

Audited Financial Statements and  
Supplementary Information

Homer Township

*Year ended June 30, 2014  
with Report of Independent Auditors*



Homer Township

Audited Financial Statements and  
Supplementary Information

Year ended June 30, 2014

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## Report of Independent Auditors

Members of the Township  
Board of Trustees  
Homer Township  
Midland County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Homer Township, Midland County, Michigan (Township), as of and for the year ended June 30, 2014, 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.

### *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 auditors' 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.

## *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Homer Township, Midland County, Michigan, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 6 and 26 through 27 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 the 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 Homer Township, Midland County, Michigan's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor 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.

*Andrews Hooper Pavlik PLC*

Midland, Michigan  
September 17, 2014

## Homer Township

### Management's Discussion and Analysis

June 30, 2014

As the Township Board of Homer Township, we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of Homer Township for the fiscal year ended June 30, 2014.

#### **Financial Highlights**

- The assets of Homer Township exceeded its liabilities at the close of the most recent fiscal year by \$12,154,349 (net position). Of this amount, \$4,690,644 (unrestricted net position) may be used to meet the Township's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, Homer Township's governmental funds reported combined ending fund balances of \$1,627,514, a \$310,171 increase in comparison with the prior year. Of the total amount, \$628,295 is available for spending at the Township's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$628,295 or 96% of total General Fund expenditures.

#### **Overview of the Financial Statements**

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Township. The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the Township government, reporting the Township's operations in more detail than the government-wide statements.

Governmental fund statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.

Fiduciary fund statements provide information about financial relationships - like the tax collection activities of the Township.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

## Homer Township

### Management's Discussion and Analysis (continued)

The Township has two types of funds:

- Governmental funds - Most of the Township's basic services are included in governmental funds, which focus on (1) near-term inflows and outflows of spendable resources and (2) balances of spendable resources at the end of each year. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information in the notes to the financial statements.
- 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.

### Financial Analysis of the Township

The statement of net position provides the perspective of the Township as a whole. The Township has only governmental activities. Exhibit A provides the comparative summary of the Township's net position as of June 30, 2014 and 2013:

#### Exhibit A

	<u>2014</u>	<u>2013</u>
Current assets	\$ <b>5,550,234</b>	\$ 5,886,021
Noncurrent assets	<b>10,233,954</b>	10,061,813
Total assets	<b>15,784,188</b>	15,947,834
Current liabilities	<b>632,481</b>	84,731
Noncurrent liabilities	<b>2,997,358</b>	3,815,000
Total liabilities	<b>3,629,839</b>	3,899,731
Net position:		
Invested in capital assets	<b>6,683,954</b>	6,246,813
Restricted – debt service	<b>338,513</b>	129,783
Restricted– water system maintenance	<b>293,957</b>	250,029
Restricted– fire protection	<b>147,281</b>	235,650
Unrestricted	<b>4,690,644</b>	5,185,828
Total net position	<b>\$ 12,154,349</b>	\$ 12,048,103

Exhibit A focuses on the net position of the Township, which was \$12,154,349 at year-end. Investment in capital assets compares the original cost, less depreciation of the Township's capital assets, to long-term debt used to finance the acquisition of those assets (if any). An additional portion of the net position is restricted for sanitation collection services. The remaining balance of unrestricted net position may be used to meet the Township's ongoing obligations.

## Homer Township

### Management's Discussion and Analysis (continued)

The results of this year's operations for the Township are reported in the statement of activities, as summarized in Exhibit B, which shows the change in net position for the years ended June 30, 2014 and 2013.

#### **Exhibit B**

	<u>2014</u>	<u>2013</u>
Program revenues:		
Charges for services	\$ 669,350	\$ 730,654
General revenues:		
Property taxes	345,269	333,263
State revenue sharing	298,939	291,817
Interest earnings	2,046	3,918
Miscellaneous	15,944	9,779
Total revenues	<u>1,331,548</u>	<u>1,369,431</u>
Function/program expenses:		
General government	256,099	261,365
Public safety	595,720	205,630
Public works	219,758	610,690
Community and economic development	11,556	19,260
Recreation and culture	64,524	70,770
Interest and fiscal charges	77,648	237,300
Total expenses	<u>1,225,305</u>	<u>1,405,015</u>
Change in net position	<u>\$ 106,243</u>	<u>\$ (35,584)</u>

As reported in the summarized statement of activities, above, the cost of all our *governmental* activities in 2014 was \$1,225,305. The Township experienced an increase in net position in 2014 of \$106,243 and a decrease in net position in 2013 of \$35,584. The increase in net position in 2014 due mainly to a decrease from 2013 in the amount of public work expenses, related to road improvements.

#### **General Fund Budgetary Highlights**

Over the course of the year, the Township revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Township's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information of these financial statements.

#### **Capital Assets**

The Township's investment in capital assets as of June 30, 2014, was \$6,683,954. A summary of the changes in capital assets can be found at note 4 of the notes to the financial statements. The Township purchased \$506,832 in new capital assets during the fiscal year ended June 30, 2014. The Township anticipates spending significantly less on capital assets next year.

## Homer Township

### Management's Discussion and Analysis (continued)

#### **Long-term Debt**

Long-term debt decreased during the year by \$265,000, due to payments made by the Township. Further information on the Township's long-term debt and the refunding can be found at note 5 of the notes to financial statements.

#### **Factors Expected to have an Effect on Future Operations**

In the fiscal year 2015 budget for the General Fund, the Township is expecting \$755,640 in revenues and \$760,039 in expenditures, resulting in a net decrease in fund balance of \$4,399. No individual revenue sources are expected to be significantly different than what was received in 2014. The 2015 expenditure budget is \$30,912 higher than the 2014 budget due to an anticipated increase in public works capital outlay expenditures.

#### **Request for Information**

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



Homer Township

Statement of Net Position

June 30, 2014

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 2,187,392
Accounts receivable	12,810
Assessments receivable	3,259,845
Due from other governmental units	90,187
Capital assets, net:	
Assets not being depreciated	393,154
Assets being depreciated	9,840,800
Total assets	<u>15,784,188</u>
<b>Liabilities</b>	
Accounts payable	46,344
Accrued interest payable	31,817
Accrued liabilities	1,678
Long-term liabilities:	
Due in one year	552,642
Due in more than one year	2,997,358
Total liabilities	<u>3,629,839</u>
<b>Net position</b>	
Net investment in capital assets	6,683,954
Restricted-debt service	338,513
Restricted-water system maintenance	293,957
Restricted-fire protection	147,281
Unrestricted	4,690,644
Total net position	<u>\$ 12,154,349</u>

Homer Township

Statement of Activities

Year ended June 30, 2014

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expenses) Revenues and Changes in Net Position
<b>Governmental activities</b>			
General government	\$ 256,099	\$ 94,571	\$ (161,528)
Public works	595,720	321,338	(274,382)
Public safety	219,758	47,640	(172,118)
Community and economic development	11,556	-	(11,556)
Recreation and culture	64,524	-	(64,524)
Interest and fiscal charges	77,648	205,801	128,153
Total governmental activities	\$ 1,225,305	\$ 669,350	(555,955)
General revenues			
Property taxes			345,269
State revenue sharing			298,939
Interest earnings			2,046
Miscellaneous			15,944
Total general revenues			662,198
Change in net position			106,243
Net position-beginning			12,048,106
Net position-ending			\$ 12,154,349

# Homer Township

## Governmental Funds Balance Sheet

June 30, 2014

	General	Fire Department	1998 Water Supply System Bonds District No. 1	2003 Water Supply System Bonds District No. 4	2004 Water Supply System Bonds District No. 6	Other Governmental Funds	Total
<b>Assets</b>							
Cash and cash equivalents	\$ 605,844	\$ 368,432	\$ 441,390	\$ 155,673	\$ 197,870	\$ 418,183	\$2,187,392
Accounts receivable	9,676	3,134	-	-	-	-	12,810
Assessments receivable	-	-	900,462	918,600	990,637	450,146	3,259,845
Due from other governmental units	49,807	-	-	-	-	40,380	90,187
<b>Total assets</b>	<b>\$ 665,327</b>	<b>\$ 371,566</b>	<b>\$ 1,341,852</b>	<b>\$ 1,074,273</b>	<b>\$ 1,188,507</b>	<b>\$ 908,709</b>	<b>\$5,550,234</b>
<b>Liabilities</b>							
Accounts payable	\$ 35,354	\$ 7,405	\$ 3,156	-	-	\$ 429	\$ 46,344
Accrued liabilities	1,678	-	-	-	-	-	1,678
<b>Total liabilities</b>	<b>37,032</b>	<b>7,405</b>	<b>3,156</b>	<b>-</b>	<b>-</b>	<b>429</b>	<b>48,022</b>
<b>Deferred inflows of resources</b>							
Unavailable revenue - long-term assessments receivable	-	-	1,150,748	1,047,960	1,169,601	506,389	3,874,698
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>-</b>	<b>1,150,748</b>	<b>1,047,960</b>	<b>1,169,601</b>	<b>506,389</b>	<b>3,874,698</b>
<b>Fund balances</b>							
Restricted-debt service	-	-	187,948	26,313	18,906	105,346	338,513
Restricted-water system maintenance	-	-	-	-	-	293,957	293,957
Restricted-fire protection	-	147,281	-	-	-	-	147,281
Assigned-fire facility maintenance	-	216,880	-	-	-	-	216,880
Assigned-inspections	-	-	-	-	-	2,588	2,588
Unassigned (deficit)	628,295	-	-	-	-	-	628,295
<b>Total fund balances</b>	<b>628,295</b>	<b>364,161</b>	<b>187,948</b>	<b>26,313</b>	<b>18,906</b>	<b>401,891</b>	<b>1,627,514</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 665,327</b>	<b>\$ 371,566</b>	<b>\$ 1,341,852</b>	<b>\$ 1,074,273</b>	<b>\$ 1,188,507</b>	<b>\$ 908,709</b>	<b>\$5,550,234</b>

*See accompanying notes.*

## Homer Township

### Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2014

Total fund balances for governmental funds \$ 1,627,514

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets 14,931,823

Deduct - accumulated depreciation (4,697,869)

Certain long-term assets are not available to pay for current period expenditures and, therefore are deferred in the funds.

Add - long-term special assessments receivable 3,874,698

Certain liabilities, such as bonds payable, are not due and payable in the current period and are not reported in the funds.

Deduct - bonds payable (3,550,000)

Deduct - accrued interest payable (31,817)

Total net position of governmental activities \$ 12,154,349

## Homer Township

### Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2014

	General	Fire Department	1998 Water Supply System Bonds District No. 1	2003 Water Supply System Bonds District No. 4	2004 Water Supply System Bonds District No. 6	Other Governmental Funds	Total
<b>Revenues</b>							
Property taxes and related fees	\$ 155,079	\$ 190,184	\$ -	\$ -	\$ -	\$ 6	\$ 345,269
Licenses and permits	-	-	-	-	-	18,669	18,669
State revenue	298,939	-	-	-	-	-	298,939
Charges for services	268,067	-	-	-	-	103,808	371,875
Interest earnings	513	220	253	219	274	567	2,046
Rents and royalties	43,649	29,356	-	-	-	-	73,005
Special assessment revenue	-	-	434,068	171,524	182,824	88,597	877,013
Miscellaneous	10,497	4,877	-	-	-	570	15,944
<b>Total revenues</b>	<b>776,744</b>	<b>224,637</b>	<b>434,321</b>	<b>171,743</b>	<b>183,098</b>	<b>212,217</b>	<b>2,002,760</b>
<b>Expenditures</b>							
General government	228,270	-	-	-	-	-	228,270
Public works	322,485	-	-	-	100	60,525	383,110
Public safety	-	91,360	-	-	-	22,328	113,688
Community and economic development	11,556	-	-	-	-	-	11,556
Recreation and culture	59,107	-	-	-	-	-	59,107
Capital outlay	33,525	490,539	-	-	-	-	524,064
Debt service:							
Principal	-	-	280,000	129,270	126,060	49,670	585,000
Interest	-	-	27,325	21,782	22,411	15,826	87,344
Paying agent fees	-	-	113	94	109	134	450
<b>Total expenditures</b>	<b>654,943</b>	<b>581,899</b>	<b>307,438</b>	<b>151,146</b>	<b>148,680</b>	<b>148,483</b>	<b>1,992,589</b>
Excess (deficiency) of revenues over expenditures	121,801	(357,262)	126,883	20,597	34,418	63,734	10,171
<b>Other Financing Sources (Uses)</b>							
Proceeds from installment loan	-	300,000	-	-	-	-	300,000
Transfers in	-	-	-	-	-	2,000	2,000
Transfers out	(2,000)	-	-	-	-	-	(2,000)
<b>Total other financing sources (uses)</b>	<b>(2,000)</b>	<b>300,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,000</b>	<b>300,000</b>
Net change in fund balances	119,801	(57,262)	126,883	20,597	34,418	65,734	310,171
Fund balances-beginning	508,494	421,423	61,065	5,716	(15,512)	336,157	1,317,343
<b>Fund balances-ending</b>	<b>\$ 628,295</b>	<b>\$ 364,161</b>	<b>\$ 187,948</b>	<b>\$ 26,313</b>	<b>\$ 18,906</b>	<b>\$ 401,891</b>	<b>\$ 1,627,514</b>

See accompanying notes.

## Homer Township

### Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities

Year ended June 30, 2014

Net change in fund balances - total governmental funds \$ 310,171

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	506,832
Deduct - depreciation expense	(332,947)
Deduct - loss on disposal	(1,744)

Revenues in the funds that represent repayment of special assessments receivable that do not affect the statement of activities. (671,215)

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net position.

Add - principal payments on long-term liabilities	585,000
Add - decrease in accrued interest payable	10,146
Deduct - proceeds from installment loan	(300,000)
Change in net position of governmental activities	<u>\$ 106,243</u>

Homer Township

Statement of Fiduciary Net Position

June 30, 2014

	<u>Current Tax Collection</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 1,500
<b>Liabilities</b>	
Due to other governmental units	\$ 1,500

# Homer Township

## Notes to Financial Statements

June 30, 2014

### **1. Summary of Significant Accounting Policies**

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

#### **A. Reporting Entity**

The Township is governed by an elected seven-member board. The Township provides services to its various residents in many areas, including general government, public safety, public works, and recreation and culture. As required by GAAP, these financial statements present the Township, which has no component units. The decision to include potential component units in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, *“The Financial Reporting Entity”* and GASB Statement No. 39, *“Determining Whether Certain Organizations Are Component Units-an amendment of GASB Statement No. 14.”*

#### **B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Township. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program 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. Property 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.



## Homer Township

### Notes to Financial Statements (continued)

#### 1. Summary of Significant Accounting Policies (continued)

##### C. 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 any agency funds, which have no measurement focus. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers 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, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise taxes, licenses, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measured and available only when cash is received by the Township.

The 2013 taxable valuation of the Township totaled \$114 million, on which ad valorem taxes levied consisted of 1.3463 mills for operating purposes and 1.0000 for fire protection. This amount is recognized as revenue in the General Fund and Fire Fund, respectively.

The Township reports the following major funds:

General Fund – This fund is the Township’s primary operating fund. It is used to account for all financial resources except those provided for in another fund.

Fire Fund – This fund is a special revenue fund that receives an extra voted millage and is used to account for fire protection services.

1998 Water Supply System Bonds District No. 1 – This fund is used to account for the accumulation of funds for the payment of debt service on the water supply system bonds for district number 1.

## Homer Township

### Notes to Financial Statements (continued)

#### 1. Summary of Significant Accounting Policies (continued)

##### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

2003 Water Supply System Bonds District No. 4 – This fund is used to account for the accumulation of funds for the payment of debt service on the water supply system bonds for district number 4.

2004 Water Supply System Bonds District No. 6 – This fund is used to account for the accumulation of funds for the payment of debt service on the water supply system bonds for district number 6.

Additionally, the Township reports the following fund type:

Agency Fund – This fund is used to account for resources held by the Township in a purely custodial capacity, including property taxes.

Amounts reported as program revenue include charges to customers or applicants for goods, services, or privileges provided and operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all property taxes.

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.

##### D. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity

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

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.”

All trade and property tax receivables are shown net of allowance for uncollectible amounts. Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup> and are due without penalty on or before February 14<sup>th</sup> of the following year. Real property and special assessment taxes not collected as of March 1<sup>st</sup> are turned over to Midland County, which advances the Township 100% for those delinquent taxes.

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

# Homer Township

## Notes to Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### D. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (continued)

Deferred Inflows of Resources – In addition to liabilities, the statement of net position and governmental funds balance sheet 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 a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Township has one type of item that qualifies for reporting in this category. The governmental funds report unavailable revenues, which arise only under a modified accrual basis of accounting, from special assessments receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. the water system), are reported in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

The Township has elected not to report its infrastructure assets under GASB Statement No. 34, as the Township is a “tier three” entity. All future infrastructure asset additions will be reported in the government-wide financial statements.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	30 to 40 years
Water systems	50 years
Vehicles	10 to 25 years
Fire equipment	5 to 30 years
Other equipment	5 to 20 years

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

## Homer Township

### Notes to Financial Statements (continued)

#### **1. Summary of Significant Accounting Policies (continued)**

##### **D. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Equity (continued)**

Fund Equity – In the fund financial statements, fund balance is presented in five possible categories:

Nonspendable – amounts which cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Restricted – amounts constrained to specific purposes by their providers (such as creditors, grantors, and higher levels of government), through constitutional provisions, or by enabling legislations.

Committed – amounts which are subject to limitations the Township imposes upon itself through official actions made by the Board of Trustees (Board), and that remain binding unless removed in the same manner.

Assigned – amounts neither restricted nor committed for which the Township has a stated intended use as established by the Board or an official to which the Board has delegated the authority to assign amounts for specific purposes.

Unassigned – amounts that are available for any purpose. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

The Township would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

#### **2. Stewardship, Compliance, and Accountability**

##### **A. Budgets and Budgetary Accounting**

The annual budget is prepared by the Township's management and adopted by the Board; subsequent amendments are approved by the Board. The annual operating budget has been prepared in accordance with GAAP. The legal level of budgetary control adopted by the Board is the department or activity level. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

Homer Township

Notes to Financial Statements (continued)

**2. Stewardship, Compliance, and Accountability (continued)**

**B. Excess of Expenditures over Appropriations in Budgeted Funds**

During the year, the Township incurred expenditures which were in excess of the amounts appropriated, as follows:

	Budget	Actual	Variance
General Fund			
General government:			
Treasurer	\$ 34,056	\$ 34,289	(233)
Assessor	26,358	28,234	(1,876)
Elections	2,100	2,280	(180)
Public works:			
Department of public works	24,850	25,122	(272)
Solid waste	229,000	229,361	(361)
Recreation and culture:			
Parks and recreation	33,225	33,458	(233)
Capital outlay:			
Public works	-	1,850	(1,850)
Transfers out	-	2,000	(2,000)
Fire Department Fund			
Public safety	88,950	91,360	(2,410)
Capital outlay	253,000	490,539	(237,539)

**3. Deposits and Investments**

The Township's deposits and investments are presented in the basic financial statements under the following categories:

	Governmental Activities	Fiduciary Funds	Total
Cash and cash equivalents	\$ 2,187,392	\$ 1,500	\$ 2,188,892

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts)	<u>\$ 2,188,892</u>
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## Homer Township

### Notes to Financial Statements (continued)

#### **3. Deposits and Investments (continued)**

The Township has designated four banks for the deposit of Township funds. The investment policy adopted by the Board, in accordance with Public Act 196 of 1997, has authorized investments in certificates of deposit, savings accounts, local government investment pools organized under PA 121, MCL 129.141 to 129.50, deposit accounts, or depository receipts of a bank, but only if the bank, savings and loan association, or credit union meets all criteria as a depository of public funds contained in state law. The Township's deposits and investments are in accordance with statutory authority.

#### Investment and Deposit Risk

**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. The Township does not have a deposit policy for custodial credit risk. At year-end, \$1,475,686 of the Township's bank balances of \$2,193,193 was exposed to custodial credit risk because 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. At year end, the Township had no investments.

**Interest Rate Risk – Interest rate risk** is the risk that the value of investments will decrease as a result of a rise in interest rates. State law limits the allowable investments and the maturities of some of the allowable investments. At year end, the Township had no investments.

**Credit Risk – State law** limits investments to specific government securities, certificates of deposit 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 as identified in the list of authorized investments in the accounting policies. The Township's investment policy does not have specific limits in excess of state law on investment credit risk.

Homer Township

Notes to Financial Statements (continued)

**4. Capital Assets**

Capital asset activity of the Township for the current year was as follows:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 393,154	\$ -	\$ -	\$ 393,154
Total capital assets not being depreciated	393,154	-	-	393,154
Capital assets being depreciated:				
Land improvements	136,078	-	-	136,078
Buildings and improvements	2,567,081	2,485	-	2,569,566
Equipment	380,651	16,942	25,885	371,708
Vehicles	354,938	487,405	-	842,343
Water system	10,618,974	-	-	10,618,974
Total capital assets being depreciated	14,057,722	506,832	25,885	14,538,669
Less accumulated depreciation for:				
Land improvements	20,953	4,536	-	25,489
Buildings and improvements	1,035,621	63,209	-	1,098,830
Equipment	318,534	14,901	24,141	309,294
Vehicles	235,438	37,922	-	273,360
Water system	2,778,517	212,379	-	2,990,896
Total accumulated depreciation	4,389,063	332,947	24,141	4,697,869
Total capital assets being depreciated, net	9,668,659	173,885	(1,744)	9,840,800
Governmental activities capital assets, net	<u>\$10,061,813</u>	<u>\$ 173,885</u>	<u>\$ (1,744)</u>	<u>\$10,233,954</u>

Depreciation expense was charged to programs of the Township as follows:

General government	\$ 8,850
Public safety	106,070
Public works	212,610
Recreation and culture	5,417
Total	<u>\$ 332,947</u>

Homer Township

Notes to Financial Statements (continued)

**5. Long-term Debt**

The long-term debt obligations of the Township and the changes therein, are summarized as follows:

	<u>July 1, 2013</u>	<u>Additions (Reductions)</u>	<u>June 30, 2014</u>	<u>Due in One Year</u>
District 1 Water Supply System Bonds with Midland County, dated September 1, 1997 in the amount of \$4,990,000. Principal payments are due annually on August 1, with an interest rate ranging from 4.6% to 6.0%, payable February 1 and August 1.	\$ 280,000	\$ (280,000)	\$ -	\$ -
Districts 3 and 4 Water Supply System Bonds with Midland County, dated February 1, 2003 in the amount of \$2,955,000. Principal payments are due annually on August 1, with an interest rate ranging from 3.5% to 4.75%, payable February 1 and August 1.	155,000	(155,000)	-	-
Districts 6 and 7 Water Supply System Bonds with Midland County, dated November 1, 2003 in the amount of \$2,660,000. Principal payments are due annually on August 1, with an interest rate ranging from 2.5% to 4.75%, payable February 1 and August 1.	130,000	(130,000)	-	-
Districts 8 and 10 Water Supply System Bonds with Midland County, dated December 8, 2005 in the amount of \$375,000. Principal payments are due annually on August 1, with an interest rate ranging from 3.4% to 4.8%, payable February 1 and August 1.	240,000	-	240,000	20,000
Water Supply System Refunding Bonds with Midland County, dated February 7, 2013 in the amount of \$3,010,000. Principal payments are due annually on August 1, with an interest rate ranging from 2.0% to 3.0%, payable February 1 and August 1.	3,010,000	-	3,010,000	475,000



Homer Township

Notes to Financial Statements (continued)

**5. Long-term Debt (continued)**

	<b>July 1, 2013</b>	<b>Additions (Reductions)</b>	<b>June 30, 2014</b>	<b>Due in One Year</b>
Fire Truck Installment Purchase Agreement with Chemical Bank, dated April 25, 2014 in the amount of \$300,000. Principal and interest payments are due on April 1, July 1, and October 1, with an interest rate of 1.99%.	-	300,000	300,000	57,642
	<u>\$3,815,000</u>	<u>\$ (265,000)</u>	<u>\$ 3,550,000</u>	<u>\$ 552,642</u>

The annual principal and interest requirements through maturity for all long-term debt outstanding as of June 30, 2014, are as follows:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 552,642	\$ 76,561	\$ 629,203
2016	553,798	65,216	619,014
2017	549,976	53,722	603,698
2018	536,179	42,395	578,574
2019	277,405	33,783	311,188
2020-2024	975,000	89,375	1,064,375
2025-2026	105,000	2,890	107,890
	<u>\$3,550,000</u>	<u>\$363,942</u>	<u>\$3,913,942</u>

Bond Refunding

On February 7, 2013, the Township issued Water Supply System Refunding Bonds in the amount of \$3,010,000. Proceeds from this bond issue, along with a contribution from the Township of \$1,220,000 were used to refund three Water Supply System Bonds issued in 1997 and 2003. The balance of debt called in was \$4,140,000. The refunding was undertaken to reduce the total debt service payments through August 2024 by \$1,601,868 and resulted in an economic gain of \$384,057.

# Homer Township

## Notes to Financial Statements (continued)

### 6. Interfund Transfers

The details for the interfund transfers are as follows:

<u>Fund</u>	<u>Transfer Out</u>	<u>Fund</u>	<u>Transfer In</u>
General	\$ 2,000	Building Inspection	\$ 2,000
	<u>\$ 2,000</u>		<u>\$ 2,000</u>

Transfers from the General Fund were used during the year ended June 30, 2014 to cover operating costs in excess of revenues in the Building Inspection Fund.

### 7. Risk Management

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

### 8. Pension Plan

The Township provides pension benefits to all township officials and employees except for volunteer firemen and seasonal employees through a defined contribution plan administered by Standard Retirement Services, Inc. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Contributions to the plan are based on a scale set up in the pension adoption agreement for different levels of compensation. Employees can also make voluntary contributions to the plan. For the year ended June 30, 2014, the cost to the Township for this plan was \$23,886, which was in accordance with the applicable requirements.

### 9. Special Assessments Receivable

Special assessments were assessed to the taxpayers of the Township to be used for the construction of new water districts. The assessments resulted in receivables totaling \$3,259,845 for the Township as of June 30, 2014. In addition to the amount that remains receivable at year-end, several parcels throughout the Water Districts have been prepaid. Both the receivable and the prepaid amount are included as deferred revenue at June 30, 2014, on the Governmental Funds Balance Sheet. However, on the full accrual method of accounting, the entire special assessment levy is recognized as revenue in the year of the levy. Therefore, on the Government-wide Statement of Net Position, no deferral is recorded.

## Homer Township

### Notes to Financial Statements (continued)

#### **10. Agreement with City of Midland**

The Township has an agreement with the City of Midland (City), dated July 29, 1997, whereby the Township, through bonds issued by the County of Midland, will construct and install a water system that is connected to the City's water system. Upon completion of construction and installation acceptance by the City, the water mains within the Township Water Service Area shall remain the property of the Township. The City shall provide all operation, maintenance, and service necessary for the proper, efficient, and lawful use of the system. In addition, the City will provide and maintain at its expense all meters for measuring water supplied to Township customers. Finally, the City shall bill each Township customer in accordance with the City Code of Ordinances. The billings will consist of a usage charge to be recognized by the City and a debt service and maintenance surcharge of \$105 per year to each customer, which will be used to help make payments on the Water Supply System Bonds. The agreement shall be effective for an initial term of 40 years and may be renewed as mutually agreed upon by both parties.

# Homer Township

## General Fund Budgetary Comparison Schedule

Year ended June 30, 2014

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>				
Property taxes and related fees	\$ 146,000	\$ 146,000	\$ 155,079	\$ 9,079
State revenue	302,143	302,143	298,939	(3,204)
Charges for services	223,400	223,400	268,067	44,667
Interest earnings	400	400	513	113
Rents and royalties	39,000	39,000	43,649	4,649
Miscellaneous	1,000	1,000	10,497	9,497
<b>Total revenues</b>	<b>711,943</b>	<b>711,943</b>	<b>776,744</b>	<b>64,801</b>
<b>Expenditures</b>				
General government:				
Township board	23,840	23,840	21,197	2,643
Supervisor	21,854	21,854	21,481	373
Treasurer	34,056	34,056	34,289	(233)
Assessor	26,058	26,358	28,234	(1,876)
Clerk	27,679	27,679	26,466	1,213
Elections	1,500	2,100	2,280	(180)
Cemetery	45,050	45,050	41,896	3,154
Buildings and grounds	36,550	35,100	31,757	3,343
All other general government	28,900	28,900	20,670	8,230
Public works:				
Department of public works	24,850	24,850	25,122	(272)
Solid waste	222,000	229,000	229,361	(361)
Road improvements	100,000	100,000	50,623	49,377
Drains	1,500	2,250	2,230	20
Street lighting	16,000	16,000	15,149	851
Community and economic development:				
Planning commission	23,225	13,725	9,492	4,233
Zoning administrator	2,100	2,100	1,747	353
Zoning board of appeals	740	740	317	423
Recreation and culture:				
Parks and recreation	30,925	33,225	33,458	(233)
Library	26,000	26,000	25,649	351
Capital outlay:				
General government	31,800	36,300	31,675	4,625
Public works	-	-	1,850	(1,850)
<b>Total expenditures</b>	<b>724,627</b>	<b>729,127</b>	<b>654,943</b>	<b>74,184</b>
Excess (deficiency) of revenues over expenditures	(12,684)	(17,184)	121,801	138,985
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(2,000)	(2,000)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>(2,000)</b>	<b>(2,000)</b>
Net change in fund balances	(12,684)	(17,184)	119,801	136,985
Fund balances-beginning	508,494	508,494	508,494	-
<b>Fund balances-ending</b>	<b>\$ 495,810</b>	<b>\$ 491,310</b>	<b>\$ 628,295</b>	<b>\$ 136,985</b>

## Homer Township

### Fire Department Fund Budgetary Comparison Schedule

Year ended June 30, 2014

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>				
Property taxes and related fees	\$ 188,000	\$ 188,000	\$ 190,184	\$ 2,184
Interest earnings	450	450	220	(230)
Rents and royalties	71,690	71,690	29,356	(42,334)
Miscellaneous	-	-	4,877	4,877
<b>Total revenues</b>	260,140	260,140	224,637	(35,503)
<b>Expenditures</b>				
Public safety:				
Fire protection	88,950	88,950	91,360	(2,410)
Capital outlay	255,000	253,000	490,539	(237,539)
<b>Total expenditures</b>	343,950	341,950	581,899	(239,949)
 Excess (deficiency) of revenues over expenditures	 (83,810)	 (81,810)	 (357,262)	 (275,452)
<b>Other Financing Sources</b>				
Proceeds from installment loan	-	-	300,000	300,000
<b>Total other financing sources</b>	-	-	300,000	300,000
 Net change in fund balances	 (83,810)	 (81,810)	 (57,262)	 24,548
Fund balances-beginning	421,423	421,423	421,423	-
<b>Fund balances-ending</b>	\$ 337,613	\$ 339,613	\$ 364,161	\$ 24,548

Homer Township

Nonmajor Governmental Funds Combining Balance Sheet

June 30, 2014

	Special Revenue Funds			Debt Service Funds			Total
	Building Inspection	Water System Maintenance	2003 Water Supply System Bonds District No. 3	2004 Water Supply System Bonds District No. 7	2006 Water Supply System Bonds District No. 8	2006 Water Supply System Bonds District No. 10	
<b>Assets</b>							
Cash and cash equivalents	\$ 3,017	\$ 253,577	\$ 45,389	\$ 8,115	\$ 81,159	\$ 26,926	\$ 418,183
Accounts receivable	-	-	-	-	-	-	-
Assessments receivable	-	-	210,237	42,503	136,012	61,394	450,146
Due from other governmental units	-	40,380	-	-	-	-	40,380
<b>Total assets</b>	<b>\$ 3,017</b>	<b>\$ 293,957</b>	<b>\$ 255,626</b>	<b>\$ 50,618</b>	<b>\$ 217,171</b>	<b>\$ 88,320</b>	<b>\$ 908,709</b>
<b>Liabilities</b>							
Accounts payable	\$ 429	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 429
<b>Total liabilities</b>	<b>429</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>429</b>
<b>Deferred inflows of resources</b>							
Unavailable revenue - long-term assessments receivable	-	-	252,518	45,788	143,000	65,083	506,389
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>-</b>	<b>252,518</b>	<b>45,788</b>	<b>143,000</b>	<b>65,083</b>	<b>506,389</b>
<b>Fund balances</b>							
Restricted-debt service	-	-	3,108	4,830	74,171	23,237	105,346
Restricted-water system maintenance	-	293,957	-	-	-	-	293,957
Assigned-inspections	2,588	-	-	-	-	-	2,588
<b>Total fund balances</b>	<b>2,588</b>	<b>293,957</b>	<b>3,108</b>	<b>4,830</b>	<b>74,171</b>	<b>23,237</b>	<b>401,891</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 3,017</b>	<b>\$ 293,957</b>	<b>\$ 255,626</b>	<b>\$ 50,618</b>	<b>\$ 217,171</b>	<b>\$ 88,320</b>	<b>\$ 908,709</b>

## Homer Township

### Nonmajor Governmental Funds Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2014

	Special Revenue Funds		Debt Service Funds				Total
	Building Inspection	Water System Maintenance	2003 Water Supply System Bonds District No. 3	2004 Water Supply System Bonds District No. 7	2006 Water Supply System Bonds District No. 8	2006 Water Supply System Bonds District No. 10	
<b>Revenues</b>							
Property taxes and related fees	\$ -	\$ 6	\$ -	\$ -	\$ -	\$ -	\$ 6
Licenses and permits	18,284	385	-	-	-	-	18,669
Charges for services	-	103,808	-	-	-	-	103,808
Interest earnings	-	254	68	12	178	55	567
Rents and royalties	-	-	-	-	-	-	-
Special assessment revenue	-	-	40,257	6,391	30,748	11,201	88,597
Miscellaneous	-	-	-	570	-	-	570
<b>Total revenues</b>	<b>18,284</b>	<b>104,453</b>	<b>40,325</b>	<b>6,973</b>	<b>30,926</b>	<b>11,256</b>	<b>212,217</b>
<b>Expenditures</b>							
Public works:							
System maintenance	-	60,525	-	-	-	-	60,525
Miscellaneous	-	-	-	-	-	-	-
Public safety:							
Inspections	22,328	-	-	-	-	-	22,328
Debt service:							
Principal	-	-	25,730	3,940	14,054	5,946	49,670
Interest	-	-	4,000	434	8,006	3,386	15,826
Paying agent fees	-	-	19	3	78	34	134
<b>Total expenditures</b>	<b>22,328</b>	<b>60,525</b>	<b>29,749</b>	<b>4,377</b>	<b>22,138</b>	<b>9,366</b>	<b>148,483</b>
Excess (deficiency) of revenues over expenditures	(4,044)	43,928	10,576	2,596	8,788	1,890	63,734
<b>Other Financing Sources (Uses)</b>							
Transfers in	2,000	-	-	-	-	-	2,000
<b>Total other financing sources (uses)</b>	<b>2,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,000</b>
Net change in fund balances	(2,044)	43,928	10,576	2,596	8,788	1,890	65,734
Fund balances-beginning, as restated	4,632	250,029	(7,468)	2,234	65,383	21,347	336,157
<b>Fund balances-ending</b>	<b>\$ 2,588</b>	<b>\$ 293,957</b>	<b>\$ 3,108</b>	<b>\$ 4,830</b>	<b>\$ 74,171</b>	<b>\$ 23,237</b>	<b>\$ 401,891</b>