

Charter Township
of Royal Oak,
Michigan



Year Ended
December 31,
2016

Financial
Statements

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Charter Township of Royal Oak

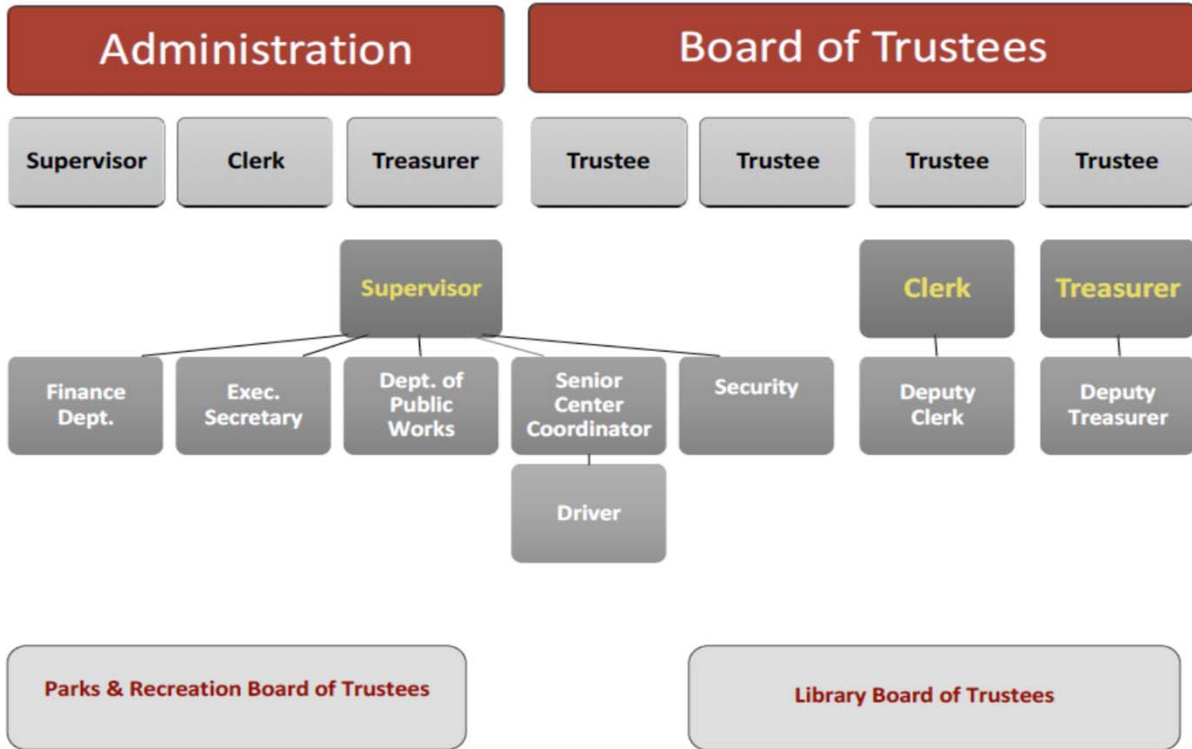
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Royal Oak Township



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INDEPENDENT AUDITORS' REPORT

September 8, 2017

To the Board of Trustees
Charter Township of Royal Oak
Ferndale, Michigan

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *Charter Township of Royal Oak* (the "Township"), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Township'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.

Independent Auditors' Responsibility

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

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

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

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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Charter Township of Royal Oak as of December 31, 2016, and the respective changes in financial position and the respective budgetary comparisons for the general fund and each major special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Restatement of Beginning Net Position

As described in Note 11, the beginning net position of the governmental activities has been decreased by \$53,580 to correct certain errors related to the net pension asset, deferred pension amounts, capital assets, compensated absences and the net other postemployment benefit obligation. In addition, the beginning net position of the governmental activities has been decreased and the beginning net position of the Library component unit has been increased by \$9,012 to properly reflect the Library as a component unit that was previously reported as governmental activities of the primary government. Our opinion is not modified with respect to these matters.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the pension and postemployment benefit information 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, 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 this required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements are the responsibility of management and were 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Lehmann Johnson LLC". The signature is written in a cursive, flowing style.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Charter Township of Royal Oak

Management's Discussion and Analysis

We offer readers of the Township's financial statements this narrative overview and analysis as an explanation of the financial activities of the Township for the year ended December 31, 2016.

Financial Highlights

- | | |
|---|--------------|
| · Total net position | \$ 2,614,502 |
| · Change in total net position | 631,406 |
| · Fund balances, governmental funds | 2,052,384 |
| · Change in fund balances, governmental funds | 668,037 |
| · Unassigned fund balance, general fund | 927,479 |
| · Change in fund balance, general fund | 85,541 |
- For the 2016 calendar year, the Township reported zero funds in deficit and added a total of \$85,541 to the general fund.
 - The Township took action to improve financial controls and efficiencies including the implementation of a new payroll administration system, adopted Township wide standardized forms, improved the budget process, hired an accounting clerk, and increased financial oversight and review of all funds.
 - The Township Board approved a millage increase for the fire and disposal system fund.
 - Governmental activities increased the Township's net position by \$631,406 during the fiscal year 2016. Much of this was attributed to conservative spending practices and a change in a service agreement for the police fund.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Township's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Township include legislative, general government, public safety, public works, buildings and grounds, and recreation and culture, senior center and community development. The Township had no business-type activities during the year.

The government-wide financial statements include not only the Township itself (known as the primary government), but also a legally separate Library and Downtown Development Authority, known as component units.

Charter Township of Royal Oak

Management's Discussion and Analysis

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the Township can be divided into two categories: governmental and fiduciary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township maintains numerous individual governmental funds. Information is presented separately in the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances for the general, fire, police, recreation and disposal system funds, each of which is considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The Township adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs.

Component Units. The Charter Township of Royal Oaks Library operates under the provisions of Section 10 of the City, Village, and Township Libraries Act, MCL 397.201 et seq. ("the Libraries Act"). The Library is governed by a six member Board and is treated as a component unit of the Township. Currently, the Library is physically housed in the Township offices and the Township has a unique relationship with the Library at which accounting and some operational responsibilities are shared. Given the Township is administering accounting functions, in the 2016 budget year, the Township has taken the following actions to ensure adequate financial controls are in place including assurances that the Library is in compliance with Governmental Accounting Standards, and with the Uniform Budgeting and Accounting Act, 1968 PA2, MCL 141.421 to 141.440a and Budget. Although the Township ensures adequate financial controls are in place, the Library is controlled and governed by the six member Board and currently operating under the authorities given to them delegated by law.

Notes to the 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.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Charter Township of Royal Oak, assets and deferred outflows for all activities exceeded liabilities and deferred inflows of resources by \$2,614,502 at the close of the most recent year.

Charter Township of Royal Oak

Management's Discussion and Analysis

The majority of the Township's net position is unrestricted (\$1,364,536) and can be used to meet the ongoing obligations to its citizens and creditors. An additional portion of the Township's net position (\$1,009,966) represents resources that are subject to external restrictions on how they may be used. The remaining portion of net position is invested in capital assets (\$240,000) and is not available for future spending.

At the end of the current year, due to conservative fiscal management, the Township is able to report positive balances in all three categories of net position.

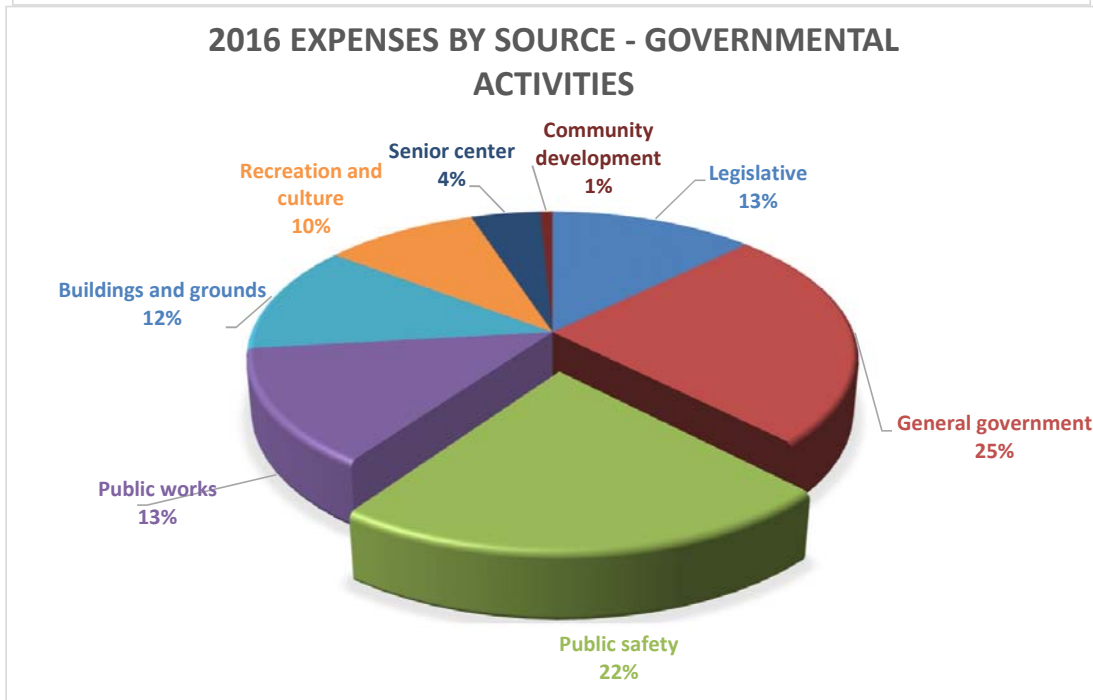
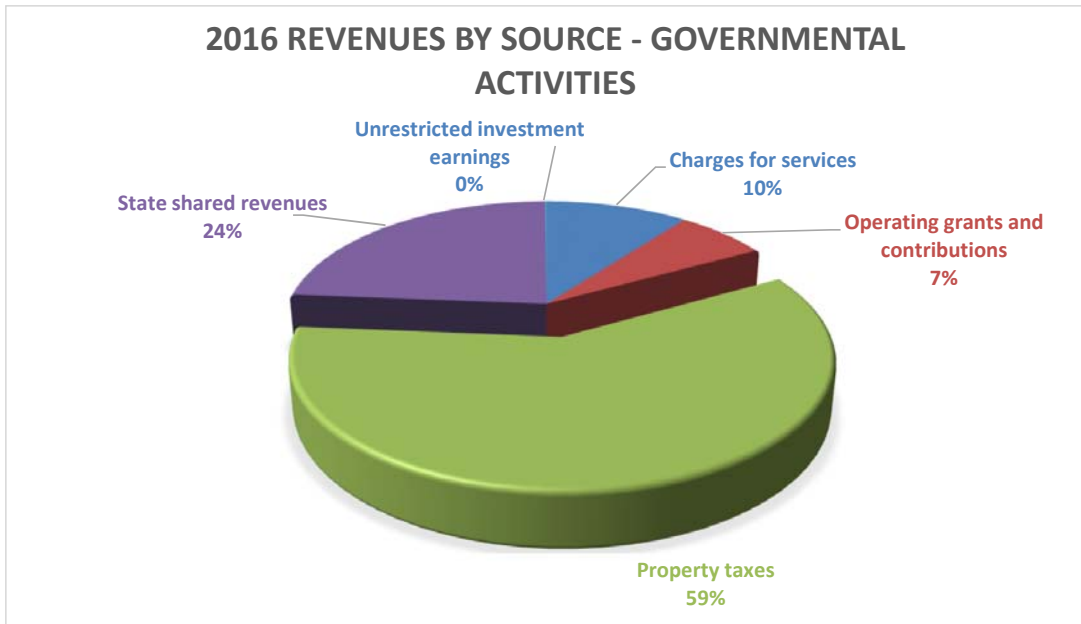
Governmental activities. Governmental activities increased the Township's net position by \$631,406 during 2016. Much of this was attributed to conservative spending practices and a change in a service agreement for the police fund. The amounts for 2015 have not been adjusted to reflect the effects of certain restatements as the applicable information is not available.

	Net Position	
	Governmental Activities	
	2016	2015
Current and other assets	\$ 3,295,486	\$ 2,919,357
Capital assets, net	240,000	665,038
Total assets	<u>3,535,486</u>	<u>3,584,395</u>
Deferred outflows of resources	<u>89,198</u>	<u>-</u>
Other liabilities	181,854	205,359
Long-term liabilities	17,880	12,709
Total liabilities	<u>199,734</u>	<u>218,068</u>
Deferred inflows of resources	<u>810,448</u>	<u>1,320,639</u>
Net position:		
Net investment in capital assets	240,000	665,038
Restricted	1,009,966	620,658
Unrestricted	1,364,536	759,992
Total net position	<u>\$ 2,614,502</u>	<u>\$ 2,045,688</u>

Charter Township of Royal Oak

Management's Discussion and Analysis

	Changes in Net Position	
	Governmental Activities	
	2016	2015
Program revenues:		
Charges for services	\$ 218,918	\$ 41,608
Operating grants and contributions	142,300	-
General revenues:		
Property taxes	1,263,783	1,394,719
State shared revenue	503,648	608,576
Unrestricted investment earnings and other	2,050	239,686
Total revenues	<u>2,130,699</u>	<u>2,284,589</u>
Expenses:		
Legislative	189,979	-
General government	372,806	682,877
Public safety	335,948	328,757
Public works	198,640	236,511
Buildings and grounds	182,545	164,337
Recreation and culture	143,690	196,077
Senior center	64,247	-
Community development	11,438	21,774
Unallocated depreciation	-	70,350
Total expenses	<u>1,499,293</u>	<u>1,700,683</u>
Change in net position	631,406	583,906
Net position:		
Beginning of year, as restated	1,983,096	1,461,782
End of year	<u>\$ 2,614,502</u>	<u>\$ 2,045,688</u>



Charter Township of Royal Oak

Management's Discussion and Analysis

Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds. The focus of the Township's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Township's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$2,052,384, an increase of \$668,037 in comparison with the prior year. Approximately 48% of this total amount constitutes unassigned fund balance in the general fund, which is an adequate amount to keep the Township operating in light of the current economic climate in Michigan and in the case of unforeseen emergencies. The majority of the remaining fund balance is in special revenue funds for future police and fire operations.

The general fund is the chief operating fund of the Township. At the end of the current year, unassigned fund balance of the general fund was \$927,479. This fund balance is used to supplement the budget and keep the Township operating efficiently when emergencies and unforeseen circumstances require additional funds outside of the current budget. The fund balance increased by \$85,541 in comparison with the prior year.

The Township has a fire fund that is funded by a special assessment at 13.000 Mills. This fund had a balance of \$37,264 at the end of this fiscal year; an increase of \$86,626 over the prior year. This fund provides fire protection services for the township serviced by a contract with Ferndale Fire Department.

The Township has a police fund that was funded by a special assessment at 21.250 Mills. This fund had a balance of \$1,033,409 at the end of this year; an increase of \$497,094 over the prior year. In prior years, this fund covered operating expenses for police services, arrears and incurred costs. Due to the ending of the original police service agreement, the Township Board voted to end the tax levy in 2016. This fund is currently being used to cover supplemental service costs for the townships renewed relationship with Michigan State Police including property tax chargebacks and administrative costs associated with the fund.

The Township has a recreation fund that is funded by a voted 2.500 Mill and a special assessment at 1.250 Mills. This fund had a balance of \$51,116 at the end of this fiscal year; an increase of \$1,644 over the prior year.

The Township has a disposal system fund that is funded by a special assessment at 4.000 Mills, which is supplemented by transfers from the Townships general fund. This fund had a fund balance of \$174 at the end of the fiscal year; a decrease of \$8,952 over the prior year.

General Fund Budgetary Highlights

Revenue for the fiscal year ended December 31, 2016, were better than anticipated for the general fund. In total, revenues outperformed amended budget estimates for the year by \$33,966 or 3%. This was primarily a result of the following:

- The Michigan Municipal Risk Management Authority paid \$13,519 in to the Townships member retention fund which represents the distribution of net assets from the State Pool Members accounting excess of required balances.
- The recognition of over \$19,203 in building permit revenues received during the year above original estimates.

Charter Township of Royal Oak

Management's Discussion and Analysis

The Townships general fund expenditures as of December 31, 2016 were under budget in total by \$12,729 or 1.4%. This was primarily a result of the following:

- Property tax chargebacks came in lower than expected accounting for approximately \$23,000.
- There were also changes to staffing levels and hours of operation that resulted in savings to the Township. An unexpected cost was incurred due to a retirement in building and grounds department. The net effect caused an increased cost of approximately \$10,000.

Capital Asset and Debt Administration

Capital Assets. The Township's investment in capital assets for its governmental activities as of December 31, 2016, amounted to \$240,000 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment and furniture, and vehicles. There was no net change in the Township's capital assets for the current fiscal year.

Long-term Debt. At the end of the current fiscal year, the Township had no outstanding long-term debt.

Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the Township's budget for the 2017 fiscal year:

- We are confident of the budgeted revenue based on historical trends and approved millage.
- We are confident that spending will be within the approved budget developed from historical trends and input from department heads. The Township Board reviews actual performance for adherence to budget parameters on a monthly basis.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information are welcomed, and should be addressed to the Charter Township of Royal Oak Township, 21131 Gardenlane, 2nd Floor, Ferndale, MI 48220.

BASIC FINANCIAL STATEMENTS

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Charter Township of Royal Oak

Statement of Net Position

December 31, 2016

	Primary Government	
	Governmental Activities	Component Units
Assets		
Cash and cash equivalents	\$ 2,134,596	\$ 55,372
Receivables	836,307	118,422
Capital assets not being depreciated	240,000	153,335
Net pension asset	324,583	-
Total assets	3,535,486	327,129
Deferred outflows of resources		
Deferred pension amounts	89,198	-
Liabilities		
Accounts payable	101,354	11,751
Accrued wages	6,717	886
Long-term liabilities:		
Due within one year	4,642	8,655
Due in more than one year	13,238	43,044
Net other postemployment benefit obligation	73,783	-
Total liabilities	199,734	64,336
Deferred inflows of resources		
Taxes levied for the following year	810,448	118,422
Net position		
Investment in capital assets	240,000	101,636
Restricted for:		
Public safety	1,006,850	-
Public works	2,872	-
Community development	244	-
Unrestricted	1,364,536	42,735
Total net position	\$ 2,614,502	\$ 144,371

The accompanying notes are an integral part of these financial statements.

Charter Township of Royal Oak

Statement of Activities

For the Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Primary government				
Governmental activities:				
Legislative	\$ 189,979	\$ -	\$ -	\$ (189,979)
General government	372,806	190,819	96,285	(85,702)
Public safety	335,948	-	3,443	(332,505)
Public works	198,640	28,099	-	(170,541)
Buildings and grounds	182,545	-	-	(182,545)
Recreation and culture	143,690	-	31,134	(112,556)
Senior center	64,247	-	-	(64,247)
Community development	11,438	-	11,438	-
Total primary government	\$ 1,499,293	\$ 218,918	\$ 142,300	\$ (1,138,075)
Component units				
Downtown Development Authority	\$ 55,699	\$ -	-	\$ (55,699)
Library	77,615	-	23,995	(53,620)
Total component units	\$ 133,314	\$ -	\$ 23,995	\$ (109,319)

continued...

Charter Township of Royal Oak

Statement of Activities

For the Year Ended December 31, 2016

Functions/Programs	Primary Government	Component Units
	Governmental Activities	
Changes in net position		
Net (expense) revenue	\$ (1,138,075)	\$ (109,319)
General revenues:		
Taxes and special assessments	1,263,783	110,624
State shared revenue	503,648	-
Unrestricted investment earnings	2,050	46
Total general revenues	1,769,481	110,670
Change in net position	631,406	1,351
Net position, beginning of year, as restated	1,983,096	143,020
Net position, end of year	\$ 2,614,502	\$ 144,371

concluded.

The accompanying notes are an integral part of these financial statements.

Charter Township of Royal Oak

Balance Sheet

Governmental Funds

December 31, 2016

	General	Fire	Police	Recreation
Assets				
Cash and cash equivalents	\$ 1,081,900	\$ 60,957	\$ 972,252	\$ 4,592
Accounts receivable	14,421	-	-	-
Taxes receivable	234,336	328,928	-	108,023
Due from other funds	11,438	-	63,823	55,487
Total assets	\$ 1,342,095	\$ 389,885	\$ 1,036,075	\$ 168,102
Liabilities				
Accounts payable	\$ 54,953	\$ 23,693	\$ 1,821	\$ 7,879
Accrued wages	5,633	-	-	1,084
Due to other funds	119,694	-	845	-
Total liabilities	180,280	23,693	2,666	8,963
Deferred inflows of resources				
Taxes levied for the following year	234,336	328,928	-	108,023
Fund balances				
Restricted	-	37,264	1,033,409	-
Unassigned	927,479	-	-	51,116
Total fund balances	927,479	37,264	1,033,409	51,116
Total liabilities, deferred inflows of resources and fund balances	\$ 1,342,095	\$ 389,885	\$ 1,036,075	\$ 168,102

The accompanying notes are an integral part of these financial statements.



Disposal System	Nonmajor Governmental Funds	Total
\$ 5,766	\$ 9,129	\$ 2,134,596
-	11,438	25,859
101,209	37,952	810,448
1,229	-	131,977
<u>\$ 108,204</u>	<u>\$ 58,519</u>	<u>\$ 3,102,880</u>
\$ 6,821	\$ 6,187	\$ 101,354
-	-	6,717
-	11,438	131,977
<u>6,821</u>	<u>17,625</u>	<u>240,048</u>
<u>101,209</u>	<u>37,952</u>	<u>810,448</u>
174	2,942	1,073,789
-	-	978,595
<u>174</u>	<u>2,942</u>	<u>2,052,384</u>
<u>\$ 108,204</u>	<u>\$ 58,519</u>	<u>\$ 3,102,880</u>

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Charter Township of Royal Oak

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
December 31, 2016

Fund balances - total governmental funds	\$ 2,052,384
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets	590,737
Accumulated depreciation	(350,737)
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Other postemployment benefit obligation	(73,783)
Compensated absences	(17,880)
Certain pension-related amounts, such as the net pension asset and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension asset	324,583
Deferred outflows related to the net pension asset	<u>89,198</u>
Net position of governmental activities	<u><u>\$ 2,614,502</u></u>

The accompanying notes are an integral part of these financial statements.

Charter Township of Royal Oak

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2016

	General	Fire	Police	Recreation
Revenues				
Taxes and special assessments	\$ 247,307	\$ 258,003	\$ 534,887	\$ 110,314
Charges for services	218,918	-	-	-
State shared revenue	503,648	-	-	-
Federal revenue	-	-	-	-
Interest revenue	977	100	893	35
Other revenue	96,283	35	3,408	31,136
Total revenues	1,067,133	258,138	539,188	141,485
Expenditures				
Legislative	180,106	-	-	-
General government	363,779	-	-	-
Public safety	-	293,854	42,094	-
Public works	69,897	-	-	-
Building and grounds	171,838	-	-	-
Recreation and culture	-	-	-	139,841
Senior center	61,072	-	-	-
Community development	-	-	-	-
Total expenditures	846,692	293,854	42,094	139,841
Revenues over (under) expenditures	220,441	(35,716)	497,094	1,644
Other financing sources (uses)				
Transfers in	4,239	122,342	-	-
Transfers out	(139,139)	-	-	-
Total other financing sources (uses)	(134,900)	122,342	-	-
Net change in fund balances	85,541	86,626	497,094	1,644
Fund balances (deficit), beginning of year	841,938	(49,362)	536,315	49,472
Fund balances, end of year	\$ 927,479	\$ 37,264	\$ 1,033,409	\$ 51,116

The accompanying notes are an integral part of these financial statements.



Disposal System	Nonmajor Governmental Funds	Total
\$ 75,515	\$ 37,757	\$ 1,263,783
-	-	218,918
-	-	503,648
-	11,438	11,438
22	23	2,050
-	-	130,862
<u>75,537</u>	<u>49,218</u>	<u>2,130,699</u>
-	-	180,106
-	-	363,779
-	-	335,948
85,187	43,556	198,640
-	-	171,838
-	-	139,841
-	-	61,072
-	11,438	11,438
<u>85,187</u>	<u>54,994</u>	<u>1,462,662</u>
<u>(9,650)</u>	<u>(5,776)</u>	<u>668,037</u>
14,000	11,860	152,441
<u>(13,302)</u>	<u>-</u>	<u>(152,441)</u>
<u>698</u>	<u>11,860</u>	<u>-</u>
(8,952)	6,084	668,037
<u>9,126</u>	<u>(3,142)</u>	<u>1,384,347</u>
<u>\$ 174</u>	<u>\$ 2,942</u>	<u>\$ 2,052,384</u>

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Charter Township of Royal Oak

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended December 31, 2016

Net change in fund balances - total governmental funds	\$ 668,037
Amounts reported for governmental activities in the statement of activities are different because:	
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Change in the accrual for compensated absences	(2,781)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Change in other postemployment benefit obligation	(4,943)
Change in pension asset and related deferred amounts	(28,907)
	<hr/>
Change in net position of governmental activities	<u>\$ 631,406</u>

The accompanying notes are an integral part of these financial statements.

Charter Township of Royal Oak

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Over (Under) Budget
Revenues				
Taxes and special assessments	\$ 275,000	\$ 275,000	\$ 247,307	\$ (27,693)
State sharing revenue	510,000	510,000	503,648	(6,352)
Charges for services	118,000	197,167	218,918	21,751
Interest revenue	-	-	977	977
Other revenue	41,000	51,000	96,283	45,283
Total revenues	944,000	1,033,167	1,067,133	33,966
Expenditures				
Legislative	99,401	170,467	180,106	9,639
General government	422,596	401,709	363,779	(37,930)
Public works	44,153	66,000	69,897	3,897
Buildings and grounds	117,393	156,678	171,838	15,160
Senior center	71,000	71,000	61,072	(9,928)
Total expenditures	754,543	865,854	846,692	(19,162)
Revenues over expenditures	189,457	167,313	220,441	53,128
Other financing sources (uses)				
Transfers in	-	-	4,239	4,239
Transfers out	(154,200)	(132,652)	(139,139)	(6,487)
Total other financing uses	(154,200)	(132,652)	(134,900)	(2,248)
Net change in fund balance	35,257	34,661	85,541	50,880
Fund balance, beginning of year	841,938	841,938	841,938	-
Fund balance, end of year	\$ 877,195	\$ 876,599	\$ 927,479	\$ 50,880

The accompanying notes are an integral part of these financial statements.

Charter Township of Royal Oak

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Fire Special Revenue Fund

For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Over (Under) Budget
Revenues				
Taxes and special assessments	\$ 266,189	\$ 266,189	\$ 258,003	\$ (8,186)
Interest revenue	-	-	100	100
Other revenue	-	-	35	35
Total revenues	266,189	266,189	258,138	(8,051)
Expenditures				
Public safety	255,300	270,300	293,854	23,554
Revenues over (under) expenditures	10,889	(4,111)	(35,716)	(31,605)
Other financing sources				
Transfers in	10,000	25,000	122,342	97,342
Net change in fund balances	20,889	20,889	86,626	65,737
Fund balance, beginning of year	(49,362)	(49,362)	(49,362)	-
Fund balance, end of year	\$ (28,473)	\$ (28,473)	\$ 37,264	\$ 65,737

The accompanying notes are an integral part of these financial statements.

Charter Township of Royal Oak

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Police Special Revenue Fund

For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Over (Under) Budget
Revenues				
Taxes and special assessments	\$ 559,684	\$ 559,684	\$ 534,887	\$ (24,797)
Interest revenue	-	-	893	893
Other revenue	-	-	3,408	3,408
Total revenues	559,684	559,684	539,188	(20,496)
Expenditures				
Public safety	720,000	720,000	42,094	(677,906)
Revenues over (under) expenditures	(160,316)	(160,316)	497,094	657,410
Other financing sources				
Transfers in	130,000	130,000	-	(130,000)
Net change in fund balances	(30,316)	(30,316)	497,094	527,410
Fund balance, beginning of year	536,315	536,315	536,315	-
Fund balance, end of year	\$ 505,999	\$ 505,999	\$ 1,033,409	\$ 527,410

The accompanying notes are an integral part of these financial statements.

Charter Township of Royal Oak

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Recreation Special Revenue Fund

For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Over (Under) Budget
Revenues				
Taxes and special assessments	\$ 130,000	\$ 130,000	\$ 110,314	\$ (19,686)
Interest revenue	-	-	35	35
Other revenue	-	-	31,136	31,136
Total revenues	130,000	130,000	141,485	11,485
Expenditures				
Recreation and culture	130,000	130,000	139,841	9,841
Net change in fund balance	-	-	1,644	1,644
Fund balance, beginning of year	49,472	49,472	49,472	-
Fund balance, end of year	\$ 49,472	\$ 49,472	\$ 51,116	\$ 1,644

The accompanying notes are an integral part of these financial statements.

Charter Township of Royal Oak

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Disposal System Special Revenue Fund

For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Over (Under) Budget
Revenues				
Taxes and special assessments	\$ 77,909	\$ 77,909	\$ 75,515	\$ (2,394)
Interest revenue	-	-	22	22
Total revenues	77,909	77,909	75,537	(2,372)
Expenditures				
Public works	77,400	87,400	85,187	(2,213)
Revenues over (under) expenditures	509	(9,491)	(9,650)	(159)
Other financing sources (uses)				
Transfers in	4,000	14,000	14,000	-
Transfers out	-	-	(13,302)	(13,302)
Total other financing sources (uses)	4,000	14,000	698	(13,302)
Net change in fund balance	4,509	4,509	(8,952)	(13,461)
Fund balance, beginning of year	9,126	9,126	9,126	-
Fund balance, end of year	\$ 13,635	\$ 13,635	\$ 174	\$ (13,461)

The accompanying notes are an integral part of these financial statements.

Charter Township of Royal Oak

Statement of Fiduciary Assets and Liabilities

Agency Funds

December 31, 2016

Assets	
Cash	\$ 186,179
	<u> </u>
Liabilities	
Due to other governments	\$ 2,953
Undistributed taxes	183,226
	<u> </u>
Total liabilities	<u>\$ 186,179</u>

The accompanying notes are an integral part of these financial statements.

Charter Township of Royal Oak

Combining Statement of Net Position

Component Units
December 31, 2016

	Downtown Development Authority	Library	Total
Assets			
Cash and cash equivalents	\$ 29,522	\$ 25,850	\$ 55,372
Taxes receivable	60,000	58,422	118,422
Capital assets not being depreciated	153,335	-	153,335
Total assets	242,857	84,272	327,129
Liabilities			
Accounts payable	2,721	9,030	11,751
Accrued wages	-	886	886
Long-term liabilities:			
Due within one year	8,655	-	8,655
Due in more than one year	43,044	-	43,044
Total liabilities	54,420	9,916	64,336
Deferred inflows of resources			
Taxes levied for the following year	60,000	58,422	118,422
Net position			
Investment in capital assets	101,636	-	101,636
Unrestricted	26,801	15,934	42,735
Total net position	\$ 128,437	\$ 15,934	\$ 144,371

The accompanying notes are an integral part of these financial statements.

Charter Township of Royal Oak

Combining Statement of Activities

Component Units

For the Year Ended December 31, 2016

	Downtown Development Authority	Library	Total
Expenses			
Downtown Development Authority	\$ 55,699	\$ -	\$ 55,699
Library	-	77,615	77,615
Total expenses	55,699	77,615	133,314
Program revenues			
Operating grants and contributions	-	23,995	23,995
Net program expenses	(55,699)	(53,620)	(109,319)
General revenues			
Property taxes	50,128	60,496	110,624
Unrestricted investment earnings	-	46	46
Total general revenues	50,128	60,542	110,670
Change in net position	(5,571)	6,922	1,351
Net position, beginning of year, as restated	134,008	9,012	143,020
Net position, end of year	\$ 128,437	\$ 15,934	\$ 144,371

The accompanying notes are an integral part of these financial statements.

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NOTES TO FINANCIAL STATEMENTS

Charter Township of Royal Oak

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Charter Township of Royal Oak Township (the “government” or “Township”) is a municipal corporation governed by an elected supervisor and a six-member board. The accompanying financial statements present the Township (the primary government) and its component units. The financial data of the component units are included in the Township’s reporting entity because of the significance of their operational or financial relationships with the Township.

On April 21, 2014 the Township entered into a Consent Agreement with the 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.

The Consent Agreement includes provisions to ensure appropriate steps are taken to address the financial emergency and to provide for the financial stability of the Township. As of September 8, 2017, the Township continues to be subject to the terms of the Consent Agreement.

Discretely Presented Component Units

Downtown Development Authority - The Charter Township of Royal Oak’s Downtown Development Authority (DDA) is established by MCL 125.1651 et seq. The intended purpose of the DDA is to implement improvements to the 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 tax values in the Downtown District. Funding for the DDA is provided from the increased property tax revenues from any benefited property. The DDA Board consists of a seven member Board with representation by the Township Supervisor. A separate audit report is prepared for the DDA and is available at the Townships office.

Library - The Charter Township of Royal Oaks Library operates under the provisions of Section 10 of the City, Village, and Township Libraries Act, MCL 397.201 et seq. (“the Libraries Act”). The Library is governed by a six member Board.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statements of net position and activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are 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 Township had no business-type activities during the year.

Charter Township of Royal Oak

Notes to Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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 revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter 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 fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are 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 revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible 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 period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Intergovernmental revenue and interest associated with the current year are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for and reported in another fund.

The *fire special revenue fund* accounts for the collection of special assessments and expenditures related to the operation of the fire department.

The *police special revenue fund* accounts for the collection of special assessments and expenditures related to the operation of the police department.

The *recreation special revenue fund* accounts for the collection of taxes and special assessments and expenditures related to the operation of the recreation department.

Charter Township of Royal Oak

Notes to Financial Statements

The *disposal system special revenue fund* accounts for the collection of special assessments and expenditures related to garbage disposal operations.

Additionally, the government reports the following fund types:

Special revenue funds are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects.

The *agency funds* account for assets held for other governments in an agency capacity.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Equity

Bank Deposits

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans).

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the 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 acquisition value at the date of donation. 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.

Capital assets of the Township are depreciated using the straight line method over the following estimated useful lives:

	Years
Buildings	40
Equipment	5-7
Furniture	5-7
Vehicles	7

Charter Township of Royal Oak

Notes to Financial Statements

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Township has a deferred pension outflow amount reported in the statement of net position. A deferred pension outflow results when there is a change in total pension asset due to benefit changes, differences between expected and actual experience, changes in actuarial assumptions, or differences between expected and actual investment returns.

Compensated Absences

It is the Township's policy to permit employees to accumulate various earned but unused vacation and sick pay benefits. These vacation and sick benefits are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignation or retirements.

Deferred Inflows of Resources

In addition to liabilities, the statement of net 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 periods and so will not be recognized as an inflow of resources (revenue) until that time. The government has deferred inflows of resources reported in the government-wide and governmental fund financial statements for property taxes levied for the following year.

Fund Balances

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Trustees (the government's highest level of decision-making authority). A formal resolution of the Board of Trustees is required to establish, modify, or rescind a fund balance commitment. The Township reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is the residual classification for the general fund or deficit fund balances.

When the government incurs an expenditure for purposes for which various fund balance classifications can be used, it is the government's policy to use restricted fund balance first, then committed, assigned, and finally unassigned fund balance.

Charter Township of Royal Oak

Notes to Financial Statements

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

2. BUDGETARY INFORMATION

Annual budgets are adopted for all governmental fund types each year on a basis consistent with generally accepted accounting principles. The government's final budget must be prepared and adopted prior to January 1st of each year.

Reported budgeted amounts are as originally adopted or as amended by the Township Board. The legal level of budgetary control is the activity level. The government does not utilize encumbrance accounting.

The Township's expenditures were within budget for all activities except as follows:

	Final Budget	Actual	Variance
General fund:			
Legislative	\$ 170,467	\$ 180,106	\$ 9,639
Public works	66,000	69,897	3,897
Building and grounds	156,678	171,838	15,160
Fire fund -			
Public safety	270,300	293,854	23,554
Recreation fund -			
Recreation and culture	130,000	139,841	9,841
Disposal system fund -			
Transfers out	-	13,302	13,302

Charter Township of Royal Oak

Notes to Financial Statements

3. DEPOSITS AND INVESTMENTS

A reconciliation of cash as shown on the Statement of Net Position to deposits as classified for note disclosure purposes is as follows:

	Primary Government	Component Units	Total
Statement of Net Position			
Cash and cash equivalents	\$ 2,134,596	\$ 55,372	\$ 2,189,968
Statement of Fiduciary Assets and Liabilities			
Cash and cash equivalents	186,179	-	186,179
	<u>\$ 2,320,775</u>	<u>\$ 55,372</u>	<u>\$ 2,376,147</u>
Classification of deposits and investments			
Bank deposits (checking and savings accounts)			\$ 2,375,997
Cash on hand			<u>150</u>
Total			<u><u>\$ 2,376,147</u></u>

Deposit and investment risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments. The Township's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. The Township's investment policy does not have specific limits in excess of state law on investment credit risk. The Township had no investments at year end.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. At year-end, \$2,079,294 of the combined bank balance of \$2,358,766 of deposits (total book balance of \$2,375,997) was exposed to custodial credit risk as it was uninsured and uncollateralized.

Custodial Credit Risk - Investments. For an investment, 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. State law does not require and the Township does not have a policy for investment custodial credit risk. The Township had no investments at year end.

Charter Township of Royal Oak

Notes to Financial Statements

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk. The Township's investment policy does not have specific limits in excess of state law on concentration of credit risk. The Township had no investments at year end.

4. RECEIVABLES

Receivables are as follows:

	Primary Government	Component Units
Accounts	\$ 25,859	\$ -
Taxes	810,448	118,422
	<u> </u>	<u> </u>
Total	<u>\$ 836,307</u>	<u>\$ 118,422</u>

No allowance for doubtful accounts was deemed necessary.

5. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Primary government				
Governmental activities				
Capital assets not being depreciated-				
Land	\$ 240,000	\$ -	\$ -	\$ 240,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets being depreciated:				
Buildings and improvements	259,737	-	-	259,737
Equipment and furniture	295,644	-	(250,644)	45,000
Vehicles	193,000	-	(147,000)	46,000
	<u>748,381</u>	<u>-</u>	<u>(397,644)</u>	<u>350,737</u>
Less accumulated depreciation for:				
Buildings and improvements	(259,737)	-	-	(259,737)
Equipment and furniture	(295,644)	-	250,644	(45,000)
Vehicles	(193,000)	-	147,000	(46,000)
	<u>(748,381)</u>	<u>-</u>	<u>397,644</u>	<u>(350,737)</u>
Total capital assets				
being depreciated, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Governmental activities				
capital assets, net	<u>\$ 240,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 240,000</u>

Charter Township of Royal Oak

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Ending Balance
Component unit				
Downtown Development Authority				
Capital assets not being depreciated-				
Land	\$ 153,335	\$ -	\$ -	\$ 153,335

6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of December 31, 2016, was as follows:

	Due from Other Funds	Due to Other Funds
General fund	\$ 11,438	\$ 119,694
Police	63,823	845
Recreation	55,487	-
Disposal system	1,229	-
Nonmajor governmental funds	-	11,438
	<u>\$ 131,977</u>	<u>\$ 131,977</u>

The above balances generally resulted from a time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

For the year ended December 31, 2016, interfund transfers consisted of the following:

	Transfers in	Transfers out
General fund	\$ 4,239	\$ 139,139
Fire	122,342	-
Disposal system	14,000	13,302
Nonmajor governmental funds	11,860	-
	<u>\$ 152,441</u>	<u>\$ 152,441</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Charter Township of Royal Oak

Notes to Financial Statements

7. LONG-TERM LIABILITIES

Long-term liability activity for the primary government for the year ended December 31, 2016 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Primary government					
Governmental activities					
Compensated absences	\$ 15,301	\$ 6,404	\$ (3,825)	\$ 17,880	\$ 4,642

Compensated absences are typically liquidated by the general fund.

Long-term liability activity for the DDA component unit for the year ended December 31, 2016 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Component unit					
DDA					
Installment purchase agreement	\$ 59,771	\$ -	\$ (8,072)	\$ 51,699	\$ 8,655

The Authority entered into a long-term installment purchase agreement in year 2010 for the purchase of land for \$100,000 due in monthly installments of \$1,000, with interest at a rate of 7.0%, and payable through February 2022. Annual debt service requirements to maturity are as follows:

Year ending December 31,	Principal	Interest
2017	\$ 8,655	\$ 3,345
2018	9,281	2,719
2019	9,952	2,048
2020	10,671	1,329
2021	11,443	557
2022	1,697	14
	<u>\$ 51,699</u>	<u>\$ 10,012</u>

Charter Township of Royal Oak

Notes to Financial Statements

8. PROPERTY TAXES

Property axes are levied on December 1 and are due in February of the following year. The Township bills and collects its own property taxes along with collecting taxes for various other taxing jurisdictions. Township tax revenues are recognized in the year following the December 1 levy date when the proceeds of the levy are budgeted and available for the financing of operations. Taxes are considered delinquent on March 1, at which time the applicable property is subject to lien and penalty and interest is assessed.

Assessed values, as established annually by the government, are subject to acceptance by the County and equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the Township totaled \$32,530,680. The government's general operating tax rate for fiscal year 2016 was 8.7102 mills, with an additional 2.0000 and 2.5000 special-voted mills for the library and parks and recreation, respectively. In addition, ad valorem special assessment mills totaled 13.0000 for fire services, 21.2500 for police services, 1.2500 for parks and recreation, 3.0000 for garbage disposal and 1.5000 for street lighting.

9. PENSION PLAN

General Information About the Plan

Plan Description. The Township participates in the Municipal Employees' Retirement System (MERS) of Michigan, a defined benefit pension plan providing certain retirement, disability and death benefits to plan members and beneficiaries. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. Public Act 427 of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing the MERS website at www.mersofmich.com.

Benefits Provided. Pension benefits vary by division/bargaining unit and are calculated as final average compensation (based on a 5 year period) and multipliers ranging from 2.0% to 2.25%. Participants are considered to be fully vested in the plan after 6 years. Normal retirement age is 60 with early retirement at age 50 with 25 years of service, age 55 with 25 years of service, or age 55 with 15 years of service, depending on division/bargaining unit.

Employees Covered by Benefit Terms. At December 31, 2016, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	14
Inactive employees entitled to but not yet receiving benefits	2
Active employees	<u>4</u>
Total membership	<u><u>20</u></u>

Charter Township of Royal Oak

Notes to Financial Statements

Contributions. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees. During the year ended December 31, 2016, the Township or its employees did not contribute to the plan.

Net pension asset. The Township's net pension asset was measured as of December 31, 2016, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2015 (rolled forward to December 31, 2016).

Actuarial assumptions. The total pension asset was determined by an actuarial valuation as of December 31, 2015 (and rolled forward to December 31, 2016, the measurement date), using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment expense and including inflation

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of the most recent actuarial experience study of 2009-2013, conducted in 2015.

Charter Township of Royal Oak

Notes to Financial Statements

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global equity	57.50%	5.02%	2.89%
Global fixed income	20.00%	2.18%	0.44%
Real Assets	12.50%	4.23%	0.53%
Diversifying strategies	10.00%	6.56%	0.64%
	<u>100.00%</u>		
Inflation			3.25%
Administrative expenses netted above			<u>0.50%</u>
Investment rate of return			<u>8.25%</u>

Discount Rate. The discount rate used to measure the total pension liability is 8.25%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Charter Township of Royal Oak

Notes to Financial Statements

Changes in Net Pension Asset. The components of the change in the net pension asset are summarized as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Pension (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2015	\$ 2,258,559	\$ 2,497,867	\$ (239,308)
Changes for the year:			
Service cost	13,233	-	13,233
Interest	175,818	-	175,818
Difference between expected and actual experience	(32,796)	-	(32,796)
Changes in assumptions	137,827	-	137,827
Net Investment income	-	279,454	(279,454)
Benefit payments, including refunds of employee contributions	(134,895)	(134,895)	-
Administrative expense	-	(5,521)	5,521
Other changes	(105,724)	(300)	(105,424)
Net changes	<u>53,463</u>	<u>138,738</u>	<u>(85,275)</u>
Balances at December 31, 2016	<u>\$ 2,312,022</u>	<u>\$ 2,636,605</u>	<u>\$ (324,583)</u>

Changes in actuarial assumptions for the December 31, 2015 actuarial valuation. Based on the 2009-2013 Five-Year Experience Study conducted during 2015, the MERS Retirement Board adopted the following changes in actuarial assumptions and methods: a) the mortality table was adjusted to reflect longer lifetimes; b) the assumed annual rate of investment return, net of all expenses, was lowered from 8% to 7.75%; c) asset smoothing was changed from 10 years to 5 years, effective 2016; d) new sources of unfunded accrued liabilities will be amortized over separate fixed periods, effective 2016; e) other actuarial assumptions were revised, but had a smaller impact than a) and b) above.

Charter Township of Royal Oak

Notes to Financial Statements

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the Township, calculated using the discount rate of 8.25%, as well as what the Township's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.25%) or 1% higher (9.25%) than the current rate:

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
Reporting entity's net pension liability (asset)	\$ (125,193)	\$ (324,583)	\$ (497,314)

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial statements.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended December 31, 2016, the Township recognized pension expense of \$28,908. The Township reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Net difference between projected and actual earnings on pension plan investments	\$ 152,536	\$ (63,338)	\$ 89,198

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

Year Ended December 31,	Amount
2017	\$ 35,010
2018	35,010
2019	35,011
2020	(15,833)
Total	\$ 89,198

Charter Township of Royal Oak

Notes to Financial Statements

10. OTHER POSTEMPLOYMENT BENEFITS

Plan Description. Upon retirement, the Township provides full healthcare benefits to certain retirees and their spouse. Coverage ends upon becoming Medicaid eligible, at the age of 65. The plan is closed to new hires.

Plan Membership. As of December 31, 2016, the Plan had 4 participants (2 retirees currently receiving benefits and 2 active participants).

Funding Policy. The contribution requirements of Plan members and the Township are established and may be amended by the Township Board of Trustees. The required contribution is based on projected pay-as-you go financing requirements. For the year ended December 31, 2016, the Township contributed \$10,570 to the Plan. Retirees receiving benefits are not required to contribute toward healthcare benefits. Accordingly, retirees made no contributions for the year ended December 31, 2016.

Annual OPEB Cost and Net OPEB Obligation. The Township's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Township has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Township's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Township's net OPEB obligation:

Annual required contribution	\$ 16,179
Interest on net OPEB obligation	1,377
Adjustment to annual required contribution	<u>(2,043)</u>
Net OPEB cost	15,513
Contributions made	<u>(10,570)</u>
Change in net OPEB obligation	4,943
Net OPEB obligation, beginning of year	<u>68,840</u>
 Net OPEB obligation, end of year	 <u><u>\$ 73,783</u></u>

The Township's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current and two preceding years were as follows:

Three-Year Trend Information				
Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2014	\$ 12,854	\$ 1,464	11.4%	\$ 64,547
12/31/2015	13,515	9,224	68.3%	68,840
12/31/2016	15,513	10,570	68.1%	73,783

Charter Township of Royal Oak

Notes to Financial Statements

Funded Status. The funded status of the Plan as of December 31, 2016, the date of the most recent actuarial valuation, was as follows:

Actuarial accrued liabilities (a)	\$ 89,053
Actuarial value of plan assets (b)	-
Unfunded actuarial accrued liability (a-b)	<u>\$ 89,053</u>
Funded ratio (b/a)	0.0%
Covered payroll (c)	\$ 76,767
Unfunded actuarial accrued liability as a percentage of covered payroll $[(a-b)/c]$	116.0%

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

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

The following simplifying assumptions were made:

Retirement age for active employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 62.

Marital status - Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality - Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2006 United States Life Tables for Males and for Females were used.

Turnover - Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums was based on projections by the Township's management. A rate of 5.0 percent was used.

Charter Township of Royal Oak

Notes to Financial Statements

Health insurance premiums - 2016 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate - The expected long-term inflation assumption of 3.0 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in The 2006 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds for an intermediate growth scenario.

Payroll growth rate - The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the Township's short-term investment portfolio, a discount rate of 2.0 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2016, was 8 years.

11. RESTATEMENTS

Beginning net position of the governmental activities was increased by \$442,668 to properly record the net pension asset and related deferrals. This error correction was necessary to properly implement Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting Standards for Pensions*, which should have been implemented by the Township during 2015.

Beginning net position of the governmental activities was decreased by \$68,840 to properly record the net other postemployment benefit obligation. This error correction was necessary to properly implement Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which should have been implemented by the Township during 2009.

Beginning net position of the governmental activities was decreased by \$2,390 to correct an error in compensated absences.

Beginning net position of the governmental activities was decreased by \$425,038 to remove the net book value of water and sewer infrastructure assets from the financial statements as the Township does not have primary responsibility for maintaining the infrastructure.

The beginning net position of the governmental activities has been decreased and the beginning net position of the Library component unit has been increased by \$9,012 to properly reflect the Library as a component unit that was previously reported as governmental activities of the primary government.

Charter Township of Royal Oak

Notes to Financial Statements

The following is the effect of the above adjustments on the beginning net position as of January 1, 2016:

	Net Position Governmental Activities	Net Position Component Units
Balance, as originally reported	\$ 2,045,688	\$ 134,008
Net pension asset and related deferrals	442,688	-
Net other postemployment benefit obligation	(68,840)	-
Compensated absences	(2,390)	-
Water and sewer infrastructure assets	(425,038)	-
To record the Library as a component unit	(9,012)	9,012
	<u> </u>	<u> </u>
Balance, as restated	<u>\$ 1,983,096</u>	<u>\$ 143,020</u>



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REQUIRED SUPPLEMENTARY INFORMATION

Charter Township of Royal Oak

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Changes in Net Pension Asset and Related Ratios

	Year Ended December 31,	
	2016	2015
Total pension asset		
Service cost	\$ 13,233	\$ 14,498
Interest	175,818	180,499
Differences between expected and actual experience	(32,796)	-
Changes of assumptions	137,827	-
Benefit payments, including refunds of employee contributions	(134,895)	(144,653)
Other changes	(105,724)	(44,734)
Net change in total pension asset	<u>53,463</u>	<u>5,610</u>
Total pension asset, beginning of year	<u>2,258,559</u>	<u>2,252,949</u>
Total pension asset, end of year	<u>2,312,022</u>	<u>2,258,559</u>
Plan fiduciary net position		
Employee contributions	-	2,295
Net investment income (loss)	279,454	(38,835)
Benefit payments, including refunds of employee contributions	(134,895)	(144,653)
Administrative expense	(5,521)	(5,778)
Other	(300)	(25)
Net change in plan fiduciary net position	<u>138,738</u>	<u>(186,996)</u>
Plan fiduciary net position, beginning of year	<u>2,497,867</u>	<u>2,684,863</u>
Plan fiduciary net position, end of year	<u>2,636,605</u>	<u>2,497,867</u>
Township's net pension asset	<u>\$ (324,583)</u>	<u>\$ (239,308)</u>
Plan fiduciary net position as a percentage of total pension asset	114.0%	110.6%
Covered-employee payroll	\$ 110,340	\$ 121,854
Township's net pension asset as a percentage of covered-employee payroll	-294.2%	-196.4%

Note: GASB 68 became effective in 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Charter Township of Royal Oak

Required Supplementary Information MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of the Net Pension Asset

Year Ended December 31,	Total Pension Liability	Plan Net Position	Net Pension Liability (Asset)	Plan Net Position as Percentage of Total Pension Liability	Covered- Employee Payroll	Net Pension Liability as Percentage of Covered Payroll
2016	\$ 2,312,022	\$ 2,636,605	\$ (324,583)	114.0%	\$ 110,340	-294.2%
2015	2,258,559	2,497,867	(239,308)	110.6%	121,854	-196.4%

Note: GASB 68 became effective in 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Charter Township of Royal Oak

Required Supplementary Information

MERS Agent Multiple-Employer Defined Benefit Pension Plan

Schedule of Contributions

Year Ending December 31,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as Percentage of Covered-Employee Payroll
2016	\$ -	\$ -	\$ -	\$ 110,340	0.0%
2015	-	-	-	121,854	0.0%

Note: GASB 68 became effective in 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Notes to Schedule of Contributions

Notes Actuarially determined contribution rates are calculated as of December 31, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll, closed
Remaining amortization period	24 years
Asset valuation method	Open; 5-year smooth market
Inflation	3.0% to 4.0%
Salary increases	3.75% in the long-term
Investment rate of return	8.25%, net of investment expense and including inflation
Retirement age	Age-based table of rates that are specific to the type of eligibility condition. The Normal Retirement rates were first used for the December 31, 2015 actuarial valuations. The Early Retirement rates were first used for the December 31, 2015 valuations.
Mortality	Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.
Other information	Changes in liability due to differences between actual and expected experience, and changes in assumptions, are recognized in pension expense over the average remaining service lives of all employees.

Charter Township of Royal Oak

Other Postemployment Benefits

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - (b)	Funded Ratio (a / b)	Unfunded AAL (UAAL) (b -a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2014	\$ -	\$ 82,366	0.0%	\$ 82,366	\$ 102,446	80.4%
12/31/2015	-	80,847	0.0%	80,847	81,700	99.0%
12/31/2016	-	89,053	0.0%	89,053	76,767	116.0%

Schedule of Employer Contributions		
Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2014	\$ 13,660	10.7%
2015	14,600	63.2%
2016	16,179	65.3%

Charter Township of Royal Oak

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2016

	Special Revenue Funds			Total
	Street Light	Community Development	Neighborhood Stabilization	
Assets				
Cash and cash equivalents	\$ 8,885	\$ -	\$ 244	\$ 9,129
Accounts receivable	-	11,438	-	11,438
Taxes receivable	37,952	-	-	37,952
Total assets	\$ 46,837	\$ 11,438	\$ 244	\$ 58,519
Liabilities				
Accounts payable	\$ 6,187	\$ -	\$ -	\$ 6,187
Due to other funds	-	11,438	-	11,438
Total liabilities	6,187	11,438	-	17,625
Deferred inflows of resources				
Taxes levied for the following year	37,952	-	-	37,952
Fund balances				
Restricted	2,698	-	244	2,942
Total liabilities, deferred inflows of resources and fund balance	\$ 46,837	\$ 11,438	\$ 244	\$ 58,519

Charter Township of Royal Oak

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds For the Year Ended December 31, 2016

	Special Revenue Funds			Total
	Street Light	Community Development	Neighborhood Stabilization	
Revenue				
Taxes and special assessments	\$ 37,757	\$ -	\$ -	\$ 37,757
Federal revenue	-	11,438	-	11,438
Interest revenue	23	-	-	23
Total revenue	37,780	11,438	-	49,218
Expenditures				
Public works	43,556	-	-	43,556
Community development	-	11,438	-	11,438
Total expenditures	43,556	11,438	-	54,994
Revenues under expenditures	(5,776)	-	-	(5,776)
Other financing sources				
Transfers in	11,860	-	-	11,860
Net change in fund balances	6,084	-	-	6,084
Fund balances (deficit), beginning of year	(3,386)	-	244	(3,142)
Fund balances, end of year	\$ 2,698	\$ -	\$ 244	\$ 2,942

Charter Township of Royal Oak

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

December 31, 2016

	Tax Collection	Trust and Agency	Payroll	Total
Assets				
Cash	\$ 183,226	\$ 1,244	\$ 1,709	\$ 186,179
Liabilities				
Due to other governments	\$ -	\$ 1,244	\$ 1,709	\$ 2,953
Undistributed taxes	183,226	-	-	183,226
Total liabilities	\$ 183,226	\$ 1,244	\$ 1,709	\$ 186,179