year (Note 11)	1,744,696	-	125,058	81,322	1,951,076
Fund Balances - End of year	<u>\$ 2,520,544</u>	<u>\$ 35,652</u>	<u>\$ 138,845</u>	<u>\$ 71,423</u>	<u>\$ 2,766,464</u>

Tyrone Township

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended March 31, 2012

Net Change in Fund Balances - Total Governmental Funds **\$ 815,388**

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	52,244
Depreciation expense	(29,351)

Revenue is recorded in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	(55,483)
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	<u>56,800</u>
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Change in Net Assets of Governmental Activities **\$ 839,598**

Tyrone Township

Proprietary Funds Statement of Net Assets March 31, 2012

	Enterprise Funds <u>Sewer Fund</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 406,955
Receivables:	
Special assessments receivable	558,299
Accounts receivable	81,094
Due from other governmental units	292,342
Tap-in receivables	<u>4,960</u>
Total current assets	1,343,650
Noncurrent assets:	
Special assessment receivables	5,204,739
Tap-in receivables	112,584
Capital assets	14,914,312
Restricted cash	2,377,668
Cash held by agent - Restricted	39,725
Bond issuance cost	<u>65,872</u>
Total noncurrent assets	<u>22,714,900</u>
Total assets	24,058,550
Liabilities	
Current liabilities:	
Accounts payable	62,035
Due to other governmental units	1,004,022
Due to other funds	2,162
Deposits	20,000
Accrued interest payable	172,439
Current portion of long-term debt (Note 7)	<u>750,000</u>
Total current liabilities	2,010,658
Noncurrent liabilities:	
Advances from other funds (Note 6)	425,000
Unamortized bond premium and loss on refinancing (Note 7)	(66,125)
Long-term debt - Net of current portion (Note 7)	<u>10,830,000</u>
Total noncurrent liabilities	<u>11,188,875</u>
Total liabilities	<u>13,199,533</u>
Net Assets	
Invested in capital assets - Net of related debt	3,387,304
Restricted - Debt service	7,136,684
Unrestricted	<u>335,029</u>
Total net assets	<u><u>\$ 10,859,017</u></u>

Tyrone Township

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2012

	Enterprise Funds
	<u>Sewer Fund</u>
Operating Revenue	
Charges for services	\$ 403,515
Interest and penalty charges	7,512
Other miscellaneous revenue	<u>33,159</u>
Total operating revenue	444,186
Operating Expenses	
Cost of sewage operations and maintenance	282,836
Depreciation	<u>501,384</u>
Total operating expenses	<u>784,220</u>
Operating Loss	(340,034)
Nonoperating Revenue (Expenses)	
Investment income	5,376
Interest expense	(489,615)
Other nonoperating expenses	<u>(53,709)</u>
Total nonoperating expenses	<u>(537,948)</u>
Loss - Before contributions	(877,982)
Capital Contributions	
Special assessments interest	345,521
Tap-in fees	<u>62,711</u>
Total capital contributions	<u>408,232</u>
Change in Net Assets	(469,750)
Net Assets - Beginning of year	<u>11,328,767</u>
Net Assets - End of year	<u><u>\$ 10,859,017</u></u>

Tyrone Township

Proprietary Funds Statement of Cash Flows Year Ended March 31, 2012

	<u>Enterprise Funds</u>
	<u>Sewer Fund</u>
Cash Flows from Operating Activities	
Receipts from customers	\$ 460,256
Payments to suppliers	(269,470)
Internal activity - Payments to other funds	(9,904)
	<u>180,882</u>
Net cash provided by operating activities	180,882
Cash Flows from Noncapital Financing Activities -	
Loans received from other funds	425,000
Cash Flows from Capital and Related Financing Activities	
Special assessment collections	1,095,152
Tap-in fees	84,615
Principal and interest paid on capital debt	(1,240,579)
	<u>(60,812)</u>
Net cash used in capital and related financing activities	(60,812)
Cash Flows from Investing Activities - Interest received	
on investments	5,376
	<u>5,376</u>
Net Increase in Cash and Cash Equivalents	550,446
Cash and Cash Equivalents - Beginning of year	<u>2,273,902</u>
Cash and Cash Equivalents - End of year	<u><u>\$ 2,824,348</u></u>
Balance Sheet Classification of Cash and Cash Equivalents	
Cash and investments	\$ 406,955
Restricted cash	2,377,668
Cash held with agent - Restricted	39,725
	<u>2,824,348</u>
Total cash and cash equivalents	<u><u>\$ 2,824,348</u></u>
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (340,034)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	501,384
Changes in assets and liabilities:	
Receivables	16,070
Accounts payable	13,366
Due to other funds	(9,904)
	<u>500,876</u>
Net cash provided by operating activities	<u><u>\$ 180,882</u></u>

Tyrone Township

Fiduciary Funds Statement of Assets and Liabilities March 31, 2012

	<u>Agency Funds</u>
Assets - Cash and cash equivalents	<u>\$ 159,026</u>
Liabilities	
Due to other governmental units	\$ 146,940
Due to primary government	7,270
Performance deposits	<u>4,816</u>
Total liabilities	<u>\$ 159,026</u>

Note I - Nature of Business and Significant Accounting Policies

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

Reporting Entity

Tyrone Township is governed by an elected seven-member council (board). The accompanying financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the Township's operations. The Township has no component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these financial statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Public Safety Fund is used to account for the Township's police and fire activities paid with extra voted special assessments.

The Parkin Lane Road Construction Maintenance Fund is used to account for the collection of special assessments levied on affected properties for road construction.

The Township reports the following major proprietary fund:

The Sewer Disposal System Fund accounts for the operations of the sewage pumping and collection systems.

Additionally, the Township reports the following fiduciary activities:

The Agency Funds account for assets held by the Township as an agent for individuals, private organizations, and other governments.

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's 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.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and interest income.

When an expense is incurred for purposes for which both restricted and unrestricted net assets or fund balance are available, the Township's policy is to first apply restricted resources.

When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the Township's policy to spend funds in this order: committed, assigned, and unassigned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Sewer Fund recognizes tap fees as capital contributions. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

The Township levies property taxes on December 1 of each year. These taxes become liens on the property at that date. Township taxes are collected without penalty from December 1 to February 28 each year.

The Township's 2011 tax is levied and collectible on December 1, 2011 and is recognized as revenue in the year ended March 31, 2012, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2011 taxable valuation of the Township totaled \$408 million, on which taxes levied consisted of .9067 mills for operating purposes. This resulted in approximately \$356,000 for operating purposes recognized in the General Fund.

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

Special Assessments

The Township special assesses a flat fee per parcel for public safety (police and fire), lighting, rubbish removal, and snow removal. The assessment is levied and collectible on December 1, 2010 and is recognized as revenue in the year ended March 31, 2012, when the proceeds of the assessment are budgeted to pay for the operation of the special assessment districts.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Certificates of deposit with a maturity date of greater than three months at time of purchase are recorded as investments on the financial statements.

Restricted Cash and Cash Equivalents - The Township's Sewer Enterprise Fund has cash in the amount of \$2,377,668 that is restricted for debt service. The balance represents special assessments that have been collected and will be used to pay off the sewer bonds. The Sewer Fund has unspent bond proceeds, investment earnings, and prepayments of \$39,725 on deposit with the Livingston County Water and Waste Services Division for the construction of sewer line improvements. The division will hold these funds on behalf of the Township and expend the proceeds for allowable construction costs.

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

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

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

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

Capital Assets - Capital assets, which include property, plant, equipment, intangible assets, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, \$0 of interest expense was capitalized as part of the cost of assets under construction.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Building	39 years
Building improvements	15 years
Vehicles	5 years
Office equipment	5 years
Furniture and fixtures	7 years
Sewer distribution system	39 years
Software	5 years

Long-term Obligations - In the government-wide financial statements and 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 or business-type activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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

Fund Equity - In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications - nonspendable, restricted, committed, assigned, and unassigned. The Township implemented GASB Statement No. 54 during the year, whose impact was only the utilization of these new fund balance classifications.

In the fund financial statements, governmental funds report the following components of fund balance:

- Nonspendable - Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- Restricted - Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- Committed - Amounts that have been formally set aside by the board for use for specific purposes. Commitments are made and can be rescinded only via resolution of the board.
- Assigned - Intent to spend resources on specific purposes expressed by the board
- Unassigned - Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

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.

Tyrone Township

Notes to Financial Statements March 31, 2012

Note 2 - Stewardship, Compliance, and Accountability

Building Department Revenue and Expenses - The State Construction Code Act, Michigan Public Act 245 of 1999, and rules promulgated by the Department of Treasury regarding that act, require that a local unit's fees collected from construction code permits be accounted for in a method which shows that all of these fees were used for expenditures related to the operations of the enforcing agency. The rules indicated that if the revenue exceeded the expenditures, the fees collected must be kept in a separate fund. The rules allowed for monitoring these funds in a separate activity center within the General Fund if the expenditures would normally exceed the revenue. The Township chose the latter. The activity related to construction code activities for the year ended March 31, 2012 is as follows:

Shortfall at April 1, 2011	\$ (297,028)
Construction permit revenue	11,945
Related expenses - Building department expenditures	<u>22,007</u>
Current year shortfall	<u>(10,062)</u>
Cumulative shortfall at March 31, 2012	<u>\$ (307,090)</u>

Note 3 - Deposits and Investments

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

The Township has designated several 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 authority.

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 government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Township had \$3,591,545 of bank deposits (certificates of deposit and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township does not have a policy for custodial credit risk. At year end, \$315,875 of investment securities was uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name.

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

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
MBIA CLASS - Mutual fund	\$ 315,875	AAA	Fitch

Tyrone Township

Notes to Financial Statements March 31, 2012

Note 4 - Receivables and Deferred Revenue

Receivables as of year end for the Township's General Fund and the nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Public Safety Fund	Parkin Lane Road Construction Maintenance Fund	Nonmajor Funds	Total
Receivables:					
Accounts	\$ 213,483	\$ 52,619	\$ -	\$ -	\$ 266,102
Special assessments	2,533	-	411,872	27,019	441,424
Other receivables	75,366	-	-	-	75,366
Due from other governmental units	175,174	42,137	6,570	1,745	225,626
Less allowance for uncollectibles	<u>(139,577)</u>	<u>(52,619)</u>	<u>-</u>	<u>-</u>	<u>(192,196)</u>
Net receivables	<u>\$ 326,979</u>	<u>\$ 42,137</u>	<u>\$ 418,442</u>	<u>\$ 28,764</u>	<u>\$ 816,322</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Governmental Funds	
	Unavailable	Unearned
Special assessments	\$ 441,424	\$ 25,215
Public safety special assessment	-	582,675
Total	<u>\$ 441,424</u>	<u>\$ 607,890</u>

Tyrone Township

Notes to Financial Statements March 31, 2012

Note 5 - Capital Assets

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

Governmental Activities	Balance April 1, 2011	Additions	Disposals	Balance March 31, 2012
Capital assets not being depreciated - Land	\$ 7,500	\$ -	\$ -	\$ 7,500
Capital assets being depreciated:				
Buildings	378,360	5,000	-	383,360
Land improvements	70,424	20,615	-	91,039
Machinery and equipment	150,380	17,829	-	168,209
Information technology	35,620	8,800	-	44,420
Subtotal	634,784	52,244	-	687,028
Accumulated depreciation:				
Buildings	212,191	13,402	-	225,593
Land improvements	69,726	1,474	-	71,200
Machinery and equipment	145,777	5,591	-	151,368
Information technology	19,382	8,884	-	28,266
Subtotal	447,076	29,351	-	476,427
Net capital assets being depreciated	187,708	22,893	-	210,601
Net capital assets	<u>\$ 195,208</u>	<u>\$ 22,893</u>	<u>\$ -</u>	<u>\$ 218,101</u>
Business-type Activities				
Capital assets being depreciated:				
Sewer system	\$ 19,418,713	\$ -	\$ -	\$ 19,418,713
Machinery and equipment	360,810	-	-	360,810
Subtotal	19,779,523	-	-	19,779,523
Accumulated depreciation:				
Sewer system	4,020,384	497,911	-	4,518,295
Machinery and equipment	343,443	3,473	-	346,916
Subtotal	4,363,827	501,384	-	4,865,211
Net capital assets being depreciated	15,415,696	(501,384)	-	14,914,312
Net capital assets	<u>\$ 15,415,696</u>	<u>\$ (501,384)</u>	<u>\$ -</u>	<u>\$ 14,914,312</u>

Tyrone Township

Notes to Financial Statements March 31, 2012

Note 5 - Capital Assets (Continued)

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

Governmental Activities - General government	<u>\$ 29,351</u>
Business-type Activities - Sewer	<u>\$ 501,384</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of March 31, 2012 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from Other Funds		
General Fund	Sewer Fund	\$ 2,162
Public Safety Fund	General Fund	<u>50</u>
	Total	<u>\$ 2,212</u>

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Advances from/to Other Funds		
General Fund	Sewer Fund	<u>\$ 425,000</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. Advances between the General Fund and Sewer Fund are expected to be repaid in the next 20 years, as the Sewer Fund looks for ways to increase funds while making its bond payments.

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

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Public Safety Fund	<u>\$ 80,000</u>

The transfer from the General Fund represents the movement of resources to be used for public safety needs.

Tyrone Township

Notes to Financial Statements March 31, 2012

Note 7 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. County contractual agreements and 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. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term debt activity can be summarized as follows:

Governmental Activities	Interest Rate	Final Payment Due	Balance at March 31, 2011	Additions	Reductions	Balance at March 31, 2012	Due Within One Year
Tyrone Fire Authority Contract	0%	January 15, 2012	\$ 39,000	\$ -	\$ 39,000	\$ -	\$ -
Jayne Hill No. 1 and 2 Road Improvement Project							
Special Assessment Bonds	3.7%	April 1, 2015	89,000	-	17,800	71,200	17,800
Parklin Lane Road Special Assessment Bond	3.00%-4.95%	July 1, 2030	500,000	-	-	500,000	15,000
Total bonds payable			\$ 628,000	\$ -	\$ 56,800	\$ 571,200	\$ 32,800

Tyrone Township

Notes to Financial Statements March 31, 2012

Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Reductions	Ending Balance	Due Within One Year
Business-type Activities						
Livingston County Sanitary Sewer Improvement Bonds Series 2007	4%	June 30, 2023	\$ 4,100,000	\$ 15,000	\$ 4,085,000	\$ 15,000
Less deferred amounts - Unamortized bond premium and loss on refinancing			(72,137)	(6,012)	(66,125)	-
Livingston County Sanitary Sewer Improvement Bonds Series 2005	3.375%-4.25%	May 1, 2028	6,750,000	375,000	6,375,000	375,000
Livingston County Sanitary Sewer Improvement Bonds Series 2003	3.25%-4.125%	June 30, 2014	1,480,000	360,000	1,120,000	360,000
Total bonds payable			<u>\$ 12,257,863</u>	<u>\$ 743,988</u>	<u>\$ 11,513,875</u>	<u>\$ 750,000</u>

Total interest expense for the year was approximately \$478,000. Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending March 31	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 32,800	\$ 23,420	\$ 56,220	\$ 750,000	\$ 453,333	\$ 1,203,333
2014	32,800	22,301	55,101	765,000	424,475	1,189,475
2015	32,800	21,181	53,981	775,000	393,903	1,168,903
2016	37,800	19,986	57,786	775,000	362,663	1,137,663
2017	20,000	18,716	38,716	775,000	331,663	1,106,663
2018-2022	110,000	83,779	193,779	4,125,000	1,175,478	5,300,478
2023-2027	150,000	56,663	206,663	2,865,000	397,759	3,262,759
2028-2032	155,000	15,690	170,690	750,000	31,875	781,875
Total	<u>\$ 571,200</u>	<u>\$ 261,736</u>	<u>\$ 832,936</u>	<u>\$ 11,580,000</u>	<u>\$ 3,571,149</u>	<u>\$ 15,151,149</u>

Tyrone Township Jayne Hill Farms Subdivision 1 and 2 Road Improvement Special Assessment Bonds - Tyrone Township issued \$178,000 in Special Assessment Bonds. The Jayne Hill Farms Subdivision 1 and 2 Road Improvement Special Assessment Bonds were issued pursuant to Act 188, Michigan Public Acts of 1954, as amended. They are primarily payable from collections of special assessments levied against the benefited properties in the district. The bonds are dated August 30, 2005 with interest payable April 1, beginning on April 1, 2006. The Township's limited tax full faith and credit are pledged for the payment of the bonds if the special assessments are not adequate.

Note 7 - Long-term Debt (Continued)

Parkin Lane Road Improvement Special Assessment Bonds - Tyrone Township issued \$500,000 in Special Assessment Bonds. The Parkin Lane Road Improvement Special Assessment Bonds were issued pursuant to Act 188, Michigan Public Acts of 1954, as amended. They are primarily payable from collections of special assessments levied against the benefited properties in the district. The bonds are dated September 9, 2010 with interest payable December 1, beginning in December 2010. The Township's limited tax full faith and credit are pledged for the payment of the bonds if the special assessments are not adequate.

Tyrone Township Sewer Bonds - Series 2003 - Tyrone Township, through Livingston County, issued \$7,725,000 in Sanitary Sewer Improvement Bonds. The Livingston County Sanitary Sewer Improvement Bonds Series 2003 (Tyrone Township Sewer Bonds) were issued pursuant to Act 185 and 342, Michigan Public Acts of 1954, as amended. They are primarily payable from collections of special assessments levied against the benefited properties in the district and revenue expected to be generated by future sewer connection fees. The bonds are dated August 27, 2003 with interest payable November 1 and May 1, beginning November 1, 2003. The Township's limited tax full faith and credit are pledged for the payment of the bonds if the special assessments is not adequate.

Tyrone Township Sewer Bonds - Series 2005 - Tyrone Township, through Livingston County, issued \$8,640,000 in Sanitary Sewer Improvement Bonds. The Livingston County Sanitary Sewer Improvement Bonds Series 2005 (Tyrone Township Sewer Bonds) were issued pursuant to Act 185 and 342, Michigan Public Acts of 1954, as amended. They are primarily payable from revenue expected to be generated by future sewer connection fees. The bonds are dated June 22, 2005 with interest payable November 1 and May 1, beginning on May 1, 2007. The Township's limited tax full faith and credit are pledged for the payment of the bonds if the collection of revenue from the system is not adequate.

Tyrone Township Sewer Bonds - Series 2007 - Tyrone Township, through Livingston County, issued \$4,155,000 in Sanitary Sewer Improvement Refunding Bonds. The Livingston County Sanitary Sewer Improvement Refunding Bonds Series 2007 (Tyrone Township Sewer Bonds) were issued pursuant to Act 185 and 342, Michigan Public Acts of 1954, as amended. The bonds were issued to refund a portion of the Tyrone Township Sewer Bonds - Series 2003. The bond proceeds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the financial statements. At March 31, 2011, \$5,455,000 of bonds outstanding are considered defeased.

Note 7 - Long-term Debt (Continued)

The bonds are primarily payable from collections of special assessments levied against the benefited properties in the district. The bonds are dated December 12, 2007 with interest payable June 30 and December 31, beginning on June 30, 2008. The Township's limited tax full faith and credit are pledged for the payment of the bonds if the special assessments are not adequate.

Act 359, Michigan Public Acts of 1947, as amended, provides that net indebtedness of municipalities cannot exceed 10 percent of the assessed real and personal property in the Township. As of March 31, 2011, Tyrone Township had not incurred any indebtedness which would be limited under Act 359. The Township's existing general long-term debt obligation contracts are specifically exempted from consideration in the 10 percent limit computation.

Note 8 - Risk Management and Contingent Liabilities

The Township is exposed to various risks of loss related to property loss, torts, errors and omission, and employee injuries. The Township has purchased commercial insurance for these claims. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Livingston County (the "County") purchases delinquent tax rolls from the County's local units. In the event that those taxes become uncollectible, the County charges those amounts back to the local units. Therefore, the Township is exposed to potential refunds to Livingston County for the amount of uncollectible taxes and special assessment that were purchased by the County. The County has purchased a significant amount of delinquent special assessments levied by the Sewer Fund over the past few years. As of March 31, 2012, the Township estimates that \$1,004,022 will have to be repaid back to the County over the next few years and thus a payable has been recorded in the Sewer Fund. Subsequent to year end, the Township made an \$803,686 payment to the County.

Note 9 - Commitments

The Township has committed to a multiyear fire suppression, rescue, and emergency medical services agreement with Charter Township of Fenton, City of Fenton, and Hartland Township through March 31, 2016 at the following base rates:

- April 1, 2012 through March 31, 2013 at \$1,350 per run
- April 1, 2013 through March 31, 2014 at \$1,360 per run
- April 1, 2014 through March 31, 2015 at \$1,377 per run
- April 1, 2015 through March 31, 2016 at \$1,391 per run

Under the terms of the contract, the Township is required to pay for a minimum of 17 runs per year per municipality, which is due at the beginning of each fiscal year.

Note 10 - Upcoming Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement 14 and Statement 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement also clarifies the reporting of equity interests in legally separate organizations. The Township is currently evaluating the impact this standard will have on the financial statements when adopted during the Township's 2013 fiscal year.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB statements and interpretations, APB opinions, and accounting research bulletins of the AICPA Committee on Accounting Procedure. The Township is currently evaluating the impact this standard will have on the financial statements when adopted during the Township's 2013 fiscal year.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the Township's 2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the Township as of the 2014 fiscal year.

Tyrone Township

Notes to Financial Statements March 31, 2012

Note 11 - Accounting and Reporting Change

The financial statements for the year ended March 31, 2011 have been restated in order to recognize collections of service-type special assessments in the year in which expenses are budgeted and incurred. Both the assessment revenue and the expenditures (expenses) for which the assessments were levied should be recognized on the same basis of accounting as that normally used for that fund type. The effect of this correction was to decrease beginning fund balance and net assets by \$30,954.

	Governmental Activities	Nonmajor Funds
Fund balance/net assets - March 31, 2011 - As previously reported	\$ 2,038,113	\$ 112,276
Adjustment for special assessments to be recognized in fiscal year 2012	<u>(30,954)</u>	<u>(30,954)</u>
Fund balance/net assets - March 31, 2011 - As restated	<u>\$ 2,007,159</u>	<u>\$ 81,322</u>

During the year, the Township adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. In order to conform the classifications of the funds to the appropriate fund types under these new definitions, beginning fund balance was restated to fold previously classified special revenue funds into the General Fund as follows:

	General Fund	Road Improvement	Building and Site	Township Improvement Revolving Fund	Technology Fund	Beautification Fund	Total
Fund balance - March 31, 2011 - As previously reported	\$ 1,053,658	\$ 312,311	\$ 3,806	\$ 364,969	\$ 11,058	\$ (1,106)	\$ 1,744,696
Reclassifications under GASB No. 54	<u>691,038</u>	<u>(312,311)</u>	<u>(3,806)</u>	<u>(364,969)</u>	<u>(11,058)</u>	<u>1,106</u>	<u>-</u>
Fund balance - March 31, 2011 - As restated	<u>\$ 1,744,696</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,744,696</u>

Required Supplemental Information

Tyrone Township

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2012

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 379,897	\$ 365,897	\$ 355,849	\$ (10,048)
Licenses and permits	10,125	10,125	12,758	2,633
State-shared revenue and grants	475,060	763,060	787,886	24,826
Charges for services	60,510	60,510	67,581	7,071
Investment income	3,461	3,461	4,557	1,096
Other revenue:				
Cable franchise fees	70,000	70,000	254,172	184,172
Fees	127,400	127,400	154,364	26,964
Other miscellaneous income	35,850	41,850	27,870	(13,980)
Total revenue	1,162,303	1,442,303	1,665,037	222,734
Expenditures - Current				
General government:				
Township board	122,107	116,107	106,035	10,072
Supervisor	29,574	31,074	28,654	2,420
Cemeteries	4,840	4,840	4,072	768
Zoning administrator	29,266	26,766	22,007	4,759
Planning Commission	59,017	67,017	62,944	4,073
Zoning Board of Appeals	6,488	6,988	3,886	3,102
Treasurer	88,355	85,855	80,635	5,220
Assessing	46,086	47,086	44,668	2,418
Board of Review	1,380	1,380	1,071	309
Clerk	84,054	90,554	87,771	2,783
Elections	53,240	50,740	42,044	8,696
Buildings and grounds	43,750	41,250	28,283	12,967
Economic development	500	8,500	8,500	-
Other	12,840	12,340	11,378	962
Insurance, bond, and fringes	97,488	91,488	80,134	11,354
Total general government	678,985	681,985	612,082	69,903
Public safety - Ordinance enforcement	8,491	13,491	13,197	294
Public works	16,423	16,423	10,756	5,667
Recreation and culture	4,000	4,000	4,000	-
Total expenditures	707,899	715,899	640,035	75,864

Tyrone Township

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended March 31, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	Variance with <u>Amended Budget</u>
Excess of Revenue Over Expenditures	\$ 454,404	\$ 726,404	\$ 1,025,002	\$ 298,598
Other Financing Uses - Transfers out	<u>(443,660)</u>	<u>(703,660)</u>	<u>(488,160)</u>	<u>215,500</u>
Net Change in Fund Balance	10,744	22,744	536,842	514,098
Fund Balance - Beginning of year	<u>1,053,658</u>	<u>1,053,658</u>	<u>1,053,658</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 1,064,402</u>	<u>\$ 1,076,402</u>	<u>\$ 1,590,500</u>	<u>\$ 514,098</u>

Tyrone Township

Required Supplemental Information Budgetary Comparison Schedule - Special Revenue Funds Public Safety Fund Year Ended March 31, 2012

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Charges for services	\$ 10,000	\$ 10,000	\$ 15,324	\$ 5,324
Investment income	-	-	765	765
Other revenue - Special assessments	<u>583,650</u>	<u>583,650</u>	<u>578,950</u>	<u>(4,700)</u>
Total revenue	593,650	593,650	595,039	1,389
Expenditures				
Current - Public safety:				
Police/Sheriff (county)	150,350	150,350	146,726	3,624
Fire and EMS	<u>373,730</u>	<u>453,730</u>	<u>453,661</u>	<u>69</u>
Total public safety	524,080	604,080	600,387	3,693
Debt service	<u>39,000</u>	<u>39,000</u>	<u>39,000</u>	<u>-</u>
Total expenditures	<u>563,080</u>	<u>643,080</u>	<u>639,387</u>	<u>3,693</u>
Excess of Revenue Over (Under)				
Expenditures	30,570	(49,430)	(44,348)	5,082
Other Financing Sources - Transfers in	-	<u>80,000</u>	<u>80,000</u>	<u>-</u>
Net Change in Fund Balance	30,570	30,570	35,652	5,082
Fund Balance - Beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - End of year	<u><u>\$ 30,570</u></u>	<u><u>\$ 30,570</u></u>	<u><u>\$ 35,652</u></u>	<u><u>\$ 5,082</u></u>

Tyrone Township

Required Supplemental Information Budgetary Comparison Schedule - Special Revenue Funds Parkin Lane Road Construction Maintenance Fund Year Ended March 31, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Revenue - Other revenue - Special assessments	\$ 35,208	\$ 35,208	\$ 36,792	\$ 1,584
Expenditures				
Current - Public works	875	875	1,890	(1,015)
Debt service	<u>20,966</u>	<u>20,966</u>	<u>21,115</u>	<u>(149)</u>
Total expenditures	<u>21,841</u>	<u>21,841</u>	<u>23,005</u>	<u>(1,164)</u>
Net Change in Fund Balance	13,367	13,367	13,787	420
Fund Balance - Beginning of year	<u>125,058</u>	<u>125,058</u>	<u>125,058</u>	<u>-</u>
Fund Balance - End of year	<u><u>\$ 138,425</u></u>	<u><u>\$ 138,425</u></u>	<u><u>\$ 138,845</u></u>	<u><u>\$ 420</u></u>

Tyrone Township

Note to Required Supplemental Information Year Ended March 31, 2012

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all special revenue funds, except that the Township does not budget for capital assets acquired through purchase with federal grants. All annual appropriations lapse at fiscal year end, except for approved contracts which are appropriated on a contract (grant) length basis.

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 (i.e., the level at which expenditures may not legally exceed appropriations). The supervisor is authorized to transfer budgeted amounts within departmental appropriation accounts. However, any revisions that alter the total expenditures of any department must be approved by the Township board.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year.

Budgeted amounts are reported on the financial statements as originally adopted and as amended by the Township board.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to February 1, the supervisor submits to the Township board a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them, for the General Fund and special revenue funds.
2. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
3. Prior to April 1, the budget is legally enacted on a departmental (activity) basis through passage of a resolution in accordance with Public Act 621 of the State of Michigan.

A reconciliation of the budgetary comparison schedule to the fund-based statement of changes in fund balance is below. This reconciliation illustrates the effects of GASB Statement No. 54 on the General Fund and funds that were previously considered to be special revenue funds and are now included in the General Fund on the fund-based statements.

Tyrone Township

Note to Required Supplemental Information (Continued) Year Ended March 31, 2012

	<u>Total Revenue</u>	<u>Total Expenditures</u>	<u>Excess of Revenue Over (Under) Expenditures</u>
General Fund			
Amounts per operating statement	\$ 1,670,861	\$ 815,013	\$ 855,848
Road Improvement Fund budgeted separately from the General Fund	(1,706)	(56,609)	54,903
Building and Site Fund budgeted separately from the General Fund	(665)	(20,615)	19,950
Township Improvement Revolving Fund budgeted separately from the General Fund	(1,756)	(75,366)	73,610
Technology Fund budgeted separately from the General Fund	-	(21,445)	21,445
Beautification Fund budgeted separately from the General Fund	(1,697)	(943)	(754)
Amounts per budget statement	<u>\$ 1,665,037</u>	<u>\$ 640,035</u>	<u>\$ 1,025,002</u>

Excess of expenditures over appropriations in budgeted funds - The Township did not have significant expenditure budget variances.

Other Supplemental Information

Tyrone Township

Other Supplemental Information Nonmajor Governmental Funds Fund Descriptions

Liquor Law Enforcement - To account for funds received by the Township for liquor law enforcement.

Jayne Hill 1 and 2 Road Improvement - To account for the collection of special assessments levied on affected properties for road improvements.

Parkwood/Driftwood Maintenance - To account for the collection of special assessments levied on affected properties for road improvements.

Jayne Hill Lighting - To account for the collection of special assessments levied on affected properties for lighting improvements.

Walnut Drive Lighting - To account for the collection of special assessments levied on affected properties for lighting improvements.

Jayne Hill Waste Removal - To account for the collection of special assessments for waste disposal.

Parkin Snow Removal - To account for the collection of special assessments levied on affected properties for snow removal.

Right of Way - To account for funds transferred from the Township's General Fund for right-of-way projects.

Tyrone Township

	Special Revenue Funds					
	Liquor Law Enforcement	Parkwood/ Driftwood Maintenance	Jayne Hill Lighting Assessment	Walnut Drive Lighting Assessment	Jayne Hill Waste Removal	Snow Removal Fund
Assets						
Cash and cash equivalents	\$ -	\$ 6,728	\$ 2,727	\$ 609	\$ 26,795	\$ 10,210
Receivables:						
Special assessments receivable	-	-	-	-	-	-
Due from other governmental units	-	-	45	-	750	500
Total assets	<u>\$ -</u>	<u>\$ 6,728</u>	<u>\$ 2,772</u>	<u>\$ 609</u>	<u>\$ 27,545</u>	<u>\$ 10,710</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ -	\$ -	\$ 147	\$ 15	\$ -	\$ -
Deferred revenue	-	500	2,340	350	18,150	3,875
Total liabilities	-	500	2,487	365	18,150	3,875
Fund Balances - Restricted						
Debt service	-	-	-	-	-	-
Waste removal	-	-	-	-	9,395	-
Snow removal	-	-	-	-	-	6,835
Other maintenance	-	6,228	-	-	-	-
Lighting districts	-	-	285	244	-	-
Right of way	-	-	-	-	-	-
Total fund balances	-	6,228	285	244	9,395	6,835
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 6,728</u>	<u>\$ 2,772</u>	<u>\$ 609</u>	<u>\$ 27,545</u>	<u>\$ 10,710</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
March 31, 2012**

<u>Debt Service Fund</u>		Total
<u>Right of Way</u>	Jayne Hill I and 2 Road Improvement	Nonmajor Governmental Funds
\$ 4,092	\$ 43,894	\$ 95,055
-	27,019	27,019
-	450	1,745
<u>\$ 4,092</u>	<u>\$ 71,363</u>	<u>\$ 123,819</u>
\$ -	\$ -	\$ 162
-	27,019	52,234
-	27,019	52,396
-	44,344	44,344
-	-	9,395
-	-	6,835
-	-	6,228
-	-	529
4,092	-	4,092
<u>4,092</u>	<u>44,344</u>	<u>71,423</u>
<u>\$ 4,092</u>	<u>\$ 71,363</u>	<u>\$ 123,819</u>

Tyrone Township

	Special Revenue Funds					
	Liquor Law Enforcement	Parkwood/ Driftwood Maintenance	Jayne Hill Lighting Assessment	Walnut Drive Lighting Assessment	Jayne Hill Waste Removal	Snow Removal Fund
Revenue						
State revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	2,275	-	-	-	-	-
Investment income	-	-	-	-	-	-
Other revenue:						
Special assessments	-	500	2,340	450	19,139	8,525
Other miscellaneous income	-	-	-	-	-	-
Total revenue	<u>2,275</u>	<u>500</u>	<u>2,340</u>	<u>450</u>	<u>19,139</u>	<u>8,525</u>
Expenditures - Current						
Public safety - Combined public safety department	2,275	-	-	-	-	-
Public works:						
Routine maintenance	-	-	-	-	-	-
Winter maintenance	-	-	-	-	-	1,702
Rubbish disposal	-	-	-	-	16,167	-
Street lighting	-	-	1,380	141	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest on long-term debt	-	-	-	-	-	-
Total expenditures	<u>2,275</u>	<u>-</u>	<u>1,380</u>	<u>141</u>	<u>16,167</u>	<u>1,702</u>
Net Change in Fund Balances	-	500	960	309	2,972	6,823
Fund Balances (Deficit) - As restated - Beginning of year	-	5,728	(675)	(65)	6,423	12
Fund Balances - End of year	<u>\$ -</u>	<u>\$ 6,228</u>	<u>\$ 285</u>	<u>\$ 244</u>	<u>\$ 9,395</u>	<u>\$ 6,835</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes in
Fund Balances
Nonmajor Governmental Funds
Year Ended March 31, 2012

<u>Debt Service</u> <u>Fund</u>		Total
<u>Right of Way</u>	Jayne Hill I and 2 Road Improvement	Nonmajor Governmental Funds
\$ 8,571	\$ -	\$ 8,571
-	-	2,275
-	304	304
-	12,522	43,476
-	101	101
8,571	12,927	54,727
-	-	2,275
21,868	-	21,868
-	-	1,702
-	-	16,167
-	-	1,521
-	17,800	17,800
-	3,293	3,293
21,868	21,093	64,626
(13,297)	(8,166)	(9,899)
17,389	52,510	81,322
\$ 4,092	\$ 44,344	\$ 71,423

Tyrone Township

Other Supplemental Information Nonmajor Governmental Fund - Liquor Law Enforcement Budgetary Comparison Year Ended March 31, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Revenue - Charges for services	\$ 1,900	\$ 1,900	\$ 2,275	\$ 375
Expenditures - Current - Public safety	<u>1,900</u>	<u>1,900</u>	<u>2,275</u>	<u>(375)</u>
Net Change in Fund Balance	-	-	-	-
Fund Balance - Beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Tyrone Township

Other Supplemental Information Nonmajor Governmental Fund - Jayne Hill 1 and 2 Road Improvement Budgetary Comparison Year Ended March 31, 2012

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Investment income	\$ 150	\$ 150	\$ 304	\$ 154
Other revenue - Special assessments	<u>11,368</u>	<u>11,368</u>	<u>12,623</u>	<u>1,255</u>
Total revenue	11,518	11,518	12,927	1,409
Expenditures - Current - Debt service				
Principal	17,800	17,800	17,800	-
Interest on long-term debt	<u>3,952</u>	<u>3,952</u>	<u>3,293</u>	<u>659</u>
Net Change in Fund Balance	(10,234)	(10,234)	(8,166)	2,068
Fund Balance - Beginning of year	<u>52,510</u>	<u>52,510</u>	<u>52,510</u>	<u>-</u>
Fund Balance - End of year	<u><u>\$ 42,276</u></u>	<u><u>\$ 42,276</u></u>	<u><u>\$ 44,344</u></u>	<u><u>\$ 2,068</u></u>

Tyrone Township

Other Supplemental Information Nonmajor Governmental Fund - Parkwood/Driftwood Maintenance Budgetary Comparison Year Ended March 31, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Revenue - Other revenue	\$ -	\$ -	\$ 500	\$ 500
Fund Balance - Beginning of year	<u>5,728</u>	<u>5,728</u>	<u>5,728</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 5,728</u>	<u>\$ 5,728</u>	<u>\$ 6,228</u>	<u>\$ 500</u>

Tyrone Township

Other Supplemental Information Nonmajor Governmental Fund - Jayne Hill Lighting Assessment Budgetary Comparison Year Ended March 31, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Revenue - Other revenue - Special assessments	\$ 2,340	\$ 2,340	\$ 2,340	\$ -
Expenditures - Current - Public works - Street lighting	<u>1,840</u>	<u>1,840</u>	<u>1,380</u>	<u>460</u>
Net Change in Fund Balance	500	500	960	460
Fund Balance (Deficit) - Beginning of year	<u>(675)</u>	<u>(675)</u>	<u>(675)</u>	<u>-</u>
Fund Balance (Deficit) - End of year	<u><u>\$ (175)</u></u>	<u><u>\$ (175)</u></u>	<u><u>\$ 285</u></u>	<u><u>\$ 460</u></u>

Tyrone Township

Other Supplemental Information Nonmajor Governmental Fund - Walnut Drive Lighting Assessment Budgetary Comparison Year Ended March 31, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Revenue - Other revenue - Special assessments	\$ 450	\$ 450	\$ 450	\$ -
Expenditures - Current - Public works - Street lighting	<u>175</u>	<u>175</u>	<u>141</u>	<u>34</u>
Net Change in Fund Balance	275	275	309	34
Fund Balance (Deficit) - Beginning of year	<u>(65)</u>	<u>(65)</u>	<u>(65)</u>	<u>-</u>
Fund Balance - End of year	<u><u>\$ 210</u></u>	<u><u>\$ 210</u></u>	<u><u>\$ 244</u></u>	<u><u>\$ 34</u></u>

Tyrone Township

Other Supplemental Information Nonmajor Governmental Fund - Jayne Hill Waste Removal Budgetary Comparison Year Ended March 31, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Revenue - Other revenue - Special assessments	\$ 20,239	\$ 20,239	\$ 19,139	\$ (1,100)
Expenditures - Current - Public works - Rubbish disposal	<u>18,900</u>	<u>18,900</u>	<u>16,167</u>	<u>2,733</u>
Net Change in Fund Balance	1,339	1,339	2,972	1,633
Fund Balance - Beginning of year	<u>6,423</u>	<u>6,423</u>	<u>6,423</u>	<u>-</u>
Fund Balance - End of year	<u><u>\$ 7,762</u></u>	<u><u>\$ 7,762</u></u>	<u><u>\$ 9,395</u></u>	<u><u>\$ 1,633</u></u>

Tyrone Township

Other Supplemental Information Nonmajor Governmental Fund - Snow Removal Fund Budgetary Comparison Year Ended March 31, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Revenue - Other revenue - Special assessments	\$ 8,525	\$ 8,525	\$ 8,525	\$ -
Expenditures - Current - Public works	<u>6,500</u>	<u>6,500</u>	<u>1,702</u>	<u>4,798</u>
Net Change in Fund Balance	2,025	2,025	6,823	4,798
Fund Balance - Beginning of year	<u>12</u>	<u>12</u>	<u>12</u>	<u>-</u>
Fund Balance - End of year	<u><u>\$ 2,037</u></u>	<u><u>\$ 2,037</u></u>	<u><u>\$ 6,835</u></u>	<u><u>\$ 4,798</u></u>

Tyrone Township

Other Supplemental Information Nonmajor Governmental Fund - Right of Way Budgetary Comparison Year Ended March 31, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Revenue - State-shared revenue and grants	\$ -	\$ 9,000	\$ 8,571	\$ (429)
Expenditures - Current - Public works	-	12,000	21,868	(9,868)
Net Change in Fund Balance	-	(3,000)	(13,297)	(10,297)
Fund Balance - Beginning of year	17,389	17,389	17,389	-
Fund Balance - End of year	<u>\$ 17,389</u>	<u>\$ 14,389</u>	<u>\$ 4,092</u>	<u>\$ (10,297)</u>

July 16, 2012

To the Board of Trustees
Tyrone Township

We have audited the financial statements of Tyrone Township (the "Township") as of and for the year ended March 31, 2012 and have issued our report thereon dated July 16, 2012. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Communications Required Under SAS 115

Section II - Communications Required Under SAS 114

Section III - Other Recommendations and Related Information

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

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

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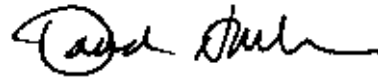
To the Board of Trustees
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We welcome any questions you may have regarding the following communications and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

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Tadd Harburn, CPA

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Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

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Important background to consider: The Township hired a new accountant at the beginning of calendar year 2012. Since that time and leading up to the start of the audit fieldwork, the accountant made great strides to bring the Township's fiscal year accounting records up to date. With this scenario as a backdrop, we noted the following material weaknesses:

Public Access Fees - During the current year, a change was identified as being necessary in the method of accounting for public access fees received by the Township. In the past, the public access fees received by the Township were recorded as a liability in an agency fund until eligible project expenditures were paid out. This liability was due to the Township's belief that the separate consortium that was in place provided guidance as to how the funds would be spent and it was their funds. However, in reviewing more closely, the Township's administrative responsibilities relative to how the money is spent and that the fees come to the Township as its revenue designated for a specific purpose, the public access fees collected are to be recorded as revenue when received and the public programming payments are to be recorded as expenditures in the General Fund. Any unspent funds would be classified as restricted fund balance in accordance with GASB No. 54. It should be noted that the funds were always properly administered by the Township, just the reporting needed to be changed.

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Hardship Deferral Agreement Receivable Allowance - During our analysis of receivables, we noted that the Township was not able to collect payments in accordance with a hardship deferral agreement signed with a Township resident. Management was aware of this situation prior to the audit and properly developed a strategy to address nonpayment. However, accounting standards require management to evaluate receivables and record an allowance for doubtful accounts if applicable. The Township did not record an allowance for doubtful accounts and, as a result, an audit adjustment was necessary.

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

Utility Billings - During the completion of the audit, we noted that accrual adjustments relating to utility billings that were posted at year end of the prior year were not properly reversed at the beginning of the current fiscal year by the previous accountant. The new accountant came on board during the year but was not aware of the need to reverse the entries. This oversight resulted in a misstatement of the individual revenue accounts each for residential and for commercial sewer charges. However, it should be noted that the net effect of the current year-end correcting adjustments did not significantly change the Sewer Fund's total combined revenue and the related receivable balance was properly reconciled at year end by the current accountant. However, because a procedure was not in place to reverse the prior year-end accrual entries at the beginning of the fiscal year which caused the individual revenue accounts to be misstated during the year and at year end, the matter technically meets the definition of a significant deficiency.

Section II - Communications Required Under SAS 114

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 16, 2012, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of Tyrone Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

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

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on May 15, 2012.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Tyrone Township are described in Note I to the financial statements.

As described in Note II, the Township changed accounting policies related to GASB No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used.

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

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

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

Useful lives of capital assets are based upon management's estimate of their lives. We evaluated the key factors and assumptions used to develop the estimate of useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were material adjustments recorded related to the change in accounting for program access fees and revenue recognition of special assessments as outlined in the SAS 115 section of the letter above.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 16, 2012.

Management Consultations with Other Independent Accountants

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

Section III - Other Recommendations and Related Information

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

Long-term Advance - During the current year, the General Fund advanced monies to the Sewer Fund. The Township currently has a spreadsheet to track future revenue of the Sewer Fund. It is expected that additional advances will be required from the General Fund to the Sewer Fund in order to meet the Sewer Fund's required annual bond payment. We recommend that the board continue to monitor the cash flow needs of the Sewer Fund on a yearly basis, as collections of special assessment receivables alone would not be sufficient to fulfill the debt requirements.

The board approved the fiscal year 2012 advance; however, no formal resolution was adopted for the expected repayment term. We recommend that a formal plan be adopted to lay out the expected advancements, repayment terms, interest rate, and yearly accrual of interest.

Section IV - Legislative and Informational Items

Revenue Sharing

The State budget has been passed and with it comes some tweaks to revenue sharing. One major change is moving 20 percent of the County revenue sharing to an incentive program. Total revenue sharing as compared to 2011-2012 is as follows:

	<u>2012-2013</u>	<u>2011-2012 (as of 2/2012)</u>	<u>% Change</u>
Constitutional portion	\$725,496,300	\$697,500,500	+4%
EVIP**	225,000,000	210,000,000	+7%
County revenue sharing	104,480,000	115,000,000	} +13%
County incentive (EVIP-like)**	26,120,000	0	
Grants *	<u>15,000,000</u>	<u>5,000,000</u>	
Total	<u>\$1,096,096,300</u>	<u>\$1,027,500,500</u>	

The EVIP, County incentive, and grants include significant one-time boilerplate appropriations of \$7.5 million, \$2.5 million, and \$10 million, respectively.

* Includes school districts and ISDs in 2012-2013, but only if not already receiving a grant from the State School Aid Fund. Also, funds can only be used for combining operations with a city, village, township, or county.

** In order to receive funds for EVIP and the County incentive program, the following requirements must be met:

Category 1 - Accountability and Transparency - Due date 10/1/12

- Produce a Citizens Guide, including recognition of unfunded liabilities
- Produce a performance dashboard
- Publish a projected budget report - Include current and succeeding year, debt service payments, and assumptions used

Category 2 - Consolidation of Services - Due date 2/1/13

- Produce a consolidation plan
- If first time, include past endeavors and associated cost savings
- Must include one new initiative with savings estimate and timeline
- If no new initiatives identified, must address why it is not feasible to enter into any new consolidation efforts
- If second time, report on progress of prior plan, including barriers

Category 3 - Employee Compensation - Due date 6/1/13

Key point - This section has three options.

OPTION 1 - MODIFIED COMPENSATION PLAN

- New hires that are eligible for retirement plans must be put in plans that cap employer contributions at 10 percent of base salary if eligible for Social Security or 16.2 percent if not.
- For defined benefit plans, maximum multipliers as follows:

Eligible for Social Security?	Provided with Retiree Health Care?	Maximum Multiplier
Yes	Yes	1.5%
Yes	No	2.25%
No	Yes	2.25%
No	No	3.00%

- For defined benefit plans, final average compensation shall use a minimum of three years and shall not include more than 240 hours of paid leave. Overtime hours shall not be included.
- Healthcare premium costs for new hires shall include a minimum 20 percent employee share or employer's share shall be cost competitive with new state preferred provider organization health plan on a per-employee basis.

OPTION 2 - COMPLIANCE WITH PA 152 OF 2011 - Publicly Funded Health Insurance Contribution Act - Certify compliance with the new act that requires hard caps or alternately 80 percent/20 percent cost sharing. This includes the opt-out provision.

OPTION 3 - Certify that no medical benefits are offered

PAYMENT TIMING HAS CHANGED (well, sort of!)

For all except counties, the way that payments are distributed has changed. In 2011-2012, a portion of the payment for each of the three categories was paid on each of the six payment dates throughout the year. Now, there are only two payment dates for each of the three categories, such that each local unit will not receive payment associated with each category until the due date, and then the payment will be split between the following two months. The following is an example:

	Prior Methodology			New Methodology		
	Category			Category		
	1	2	3	1	2	3
October 31, 2012	10,000	10,000	10,000	30,000		
December 31, 2012	10,000	10,000	10,000	30,000		
February 28, 2013	10,000	10,000	10,000		30,000	
April 30, 2013	10,000	10,000	10,000		30,000	
June 30, 2013	10,000	10,000	10,000			30,000
August 31, 2013	10,000	10,000	10,000			30,000
Total	60,000	60,000	60,000	60,000	60,000	60,000

If a local unit fails to meet the initial certification timeline, there is still an opportunity to get the second of the two payments if the unit certified prior to the first month of the second distribution. For example, if you miss the 10/1/2012 deadline, a certification prior to 12/1/2012 will allow you to receive the second normally scheduled payment, but not the first.

ASSISTANCE - Detailed guidance is scheduled to be provided by the Department of Treasury by October 1, 2012.

Healthcare Limitations

PA 152 of 2011, *Publicly Funded Health Insurance Contribution Act*, was signed into law by the governor in late September 2011. This new law requires all public employers to place hard caps on the amounts they contribute toward health care with an option to elect an 80 percent contribution cap rather than a hard cap. There is also an option for a “local unit” to opt out entirely. Please note that local unit has a different definition than public employer. Not all public employers are deemed to be local units.

PA 152 would limit annual costs for medical benefit plans to the following:

- \$5,500 for single coverage
- \$11,000 for individual and spousal coverage
- \$15,000 for family coverage

These limits would apply to “contract years” beginning after January 1, 2012 (although it would not apply to employees covered by a union contract entered into before September 27, 2011 until that contract expired). Current guidance from the Treasury department defines “contract year” as the one-year period beginning on the date that newly elected or newly renewed coverage begins for a group of persons under a medical benefit plan (typically, this period begins soon after the close of the annual open enrollment).

Alternatively, given a majority vote of its governing bodies, a public employer can opt out of the hard cap and into an 80 percent contribution cap. Under this option, public employers would pay no more than 80 percent of the total annual costs for all of the medical benefit plans it offers or contributed to for its employees and elected public officials. This option would require that publicly elected officials would have to pay 20 percent or more of the total annual costs of that plan, but the employee's share of the costs could be allocated as the government sees fit.

This act does contain a complete opt-out provision, but only for local units. It would allow communities to opt-out of these provisions entirely with a 2/3 vote of the governing body.

Failure to comply with the provisions in this act will result in a 10 percent reduction in each EVIP payment for the period of noncompliance. Opting out by a 2/3 vote of the governing body under the provisions of this act is not considered failure to comply.

Potential Elimination of the Personal Property Tax

There has been much talk regarding elimination of personal property tax. If personal property tax were completely eliminated, this would reduce revenue for communities across the state by approximately \$770 million. Including the school districts, the lost revenue would be over \$1 billion.

Obviously, this would be devastating to many communities as personal property taxes are a significant component of a local unit's tax structure. Proposed legislation may be introduced any day now. The expectation is for the legislation to have a phase-out for industrial personal property beginning in 2016 and being phased out over 10 years' time. There is some discussion of the phase-out being based on the year it was added to the tax roll. In addition, it is expected that companies with less than \$40,000 in commercial personal property would be exempt from the tax going forward. The reasoning from the legislature is that this will eliminate up to 75 percent of the physical bills that need to be processed but would not dramatically impact the tax dollars generated at the local unit level.

The proposals include a plan for replacement revenue from expiring tax credits. The plan is to start appropriating these funds in 2016, which is obviously several years out and will involve new legislators. The replacement revenue is expected to be the amount over and above 2 percent of General Fund revenue. In other words, communities should calculate 2 percent of General Fund revenue and assume that this is the dollar amount of the property tax loss that will need to be absorbed by the community. The amount of personal property tax over that amount is what is slated to be reimbursed.

Emergency Managers - Public Act 4 of 2011

On March 16, 2011, PA 4, *Local Government and School District Fiscal Accountability Act*, was signed into law. This act repeals Public Act 72 of 1990, the previous *Local Government Fiscal Responsibility Act*. Under the new act, the state treasurer can conduct a preliminary review to determine the existence of a local government financial problem if one or more of 18 different “triggering events” occur. Some of these events are truly a sign of financial stress, such as incurring payless paydays or defaulting on a bond or note payment. Others are more subjective, including a blanket statement that the existence of “other facts or circumstances...as determined by the state treasurer” is sufficient to start the process.

If a finding of probable financial stress is made, the governor shall appoint a review team. The team would conduct its review and report back to the governor and the state treasurer within 60 days of its appointment. Depending on the severity of the findings during the review, the actions then taken could range from none to a declaration of a financial emergency, the local unit would be placed in receivership, and an emergency manager (EM) appointed in place of the existing governing body and chief administrative officer.

For communities that have some of the triggers but seem to have a plan to address them, there is an in-between step whereby a consent agreement is entered into and monitored.

Clearly, this legislation is causing great anxiety in terms of both the uncertainty as to how aggressive the State will be in implementing the legislation as well the broadness of the powers granted to an EM. Any new EMs would have the authority to reject, modify, or terminate the terms of an existing contract or collective bargaining agreement. This legislation may ultimately change the tenor of future union negotiations, in that it gives the collective bargaining representatives a strong incentive to work with the Township to avoid receivership by an EM.

It should be noted that petitions have been delivered to the State calling for a referendum to repeal the law granting special powers to emergency managers. Public Act 4 will remain in effect until state election officials certify the petitions. If the required number of signatures exists, the law could be suspended or Public Act 72, which is the emergency financial manager law, may come back into play. Public Act 72 does not grant the same level of powers to an emergency financial manager. It is uncertain at this time how this will play out.

Retro-pay Prohibition

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

Deficit Elimination Plans

The Michigan Department of Treasury issued numbered letter 2012-1 in February 2012 which clarifies when a deficit elimination plan is required and how to quantify the deficit requiring elimination. In addition, it also charges local units with the responsibility to file deficit elimination plans concurrent with the submission of the audit report to the Department of Treasury. Local units should no longer be waiting for a letter from the State to file their plans. The plans are now due on or before the filing of your financial statement. Failure to file a plan can result in withholding of 25 percent of the EVIP revenue-sharing payments.

The plans should typically result in elimination of the deficit within one year but should never exceed five years. These plans should also have acceptable evidence to support the plan. The letter defines “acceptable evidence” as certified board/council resolutions approving the funding and the journal entry showing that the transfer was made in the general ledger. Additionally, if there is a projected multi-year budget, this too must be approved by the council/board and submitted. Plans and support can be emailed to Treas_MunicipalFinance@michigan.gov or mailed to the Michigan Department of Treasury.

The letter defines a fund deficit, since the law lacks any reference to generally accepted accounting terminology. It states that for governmental funds (not proprietary funds, fiduciary funds, or discretely presented component units) “a plan is necessary to eliminate any “unrestricted fund balance” deficits. Unrestricted fund balance is the sum of the committed, assigned, and unassigned balances.” Determining whether a deficit exists is more challenging for proprietary funds, fiduciary funds, and discretely presented component units and local units will be expected to apply the test that is explained in the letter. We highly recommend that local units review the letter at the following link to ensure that they comply with the requirements: http://www.michigan.gov/treasury/0,1607,7-121-1751_2194_2196---,00.html#2012.

BILLS BEING CONSIDERED

Prohibition Against Hiring Current Retirees

House Bill 5637, the Jobs Initiative Reform Act, is a bill that has been introduced in the House that prohibits public employers in Michigan from employing an individual who is receiving benefits from the public employer's defined benefit retirement plan and to provide sanctions.

A public employer shall not directly, or indirectly through a contract with a third party, employ an individual who is receiving retirement benefits from a public employee defined benefit retirement plan of that public employer. This prohibition does not apply if the individual waives his or her right to receive previously accrued retirement benefits from that public employer's defined benefit retirement plan while re-employed by the public employer.

Sanctions would consist of reimbursing the defined benefit retirement plan for retirement benefits that the defined benefit retirement plan paid to the individual during the prohibited employment.

This appears to be an issue only if a retiree is being rehired by the existing employer and would not apply if that retiree seeks employment with a different employer.

PA 314 Pension Changes

Senate Bill 797 and House Bill 5416 make some significant changes to Public Act 314, as follows:

- The legislation utilizes existing asset classes but expands some categories such as foreign equities (from 20 percent to 70 percent), real estate (5-10 percentage points higher) and the "basket clause" (10 percentage points higher than existing limits for all plan sizes)
- Requires fee disclosures by investment service providers
- Establishes uniform transparency standards to allow for benchmarking
- Expands prohibition against payments to providers that make contributions to plan sponsor officials
- Permits local pension boards to self-police, which means they can remove a member who is legally incapacitated, convicted of certain violations, or has committed material breaches of policies
- Imposes limits on dollars spent on training to the lesser of \$12,000 per board trustee or \$150,000. No one trustee can spend more than \$30,000.
- Requires the retention of records for six years

July 16, 2012

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Hardship Deferral Agreement Receivable Allowance - During our analysis of receivables, we noted that the Township was not able to collect payments in accordance with a hardship deferral agreement signed with a Township resident. Management was aware of this situation prior to the audit and properly developed a strategy to address nonpayment. However, accounting standards require management to evaluate receivables and record an allowance for doubtful accounts if applicable. The Township did not record an allowance for doubtful accounts and, as a result, an audit adjustment was necessary.

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

Utility Billings - During the completion of the audit, we noted that accrual adjustments relating to utility billings that were posted at year end of the prior year were not properly reversed at the beginning of the current fiscal year by the previous accountant. The new accountant came on board during the year but was not aware of the need to reverse the entries. This oversight resulted in a misstatement of the individual revenue accounts each for residential and for commercial sewer charges. However, it should be noted that the net effect of the current year-end correcting adjustments did not significantly change the Sewer Fund's total combined revenue and the related receivable balance was properly reconciled at year end by the current accountant. However, because a procedure was not in place to reverse the prior year-end accrual entries at the beginning of the fiscal year which caused the individual revenue accounts to be misstated during the year and at year end, the matter technically meets the definition of a significant deficiency.

Section II - Communications Required Under SAS 114

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 16, 2012, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of Tyrone Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

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

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on May 15, 2012.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Tyrone Township are described in Note 1 to the financial statements.

As described in Note 11, the Township changed accounting policies related to GASB No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used.

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

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

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

Useful lives of capital assets are based upon management's estimate of their lives. We evaluated the key factors and assumptions used to develop the estimate of useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were material adjustments recorded related to the change in accounting for program access fees and revenue recognition of special assessments as outlined in the SAS 115 section of the letter above.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 16, 2012.

Management Consultations with Other Independent Accountants

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

Section III - Other Recommendations and Related Information

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

Long-term Advance - During the current year, the General Fund advanced monies to the Sewer Fund. The Township currently has a spreadsheet to track future revenue of the Sewer Fund. It is expected that additional advances will be required from the General Fund to the Sewer Fund in order to meet the Sewer Fund's required annual bond payment. We recommend that the board continue to monitor the cash flow needs of the Sewer Fund on a yearly basis, as collections of special assessment receivables alone would not be sufficient to fulfill the debt requirements.

The board approved the fiscal year 2012 advance; however, no formal resolution was adopted for the expected repayment term. We recommend that a formal plan be adopted to lay out the expected advancements, repayment terms, interest rate, and yearly accrual of interest.

Section IV - Legislative and Informational Items

Revenue Sharing

The State budget has been passed and with it comes some tweaks to revenue sharing. One major change is moving 20 percent of the County revenue sharing to an incentive program. Total revenue sharing as compared to 2011-2012 is as follows:

	<u>2012-2013</u>	<u>2011-2012 (as of 2/2012)</u>	<u>% Change</u>
Constitutional portion	\$725,496,300	\$697,500,500	+4%
EVIP**	225,000,000	210,000,000	+7%
County revenue sharing	104,480,000	115,000,000	
County incentive (EVIP-like)**	26,120,000	0	+13%
Grants *	<u>15,000,000</u>	<u>5,000,000</u>	
Total	<u>\$1,096,096,300</u>	<u>\$1,027,500,500</u>	

The EVIP, County incentive, and grants include significant one-time boilerplate appropriations of \$7.5 million, \$2.5 million, and \$10 million, respectively.

* Includes school districts and ISDs in 2012-2013, but only if not already receiving a grant from the State School Aid Fund. Also, funds can only be used for combining operations with a city, village, township, or county.

** In order to receive funds for EVIP and the County incentive program, the following requirements must be met:

Category 1 - Accountability and Transparency - Due date 10/1/12

- Produce a Citizens Guide, including recognition of unfunded liabilities
- Produce a performance dashboard
- Publish a projected budget report - Include current and succeeding year, debt service payments, and assumptions used

Category 2 - Consolidation of Services - Due date 2/1/13

- Produce a consolidation plan
- If first time, include past endeavors and associated cost savings
- Must include one new initiative with savings estimate and timeline
- If no new initiatives identified, must address why it is not feasible to enter into any new consolidation efforts
- If second time, report on progress of prior plan, including barriers

Category 3 - Employee Compensation - Due date 6/1/13

Key point - This section has three options.

OPTION 1 - MODIFIED COMPENSATION PLAN

- New hires that are eligible for retirement plans must be put in plans that cap employer contributions at 10 percent of base salary if eligible for Social Security or 16.2 percent if not.
- For defined benefit plans, maximum multipliers as follows:

Eligible for Social Security?	Provided with Retiree Health Care?	Maximum Multiplier
Yes	Yes	1.5%
Yes	No	2.25%
No	Yes	2.25%
No	No	3.00%

- For defined benefit plans, final average compensation shall use a minimum of three years and shall not include more than 240 hours of paid leave. Overtime hours shall not be included.
- Healthcare premium costs for new hires shall include a minimum 20 percent employee share or employer's share shall be cost competitive with new state preferred provider organization health plan on a per-employee basis.

OPTION 2 - COMPLIANCE WITH PA 152 OF 2011 - Publicly Funded Health Insurance Contribution Act - Certify compliance with the new act that requires hard caps or alternately 80 percent/20 percent cost sharing. This includes the opt-out provision.

OPTION 3 - Certify that no medical benefits are offered

PAYMENT TIMING HAS CHANGED (well, sort of!)

For all except counties, the way that payments are distributed has changed. In 2011-2012, a portion of the payment for each of the three categories was paid on each of the six payment dates throughout the year. Now, there are only two payment dates for each of the three categories, such that each local unit will not receive payment associated with each category until the due date, and then the payment will be split between the following two months. The following is an example:

	Prior Methodology			New Methodology		
	Category			Category		
	1	2	3	1	2	3
October 31, 2012	10,000	10,000	10,000	30,000		
December 31, 2012	10,000	10,000	10,000	30,000		
February 28, 2013	10,000	10,000	10,000		30,000	
April 30, 2013	10,000	10,000	10,000		30,000	
June 30, 2013	10,000	10,000	10,000			30,000
August 31, 2013	10,000	10,000	10,000			30,000
Total	60,000	60,000	60,000	60,000	60,000	60,000

If a local unit fails to meet the initial certification timeline, there is still an opportunity to get the second of the two payments if the unit certified prior to the first month of the second distribution. For example, if you miss the 10/1/2012 deadline, a certification prior to 12/1/2012 will allow you to receive the second normally scheduled payment, but not the first.

ASSISTANCE - Detailed guidance is scheduled to be provided by the Department of Treasury by October 1, 2012.

Healthcare Limitations

PA 152 of 2011, *Publicly Funded Health Insurance Contribution Act*, was signed into law by the governor in late September 2011. This new law requires all public employers to place hard caps on the amounts they contribute toward health care with an option to elect an 80 percent contribution cap rather than a hard cap. There is also an option for a “local unit” to opt out entirely. Please note that local unit has a different definition than public employer. Not all public employers are deemed to be local units.

PA 152 would limit annual costs for medical benefit plans to the following:

- \$5,500 for single coverage
- \$11,000 for individual and spousal coverage
- \$15,000 for family coverage

These limits would apply to “contract years” beginning after January 1, 2012 (although it would not apply to employees covered by a union contract entered into before September 27, 2011 until that contract expired). Current guidance from the Treasury department defines “contract year” as the one-year period beginning on the date that newly elected or newly renewed coverage begins for a group of persons under a medical benefit plan (typically, this period begins soon after the close of the annual open enrollment).

Alternatively, given a majority vote of its governing bodies, a public employer can opt out of the hard cap and into an 80 percent contribution cap. Under this option, public employers would pay no more than 80 percent of the total annual costs for all of the medical benefit plans it offers or contributed to for its employees and elected public officials. This option would require that publicly elected officials would have to pay 20 percent or more of the total annual costs of that plan, but the employee's share of the costs could be allocated as the government sees fit.

This act does contain a complete opt-out provision, but only for local units. It would allow communities to opt-out of these provisions entirely with a 2/3 vote of the governing body.

Failure to comply with the provisions in this act will result in a 10 percent reduction in each EVIP payment for the period of noncompliance. Opting out by a 2/3 vote of the governing body under the provisions of this act is not considered failure to comply.

Potential Elimination of the Personal Property Tax

There has been much talk regarding elimination of personal property tax. If personal property tax were completely eliminated, this would reduce revenue for communities across the state by approximately \$770 million. Including the school districts, the lost revenue would be over \$1 billion.

Obviously, this would be devastating to many communities as personal property taxes are a significant component of a local unit's tax structure. Proposed legislation may be introduced any day now. The expectation is for the legislation to have a phase-out for industrial personal property beginning in 2016 and being phased out over 10 years' time. There is some discussion of the phase-out being based on the year it was added to the tax roll. In addition, it is expected that companies with less than \$40,000 in commercial personal property would be exempt from the tax going forward. The reasoning from the legislature is that this will eliminate up to 75 percent of the physical bills that need to be processed but would not dramatically impact the tax dollars generated at the local unit level.

The proposals include a plan for replacement revenue from expiring tax credits. The plan is to start appropriating these funds in 2016, which is obviously several years out and will involve new legislators. The replacement revenue is expected to be the amount over and above 2 percent of General Fund revenue. In other words, communities should calculate 2 percent of General Fund revenue and assume that this is the dollar amount of the property tax loss that will need to be absorbed by the community. The amount of personal property tax over that amount is what is slated to be reimbursed.

Emergency Managers - Public Act 4 of 2011

On March 16, 2011, PA 4, *Local Government and School District Fiscal Accountability Act*, was signed into law. This act repeals Public Act 72 of 1990, the previous *Local Government Fiscal Responsibility Act*. Under the new act, the state treasurer can conduct a preliminary review to determine the existence of a local government financial problem if one or more of 18 different "triggering events" occur. Some of these events are truly a sign of financial stress, such as incurring payless paydays or defaulting on a bond or note payment. Others are more subjective, including a blanket statement that the existence of "other facts or circumstances...as determined by the state treasurer" is sufficient to start the process.

If a finding of probable financial stress is made, the governor shall appoint a review team. The team would conduct its review and report back to the governor and the state treasurer within 60 days of its appointment. Depending on the severity of the findings during the review, the actions then taken could range from none to a declaration of a financial emergency, the local unit would be placed in receivership, and an emergency manager (EM) appointed in place of the existing governing body and chief administrative officer.

For communities that have some of the triggers but seem to have a plan to address them, there is an in-between step whereby a consent agreement is entered into and monitored.

Clearly, this legislation is causing great anxiety in terms of both the uncertainty as to how aggressive the State will be in implementing the legislation as well the broadness of the powers granted to an EM. Any new EMs would have the authority to reject, modify, or terminate the terms of an existing contract or collective bargaining agreement. This legislation may ultimately change the tenor of future union negotiations, in that it gives the collective bargaining representatives a strong incentive to work with the Township to avoid receivership by an EM.

It should be noted that petitions have been delivered to the State calling for a referendum to repeal the law granting special powers to emergency managers. Public Act 4 will remain in effect until state election officials certify the petitions. If the required number of signatures exists, the law could be suspended or Public Act 72, which is the emergency financial manager law, may come back into play. Public Act 72 does not grant the same level of powers to an emergency financial manager. It is uncertain at this time how this will play out.

Retro-pay Prohibition

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

Deficit Elimination Plans

The Michigan Department of Treasury issued numbered letter 2012-1 in February 2012 which clarifies when a deficit elimination plan is required and how to quantify the deficit requiring elimination. In addition, it also charges local units with the responsibility to file deficit elimination plans concurrent with the submission of the audit report to the Department of Treasury. Local units should no longer be waiting for a letter from the State to file their plans. The plans are now due on or before the filing of your financial statement. Failure to file a plan can result in withholding of 25 percent of the EVIP revenue-sharing payments.

The plans should typically result in elimination of the deficit within one year but should never exceed five years. These plans should also have acceptable evidence to support the plan. The letter defines "acceptable evidence" as certified board/council resolutions approving the funding and the journal entry showing that the transfer was made in the general ledger. Additionally, if there is a projected multi-year budget, this too must be approved by the council/board and submitted. Plans and support can be emailed to Treas_MunicipalFinance@michigan.gov or mailed to the Michigan Department of Treasury.

The letter defines a fund deficit, since the law lacks any reference to generally accepted accounting terminology. It states that for governmental funds (not proprietary funds, fiduciary funds, or discretely presented component units) "a plan is necessary to eliminate any "unrestricted fund balance" deficits. Unrestricted fund balance is the sum of the committed, assigned, and unassigned balances." Determining whether a deficit exists is more challenging for proprietary funds, fiduciary funds, and discretely presented component units and local units will be expected to apply the test that is explained in the letter. We highly recommend that local units review the letter at the following link to ensure that they comply with the requirements: http://www.michigan.gov/treasury/0,1607,7-121-1751_2194_2196---,00.html#2012.

BILLS BEING CONSIDERED

Prohibition Against Hiring Current Retirees

House Bill 5637, the Jobs Initiative Reform Act, is a bill that has been introduced in the House that prohibits public employers in Michigan from employing an individual who is receiving benefits from the public employer's defined benefit retirement plan and to provide sanctions.

A public employer shall not directly, or indirectly through a contract with a third party, employ an individual who is receiving retirement benefits from a public employee defined benefit retirement plan of that public employer. This prohibition does not apply if the individual waives his or her right to receive previously accrued retirement benefits from that public employer's defined benefit retirement plan while re-employed by the public employer.

Sanctions would consist of reimbursing the defined benefit retirement plan for retirement benefits that the defined benefit retirement plan paid to the individual during the prohibited employment.

This appears to be an issue only if a retiree is being rehired by the existing employer and would not apply if that retiree seeks employment with a different employer.

PA 314 Pension Changes

Senate Bill 797 and House Bill 5416 make some significant changes to Public Act 314, as follows:

- The legislation utilizes existing asset classes but expands some categories such as foreign equities (from 20 percent to 70 percent), real estate (5-10 percentage points higher) and the "basket clause" (10 percentage points higher than existing limits for all plan sizes)
- Requires fee disclosures by investment service providers
- Establishes uniform transparency standards to allow for benchmarking
- Expands prohibition against payments to providers that make contributions to plan sponsor officials
- Permits local pension boards to self-police, which means they can remove a member who is legally incapacitated, convicted of certain violations, or has committed material breaches of policies
- Imposes limits on dollars spent on training to the lesser of \$12,000 per board trustee or \$150,000. No one trustee can spend more than \$30,000.
- Requires the retention of records for six years