

Lake Eunice Township Meeting

Jay Carlson, Crystal Myers, Ruth Pung and Greg Pung met to review the financial overview and accounting procedures for Lake Eunice Township.

GENERAL

- The township's accounting cycle is on a calendar year.
- The township gets a majority of its funds from real estate tax assessments.
 - The taxes are collected by the county
 - The taxes are paid to the township twice a year that coincide with the collection of real estate taxes, Normally Nov-Dec and June – July
- There are other revenues that the township receives; however, these are normally minor. Types of revenue received:
 - Gravel tax
 - Market value credit
 - Recycling grants
 - Other

(I do not know how these funds are calculated, when they are received, etc. Also, do we keep book on when they are due and how much we should expect?)

- To obtain funding through real estate taxes, the township budgets what it needs and submits the budget to the county.
 - The Clerk and Treasurer are responsible for submitting the budget.
 - The budgeting process starts with the March township meeting. At that time, the preliminary budget is presented to the board. Historical financial information is presented to assist the board in reviewing the budget.
 - The budget is prepared in three broad categories – General Fund, Road & Bridges & Recycling. The sub-categories are to assist in the budgeting process, but do not have to be adhered to in the disbursement of funds.
 - The budget process has a long lead time - The March 2006 budget is for the 2007 expenditures.
- Once the budget is made and submitted for collection, the total budget is fixed. The board, however, can reallocate funds between the budget categories by a unanimous approval. (A typical reallocation would be in a very bad winter when the roads and bridges fund runs out of money and money is reallocated from the General Fund to Roads & Bridges.)
- If the county runs short of money, its only other source of funding is to obtain financing through a certificate of indebtedness (CI) or issue bonds.
 - The CI can be for a maximum of 5 years and the bonds are usually 15-20 years.

- These financing instruments are obtained through a financial institution. In the case of bonds, the bank arranges for the sale and repayment of them.
- The financial instruments are repaid by budgeting the cash flow in future budgets.

SPECIAL ASSESSMENTS:

Specific projects can be funded by special assessments. Normally, the project benefits a certain area and the people who benefit from the project are responsible for the repayment of the specials. (A typical example would be to build a road into a new development. The residents of the development would be responsible for the repayment of the project.)

- Generally, the township is approached to make this expenditure. The project is approved (**voted on by residents?**) and the project is completed.
- To fund the immediate payment of the expenditure, the township obtains a CI or bonds. The bonds or CI are set up on a semiannual payment plan to coincide with the receipt of funds and are the same payment each time throughout the term of the debt instrument.
- The taxpayer in the special assessment district can come to the township and pay their total proportional share prior to the township certifying the special assessment and submitting it to the county. The certification date is December 1.
 - The amount certified to the state is 110% (**correct?**) of the unpaid project to cover administrative costs and tax delinquencies.
 - The interest rate charged on the special is also higher than the underlying cost of money (normally 2%) to again cover delinquencies and other costs.
- Once the specials are certified to the county, the county collects the necessary funds through special assessment taxes that are on the normal property tax bill.
 - The special charged on the tax bill is principal and interest.

(I do not know if the special assessment is a set dollar amount for x number of years or a level amount of principal + interest each year. This is an important item, as if the specials are a level amount of principal + interest, the cash flow in will not coincide with the debt service payments)

- Special assessments collected by the county are remitted to the township in the same remittance that pays the general fund budget.
- Each special assessment fund must be separately accounted for and not commingled with the general funds.
- In theory, each special assessment fund should be self supporting. The money that is received from the collection of the special assessments should coincide with the amount and timing of the payment of the debt instrument.

- With the interest rate being slightly higher and the amount of the assessment being larger than the project cost, a “cushion” of cash should be built up over the life of the project.
- Taxpayers have the option of paying all of their special assessments at any time. The township also has the right to prepay on its debt instrument without penalty.
- At the conclusion of the special assessment project, the remaining funds would be transferred to the general fund.

ACCOUNTING

- The township operates on a cash flow basis. The amounts budgeted are the amount necessary to meet cash flow demands.
 - For example, if the county is going to buy a \$200,000 piece of equipment in a year and finance it with a 5 year CI, the annual budget would not include the cost of the equipment, but rather the cash flow necessary to make the CI payments.
- The township accounting is now being accounted for on a software program CTAS. This program is being used, as it allows the township to transmit its financial statements to the state auditor for their review.
 - The CTAS accounts can be modified to an extent, however some accounts cannot.
 - Irene Bright is the CTAS expert who can assist with all questions about CTAS.
 - Dan Grenswerg (**? Someone with financial records?**)
- Although the township has the general fund and special assessments fund each in separate checkbooks, this is not a requirement. The requirement is separate accounting, now actual physical segregation of cash accounts.

SPECIFICS:

- At 12/31/05, the township has \$337,713..85 in the treasury:
 - \$189,642.65 – General Fund
 - \$148,071.22 – Special Assessments fund.
- At 12/31/05 the township has the following liabilities.
 - \$175,912 CI for paving the St. Mary’s of the Lake road
 - This is a general fund obligation.
 - Original balance of \$175,912
 - Dated 11/18/05
 - Maturity 7/1/09
 - Interest rate of 5.0%
 - Next payment 7/1/06
 - 7 Semi-annual payments of \$27,865.35

- \$123,635.36 Bond for Summer Haven Road
 - This is a special assessment obligation.
 - Original balance of \$130,808.
 - Dated 11/05/04
 - Maturity 1/15/12
 - Interest rate of 4.5%
 - Next payment 1/15/06
 - 13 Semi-annual payments of \$11,088.99
- The outstanding balance of the unpaid special is \$ _____. The anticipated cash flow from the specials is \$ _____ (**each year – stable or declining?**)
- There are several special assessments that we are still receiving money on. It appears that the underlying obligation was paid, either with cash from the special assessment account or with general fund cash. The amount of special assessments that we have receivable from the county is \$ _____. The anticipated cash flow from the specials is \$ _____
- It appears that over the past years, the accounting for the special assessments has been co-mingled with the general fund, as the special assessments fund should not be carrying that high of a balance. Also, since there will be cash coming in from the collection of other specials with no corresponding liability, this fund balance will increase.

ACTION PLAN:

- Crystal will obtain the specifics on the unpaid special assessment funds:
 - What are the outstanding receivables for each fund?
 - What are the repayment terms of the assessments – years left / % interest
 - How does this money come in, a consistent amount or a consistent principal amount plus interest.
- Once we have a handle on the amounts coming in, we should consider the following:
 - Repay the St. Mary's of the Lakes CI with excess money that is in the Special Assessments fund.
 - Make a transfer of the excess Special Assessments funds back to the General Fund.
 - Approve the transfer of future receipts of special assessments for debts that have already been paid back to the General Fund.
- Incorporate information on township debt into monthly financial reporting. This can be accomplished through an additional schedule on the Cash Balance Statement.