

**FINANCIAL REPORT**  
**Hayes Township**  
**June 30, 2014**

**HAYES TOWNSHIP  
FINANCIAL REPORT  
June 30, 2014**

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October 14, 2014

Independent Auditors' Report

Township Board  
Hayes Township  
Charlevoix County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Hayes Township, Michigan, 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.

**Auditor's Responsibility**

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

An audit 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 the 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 and the major fund of Hayes Township, as of June 30, 2014, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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.

*Hill, Schroeder & Co.*

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan

# HAYES TOWNSHIP

09195 Old US 31 North  
CHARLEVOIX, MI 49720

## Management's Discussion and Analysis

As management of the Hayes Township, Charlevoix County, Michigan, we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended June 30, 2014.

### Financial Highlights

- The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$5,690,091 (net position). Of this amount, \$708,945 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors. The remaining net position is invested in capital assets and \$442,135 restricted for road repair and maintenance and Metro Act expenses.
- The Township's total net position increased by \$4,165,359. Most of this increase can be attributed to a State grant of \$3,164,536 and other contributions of \$687,295 for the acquisition of Camp Sea-Gull, a property on and providing access to Lake Charlevoix.
- At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$691,900 or 234 percent of total General Fund current expenditures.
- The Township had no outstanding long-term liabilities at year end.

### Overview of the Financial Statements

The Hayes Township's basic financial statements include government-wide statements, fund financial statements and notes to the financial statements. This report also contains the required budgetary comparison information as part of the basic financial statements.

### Government-wide Financial Statements

The government-wide 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 displays all of the Township's assets and liabilities, with the difference reported as *net position*. All long-term assets and debt obligations are presented.

The Statement of Activities focuses on the gross and net cost of the primary functions of the Township, which are supported by the Township's general revenues (property taxes, state revenues, etc.).

### Fund Financial Statements

The fund financial statements report on the governmental funds, with an emphasis on major funds. Major funds are determined by the level of activity within the various funds. The focus of the governmental fund financial statements is on the sources and uses of funds during the current year. The Township uses one fund, the General Fund which is considered a major fund.

## Notes to the Financial Statements

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

### Government-wide Financial Analysis

The table below summarizes the Township's net position as of June 30, 2014:

		Governmental	
		Activities	
		2014	2012
<b>Assets</b>			
Current and other assets		\$ 1,151,999	\$ 1,433,305
Capital assets - net of accum. dep.		4,539,011	139,417
Total assets		<u>\$ 5,691,010</u>	<u>\$ 1,572,722</u>
<b>Liabilities</b>			
Current liabilities		<u>\$ 919</u>	<u>\$ 5,769</u>
<b>Net Position</b>			
Investment in capital assets net of related debt		4,539,011	139,417
Restricted		442,135	238,526
Unrestricted		708,945	1,189,010
Total net position		<u>5,690,091</u>	<u>1,566,953</u>
Total liabilities and net position		<u>\$ 5,691,010</u>	<u>\$ 1,572,722</u>

At the end of the fiscal year, the Township is able to report positive balances in all categories of net position. The first portion of the Township's net position is its investment in capital assets (land, buildings, land improvements, furniture, fixtures and equipment; less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets in providing services; consequently, these assets are not available for future spending.

The restricted portion of net position is for tax levy monies restricted for road repair and maintenance and Metro Act expenses.

The remaining portion of net position – unrestricted net position – may be used at the Township's discretion to meet ongoing obligations.

The results for the Township as a whole are reported in the Statement of Activities, which is summarized below:

**Hayes Township  
Statement of Activities  
Year Ended June 30, 2014**

	Governmental Activities	
	2014	2012
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 9,833	\$ 5,438
Operating grants and contributions	4,639	14,578
Capital grants and contributions	3,851,831	-
General revenue:		
Property taxes	462,727	452,855
State revenues	143,094	138,536
Interest	4,367	6,875
Other	429	105
Total revenues	4,476,920	618,387
<b>Function/Program Expenses</b>		
General government	150,792	129,653
Public safety	42,887	41,592
Public works	7,496	178,134
Health and welfare	25,723	18,975
Community and econ. development	39,393	39,074
Recreation and cultural	8,842	15,994
Unallocated	24,813	24,759
Unallocated depreciation	11,615	12,212
Total expenses	311,561	460,393
<b>Change in net position</b>	4,165,359	157,994
<b>Net position - beginning of year</b>	1,524,732	1,408,959
<b>Net position - end of year</b>	\$ 5,690,091	\$ 1,566,953

As reported above, the Township recorded \$311,561 of expenses. The Township's governmental activities were funded primarily with property tax revenues and state revenues. The capital grants and contributions during fiscal 2014 were a State grant of \$3,164,536 and other contributions of \$687,295 for the acquisition of Camp Sea-Gull, a property on and providing access to Lake Charlevoix.

**The Township's Funds**

As of year-end, the Township's General Fund reported a fund balance of \$1,151,080 which is \$211,230 less than the beginning of the year. The acquisition of Camp Sea-Gull and related costs were mostly funded with a State grant and local contributions. It did however require over \$500,000 of Township funds. Without this acquisition the Township General Fund balance would have grown, primarily related to the collection of property taxes restricted for road repair and maintenance. Subsequent to year end the Township authorized \$363,239 of road work for Pincherry and Maple Grove roads. The General Fund provides general government services including the supervisor, clerk, treasurer and

assessor duties; public safety (fire); public works; health and welfare (ambulance); planning and zoning and recreation and cultural. The General Fund unassigned fund balance is sufficient to fund over two years of operations.

### **General Fund Budgetary Highlights**

Final actual revenues were \$121,512 under final budgeted amounts. The actual State grant revenues were \$187,231 less than budgeted as the actual purchase price of Camp Sea-Gull was less than originally budgeted. Local contributions for the acquisition were \$52,295 more than budgeted.

Final actual expenditures were \$598,943 less than final budgeted amounts. This too was related to the acquisition cost being less and for road repair and maintenance which was \$411,658 less than budgeted. The Township did incur major road repair and maintenance expenditures after year end.

### **Capital Assets**

At June 30, 2014, the Township had \$4,539,011, net of depreciation of \$209,199 invested in capital assets.

### **Long Term Debt**

At June 30, 2014, the Township had no long term debt outstanding.

### **Economic Factors**

In January 2014 Hayes Township took ownership of a twenty acre park located on Lake Charlevoix. For the fiscal year 2014-2015 Hayes Township has budgeted for the development of Hayes Township Park, Camp Sea-Gull. The Township anticipates receiving a grant from the DNR Waterways and the Michigan Natural Resources Trust Fund for infrastructure costs related to road work and a boat launch for access to Lake Charlevoix. The Township hired a firm to help develop a Park Master Plan. While no decision has been made on the existing buildings in the park the Township anticipates using the Park Master Plan to guide them with their decisions. The State of Michigan appears to have leveled off in the past trend of decreasing property values. Hayes Township feels confident that, through careful planning, the Township will remain fiscally sound.

### **Requests for Information**

The Township's financial statements are designed to present users with a general overview of the Township's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed towards the Township Clerk, Hayes Township, 096195 Old US 31 N, Charlevoix, Michigan 49720.



**HAYES TOWNSHIP**  
**Statement of Net Position**  
**June 30, 2014**

	<u>Governmental Activities</u>
<b><u>Assets</u></b>	
<b>Current Assets</b>	
Cash	\$ 1,132,008
Accounts receivable	421
Due from fiduciary fund	2,525
Prepaid expenses	<u>17,045</u>
Total current assets	<u>1,151,999</u>
<b>Noncurrent Assets</b>	
Land	4,277,202
Other capital assets net of depreciation	<u>261,809</u>
Total noncurrent assets	<u>4,539,011</u>
Total assets	<u><u>\$ 5,691,010</u></u>
<b><u>Liabilities and Net Position</u></b>	
<b>Liabilities</b>	
Accounts payable	<u>\$ 919</u>
<b>Net Position</b>	
Investment in capital assets	4,539,011
Restricted:	
Road repair and maintenance	388,872
Metro act expenses	53,263
Unrestricted	<u>708,945</u>
Total net position	<u>5,690,091</u>
Total liabilities and net position	<u><u>\$ 5,691,010</u></u>

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

**HAYES TOWNSHIP**  
**Statement of Activities**  
**Year Ended June 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General government	\$ 150,792	\$ 9,833	\$ -	\$ -	\$ (140,959)
Public safety	42,887	-	-	-	(42,887)
Public Works	7,496	-	4,639	-	(2,857)
Health and welfare	25,723	-	-	-	(25,723)
Community and economic development	39,393	-	-	-	(39,393)
Recreation and cultural	8,842	-	-	3,851,831	3,842,989
Unallocated	24,813	-	-	-	(24,813)
Depreciation (unallocated)	11,615	-	-	-	(11,615)
	<u>\$ 311,561</u>	<u>\$ 9,833</u>	<u>\$ 4,639</u>	<u>\$ 3,851,831</u>	<u>3,554,742</u>
General Revenues:					
Property taxes					462,727
State shared revenues					143,094
Interest					4,367
Other					429
					<u>610,617</u>
<b>Change in net position</b>					<b>4,165,359</b>
<b>Net position - beginning of year</b>					<b>1,524,732</b>
<b>Net position - end of year</b>					<b>\$ 5,690,091</b>

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

**HAYES TOWNSHIP**  
**Governmental Fund**  
**Balance Sheet**  
**June 30, 2014**

	General
<b><u>Assets</u></b>	
Cash	\$ 1,132,008
Accounts receivable	421
Due from other funds	2,525
Prepaid expenditures	17,045
Total assets	\$ 1,151,999
<b><u>Liabilities and Fund Balance</u></b>	
<b>Liabilities</b>	
Accounts payable	\$ 919
<b>Fund balance</b>	
Nonspendable -prepaids	17,045
Restricted for:	
Road repair and maintenance	388,872
Metro act expenditures	53,263
Unassigned	691,900
Total fund balance	1,151,080
Total liabilities and fund balance	\$ 1,151,999

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

**HAYES TOWNSHIP**  
**Governmental Fund**  
**Reconciliation of the Governmental Fund Balance Sheet to**  
**the Statement of Net Position**  
**June 30, 2014**

**Total Fund Balance - Governmental Fund** \$ 1,151,080

Amounts reported for governmental activities in the statement  
of net position are different because:

Capital assets used in governmental activities are not financial  
resources and are not reported in the governmental funds  
balance sheet

Cost of capital assets	4,748,210
Accumulated depreciation	<u>(209,199)</u>
Total net position - governmental activities	<u><u>\$ 5,690,091</u></u>

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

**HAYES TOWNSHIP**  
**Governmental Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Year Ended June 30, 2014**

	General
<b>Revenues:</b>	
Taxes	\$ 462,727
State revenue	3,312,269
Charges for service	9,833
Interest and rentals	4,367
Grants and contributions	687,295
Other	429
	4,476,920
Total revenues	4,476,920
<b>Expenditures:</b>	
Current:	
General government	150,792
Public safety	42,887
Public works	7,496
Health and welfare	25,723
Community and economic development	39,393
Recreation and cultural	8,842
Unallocated	24,813
Capital outlay	4,388,204
	4,688,150
Total expenditures	4,688,150
<b>Net change in fund balance</b>	(211,230)
<b>Fund balance - beginning of year</b>	1,362,310
<b>Fund balance - end of year</b>	\$ 1,151,080

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

**HAYES TOWNSHIP**  
**Governmental Fund**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balance of Governmental Funds**  
**to the Statement of Activities**  
**Year Ended June 30, 2014**

**Net Change in Fund Balance - Total Governmental Fund** \$ (211,230)

Amounts reported for governmental activities in the statement of net position are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Expenditures for capital assets	4,388,204
Current year depreciation expense	<u>(11,615)</u>
Change in net position - governmental activities	<u><u>\$ 4,165,359</u></u>

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

**HAYES TOWNSHIP**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**Year Ended June 30, 2014**

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
<b>Revenues:</b>				
Taxes	\$ 449,132	\$ 449,132	\$ 462,727	\$ 13,595
State revenue	3,499,500	3,499,500	3,312,269	(187,231)
Charges for services	9,300	9,300	9,833	533
Interest and rentals	5,500	5,500	4,367	(1,133)
Grants and contributions	635,000	635,000	687,295	52,295
Other	-	-	429	429
	<u>4,598,432</u>	<u>4,598,432</u>	<u>4,476,920</u>	<u>(121,512)</u>
<b>Total revenues</b>				
<b>Expenditures:</b>				
Current:				
General government:				
Legislative	18,161	18,161	16,814	(1,347)
Supervisor	9,162	9,162	8,862	(300)
Office manager	5,259	5,259	5,259	-
Clerk	25,714	26,339	24,950	(1,389)
Board of review	2,300	2,300	1,797	(503)
Treasurer	22,714	22,714	21,203	(1,511)
Assessor	28,890	28,890	25,170	(3,720)
Elections	5,900	5,900	130	(5,770)
Building and grounds	15,350	23,350	21,545	(1,805)
Legal	10,000	16,000	14,595	(1,405)
Cemetery	7,599	7,599	8,026	427
Unallocated	4,000	4,000	2,441	(1,559)
	<u>155,049</u>	<u>169,674</u>	<u>150,792</u>	<u>(18,882)</u>
<b>Total general government</b>				
Public Safety:				
Fire protection	45,280	45,830	42,887	(2,943)
<b>Total public safety</b>				
Public works:				
Road repair and maintenance	415,641	417,053	5,395	(411,658)
Street lights	2,300	2,300	2,101	(199)
Phragmites	1,000	1,000	-	(1,000)
	<u>418,941</u>	<u>420,353</u>	<u>7,496</u>	<u>(412,857)</u>
<b>Total public works</b>				
Health and welfare:				
Ambulance service	23,000	26,500	25,723	(777)

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

**HAYES TOWNSHIP**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**(Continued)**  
**Year Ended June 30, 2014**

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Community and economic development:				
Planning & zoning	16,300	19,300	18,444	(856)
Ordinance enforcement	22,591	22,591	20,949	(1,642)
Total community and economic development	38,891	41,891	39,393	(2,498)
Recreation and cultural	14,000	14,000	8,842	(5,158)
Unallocated:				
Insurance	9,000	9,345	9,207	(138)
Payroll taxes	10,000	10,000	9,566	(434)
Property tax rebates	-	-	6,040	6,040
Total unallocated	19,000	19,345	24,813	5,468
Capital outlay	4,529,500	4,549,500	4,388,204	(161,296)
Total expenditures	5,243,661	5,287,093	4,688,150	(598,943)
<b>Net change in fund balance</b>	(645,229)	(688,661)	(211,230)	477,431
<b>Fund balance - beginning of year</b>	1,334,129	1,334,129	1,362,310	28,181
<b>Fund balance - End of Year</b>	<u>\$ 688,900</u>	<u>\$ 645,468</u>	<u>\$ 1,151,080</u>	<u>\$ 505,612</u>

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



HAYES TOWNSHIP  
Fiduciary Fund  
Statement of Fiduciary Net Position  
June 30, 2014

	<u>Agency Fund</u>
<b>Assets</b>	
Cash	\$ 2,525
	<u>2,525</u>
<b>Liabilities</b>	
Due to other funds	\$ 2,525
	<u>2,525</u>

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

**HAYES TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Township operates under a Board-Supervisor form of government and provides the following services as authorized by its charter: public safety (fire), highways and streets, public improvements, health and welfare (ambulance), planning and zoning, recreation and cultural and general administrative services.

The Township's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The Township's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The following is a summary of the significant policies used by Hayes Township:

**REPORTING ENTITY**

Criteria for determining if other entities are potential units which should be reported within the Township's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the Township is financially accountable and other organizations that the nature and significance of their relationship with the Township are such that exclusion would cause the Township's basic financial statements to be misleading or incomplete. The Township has no component units.

**BASIC FINANCIAL STATEMENTS – OVERVIEW**

The Township's basic financial statements include both government-wide (reporting the Township as a whole) and fund financial statements (reporting the Township's major funds). Both the government-wide and the fund financial statements categorize primary government activities as governmental.

**BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS**

The government-wide financial statements report information on all of the non-fiduciary activities of the primary government. The government-wide focus is more on operational efficiency, the sustainability of the Township as an entity and the change in the Township's net position resulting from the current year's activities.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS - CONTINUED

In the government-wide Statement of Net Position, the governmental activities are presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The Township's net position are reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The Township first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. This statement reduces gross expenses (including depreciation) by related program revenues, which includes charges for services, operating grants and capital grants.

The program revenues must be directly associated with the function. 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; 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 as general revenue.

#### BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the Township are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. The focus of the fund financial statement is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The emphasis in the fund financial statements is on the major funds in the governmental type category. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds) for the determination of major funds.

#### Governmental Funds

The following is a description of the major governmental fund of the Township:

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

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS – CONTINUED

##### Fiduciary Fund

Fiduciary funds are used to account for assets held by the Township in a trustee or agent capacity. Since, by definition, these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. Agency funds use the accrual basis of accounting which reports only assets and liabilities. The following is a description of the fiduciary fund maintained by the Township.

**Agency Fund** – The Agency Fund accounts for the collection and payments of property tax levies.

##### **BASIS OF ACCOUNTING**

Basis of accounting refers to the point at which revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the full accrual basis of accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. 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. Expenditures generally are recorded when a liability is incurred.

The agency fund is accounted for using the full accrual basis of accounting. The Township's agency fund records liabilities when property taxes are received.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they are earned, as long as they are both available and measurable. Revenues are available when received within the current period or within 60 days after year-end. Expenditures are recorded in the accounting period in which the liability is incurred, as under full accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**ASSETS, LIABILITIES, AND FUND BALANCES**

**Cash and Cash Equivalents**

Cash and cash equivalents are considered to be cash on hand and demand deposits.

**Inter-fund Receivables/Payables**

Outstanding balances between funds are reported as "due to/from" other funds on the balance sheet of the fund financial statements and as "internal balances" on the Statement of Net Position of the government-wide financial statements.

**Capital Assets**

Capital assets, which include property, buildings and equipment, are reported in the applicable governmental activities column in the government-wide financial statements.

Capital assets are recorded by the Township when the initial individual costs are equal to or greater than the following amounts:

<u>Asset Type</u>	<u>Amount</u>
Land	\$ 1
Land improvements	1,000
Buildings	1,000
Building improvements	1,000
Equipment	1,000

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed.

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

Land Improvements	20 years
Buildings	40 years
Building improvements	20 years
Equipment	5-20 years

Additionally, depreciation on capital assets begins in the year after acquisition.

**Fund Balances**

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – pre-paid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### ASSETS, LIABILITIES, AND FUND BALANCES – CONTINUED

*Restricted fund balance.* This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed fund balance.* These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the Township Board – the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned fund balance.* This classification reflects the amounts constrained by the Township’s “intent” to be used for specific purposes, but are neither restricted nor committed. The Township Board has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

*Unassigned fund balance.* This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the Township’s policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

#### 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.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### **NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the operating fund of the Township except for the agency fund. Budgetary control is legally maintained at the fund level.

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

1. Prior to July 1, the Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
3. The budget is legally enacted through passage of an ordinance.
4. The budget for the General Fund is adopted at the total fund level. Budgeted amounts are as originally adopted, or as amended by the Township Board during the year.

The Township is required under Public Act 621 to adopt a budget for the General Fund. The Township did not incur an excess of expenditures over appropriations for the General Fund.

### **NOTE 3: CASH DEPOSITS**

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

#### **Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. At June 30, 2014, the carrying amount of the Township deposits, including the fiduciary fund, was \$1,134,533 and the bank balance was \$1,138,764. Of the above balance in cash, \$888,994 was covered by federal depository insurance. The remaining \$249,770 was uninsured and uncollateralized. The Township may experience significant fluctuations in deposit balances through the year.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**NOTE 4: PROPERTY TAX**

Property taxes attach as an enforceable lien on property as of December 1. Taxes are levied in December and are payable from December through February 14. The Township bills and collects its own property taxes and also taxes for other governmental units. Collections of the other governmental units' taxes and remittance of them to the units are accounted for in the Agency Fund. Property tax revenues are recognized in the year for which they are levied.

The Township is permitted by state law, subject to State Headlee and Truth in Taxation provisions, to levy taxes up to \$1.00 per \$1,000 of assessed valuation for general government services and up to \$1.00 per \$1,000 assessed valuation for road repair and maintenance that was authorized by Township residents for the years 2011 – 2015.

The tax rates for the year ended June 30, 2014 are as follows:

<u>Purpose</u>	<u>Rate/Assessed Valuation</u>
General government service	\$1.0000 per \$1,000
Road repairs and maintenance	\$1.0000 per \$1,000

**NOTE 5: INTERFUND RECEIVABLES AND PAYABLES**

The inter-fund balances within the primary government are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$ 2,525	\$ -
Fiduciary Fund	-	2,525
	<u>\$ 2,525</u>	<u>\$ 2,525</u>

The inter-fund balances are for \$2,500 loaned to the fiduciary fund to keep its checking account open and is not expected to be paid back within one year. The remaining \$25 is for interest and delinquent taxes.

**NOTE 6: ACQUISITION OF CAMP SEA-GULL**

The Township expended \$4,381,700 for the acquisition of Camp Sea-Gull and related costs. This amount represents nearly all of the Township capital outlay expenditures during the fiscal year ended June 30, 2014. Most of these expenditures were paid from a State of Michigan Natural Resources Trust Fund grant of \$3,164,536 and private contributions of \$687,295. The balance of \$529,869 was paid from Township General Fund dollars.



**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**NOTE 7: CAPITAL ASSETS**

Capital asset activity of the Township’s primary government for the current year was as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 52,502	\$ 4,224,700	\$ -	\$ 4,277,202
Capital assets being depreciated:				
Land improvements	61,417	1,750	-	63,167
Buildings	147,542	157,000	-	304,542
Building improvements	39,662	4,754	-	44,416
Equipment	58,883	-	-	58,883
Subtotal	<u>307,504</u>	<u>163,504</u>	<u>-</u>	<u>471,008</u>
Less accumulated depreciaiton:				
Land improvements	35,665	2,977	-	38,642
Buildings	102,988	3,688	-	106,676
Building improvements	10,991	2,420	-	13,411
Equipment	47,940	2,530	-	50,470
Subtotal	<u>197,584</u>	<u>11,615</u>	<u>-</u>	<u>209,199</u>
Net capital assets being depreciated:	<u>109,920</u>	<u>151,889</u>	<u>-</u>	<u>261,809</u>
Governmental activities net capital assets	<u>\$ 162,422</u>	<u>\$ 4,376,589</u>	<u>\$ -</u>	<u>\$ 4,539,011</u>

Depreciation expense was unallocated between functions in the statement of net position.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**NOTE 8: FUND BALANCE CLASSIFICATIONS**

Amounts for specific purposes for the General Fund fund balance classifications for the year ended June 30, 2014, are as follows:

General Fund Classification/ Purpose	Amount
Nonspendable	
Prepaid expenditures (insurance & ambulance services)	\$ 17,045
Restricted	
Road repairs and maintenance	388,872
Metro Act expenditures	53,263
Unassigned	691,900
	\$1,151,080

The board has committed \$39,000 of the amount restricted for Metro Act expenditures to be used for non-motorized trails matching funds.

**NOTE 9: RISK MANAGEMENT**

The Township belongs to the Michigan Municipal Liability and Property Pool, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the state. The Township pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event.

**NOTE 10: SUBSEQUENT EVENTS**

The Township approved contracts for road work on Pincherry and Maple Grove Roads at \$297,314 and \$65,925 respectively. They also approved tree removal at Camp Sea-Gull for \$46, 200.

October 14, 2014

Communication of Material Weakness in Internal Control and Another Matter

Township Board  
Hayes Township  
Charlevoix County, Michigan

In planning and performing our audit of the financial statements of the governmental activities and the major fund of Hayes Township as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of governmental unit's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the following deficiency in Hayes Township's internal control to be a material weakness:

The Township does not have the expertise to prepare financial statements in accordance with generally accepted accounting principles. According to issued auditing standards this inability to prepare financial statements in accordance with generally accepted accounting principles is an indicator of a deficiency and a strong indicator of a material weakness in internal control.

We did note the Township's management does possess the skill necessary to prepare and monitor the annual budget. Additionally, the accounting system, which is designed primarily for budgetary purposes, is used as the source information in preparing the financial statements in accordance with generally accepted accounting principles with some adjustments, format differences and note disclosures.

We have also noted another matter for your consideration:

Road millage fund: Road millage revenue and expenditures should be accounted for in a fund separate from the General Fund. This would allow for a more transparent accounting for these restricted funds.

This communication is intended solely for the information and use of management, Township Board, others within the organization, and State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

  
Hill, Schroderus & Co., LLP

October 14, 2014

Communication with Those Charged With Governance

Township Board  
Hayes Township  
Charlevoix County, Michigan

We have audited the financial statements of the governmental activities and the major fund of Hayes Township, Michigan for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated July 15, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hayes Township are described in Note 1 to the financial statements. GASB 63 related to the Statement of Net Position was adopted and the application of existing policies was not changed during the fiscal year ending June 30, 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of depreciation is based on the estimated useful lives of capital assets. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit. The acquisition of Camp Sea-Gull and the related State grant and contributions did require additional work, without any significant difficulties.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The material misstatements detected as a result of audit procedures were to adjust the records from a cash basis to the modified accrual basis of accounting and remove fixed assets from the General Fund.

*Disagreements with Management*

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

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 14, 2014.

*Management Consultations with Other Independent Accountants*

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

*Other Audit Findings or Issues*

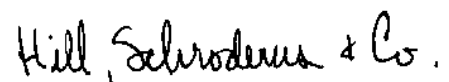
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of management, Township Board and State of Michigan and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Hill, Schroderus & Co., LLP