

**CHARTER TOWNSHIP OF
ROYAL OAK**

**Financial Report
with Supplemental Information
December 31, 2013**

CHARTER TOWNSHIP OF ROYAL OAK

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INDEPENDENT AUDITOR'S REPORT

To the Township Board
Charter Township of Royal Oak

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Charter Township of Royal Oak ("the Township"), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Charter Township of Royal Oaks's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Charter Township of Royal Oak as of December 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles accepted in the United States of America.

Emphasis of Matter

As described in Note 15, during the year ended December 31, 2013, The Township adopted the provisions of, GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

On April 21, 2014 the Township entered into a Consent Agreement with State Treasurer, R. Kevin Clinton, a Michigan state officer (“State Treasurer”). The State of Michigan determined that a financial emergency exists within the Township under the Local Financial Stability and Choice Act, 2012 PA 436, MCL 141.1541 to MCL 141.1575 (“ACT 436”). To address the financial emergency, The Township has selected the consent agreement option section 8 of Act 436, where the State Treasurer offers state financial management and technical assistance as necessary to alleviate the financial emergency. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and the budgetary comparison information, 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 Government Auditing Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Wilkerson & Associate PC

June 19, 2014

CHARTER TOWNSHIP OF ROYAL OAK

Management's Discussion and Analysis

Our discussion and analysis of the Charter Township of Royal Oak's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2013. Please read it in conjunction with the Township's financial statements.

FINANCIAL HIGHLIGHTS

- The Township's total net position decreased by \$178,059. The governmental activities net position decreased by \$74,112 and the business-type net position decreased by \$103,947.
- At the end of the fiscal year, the Township's governmental funds reported a combined ending fund balance of \$(447,750), a decrease of \$146,206 from the previous year.
- At the end of the current fiscal year, the unreserved undesignated fund balance for the General Fund was \$26,945.
- The State Treasurer declared that the Township had a financial emergency because of the decline in the Townships financial condition. Therefore, on April 21, 2014 The Township entered into a Consent Agreement with the State of Michigan under the Local Financial Stability Act, 2012 PA 436, MCL 141.1541 to MCL 141.1575 (" ACT 436"), to address the financial emergency. The Township selected the consent agreement option 8, of Act 436, where the State Treasurer offers financial management and technical assistance as necessary to alleviate the financial emergency.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the Township's basic financial statements. The Township's basis financial statements are comprised of three components.

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

The financial statement's focus is on both the Township as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow users to address relevant questions, broaden a basis for comparison (interpreted or intergovernmental) and enhance the Township's accountability. This report also contains supplementary information in addition to the basic financial statements which further explains and supports the information presented in these statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances. The Statement of Net Position and the Statement of Activities are designed to be corporate-like in that all the governmental and business-type activities are consolidated into columns which add to a total for the Primary Government. These statements should help the reader to answer the question: Is the Township, as a whole, better off or worse off as a result of this year's activities. These statements include all non-fiduciary position and

CHARTER TOWNSHIP OF ROYAL OAK

Management's Discussion and Analysis

liabilities using the accrual basis of accounting. The current year's revenues and expenses are recognized regardless of when cash is received or paid.

The focus of the Statement of Net Position is designed to be similar to the bottom line results for the Township and its governmental and business-type activities. This statement combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital position and long-term obligations (total economic resources). This statement presents all of the Township's position and liabilities, with the difference between the two reported as "net position". Over time, increases and decreases in net position may indicate whether the Township's financial position is improving or deteriorating. However, in order to assess the overall health of the Township, non-financial factors such as the Township's property tax base and condition of the Township's infrastructure may also need to be considered.

The Statement of Activities is focused on both the gross and net cost of the various activities (governmental, business-type, and component unit) which are supported by the Township's general tax and other revenues. The presentation is intended to summarize and simplify the user's analysis of the cost of the various governmental services and/or the subsidy to various business-type activities and/or component units. The statement shows how the Township's net position changed during the fiscal year. All changes in net position are reported when the underlying events occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (i.e., uncollected taxes and earned but used vacation leave).

Both statements report two activities:

1. *Governmental Activities:* Most of the Township's basic services (i.e., police, fire, public works, parks, etc.) are reported under this category. Taxes and intergovernmental revenues generally fund these services. The Township's governmental activities include general government, police, fire, building and safety, public works, recreation and culture, library, community enrichment and development, road maintenance and repair and tax refund.
2. *Business-Type Activities:* The operation of this Enterprise Fund is managed and operated by the Oakland County Water Resource Commissioners Office. They provide the Township with quarterly **unaudited** financial reports related to Net Position and revenues, expenditures and changes in net position. The Township charges fees to customers to help cover all or most of the cost of certain services it provides. The Resource Commission operates one business-type activity that reflects private sector type operations: Water and Sewer service.

FUND FINANCIAL STATEMENTS

Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. These statements provide more detailed information about the Township's most significant funds (Major Funds), not the Township as a whole. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Township uses to maintain control over resources that have been segregated for specific activities or objectives. In addition to major funds, the Township presents individual fund data for non-major funds in the supplementary information section. All of the funds of the township can be divided into three categories: governmental, proprietary, and fiduciary. Each category uses different accounting approaches.

CHARTER TOWNSHIP OF ROYAL OAK

Management's Discussion and Analysis

Governmental Funds:

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental fund statements are presented on a modified accrual basis, which focuses on the near-term sources and use of available resources. This is the manner in which the budget is typically developed. The Township establishes Funds for various purposes, and the Fund Financial Statements allow the demonstration of sources and uses and/or budgetary compliance associated therewith. Governmental Funds include the general fund, special revenue funds, capital project funds, and debt service funds.

The focus of governmental funds (current financial resources) is narrower than that of the government-wide financial statements (total economic resources). Therefore, the reader may better understand the long-term impact of the Township's near-term financing decision by comparing information presented for governmental funds with the information presented for the governmental activities in the government-wide financial statements. The governmental funds' Balance Sheet, Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison.

Proprietary Funds:

Proprietary funds are used to account for services provided by the Township where the Township charges customers (whether external or internal) for the services it provides. These funds use accrual accounting; the same method used by private sector businesses. The Township maintains one type of proprietary fund. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The Oakland County Water Resources Commissioners office on behalf of the Township, used enterprise funds to account for its Water and Sewer service.

Fiduciary Funds:

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. While these funds represent trust responsibilities of the Township, these position are restricted in purpose and do not represent discretionary position of the Township. Therefore, these position are not reflected in the government-wide financial statements. The Township acts as a trustee or fiduciary for its employee deferred compensation plan. It is a trustee/agent for the other governmental units for which it collects tax payments. The Township is responsible for ensuring that the net position reported in these funds is used for their intended purpose. The Township's fiduciary activities are reported in separate Statements of Fiduciary Net Position. These funds are reported using accrual accounting.

NOTES TO BASIC FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

ADDITIONAL REQUIRED SUPPLEMENTARY INFORMATION

Following the basis financial statements is additional required supplementary information that further explains and supports the information in the financial statements. The required supplementary information includes budgetary comparison schedules.

CHARTER TOWNSHIP OF ROYAL OAK

Management's Discussion and Analysis

NON-MAJOR GOVERNMENTAL FUNDS

Following the required supplementary information is combining financial statements for non-major governmental funds. These funds are added together and presented in a single column in the basic financial statements, but are not reported individually, as with major funds, on the governmental fund financial statements.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In 2013, the Township's net position exceeded its assets at the end of the fiscal year by \$(609,097). However, \$(161,347) or 26% of the Township's net position represents its investment in capital position (e.g., land, roads, storm sewers, water and sewer systems, building, and equipment) less any related debt used to acquire or construct the net position that is still outstanding. The Township uses the capital position to provide essential services to citizens; therefore, these net positions are not available for future spending. Although the Township's investment in capital position is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources because the capital position itself cannot be used to liquidate these liabilities.

TOWNSHIP OF ROYAL OAK'S NET POSITION

	Governmental Activities		Business-Type Activities		Total Activities	
	2013	2012	2013	2012	2013	2012
Current Assets	\$ 1,672,836	\$ 2,124,897	\$ 513,762	\$ 591,816	\$ 2,186,598	\$ 2,716,713
Capital Assets	832,596	934,551	-	-	832,596	934,551
TOTAL ASSETS	2,505,432	3,059,448	513,762	591,816	3,019,194	3,651,264
Current Liabilities	707,363	2,509,217	59,971	34,077	767,334	2,543,294
Long-Term Liabilities	914,633	993,937	-	-	914,633	993,937
TOTAL LIABILITIES	1,621,996	3,503,154	59,971	34,077	1,681,967	3,537,231
Deferred Inflows of Resources	\$ 1,492,533					
Net Assets:						
Invested in Capital, Net						
of Related Debt	\$ (161,347)	\$ (63,207)	\$ -	\$ -	\$ (161,347)	\$ (63,207)
Restricted			236,163	267,532	236,163	267,532
Unrestricted	(447,750)	(380,499)	217,629	290,207	(230,121)	(90,292)
TOTAL NET ASSETS	\$ (609,097)	\$ (443,706)	\$ 453,792	\$ 557,739	\$ (155,305)	\$ 114,033

CHARTER TOWNSHIP OF ROYAL OAK

Management's Discussion and Analysis

Further, the Township is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

TOWNSHIP OF ROYAL OAK'S CHANGE IN NET POSITION

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2013	2012	2013	2012	2013	2012
Revenues:						
Charges for Services	\$ 50,641	\$ -	\$ 1,054,046	\$ 1,076,073	\$ 1,104,687	\$ 1,076,073
Operating Grant	-	173,981	-	-	-	173,981
General Revenues:						
Taxes and Special						
Assessment	1,503,590	1,753,003	-	-	1,503,590	1,753,003
State Shared	430,513	471,809	-	-	430,513	471,809
Other	251,493	375,763	-	-	251,493	375,763
Investment Earnings	519	473	-	-	519	473
Total Revenues	\$ 2,236,756	\$ 2,775,029	\$ 1,054,046	\$ 1,076,073	\$ 3,290,802	\$ 3,851,102
Expenses						
General Government	\$ 815,401	\$ 883,438	-	\$ -	\$ 815,401	\$ 883,438
Police	698,281	970,558	-	-	698,281	970,558
Fire	336,316	551,588	-	-	336,316	551,588
Public Works	144,405	386,911	-	-	144,405	386,911
Recreation and Culture	193,593	460,406	-	-	193,593	460,406
Community Development	20,916	21,432	-	-	20,916	21,432
Depreciation	101,956	80,244	-	-	101,956	80,244
Water and Sewer	-	-	1,127,116	1,066,023	1,127,116	1,066,023
Total Expenses	2,310,868	3,354,577	1,127,116	1,066,023	3,437,984	4,420,600
increase in Net Assets	\$ (74,112)	\$ (579,548)	\$ (103,947)	\$ 10,050	\$ (178,059)	\$ (569,498)

CHARTER TOWNSHIP OF ROYAL OAK

Management's Discussion and Analysis

Governmental Activities:

Governmental activities decreased the Township's net position by \$74,112. Key factors of this decrease are as follows:

- Decrease in revenues coupled with substantial tax charge backs from Oakland County.

Business-Type Activities:

Business-type activities decreased the Township's net position by \$(103,947)

- The Township does not have access to these funds because they are managed by the Oakland County Water Resources Commissioners office.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

As the Township completed the year, its governmental funds reported combined fund balances of \$(447,750).

General Fund:

The General Fund is the chief operating fund of the Township. At the end of the current fiscal year, the unreserved fund balance was \$26,945. Total fund balance decreased by \$11,045 during the fiscal year.

CAPITAL POSITION AND DEBT ADMINISTRATION

Capital Position:

The Township investment in capital position for its governmental activities as of December 31, 2013 amounts to \$832,596 (net of accumulated depreciation). This investment includes a broad range of capital position, which is detailed in the table below. The total decrease in the Township's net investment in capital position for the current fiscal year was \$101,956 (depreciation expense).

CHARTER TOWNSHIP OF ROYAL OAK

Management's Discussion and Analysis

NET CAPITAL POSITION AT YEAR END

	Governmental Activities	
	<u>2013</u>	<u>2012</u>
Capital assets not depreciated:		
Land	\$ 240,000	\$ 240,000
Capital assets being depreciated:		
Computers	-	2,553
Equipment	-	-
Infrastructure	565,738	636,088
Landscaping Equipment	-	-
Office Furniture	-	1,481
Vehicles	<u>26,858</u>	<u>54,429</u>
Net Capital Assets	<u>\$ 832,596</u>	<u>\$ 934,551</u>

Long-Term Debt.

At the end of the fiscal year, the Township had total long-term bonds and notes outstanding of \$993,943.

OUTSTANDING DEBT AT YEAR END

	<u>Governmental Activities</u>
General Obligation Bonds (Backed by the Township)	\$ 993,943
Notes Payable	<u>-</u>
	<u>\$ 993,943</u>

State statutes limit the amount of general obligation debt the Township can issue to 10% of its total state equalized assessed value of property. The Township's total general obligation debt of \$993,943 is significantly lower than the current state-imposed limit.

CHARTER TOWNSHIP OF ROYAL OAK

Management's Discussion and Analysis

BUDGET

The general fund did have total expenditures exceed budgeted expenditures by \$68,437. This year there were no significant variations in the major special revenue funds.

The expenses for 2014 year will decrease, due to the fact that they won't get chargeback's from Oakland County as they did in 2013. Other than the chargeback's, there won't be any significant change in the budget.

CONTACTING THE TOWNSHIP'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to the following:

Charter Township of Royal Oak
21131 Gardenlane, 2nd Floor
Ferndale, MI 48220

**CHARTER TOWNSHIP OF ROYAL OAK
GOVERNMENT WIDE
STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	<u>Primary Government</u>			Downtown Development Authority
	<u>Governmental Activities</u>	<u>Business-Type Activities</u> (See pg 16 & 17)	<u>Total</u>	
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 168,629	\$ -	\$ 168,629	\$ 69,896
Accounts Receivable	11,674	-	11,674	-
Property Taxes Receivable Due From Fiduciary Funds	1,492,533	-	1,492,533	81,414
Land- property purchases	-	-	-	-
	-	-	-	153,335
Total Current Assets	<u>1,672,836</u>	<u>-</u>	<u>1,672,836</u>	<u>304,645</u>
Noncurrent Assets				
Capital assets not subject to depreciation	240,000	-	240,000	-
Capital assets subject to depreciation-Net	592,596	-	592,596	-
Total Noncurrent Assets	<u>832,596</u>	<u>-</u>	<u>832,596</u>	<u>-</u>
Total Assets	<u>\$ 2,505,432</u>	<u>\$ -</u>	<u>\$ 2,505,432</u>	<u>\$ 304,645</u>
Current Liabilities				
Accounts Payable	\$ 615,549	\$ -	\$ 615,549	\$ 15,320
Notes Payable	-	-	-	74,319
Accrued Wages Payable	12,504	-	12,504	-
Bonds Payable, Due within One Year	79,310	-	79,310	-
Total Current Liabilities	<u>707,363</u>	<u>-</u>	<u>707,363</u>	<u>89,639</u>
Deferred Inflows of Resources (Note 4)				
Property taxes levied for the following year	1,492,533		1,492,533	81,414
Noncurrent Liabilities				
Bonds Payable	914,633	-	914,633	-
Total Deferred Inflows & Noncurrent Liabilities	<u>2,407,166</u>	<u>-</u>	<u>2,407,166</u>	<u>81,414</u>
Total Liabilities	<u>3,114,529</u>	<u>-</u>	<u>3,114,529</u>	<u>171,053</u>
Net Position				
Net investment in Capital Assets	(161,347)	-	(161,347)	-
Restricted	-		-	133,592
Unrestricted	(447,750)		(447,750)	-
Total Net Position	<u>\$ (609,097)</u>	<u>-</u>	<u>\$ (609,097)</u>	<u>\$ 133,592</u>

See accompanying notes and accountant's report

CHARTER TOWNSHIP OF ROYAL OAK
STATEMENT OF ACTIVITIES
DECEMBER 31, 2013

Functions/Programs	Expenses	Program Revenues		Governmental	Component
		Charges for	Operating	Activities	
		Services	Grants and	Net (Expenses)	Unit
			Contributions	Revenues and	
				Changes in	
				Net Assets	
Functions/Programs					
Governmental activities:					
General Governmental	\$ 700,414	\$ 50,641	\$ -	\$ (649,773)	\$ -
Police	698,281	-	-	(698,281)	-
Fire	336,316	-	-	(336,316)	-
Building and Grounds	114,987	-	-	(114,987)	-
Public Works	144,405	-	-	(144,405)	-
Recreation & Culture	193,593	-	-	(193,593)	-
Community Development	20,916	-	-	(20,916)	53,466
Depreciation	101,956	-	-	(101,956)	-
Total Primary Government	2,310,868	50,641	-	(2,260,227)	53,466
Taxes					
Property Taxes, Levied for General Operations			\$ 1,503,590		\$ 89,894
State shared revenue			430,513		-
Interest income			519		-
Other			251,493		-
Total General Revenues			2,186,115		89,894
Change in Net Position			(74,112)		36,428
Net Position Beginning of Year (restated)			(534,985)		97,164
Net Position End of Year			\$ (609,097)		\$ 133,592

See accompanying notes and accountant's report

**CHARTER TOWNSHIP OF ROYAL OAK
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	General	Police	Fire	Recreation	Other Nonmajor Governmental Funds	Totals
ASSETS						
Cash and Cash Equivalents	\$ 116,175	\$ 3,090	\$ 75	\$ 3,883	\$ 45,406	\$ 168,629
Accounts Receivable	11,674		-	-	-	11,674
Due from other funds	264,685	251,244	14,251	96,869	70,997	698,046
Taxes Receivable - Current	298,020	593,600	286,325	120,455	194,133	1,492,534
	-	-	-	-	-	-
	-	-	-	-	-	-
Total assets	<u>\$ 690,554</u>	<u>\$ 847,934</u>	<u>\$ 300,651</u>	<u>\$ 221,207</u>	<u>\$ 310,536</u>	<u>\$ 2,370,882</u>
LIABILITIES AND FUND BLANACE						
Liabilities						
Accounts Payable	\$ 36,656	\$ 472,357	\$ 46,385	\$ 24,009	\$ 36,142	\$ 615,549
Accrued Wages Payable	10,803	-	-	1,701	-	12,504
Deferred Inflow- taxes levied for the following year	298,020	593,600	286,325	120,455	194,133	1,492,533
Due to Other Funds	318,131	259,467	30,745	36,294	53,409	698,046
Total liabilities	<u>663,610</u>	<u>1,325,424</u>	<u>363,455</u>	<u>182,459</u>	<u>283,684</u>	<u>2,818,632</u>
FUND BALANCE						
Reserved Debt Service	-	-	-	-	-	-
Unreserved and Undesignated	26,945	(477,490)	(62,804)	38,748	26,852	(447,750)
Total Fund Balance	<u>26,945</u>	<u>(477,490)</u>	<u>(62,804)</u>	<u>38,748</u>	<u>26,852</u>	<u>(447,750)</u>
Total Liabilities and Fund Balance	<u>\$ 690,554</u>	<u>\$ 847,934</u>	<u>\$ 300,651</u>	<u>\$ 221,207</u>	<u>\$ 310,536</u>	<u>\$ 2,370,882</u>
Total Governmental Fund Balances						\$ (447,750)
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						
Cost of Capital Assets					4,505,873	
Accumulated Depreciation					<u>(3,673,277)</u>	832,596
Long-Term Liabilities are not due and payable in the current period and are reported in the fund						
Oakland County Drain						(993,943)
Net Position of Governmental Activities						<u>\$ (609,097)</u>

See accompanying notes and accountant's report

CHARTER TOWNSHIP OF ROYAL OAK
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	General	Police	Fire	Recreation	Other Nonmajor Governmental Funds	Totals
Revenues						
Local Sources	\$ 504,003	\$ 645,483	\$ 305,046	\$ 145,340	\$ 206,370	\$ 1,806,242
State Sources	430,513	-	-	-	-	430,513
Federal Sources	-	-	-	-	-	-
Total Revenues	<u>934,516</u>	<u>645,483</u>	<u>305,046</u>	<u>145,340</u>	<u>206,370</u>	<u>2,236,755</u>
Expenditures						
Legislative expenses	169,785	-	-	-	-	169,785
Supporting Services	397,097	-	-	-	-	397,097
Senior center	96,744	-	-	-	-	96,744
Public Safety	-	698,281	336,291	-	-	1,034,572
Public Works	36,602	-	-	-	144,405	181,007
Community Development	20,916	-	-	-	-	20,916
Recreation and Culture	211	-	-	125,784	67,809	193,804
Building and grounds	114,987	-	-	-	-	114,987
Total Expenditures	<u>836,342</u>	<u>698,281</u>	<u>336,291</u>	<u>125,784</u>	<u>212,214</u>	<u>2,208,912</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>98,174</u>	<u>(52,798)</u>	<u>(31,245)</u>	<u>19,556</u>	<u>(5,844)</u>	<u>27,843</u>
Other Financing Sources (Uses)						
Operating Transfers In	-	-	67,983	9,385	31,851	109,219
Operating Transfers Out	(109,219)	-	-	-	-	(109,219)
Total Other Financing Sources (uses)	<u>(109,219)</u>	<u>-</u>	<u>67,983</u>	<u>9,385</u>	<u>31,851</u>	<u>-</u>
Net Change in Fund Balances	(11,045)	(52,798)	36,738	28,941	26,007	27,843
Fund Balance Beginning of Year(restated)	37,990	(424,692)	(99,542)	9,807	845	(475,592)
	-	-	-	-	-	-
Fund Balance End of Year	<u>\$ 26,945</u>	<u>\$ (477,490)</u>	<u>\$ (62,804)</u>	<u>\$ 38,748</u>	<u>\$ 26,852</u>	<u>\$ (447,750)</u>

See accompanying notes and accountant's report

CHARTER TOWNSHIP OF ROYAL OAK
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
DECEMBER 31, 2013

Net Change in Fund Balance - Total Governmental Funds \$ 27,843

Amounts reported for Governmental Activities in the statement of Activities are different because Governmental Funds report Capital Outlays as Expenditures in the Statement of Activities; these costs are allocated over their estimated useful lives as Depreciation.

Depreciation Expense	\$ 101,955	
Capital Outlay	<u>-</u>	(101,955)

Accrued interest is recorded in the Statement of Activities when incurred; it is not reported in Governmental Funds until paid. -

Repayment of Bond Principal is an Expenditure in the Governmental Fund, but not in the Statement of Activities (where it reduces Long-Term Debt) -

Increases in Compensated Absences are reported as Expenditures when financial resources are used in the Governmental Funds. -

Change in Net Position of Governmental Activities \$ (74,112)

See accompanying notes to financial statements

CHARTER TOWNSHIP OF ROYAL OAK
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
ENTERPRISE FUND - WATER AND SEWER
DECEMBER 31, 2013

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$	121,028
Accounts Receivable - Customers		211,114
Unbilled Water Receivables		54,322
Unbilled Sewer Receivable		127,298
		127,298
Total Current Assets	\$	513,762

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$	38,458
Vouchers Payable		21,513
		21,513
Total Liabilities		59,971

NET POSITION

Restricted for Projects:		
Major Maintenance Reserve		23,211
Emergency Maintenance Reserve		142,396
Capital Improvement Reserve		70,556
Undesignated Net Assets		217,629
		217,629
TOTAL NET POSITION	\$	453,792

See accompanying notes to financial statements

CHARTER TOWNSHIP OF ROYAL OAK
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
REVENUE			
Sales	\$ 302,212	\$ 697,458	\$ 999,670
Penalties	16,448	19,165	35,613
Permits	5,956	500	6,456
Other Revenue	<u>5,014</u>	<u>7,293</u>	<u>12,307</u>
Total Revenue	<u><u>\$ 329,630</u></u>	<u><u>\$ 724,416</u></u>	<u><u>\$ 1,054,046</u></u>
OPERATING EXPENSES			
Contractual services	\$ 174,804	\$ 539,485	\$ 714,289
System engineering	11,206	9,032	20,238
Operations & Maintenance Cost	184,184	33,743	217,927
Other Payments	14,012	14,205	28,217
General & Administration	17,974	128,471	146,445
	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>402,180</u>	<u>724,936</u>	<u>1,127,116</u>
Net Operating Income	(72,550)	(520)	(73,070)
NON-OPERATING TRANSACTIONS			
Non-Operating Income	10,270	7,505	17,775
Non-Operating Expense	<u>-</u>	<u>(48,652)</u>	<u>(48,652)</u>
Change in Net Position	<u><u>\$ (62,280)</u></u>	<u><u>\$ (41,667)</u></u>	<u><u>\$ (103,947)</u></u>
Beginning Net Position	<u>270,817</u>	<u>286,922</u>	<u>557,739</u>
Ending Net Position	<u><u>\$ 208,537</u></u>	<u><u>\$ 245,255</u></u>	<u><u>\$ 453,792</u></u>

See accompanying notes and accountant's report

CHARTER TOWNSHIP OF ROYAL OAK
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2013

ASSETS

	Current Tax	Trust & Agency	Total
Current Assets			
Cash and Cash Equivalents	\$ 2,722	\$ 20,159	\$ 22,881
Accounts Receivable	-	-	-
Due from Other Funds	313,628	41,193	354,821
Total Assets	\$ 316,350	\$ 61,352	\$ 377,702

LIABILITIES

Current Liabilities			
Escrow Deposits	\$ -	\$ 6,198	\$ 6,198
Due to Other Governmental Units	313,715	54,653	368,368
Accounts Payables	100	-	100
Undistributed Tax Collections	2,535	501	3,036
Total Current Liabilities	\$ 316,350	\$ 61,352	\$ 377,702

See accompanying notes and accountant's report

CHARTER TOWNSHIP OF ROYAL OAK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Township of Royal Oak, Michigan (the “Township”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township of Royal Oak.

REPORTING ENTITY – The Township was organized as a charter township in 1974 and is located in southern Oakland County. A Supervisor and a Board of Trustees govern the Township. The Supervisor is the chief administrative and executive officer of the Township and is elected at-large for a four-year term in a non-partisan election and has voting power. The Board consists of four trustees, a clerk, and a treasurer who are also elected at-large for four-year terms, in a non-partisan election. The reporting entities included in these financial statements are the Township of Royal Oak, the primary government and the Downtown Development Authority.

The basic criterion for including a potential component unit in the reporting entity is the governing body’s ability to exercise oversight responsibility. Oversight responsibility includes the primary government being financially accountable for the potential component unit. Other oversight responsibilities include, but are not limited to, the selection of the governing authority, the designation of management, the ability to approve or modify the budget, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Township is able to exercise oversight responsibilities.

BLENDED COMPONENT UNITS – These types of component units are reported as though they were part of the primary government, using the blended method.

The intended purpose of the Downtown Development Authority (DDA) is to implement improvements to public facilities within the development area to comply with barrier free design requirements and to develop and implement long-range plans designed to halt the deterioration of the property values in the Downtown District. Funding for DDA is provided from the increased property tax revenues from any benefited property.

Separate financial statements of the DDA may be obtained from the Township offices.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

CHARTER TOWNSHIP OF ROYAL OAK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants 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 proprietary and fiduciary funds are excluded from the government-wide financial statements. Major individual governmental 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 eligibility requirements imposed by the provider have been met.

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest, which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, sale of naming rights, intergovernmental revenues, and investment income.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods and services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

CHARTER TOWNSHIP OF ROYAL OAK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013

FUND TYPES AND MAJOR FUNDS

The Township reports the following major government funds:

General Fund – The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Police Fund – Special revenue Fund used to levy and collect taxes for the operation of the Police Department.

Fire Fund – Special Revenue Fund used to levy and collect taxes for the operation of the Fire Department.

In addition the Township reports on the following fund types:

Special Revenue Funds – The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

PROPRIETARY FUND:

Water and Sewer Fund – The Water and Sewer fund is an Enterprise Fund. The Oakland County – Water Resources Commissioner's Office operates one Enterprise Fund, on behalf of The Township, which accounts for the operation of the Water and Sewer Systems. The fund is financed and operated in a manner similar to a private enterprise. The intent is that costs (expenses, including depreciation) of providing water and sewer services to the general public are recovered through user charges. The fund used full accrual accounting based on Generally Accepted Accounting Principals (GAAP) and follows accounting and financial activities prescribed by the Financial Accounting and Standards Board (FASB) as long as it does not conflict with the Governmental Accounting Standards Board (GASB) guidance.

FIDUCIARY FUNDS:

Agency Funds – Agency Funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, organizations, other governments or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Specific Balances and Transactions

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

CHARTER TOWNSHIP OF ROYAL OAK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013

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

Restricted Assets- Water and Sewer Fund cash held in escrow is considered restricted cash and net position has also been restricted for these amounts.

Capital Assets – Capital assets, which include, property, plant, equipment, and infrastructure assets are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$250 and an estimated useful life in excess of two years. 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.

Property, plant, and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	37 years
Equipment	5 to 7 years
Furniture	5 to 7 years
Vehicles	7 years
Infrastructure	50 years

Compensated Absences (Vacation and Sick Leave) – It is the government’s policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate for service with the government. All vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end. There was no liability incurred for compensated absences for the year ended December 31, 2013.

Long-Term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the term of the bonds using the interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums 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 issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue qualifies for reporting in this category and arises only under a modified accrual basis of accounting. Accordingly, it is reported only in the governmental funds balance sheet. The governmental funds and government-wide statements report unavailable revenues from property taxes and other sources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. Is the government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Property Taxes – Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31.

The Township's 2012 tax is levied and collectible on December 1, 2012 and is recognized as revenue in the year ended December 31, 2013, when the proceeds of the levy are budgeted and available for the financing of operations.

CHARTER TOWNSHIP OF ROYAL OAK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013

The 2012 taxable valuation of the Township totaled \$35,555,710 (Personal \$ 6,090,850 and Real property \$29,464,860. Tax rates for 2013 property taxes are as follows:

General funds	8.7102	Police	21.2500
Parks/recreation	2.5000	Fire	10.2500
Parks/rec. special assessment	1.2500	Disposal	3.0000
Library	2.0000	Street Lights	1.5000

All trade and property tax receivables are shown net of allowance for uncollectible amounts. Property taxes attach as an enforceable lien on property as of December 31 each year. Township taxes are levied and immediately due the following December 31 with final collection date of March 31 without penalty. Taxes unpaid after March 31 are subject to interest, penalties and collection fees. Oakland County, Michigan (the "County") is responsible for the collection of real property taxes of the Township which are delinquent as of March 31 of each fiscal year. The County purchases from the Township all delinquent real property taxes from a tax payment fund established by the County. In return, the Township has assigned to the County all amounts payable to the Township from the taxpayers with respect to such delinquent real property taxes.

Proprietary Funds Operating Classification- Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

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

NOTE 2 – MATERIAL VIOLATIONS OF LEGAL PROVISIONS

Deficit Fund Balances:

- As of December 31, 2013, Fire fund had a deficit of \$62,804
- As of December 31, 2013, Police Fund had a deficit of \$477,490
- As of December 31, 2013, Street Lighting Fund had a deficit of \$7,389

Budget:

State Law requires the adoption of a balanced budget for the General, Special Revenue and Debt Service Funds, as well as budget amendments as needed to prevent actual expenditures from exceeding the amount appropriated. The Township adopts their budget by department and the following is a list of departments that over expended the budget:

Several departments in the general fund over expended the budgeted amounts (See page 32). As shown on page 33, the Special Revenue Funds did have expenditures in excess of the budgeted amount.

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 interest 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 the 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 2 banks for the deposit of its funds. The Townships deposits and investment policies are in accordance with statutory authority.

Custodial Credit Risk of Bank Deposits – Custodial credit risk is the risk that in the event of a bank failure, The Townships deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had **\$352,454** of bank deposits (checking and savings accounts) that were covered by federal depository insurance. 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 its deposits and assesses the level of each institution; only those institutions with acceptable estimated risk level are used as depositories.

CHARTER TOWNSHIP OF ROYAL OAK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013

At December 31, 2013, the carrying value of the Township's cash is summarized as follows.

	<u>Carrying Amount</u>
General Fund	\$ 268,935
Special Revenue	53,252
Trust and Agency Fund	<u>22,881</u>
Total Insured and Collateralized Deposits	<u><u>\$ 352,454</u></u>

NOTE 4 – INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables, including interfund loans, are as follows:

	<u>Receivable</u>	<u>Payable</u>
General	\$ 264,685	\$ 318,131
Police	251,244	259,467
Fire	14,251	30,745
Recreation	96,869	36,294
Non-major funds	<u>70,997</u>	<u>53,409</u>
Total	<u><u>\$ 698,046</u></u>	<u><u>\$ 698,046</u></u>

NOTE 5 – DOWNTOWN DEVELOPMENT AUTHORITY

In March 1992, the Township established a Downtown Development Authority for commercial development within the Township. The Authority was established under Public Act 197, or 1975, in which taxes recaptured will be used for commercial development.

NOTE 6 – LONG-TERM DEBT

The Township is part of the George W. Kuhn drainage District of Oakland County. Oakland County has seven outstanding bond issues, which the township is responsible for a percentage of the principal and interest payments. The Township's total share of the bond issues at December 31, 2013 are as follows:

CHARTER TOWNSHIP OF ROYAL OAK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

Long-term debt activity can be summarized as follows:

Governmental activities

<u>Interest Rates</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
3.5 - 4.25%	\$ 1,071,771	\$ -	\$ 77,828	\$ 993,943	\$ 79,310

Annual debt service requirements to maturity for the above bond obligation are as follows:

<u>Years ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 79,310	\$ 26,621	\$ 105,931
2015	81,299	24,783	106,082
2016	84,555	21,548	106,103
2017	85,950	19,982	105,932
2018	88,121	17,516	105,637
2019-2023	404,430	27,935	432,365
2024-2028	164,233	13,330	177,563
2029	6,045	76	6,121
Total Governmental	\$ 993,943	\$ 151,792	\$ 1,145,734

NOTE 7 – EMPLOYEE RETIREMENT SYSTEM

Plan Description

The Township contributes to the Municipal Employees Retirement System of Michigan (“MERS”). MERS is an independent public nonprofit organization that has partnered with Michigan municipalities for more than 65 years, helping them provide safe, secure retirement plans for their employees. The Township is responsible for the employer contributions needed to provide MERS benefits for its employees and former employees under the Michigan Constitution and the MERS Plan Document.

CHARTER TOWNSHIP OF ROYAL OAK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013

CONTRIBUTIONS

The Township was not required to make any contributions during the 2013 fiscal year.

Valuation Results at 12/31/13

Valuation assumption of 8% Rate of Investment:

Accrued Liability	\$2,231,966
Valuation Assets	\$4,592,652
Unfunded Accrued Liability	\$(2,360,686) (1)

Funded Ratio	206%
Total Employer Contribution	\$ 0

(1) If assets exceed liabilities for a division, the division's amortization is negative and is used to reduce the division's employer contribution requirement.

Membership Summary

Total Municipality	Number	Annual Payroll	Number	Annual Payroll (1)
Active Members	5	\$ 119,593	4	\$ 97,875
Vested Former Members	2	11,813	3	24,736
Retirees and Beneficiaries	<u>13</u>	169,326	<u>14</u>	221,914
Total participants	20		21	

(1) Annual payroll for active members; annual deferred benefits for vested former members; annual benefits being paid for retirees and beneficiaries.

GASB 25 and GASB 27 Information

The following information has been prepared to provide the information necessary to comply with GASB Statements 25 and 27.

All entries and the annual employer contributions amount were based on the actuarial methods and assumptions used in the December 31, 2013 actuarial valuation. The entry age normal actuarial method was used to determine the disclosure entries.

CHARTER TOWNSHIP OF ROYAL OAK

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

GASB 25 Information (as of 12/31/2013)

Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	\$ 1, 621,996
Terminated employees(vested former members) not yet receiving benefits	119,722
Non-Vested terminated employees (pending refunds of member contributions)	49,841
Current employees-	
Accumulated employee contributions including allocated investment income	30,873
Employer financed	<u>409,534</u>
Total Actuarial Accrued Liability	\$ 2,231,966
Net Assets Available for Benefits at Actuarial Value	\$ 4,592,652
(Market Value is \$4,325, 183)	
Unfunded (Overfunded) Actuarial Accrued Liability	\$ (2,360,686)

GASB 27 Information (as of 12/31/2013)

Fiscal Year Beginning	January 1, 2015
Annual Required Contribution (ARC)	\$ 0

The full Annual Actuarial Valuation report can be obtained by writing to:

MERS
1134 Municipal Way
Lansing, Michigan 48917

NOTE 8 – FEDERAL GRANTS

The Township did not receive an allocation of funds from the Federal Government under the Community Development Block Grant. The Township's expenditures for 2013 were \$0, which is below the requirements of the \$500,000 Single Audit Act. Therefore, no single audit for 2013 is required.

NOTE 9 – DEFERRED COMPENSATION

The Township does not participate in a deferred compensation plan. However, the employees of the Township have elected to participate in their own plan through payroll deductions.

NOTE 10 – POST-EMPLOYMENT BENEFITS

The Township did not incur any post –retirement benefit expenses during 2013.

CHARTER TOWNSHIP OF ROYAL OAK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013

NOTE 11 – CAPITAL ASSETS

The Township's investment in capital assets for its governmental activities as of December 31, 2013 amounts to \$832,596 (net of accumulated depreciation). The total decrease in the Township's net investment in capital assets for the current fiscal year was \$101,954.

NET CAPITAL ASSETS AT YEAR END

<u>Capital Assets</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value</u>
Land	\$ 240,000	\$ -	\$ 240,000
Capital assets being depreciated			
Computers	100,563	100,563	-
Equipment	66,720	66,720	-
Furniture	55,482	55,482	-
Lawn Equipment	50,039	50,039	-
Infrastructure	3,517,492	2,951,754	565,738
Vehicles	193,000	166,142	26,858
Fire Equipment	22,840	22,840	-
Buiding	259,737	259,737	-
Net Capital Assets	<u>\$ 4,505,873</u>	<u>\$ 3,673,277</u>	<u>\$ 832,596</u>

NOTE 12 – HOUSING COMMISSION

The activities of the Royal Oak Township Housing Commission are not included in these financial statements. The activities of the Commission for the fiscal year ended March 31, 2013 are reported in a separate report.

NOTE 13- Change in Accounting

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

CHARTER TOWNSHIP OF ROYAL OAK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013

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

<u>Item</u>	<u>Amount</u>	<u>Prior Reporting Classification</u>	<u>New Classification After Adoption of GASB 65</u>
Property taxes billed, but which were levied for next years budget	\$1,492,533	Liability	Deferred inflow of resources

Note 14- Restricted Assets

The restricted assets represent current assets restricted for the following purposes:

	<u>Water and Sewer Fund</u>
Major maintenance reserve	\$ 23,211
Emergency maintenance reserve	142,396
Capital Improvement Reserve	<u>70,556</u>
Total restricted assets	<u>\$ 236,163</u>

Net position has been restricted for the same amounts.

Note 15- Risk Management

The Township is exposed to various loss related to property loss, torts, errors and omissions, and workers compensation. The Township has purchased commercial insurance for medical and dental claims, and participates in the Michigan Municipal League risk pool for claims relating to property loss, torts, errors and omissions, workers ' compensation, and is insured for unemployment compensation claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage.

REQUIRED SUPPLEMENTAL INFORMATION

CHARTER TOWNSHIP OF ROYAL OAK
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013

	Budgeted Amounts		Actual	Favorable (Unfavorable)
	Original	Final		Final Budget
Revenues				
Local Sources	\$ 697,858	\$ 722,475	\$ 504,003	\$ (218,472)
State Sources	444,930	395,705	430,513	34,808
Total Revenues	<u>1,142,788</u>	<u>1,118,180</u>	<u>934,516</u>	<u>(183,664)</u>
Expenditures				
Trustees	6,383	19,358	18,891	467
Supervisor	57,466	66,907	70,162	(3,255)
Election	10,450	10,450	400	10,050
General Administrative	222,050	189,747	229,155	(39,408)
Contracted Services	157,000	157,000	167,116	(10,116)
Clerk Department	38,507	38,004	46,984	(8,980)
Treasurer	36,097	32,277	33,748	(1,471)
Building and Grounds	121,715	113,754	114,987	(1,233)
Community Development	29,513	15,350	20,916	(5,566)
Inspection	15,350	15,350	36,602	(21,252)
Senior Center	111,823	109,708	97,381	12,327
Total Expenditures	<u>806,354</u>	<u>767,905</u>	<u>836,342</u>	<u>(68,437)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>336,434</u>	<u>350,275</u>	<u>98,174</u>	<u>(252,101)</u>
Other Financing Sources (Uses)				
Operating Transfers In	20,000	20,000		(20,000)
Operating Transfers Out	(352,536)	(196,811)	(109,219)	87,592
Total Other Financing Sources (Uses)	<u>(332,536)</u>	<u>(176,811)</u>	<u>(109,219)</u>	<u>67,592</u>
Net Change in Fund Balance	3,898	173,464	(11,045)	(184,509)
Fund Balance -beginning of year (restated)	<u>37,990</u>	<u>37,990</u>	<u>37,990</u>	<u>-</u>
Fund Balance- end of year	<u>\$ 41,888</u>	<u>\$ 211,454</u>	<u>\$ 26,945</u>	<u>\$ (184,509)</u>

See accompanying notes and accountant's report

CHARTER TOWNSHIP OF ROYAL OAK
BUDGETARY COMPARISON SCHEDULE
MAJOR SPECIAL REVENUE GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Original	Final	Actual	Favorable (Unfavorable) Final Budget
Revenues				
Property Taxes	\$ 1,057,265	\$ 1,057,265	\$ 1,050,526	\$ (6,739)
Other Revenue	23,050	25,050	45,342	20,292
Total Revenues	<u>1,080,315</u>	<u>1,082,315</u>	<u>1,095,868</u>	<u>13,553</u>
Expenditures				
Police				
Contracted Services	680,031	680,031	614,084	65,947
Other Expenses	123,633	65,652	84,197	(18,545)
Fire				
Contracted Services	303,979	303,979	297,971	6,008
Other Expenses	113,932	45,241	38,320	6,921
Recreation				
Salary and Benefits	60,992	60,992	56,528	4,464
Utilities	43,400	43,400	34,856	8,544
Other Expenses	67,703	33,145	34,400	(1,255)
Total Expenditures	<u>1,393,670</u>	<u>1,232,440</u>	<u>1,160,356</u>	<u>72,084</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(313,355)</u>	<u>(150,125)</u>	<u>(64,488)</u>	<u>85,637</u>
Other Financing Sources (Uses)				
Operating Transfers In	313,355	152,760	77,368	(75,392)
Operating Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>313,355</u>	<u>152,760</u>	<u>77,368</u>	<u>(75,392)</u>
Net Change in Fund Balance	-	2,635	12,880	10,245
Fund Balance - beginning of year (restated)	<u>(514,427)</u>	<u>(514,427)</u>	<u>(514,427)</u>	<u>-</u>
Fund Balance - end of year	<u>\$ (514,427)</u>	<u>\$ (511,792)</u>	<u>\$ (527,307)</u>	<u>\$ 10,245</u>

See accompanying notes and accountant's report

CHARTER TOWNSHIP OF ROYAL OAK

Note to Required Supplemental Information Year Ended December 31, 2013

Budgetary Information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all special revenue funds. The annual budget is prepared by the Township supervisor and adopted by the Township Board; subsequent amendments are approved by the Township Board. All annual appropriations lapse at fiscal year end. During the current year, the budget was amended in a legally permissible manner.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results to the General Fund and Major Special Revenue Fund Budget as adopted by the Township is included in the required supplemental information. A comparison of the actual results of operations to the non-major special revenue funds budget as adopted by the Township board is available at the clerk's office for inspection.

A reconciliation of the budgetary comparison schedule for the General fund to the fund-based statement of changes in fund balance is as follows:

	Total Revenue	Total Expenditures
Amounts per operating statement	\$ 934,516	\$ 836,342
Major Special Revenue Funds	<u>1,095,868</u>	<u>1,160,356</u>
Amounts per budget statement	<u>\$ 2,030,384</u>	<u>\$ 1,996,698</u>

Excess of Expenditures Over Appropriations in Budgeted Funds – During the year, General Fund expenditures were over budget because the other revenue that was budgeted to be utilized did not materialize; in addition, the Township also received less State Revenue Sharing than what was anticipated. In addition, final amended budgets were not prepared to adjust for the higher expenditure levels.

OTHER SUPPLEMENTAL INFORMATION

**CHARTER TOWNSHIP OF ROYAL OAK
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	Street Lighting	Disposal System	Library	Neighborhood Stabilization	Community Dev - BG	Nonmajor Governmental Funds Total
ASSETS						
Cash and Cash Equivalents	\$ 75	\$ 220	\$ 44,823	\$ 254	\$ 34	\$ 45,406
Taxes Receivable	41,901	83,802	68,430	-	-	194,133
Accounts Receivable	-	-	-	-	-	-
Due from Other Funds	23,318	42,837	4,842	-	-	70,997
	-	-	-	-	-	-
Total Assets	<u>65,294</u>	<u>126,859</u>	<u>118,095</u>	<u>254</u>	<u>34</u>	<u>310,536</u>
LIABILITIES AND FUND BALANCE						
LIABILITIES						
Accounts Payable	\$ 17,822	\$ 9,935	\$ 8,385	\$ -	\$ -	\$ 36,142
	-	-	-	-	-	-
Due to Other Funds	12,960	24,243	16,206	-	-	53,409
Deferred Revenues	41,901	83,802	68,430	-	-	194,133
Total Liabilities	<u>72,683</u>	<u>117,980</u>	<u>93,021</u>	<u>-</u>	<u>-</u>	<u>283,684</u>
FUND BALANCE						
Unreserved and Undesignated	<u>(7,389)</u>	<u>8,879</u>	<u>25,074</u>	<u>254</u>	<u>34</u>	<u>26,852</u>
Total Fund Balance	<u>(7,389)</u>	<u>8,879</u>	<u>25,074</u>	<u>254</u>	<u>34</u>	<u>26,852</u>
Total Liabilities and Fund Balance	<u>\$ 65,294</u>	<u>\$ 126,859</u>	<u>\$ 118,095</u>	<u>\$ 254</u>	<u>\$ 34</u>	<u>\$ 310,536</u>

See accompanying notes and accountant's report

CHARTER TOWNSHIP OF ROYAL OAK
COMBINING STATEMENT OF REVENUE EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	Street Lighting	Disposal System	Library	Neighborhood Stabilization	Community Dev - BG	Nonmajor Governmental Funds Total
Revenues						
Local Sources						
Taxes	\$ 44,056	\$ 88,112	\$ 66,454	\$ -	\$ -	\$ 198,622
Other Local Sources	6	625	7,119	-	-	7,750
Total Revenues	<u>\$ 44,062</u>	<u>\$ 88,737</u>	<u>\$ 73,573</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 206,372</u>
Expenditures						
Current Operations						
Public Safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public Works	53,680	90,725	-	-	-	144,405
Community Development	-	-	-	-	-	-
Recreation and Culture	-	-	67,809	-	-	67,809
Total Expenditures	<u>53,680</u>	<u>90,725</u>	<u>67,809</u>	<u>-</u>	<u>-</u>	<u>212,214</u>
Excess (Deficiency) of Revenues Over Expenditures	(9,618)	(1,988)	5,765	-	-	(5,842)
Other Financing Sources (Uses)						
Operating Transfers In	9,012	22,839	-	-	34	31,885
Operating Transfers Out	-	-	-	-	-	-
Total Other Financing Sources (uses)	<u>9,012</u>	<u>22,839</u>	<u>-</u>	<u>-</u>	<u>34</u>	<u>31,885</u>
Net Change in Fund Balances	(606)	20,850	5,765	-	34	26,043
Fund Balance Beginning of Year (restated)	<u>(6,783)</u>	<u>(11,971)</u>	<u>19,309</u>	<u>254</u>	<u>-</u>	<u>809</u>
Fund Balance End of Year	<u>\$ (7,389)</u>	<u>\$ 8,879</u>	<u>\$ 25,074</u>	<u>\$ 254</u>	<u>\$ 34</u>	<u>\$ 26,852</u>

See accompanying notes and accountant's report

DRAFT
Wilkerson & Associate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

645 GRISWOLD, SUITE 1812
DETROIT, MICHIGAN 48226
313-967-0134 FAX 313-967-0138

LARRY WILKERSON, C.P.A.
THOMAS E. WILKERSON, C.P.A.

June 19, 2014

To the Township Board
Charter Township of Royal Oak

We have audited the financial statements of the Charter Township of Royal Oak (the "Township") as of and for the year ended December 31, 2013 and have issued our report thereon dated June 19, 2014. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Communications Required Under AU 265

Section II – Communications Required Under AU 260

Section III – Other Recommendations and Related Information

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

Section II includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the Township Board of the Charter Township of Royal Oak.

Section III presents recommendations related to internal control, procedures, and other matters noted during our current year audit. These comments are offered in the interest of helping the Township in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operational or administrative efficiency and effectiveness.

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

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

To the Township Board
Charter Township of Royal Oak
June 19, 2014

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,

Wilkerson & Associate PC

Larry Wilkerson, CPA
President

To the Township Board
Charter Township of Royal Oak
June 19, 2014

Section I – Communications Required Under AU 265

In planning and performing our audit of the financial statements of the Charter Township of Royal Oak as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

We consider the following deficiencies in the Township's internal control to be significant deficiencies:

- **Adjusting Journal Entries** – As a result of our audit procedures, we proposed significant audit adjustments, which are reflected in the December 31, 2013 financial statements. While the Township has appropriately recorded all entries related to day-to-day operations, the entries we identified related to one-time accruals that take place only at year end. These entries included adjustments to accrual for year-end payroll and depreciation expenses. All entries were posted by the Township. To avoid similar findings in the future, we recommend the Township review significant trial balance amounts, particularly asset and liability amounts, and evaluate if they should be adjusted to reflect recent activity. If these entries are not properly made, there could be material misstatements in the Township's financial report.
- **Inter Fund Transactions** – During the audit, it was noted that the trial balance had significant due to/due from account balances in all of the funds. The Township

should implement internal procedures to eliminate most the inter-fund transactions. We also recommend that the Township strengthen procedures over journal entries related to inter fund transactions. The policy could be that all inter fund transactions be Board approved before they are recorded, which would require more review and oversight before the entries are posted.

- **Employment Files** – During the audit , we noted that all employment files were not complete. We reviewed numerous files that did not have current employment agreements in them. However, we did observe that all employment wage information was included in the payroll software. We recommend that all files be updated with current employment agreements that match information in the payroll software.
- **Capital Asset Records** – We also noted that detailed capital asset records were not maintained by the Township. In addition, no current entries were made during the year to update capital asset information or accumulated depreciation on capital assets. We recommend that the Township have a annual physical inventory to account for all assets owned by the Township. We also recommend that the Township implement procedures to update capital asset records and to annually review actual inventory for impairment and/or existence. In addition, the Township must implement procedures to update accumulated depreciation accounts.
- **Fund Balance Deficit** – As a result of the Townships significant deficits , the State Treasurer declared a financial emergency in the Township. The Township entered into a Consent Agreement with the State Treasurer to alleviate the deficit.

Section II – Communications Required Under AU 260

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 22, 2013, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

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

To the Township Board
Charter Township of Royal Oak
June 19, 2014

We are responsible for communicating significant matters related to the audit that are, in our opinion 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 Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on March 17, 2014.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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

As described in Note 15, the Township implemented GASB Statement No 65 this year. The statement mainly reclassifies as deferred outflows and inflows of resources certain items that were previously reported as assets and liabilities.

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

To the Township Board
Charter Township of Royal Oak
June 19, 2014

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

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

Corrected and Uncorrected Misstatements

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 19, 2014.

Management Consultations with Other Independent Accountants

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

Section 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.

To the Township Board
Charter Township of Royal Oak
June 19, 2014

Personal Property Tax

The personal property tax was repealed by the passing of several bills during the legislature's lame duck session in December. This repeal is contingent upon a statewide vote in August 2014 to allow for a shifting of the use tax to a reimbursement fund. Key provisions of the act phase out the industrial portion of the tax over a nine-year period beginning in 2016. Also, businesses with less than \$40,000 taxable value in industrial and commercial personal property in any jurisdiction would no longer pay the tax. For the July 2013 and December 2013 levies, it was business as usual and communities continued to levy as they normally have. However, for the July 2014 levy, this will change. Communities will not be able to levy businesses with less than \$40,000 taxable value in industrial and commercial personal property. If during the statewide vote in August 2014, the proposed personal property tax legislation fails, for future levies the less than \$40,000 taxable value will no longer be in effect. If this is the case, the communities will not be able to recover the amounts that were not levied in the July 2014 levy for the taxable values less than \$40,000 for industrial and commercial personal property – this will just be lost.

As for the impact on local communities, in short, those local governments that would lose at least 2.3 percent of their property tax base as a result of the changes would be eligible to be reimbursed at 80 percent of the revenue the personal property tax currently provides. This reimbursement would come from the Metropolitan Area Authority, a newly created entity led by five members appointed by the governor. This authority would be responsible for distributing the use tax collections as well as monies generated from expiring tax credits.

In addition, local governments would have the option to assess a special assessment on industrial property (referred to as Essential Services Assessments). This assessment would not require local voter approval and would reimburse police, fire, ambulance services, and jail operations to ensure they receive 100 percent of the funding that they now get from the personal property tax.

When voting through upcoming budgets and longer-term projections, please keep these items in mind. The final act not yet been published by the State.

The Michigan Municipal League has developed a tool to aid communities in calculating the potential impact of the personal property tax cuts:
<http://www.mml.org/advocacy/inside208/post/PPT-calculation-spreadsheet-vailable.aspx>

Senate Bill 542 Increases the Hard-cap Limit for Individual and Spouse Coverage

On October 8, the Senate passed a five-bill package (SB 541-545) in an effort to clarify PA 152 of 2011. SB 542 has perhaps the most direct financial impact on communities.

To the Township Board
Charter Township of Royal Oak
June 19, 2014

SB 542: This bill modifies the current law which allows employers to opt between a percentage-based cap or a dollar-limit (hard cap) on employee health insurance premiums. The proposed bill increases the dollar-cap for individual and spouse coverage from the current limit under PA 152 of \$11,000 to \$13,455. This would apply for all medical plan coverage years beginning in calendar year 2013 according to the current language. The \$13,455 cap would be increased annually for any changes in medical CPI on an annual basis. Please keep in mind that if your coverage year began after January 1, 2013, this bill may result in an unanticipated additional cost of \$2,455 per employee. Several communities have questioned this aspect but it does not appear to have been addressed in the Senate's version of the bill.

Currently, PA 152 excludes officials from the number of employees in the dollar cap formula. This would no longer be the case if this bill is passed; they would become part of that calculation.

The bill also would define "family coverage" as "individual-plus-one-nonspouse-dependent coverage".

Below is a summary of the remaining related bills that passed the Senate:

SB 541: This bill more clearly states that employer contributions to a healthcare fund for plans that are only available to the employee or elected official after retirement or separation of service (HSAs) are not considered costs of a public employer's medical benefit plan. This was the original intent of the legislature and therefore, this amendment would be applied retroactively. In addition, the legislative analysis by the House Fiscal Agency States the bill would define the "medical benefit plan coverage year" to be "the 12-month period after the effective date of the contractual or self-insured medical coverage plan that a public employer provides to its employees or public officials".

Several items would be excluded from the calculation of the public employer's total annual medical benefit costs including the following:

- Any amount paid directly or indirectly for the assessment levied pursuant to the Health Insurance Claims Act. 2011 PA 142 (MCL 550.1731 to 550.1741)
- Amounts paid by the employer as a tax or fee under the federal Patient Protection and Affordable Care Act

To the Township Board
Charter Township of Royal Oak
June 19, 2014

- Payments made to employees or elected officials in lieu of medical benefits
- Any employee or elected official that declines coverage

SB543: This bill applies only to those public employers that adopt the 80/20 percentage – based option. It clarifies that all public employers (excluding the State) have to have support of a 2/3 vote by the governing body prior to the start of each medical benefit plan coverage year. If this does not occur, the public employer would then have to follow the hard cap requirement.

SB 544 and SB 545: These two bills work to clarify language regarding a public employer's ability under PA 152 to exempt themselves from the Act requirements . SB 544 requires the effective date of the Act (September 27, 2011) to be the date on or after any new collective bargaining agreement must comply with the Act. Additionally, SB 545 states that a 2/3 vote by the governing body prior to the beginning of each medical benefit plan year in order to exempt itself.