

FINANCIAL REPORT
Hayes Township
June 30, 2016

**HAYES TOWNSHIP
FINANCIAL REPORT
June 30, 2016**

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October 17, 2016

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, 2016, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2016, 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, Selrodenus & 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, 2016.

Financial Highlights

- The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$5,918,645 (net position). Of this amount, \$877,330 (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 \$504,583 is restricted for road repair and maintenance, Metro Act expenses and the Camp Sea Gull Park.
- The Township's total net position increased by \$335,245. Most of this increase, about \$198,000, can be attributed to taxes levied for road repairs and maintenance which were not spent during the fiscal year. The Township did approve road work projects for about \$345,000 subsequent to year end.
- At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$857,034 or 235 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, 2016:

	Governmental Activities	
	2016	2014
Assets		
Current and other assets	\$ 1,410,394	\$ 1,151,999
Capital assets - net of accum. dep.	<u>4,536,732</u>	<u>4,539,011</u>
Total assets	<u>\$ 5,947,126</u>	<u>\$ 5,691,010</u>
Liabilities		
Current liabilities	<u>\$ 28,481</u>	<u>\$ 919</u>
Net Position		
Investment in capital assets net of related debt	4,536,732	4,539,011
Restricted	504,583	442,135
Unrestricted	<u>877,330</u>	<u>708,945</u>
Total net position	<u>5,918,645</u>	<u>5,690,091</u>
Total liabilities and net position	<u>\$ 5,947,126</u>	<u>\$ 5,691,010</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, Metro Act expenses and the Camp Sea Gull Park.

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, 2016**

	Governmental Activities	
	2016	2014
Revenue		
Program revenue:		
Charges for services	\$ 15,554	\$ 9,833
Operating grants and contributions	58,643	4,639
Capital grants and contributions	8,259	3,851,831
General revenue:		
Property taxes	461,926	462,727
State revenues	144,863	143,094
Interest	2,806	4,367
Other	8,453	429
Total revenues	<u>700,504</u>	<u>4,476,920</u>
Function/Program Expenses		
General government	159,913	150,792
Public safety	31,707	42,887
Public works	11,898	7,496
Health and welfare	19,408	25,723
Community and econ. development	35,264	39,393
Recreation and cultural	73,294	8,842
Unallocated	22,123	24,813
Unallocated depreciation	11,652	11,615
Total expenses	<u>365,259</u>	<u>311,561</u>
Change in net position	335,245	4,165,359
Net position - beginning of year	<u>5,583,400</u>	<u>1,524,732</u>
Net position - end of year	<u>\$ 5,918,645</u>	<u>\$ 5,690,091</u>

As reported above, the Township recorded \$365,259 of expenses for fiscal 2016. The Township's governmental activities were funded primarily with property tax revenues and state revenues. Most of the fiscal 2016 operating grants and contributions, \$53,000 was a pass-through grant from the Grand Traverse Band of Ottawa and Chippewa Indians for work at the Greensky Hill Indian Church. 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 \$1,381,913 which is \$336,454 more than the beginning of the year. This increase was primarily related to the collection of property taxes restricted for road repair and maintenance, about \$198,000 which were not spent during the fiscal year. Subsequent to year end the Township authorized \$344,810 of road work for Quarterline Road and Bay Shore North Subdivision.

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 \$971,968 under final budgeted amounts. The Township had budgeted for State and other grants related to a proposed boat launch and fishing pier at Camp Sea Gull Park. A State grant in the amount of \$483,400 was approved near year-end for the boat launch. Additional grant money has been applied for and yet to be awarded at this date.

Final actual expenditures were \$1,863,869 less than final budgeted amounts. This too was related to the proposed boat launch and fishing pier which were not constructed during the fiscal year. Additionally, road repairs and maintenance were \$401,834 under budget as no road construction occurred during the fiscal year. The Township has approved \$344,810 in road construction as noted above for work subsequent to year end.

Capital Assets

At June 30, 2016, the Township had \$4,536,732, net of depreciation of \$233,105 invested in capital assets.

Long Term Debt

At June 30, 2016, the Township had no long term debt outstanding.

Economic Factors

Hayes Township is moving forward with plans for a new access road, boat launch and fishing pier at the Hayes Township Park Camp Sea-Gull. The Township received an anticipated DNR Waterways grant of \$483,400, a \$10,000 millage appropriation from Charlevoix County as well as committing \$483,000 from the general fund for the required match of \$483,400 for the access road and boat launch. The proposed fishing pier will be paid for by a pending grant to the Great Lakes Fishery Trust for \$234,000. The Township continues to apply for grants as well as future fund raising campaigns to make park development financially feasible. Property sales have risen and property values continue their recovery. 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, 2016

	Governmental Activities
<u>Assets</u>	
Current Assets	
Cash	\$ 1,364,445
Due from fiduciary fund	2,509
Due from State	23,144
Prepaid expenses	20,296
Total current assets	1,410,394
Noncurrent Assets	
Land and construction-in-progress, nondepreciable	4,284,157
Other capital assets, net of depreciation	252,575
Total noncurrent assets	4,536,732
Total assets	\$ 5,947,126
<u>Liabilities and Net Position</u>	
Liabilities	
Accounts payable	\$ 11,731
Unearned revenue	16,750
Total liabilities	28,481
Net Position	
Investment in capital assets	4,536,732
Restricted:	
Road repair and maintenance	425,938
Metro act expenses	63,163
Camp Sea Gull Park	15,482
Unrestricted	877,330
Total net position	5,918,645
Total liabilities and net position	\$ 5,947,126

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

HAYES TOWNSHIP
Statement of Activities
Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues		Governmental Activities	Net Revenue (Expense) and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions		
Governmental Activities:					
General government	\$ 159,913	\$ 15,554	\$ -	\$ -	\$ (144,359)
Public safety	31,707	-	-	-	(31,707)
Public Works	11,898	-	5,643	-	(6,255)
Health and welfare	19,408	-	-	-	(19,408)
Community and economic development	35,264	-	-	-	(35,264)
Recreation and cultural	73,294	-	53,000	8,259	(12,035)
Unallocated	22,123	-	-	-	(22,123)
Depreciation (unallocated)	11,652	-	-	-	(11,652)
Total governmental activities	\$ 365,259	\$ 15,554	\$ 58,643	\$ 8,259	(282,803)
General Revenues:					
					461,926
					144,863
					2,806
					8,453
					<u>618,048</u>
					335,245
					<u>5,583,400</u>
					<u>\$ 5,918,645</u>

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

HAYES TOWNSHIP
Governmental Fund
Balance Sheet
June 30, 2016

	General
<u>Assets</u>	
Cash	\$ 1,364,445
Due from other funds	2,509
Due from State	23,144
Prepaid expenditures	20,296
Total assets	\$ 1,410,394
 <u>Liabilities and Fund Balance</u>	
Liabilities	
Accounts payable	\$ 11,731
Unearned revenue	16,750
Total liabilities	28,481
 Fund balance	
Nonspendable -prepaids	20,296
Restricted for:	
Road repair and maintenance	425,938
Metro act expenditures	63,163
Camp Sea Gull park	15,482
Unassigned	857,034
Total fund balance	1,381,913
Total liabilities and fund balance	\$ 1,410,394

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, 2016

Total Fund Balance - Governmental Fund \$ 1,381,913

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	4,769,837
Accumulated depreciation	<u>(233,105)</u>
Total net position - governmental activities	<u><u>\$ 5,918,645</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, 2016

	General
Revenues:	
Taxes	\$ 461,926
State revenue	150,506
Charges for service	15,554
Interest and rentals	2,806
Grants and contributions	61,259
Other	8,453
	700,504
Expenditures:	
Current:	
General government	159,913
Public safety	31,707
Public works	11,898
Health and welfare	19,408
Community and economic development	35,264
Recreation and cultural	73,294
Unallocated	22,123
Capital outlay	10,443
	364,050
Net change in fund balance	336,454
Fund balance - beginning of year	1,045,459
Fund balance - end of year	\$ 1,381,913

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 Fund
to the Statement of Activities
Year Ended June 30, 2016

Net Change in Fund Balance - Total Governmental Fund \$ 336,454

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	10,443
Current year depreciation expense	<u>(11,652)</u>
Change in net position - governmental activities	<u>\$ 335,245</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, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Taxes	\$ 457,468	\$ 457,468	\$ 461,926	\$ 4,458
State revenue	923,900	923,900	150,506	(773,394)
Charges for services	9,228	9,228	15,554	6,326
Interest and rentals	3,336	3,336	2,806	(530)
Grants and contributions	225,040	278,040	61,259	(216,781)
Other	500	500	8,453	7,953
	<u>1,619,472</u>	<u>1,672,472</u>	<u>700,504</u>	<u>(971,968)</u>
Total revenues				
Expenditures:				
Current:				
General government:				
Legislative	27,502	25,494	18,803	(6,691)
Supervisor	9,760	9,760	9,148	(612)
Office manager	8,130	8,130	8,130	-
Clerk	27,042	27,442	26,842	(600)
Board of review	2,690	3,249	3,248	(1)
Treasurer	23,286	24,286	22,835	(1,451)
Assessor	30,114	30,234	31,188	954
Elections	4,296	3,846	3,031	(815)
Building and grounds	18,350	18,950	13,764	(5,186)
Legal	16,008	16,008	15,334	(674)
Cemetery	8,182	8,182	5,328	(2,854)
Unallocated	4,530	4,530	2,262	(2,268)
	<u>179,890</u>	<u>180,111</u>	<u>159,913</u>	<u>(20,198)</u>
Total general government				
Public Safety:				
Fire protection	34,200	34,200	31,707	(2,493)
Public works:				
Road repair and maintenance	407,866	411,438	9,604	(401,834)
Street lights	2,300	2,300	2,294	(6)
Spring clean-up	-	23,000	-	(23,000)
	<u>410,166</u>	<u>436,738</u>	<u>11,898</u>	<u>(424,840)</u>
Total public works				
Health and welfare:				
Ambulance service	25,500	25,500	19,408	(6,092)

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, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Community and economic development:				
Planning & zoning	14,880	16,670	16,337	(333)
Ordinance enforcement	19,889	19,889	18,927	(962)
Total community and economic development	<u>34,769</u>	<u>36,559</u>	<u>35,264</u>	<u>(1,295)</u>
Recreation and cultural	<u>25,800</u>	<u>72,800</u>	<u>73,294</u>	<u>494</u>
Unallocated:				
Insurance	10,000	10,650	10,623	(27)
Payroll taxes	9,700	10,421	10,421	-
Property tax rebates	-	-	1,079	1,079
Total unallocated	<u>19,700</u>	<u>21,071</u>	<u>22,123</u>	<u>1,052</u>
Capital outlay	<u>1,420,940</u>	<u>1,420,940</u>	<u>10,443</u>	<u>(1,410,497)</u>
Total expenditures	<u>2,150,965</u>	<u>2,227,919</u>	<u>364,050</u>	<u>(1,863,869)</u>
Net change in fund balance	(531,493)	(555,447)	336,454	891,901
Fund balance - beginning of year	<u>1,013,597</u>	<u>1,013,597</u>	<u>1,045,459</u>	<u>31,862</u>
Fund balance - End of Year	<u>\$ 482,104</u>	<u>\$ 458,150</u>	<u>\$ 1,381,913</u>	<u>\$ 923,763</u>

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

HAYES TOWNSHIP
Fiduciary Fund
Statement of Fiduciary Net Position
June 30, 2016

	<u>Agency Fund</u>
Assets	
Cash	\$ 2,509
Liabilities	
Due to other funds	\$ 2,509

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

HAYES TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

ASSETS, LIABILITIES, AND FUND BALANCES – CONTINUED

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

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, 2016, the carrying amount of the Township deposits, including the fiduciary fund, was \$1,366,954 and the bank balance was \$1,376,049. Of the above balance in cash, \$1,023,505 was covered by federal depository insurance. The remaining \$352,544 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, 2016 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	\$ 2,509	\$ -
Fiduciary Fund	<u>-</u>	<u>2,509</u>
	<u><u>\$ 2,509</u></u>	<u><u>\$ 2,509</u></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 \$9 is for interest and delinquent taxes.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 6: CAPITAL ASSETS

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

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 4,277,202	\$ -	\$ -	\$ 4,277,202
Construction in progress	-	6,955	-	6,955
Total	<u>4,277,202</u>	<u>6,955</u>	<u>-</u>	<u>4,284,157</u>
Capital assets being depreciated:				
Land improvements	68,152	-	-	68,152
Buildings	304,542	-	-	304,542
Building improvements	44,416	-	-	44,416
Equipment	65,082	3,488	-	68,570
Subtotal	<u>482,192</u>	<u>3,488</u>	<u>-</u>	<u>485,680</u>
Less accumulated depreciaton:				
Land improvements	41,672	3,111	-	44,783
Buildings	110,365	3,688	-	114,053
Building improvements	15,869	2,458	-	18,327
Equipment	53,547	2,395	-	55,942
Subtotal	<u>221,453</u>	<u>11,652</u>	<u>-</u>	<u>233,105</u>
Net capital assets being depreciated:	<u>260,739</u>	<u>(8,164)</u>	<u>-</u>	<u>252,575</u>
Governmental activities net capital assets	<u>\$ 4,537,941</u>	<u>\$ (1,209)</u>	<u>\$ -</u>	<u>\$ 4,536,732</u>

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

Construction in progress consists of engineering costs associated with a proposed boat launch and fishing pier for the Camp Sea Gull Park. The State of Michigan has awarded a Waterways grant for the boat launch to pay 50% of the estimated cost, not to exceed \$483,400 of the total estimated cost of about \$1,177,000. Charlevoix County has awarded a \$10,000 grant for the boat launch project. The Township has also applied for a Michigan Land and Water Conservation Fund grant in the amount of \$150,000 for this project. Subsequent to year end the Township entered into an agreement for final engineering work at a cost of \$123,500. No construction contracts have been agreed to at this time.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 6: CAPITAL ASSETS-CONTINUED

The Township had received a grant from the Great Lake Fishery Trust in the amount of \$23,040 for engineering to address concerns related to the potential for ice damage to a proposed fishing pier. At year end \$3,986 had been spent for this project and recognized as grant revenue.

NOTE 7: FUND BALANCE CLASSIFICATIONS

Amounts for specific purposes for the General Fund, fund balance classifications for the year ended June 30, 2016, are as follows:

General Fund Classification/ Purpose	Amount
Nonspendable	
Prepaid expenditures (insurance & ambulance services)	\$ 20,296
Restricted	
Road repairs and maintenance	425,938
Metro Act expenditures	63,163
Camp Sea Gull park	15,482
Unassigned	857,034
	\$ 1,381,913

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

NOTE 8: 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 9: SUBSEQUENT EVENTS

The Township was awarded a grant from the State of Michigan for a boat launch and has contracted for services related to the grant. See Note 7 for more details.

The Township also approved contracts for road work on Quarterline Road and Bay Shore North Subdivision at \$200,934 and \$143,876 respectively.

October 17, 2016

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, 2016. 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 21, 2016. 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. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ending June 30, 2016. 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.

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, remove fixed assets from the General Fund and to recognize most of the Great Lakes Fishery Trust Grant receipt as unearned revenue rather than revenue until such time as the money is spent for the intended engineering costs.

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 6, 2016.

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. We did note that there were three principal residence exemption refunds of summer school taxes and related administration fees applied early and issued in error. Charlevoix County is in the process of collecting these refunds from the taxpayers and distributing them back to the taxing entities.

Other Matters

With applied certain limited procedures to the Management's Discussion and Analysis which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

October 17, 2016

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, 2016, 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. As a matter of convenience, the Township has relied upon its auditors to prepare financial statements and related notes and supplemental schedules for external reporting in accordance with GAAP. Further, the audit process is used as a means of accumulating data, performing reconciliations and making year-end adjustments. As a consequence, the Township has not developed the tools and resources necessary to enable its employees to prepare reports in conformity the GAAP in the normal course of performing their assigned functions. The Township has committed the resources necessary to meet its internal reporting needs. In this regards, the Township is not unlike many other governments of its size and nature.

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. We did note the Township does maintain a separate bank account for these millage revenues and the amount on hand at year-end was the same as would have been reported in a separate fund.

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.

Hill, Schroderus & Co., LLP