



9195 Major Douglas Sloan Road
Charlevoix, MI 49720
(231)547-6961/Fax: (231)237-0046

Supervisor-Ron VanZee

Clerk-Kristin Baranski
Treasurer-Julie Collard

Trustee-Matt Cunningham
Trustee-Doug Kuebler

January 8, 2024

Community Engagement and Finance Division
Department of Treasury
P.O. Box 30728
Lansing, Michigan 48909-8228

Re: Corrective Action Plan – Fiscal Year 2023 Audit Findings
Hayes Township
Charlevoix, Michigan
Municipality Code: 151070
Report ID Number: 152334

Dear Community Engagement and Finance Division,

I am writing in response to your letter dated January 3, 2024, regarding the audit findings for our municipality's fiscal year ended June 30, 2023. We appreciate the thorough review conducted by your division, and we are committed to addressing the identified deficiencies promptly and effectively.

Budget Variances:

Issue: Actual expenditures exceeded the amounts authorized in the budget.

Corrective Action: We acknowledge the budget variances and have implemented the following corrective actions:

- Strengthening internal controls to monitor and control expenditures more effectively.
- Upgrading accounting software to BS&A for improved reporting and monitoring.

Implementation Date: January 31, 2024.

Audit Report Deficiencies:

Issue: Reported deficiencies included in the audit report.

Corrective Action: We have addressed each deficiency as follows:

Material Audit Adjustments and Financial Statement Preparation

Management has made an ongoing evaluation of the respective costs and benefits of obtaining internal or external resources, specifically for the preparation of financial statements, and has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so. Management will continue to review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Segregation of Incompatible Duties

As a result of limited staffing, we cannot accomplish the desired segregation of duties. Management staff will provide increased oversight and review of operations to help correct errors and to deter inappropriate actions and potential fraud.

Lack of Monitoring

The Township will review and revise its internal policies and procedures to ensure that key activities are being reconciled timely, and, that the Board of Trustees is provided with monthly reports to review and verify the financial condition of the Township and that the Township is compliant with pertinent regulations.

Disbursement Procedures

The Township is in the process of implementing new policies and procedures. Management will sign off on every voucher for payment. There will be two signatures on the checks with both signees reviewing the documentation and the check, including credit card receipt and supporting documentation for ACH transactions. The person responsible for accounts payables at the time will review every invoice for prior amounts.

Non-Compliance with Guidance:

Issue: Non-compliance with guidance issued by the Community Engagement and Finance Division.

Corrective Action: We are conducting a review of our practices to ensure compliance with the guidance. Corrective actions include:

Failure to File Reports - F-65 and Audit Reports

The Township Board of Trustees engaged a CPA firm and submitted all required audit reports and F-65 reports as of January 2, 2024.

Expenditures in Excess of Appropriations

The Township will do quarterly budget amendments, using reliable financial statements (generated from BS&A, rather than off-the-shelf accounting software), and more as needed to ensure that the expenditures are not in excess of the final budget.

Implementation Date: June 30, 2024.

Untimely Bank Reconciliations:

Issue: Bank reconciliations were not performed timely.

Corrective Action: We acknowledge the delay and have taken the following corrective actions:

Management staff will improve processes in order to ensure that all bank accounts of the Township are reconciled and independently reviewed in a timely manner. The Township is in the process of upgrading its accounting software to BS&A which will: 1) reduce the number of bank accounts by allowing for pooled checking accounts, 2) provide system generated reconciliation reports, and 3) reduce the administrative burden of cash reconciliation, bank transfers, and journal entries at the Township.

Supporting Documentation: The Township has posted all adjusting journal entries proposed by the independent auditor, and, is reconciling cash from July 2023 through December 31, 2023. Bank statements and reconciliations will be provided to Treasury upon completion.

Implementation Date: February 29, 2024.

We are committed to transparency, accountability, and continuous improvement. Thank you for your guidance, and we look forward to demonstrating our commitment to addressing these issues in a timely and effective manner.

If you have any further questions or require additional information, please feel free to contact us at [Your Contact Information].

Sincerely,

Julie Collard
Hayes Township Treasurer
Township of Hayes, Charlevoix County





**TOWNSHIP OF HAYES
CHARLEVOIX COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2023**

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Township Board of Trustees
Township of Hayes
Charlevoix, Michigan

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Hayes, Michigan (the "Township"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township, as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Township, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Township's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Township's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Township's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Gabridge & Company

Gabridge & Company, PLC
Traverse City, Michigan
December 29, 2023

Management's Discussion and Analysis

Township of Hayes
Management's Discussion and Analysis
June 30, 2023

As management of the Township of Hayes, Charlevoix, Michigan (the "Township" or "government") 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, 2023. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- The assets of the Township exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$7,250,484 (net position). Of this amount, \$665,003 represents unrestricted net position, which may be used to meet the Township's ongoing obligations to citizens and creditors.
- The Township's revenues were \$1,020,404 and expenses were \$905,835 for an increase in overall net position of \$114,569.
- At the close of the current fiscal year, the Township's general fund reported a fund balance of \$704,921, an increase of \$35,758 in comparison with the prior year. Of that fund balance, \$638,425 is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$638,425, or approximately 90.6% of annual general fund expenditures.

Overview of the Financial Statements

The discussion and analysis provided here is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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

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

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

The government-wide financial statements report functions of the Township that are principally supported by taxes and intergovernmental revenues. The governmental activities of the Township include general government, public safety, public works, health and welfare, community and economic development, and recreation and culture.

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

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

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

The Township maintains three governmental funds, of which the general fund, road fund, and capital projects fund are considered major funds. The Township adopts an annual appropriated budget for the general fund and each special revenue fund. A budgetary comparison schedule for each major fund has been provided to demonstrate compliance with its budget.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. The Township reports one type of fiduciary fund, which is a custodial fund.

Notes to the Financial Statements - The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Township's budgetary comparison schedule.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the Township, assets exceeded liabilities and deferred inflows of resources by \$7,250,484 at the close of the most recent fiscal year.

A portion of the Township's net position, \$6,113,883, or 84.3% of its total net position, reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, and machinery and equipment). The Township uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. A portion of the amount, \$471,598 or 6.5%, is restricted for particular purposes. The remaining balance of \$665,003, or 9.2% of its total net position, is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

Following is a comparative schedule showing the Township's assets, liabilities, deferred inflows of resources, and net position for each of the two past fiscal years:

Township of Hayes' Net Position

ASSETS	2023	2022
<i>Current Assets</i>		
Cash and investments	\$ 1,337,538	\$ 1,216,427
Accounts receivable	40,659	-
Leases receivable	122,978	-
Due from other units of government	60,535	46,299
<i>Total Current Assets</i>	1,561,710	1,262,726
<i>Noncurrent Assets</i>		
Leases receivable, long-term	3,008,549	-
Capital assets not being depreciated	4,277,202	4,328,707
Capital assets being depreciated, net	3,244,681	1,821,694
<i>Total Assets</i>	12,092,142	7,413,127
LIABILITIES		
<i>Current Liabilities</i>		
Accounts payable	40,659	63,437
Accrued payroll and related liabilities	5,711	11,479
Unearned revenue	199,506	202,296
Current portion of long-term debt	81,318	-
<i>Total Current Liabilities</i>	327,194	277,212
<i>Noncurrent Liabilities</i>		
Long-term debt	1,326,682	-
<i>Total Liabilities</i>	1,653,876	277,212
DEFERRED INFLOWS OF RESOURCES		
Deferred lease revenue	3,187,782	-
<i>Total Deferred Inflows of Resources</i>	3,187,782	-
NET POSITION		
Net investment in capital assets	6,113,883	6,150,401
Restricted	471,598	373,662
Unrestricted	665,003	611,852
<i>Total Net Position</i>	\$ 7,250,484	\$ 7,135,915

Cash and investments increased by \$133,545, primarily due to an increase in governmental fund balance of \$133,545. Accounts receivable increased by \$40,659 due to the timing of year-end reimbursements. Due from other units of government increased when compared to the prior audited fiscal year as a result of the timing of collection of state revenue sharing payments. Capital assets increased \$1,371,482 as a result of capital assets purchased and depreciation expense. Accounts payable decreased by \$22,778 due to the timing of when year-end expenses were

incurred and subsequently paid. Long-term debt increased significantly as the Township issued an installment purchase financing agreement with the funds being used to complete construction on the ambulance barn. Additionally, the Township entered into a lease agreement, as stated in the notes to the financial statements, which resulted in an increase in leases receivable of \$3,131,527 and deferred inflows of resources (lease revenue) of \$3,187,782.

The Township's overall net position increased \$114,569 from the prior fiscal year. The reasons for this overall increase are discussed in the following section.

Township of Hayes' Changes in Net Position

Revenues	2023	2022
Program Revenues		
Charges for services	\$ 93,746	\$ 31,218
Operating grants and contributions	22,021	19,326
Capital grants and contributions	64,096	-
Total Program Revenues	179,863	50,544
General Revenues		
Property taxes	588,889	551,355
Unrestricted state sources	245,367	223,815
Interest income	6,285	1,264
Total General Revenues	840,541	776,434
Total Revenues	1,020,404	826,978
Expenses		
General government	354,275	304,149
Public safety	92,782	44,312
Public works	214,471	530,454
Health and welfare	4,704	74,076
Community and economic development	59,899	51,950
Recreation and cultural	128,585	186,366
Interest on long-term debt	51,119	-
Total Expenses	905,835	1,191,307
Change in Net Position	114,569	(364,329)
<i>Net Position at the Beginning of Period</i>	<i>7,135,915</i>	<i>7,500,244</i>
Net Position at the End of Period	\$ 7,250,484	\$ 7,135,915

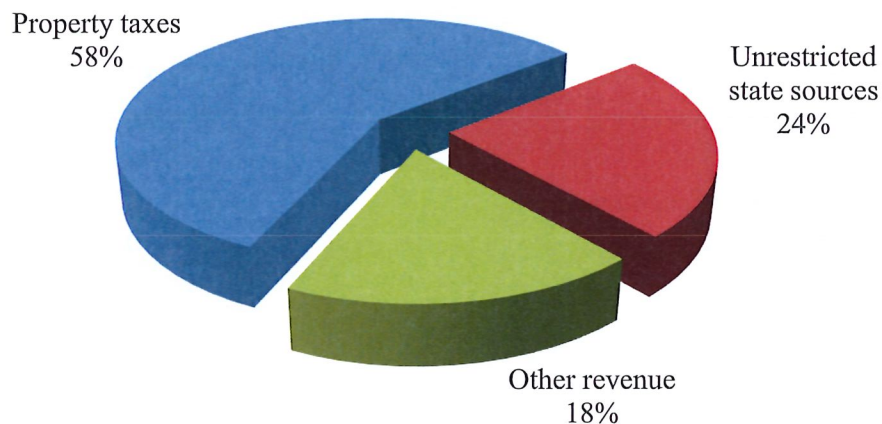
Property taxes increased by \$37,534 due to an increase in taxable value of approximately 5.7% compared to 2022, plus a 0.3% increase in millage rates. Greater unrestricted state reimbursements and state aid, along with a population increase of 81 residents (used to calculate the 2022 state aid revenues), contributed to the increase of \$21,552 in unrestricted state sources. Charges for services increased by \$62,528 due to the collection of applicable lease payments. Capital grants and contributions increased by \$64,096 as the Lake Charlevoix Emergency Medical Services Authority reimbursed the Township for change orders within the construction of the ambulance barn.

General government expenses increased by \$50,126 largely due to related construction and bond costs that are not capitalized. Public safety, primary the Township's portion of fire protection services expenses, increased by \$48,470 as the Township paid for greater repairs and maintenance. Public works, primarily the Township's portion of road work expenses, decreased by \$315,983 as the Charlevoix County Road Commission had less Township road projects during the fiscal year. Health and welfare expenses decreased by \$69,372 and recreation and cultural expenses decreased by \$57,781 as the Township had a decrease in repairs and maintenance expenses related to those functions. Interest in long-term debt increased by \$51,119 as the Township issued its installment purchase financing agreement and begun to pay off long-term debt.

Governmental Activities

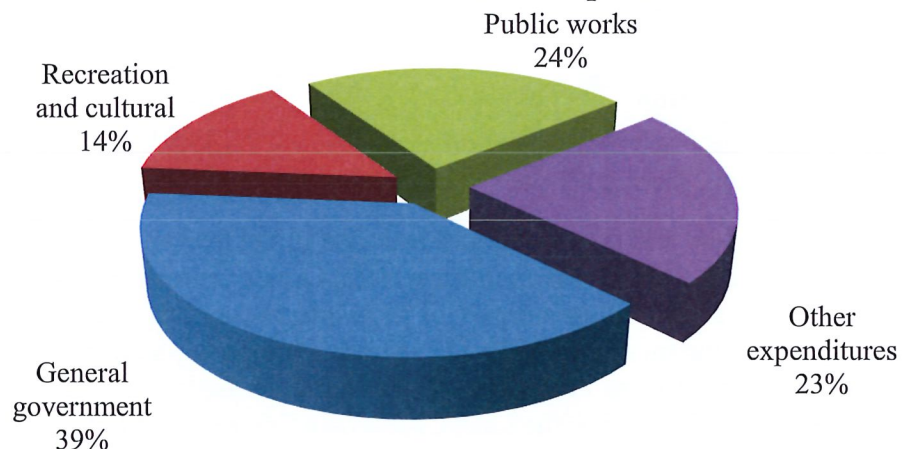
The following chart summarizes the revenue sources of the Township for the most recent fiscal year-end.

Governmental Activities Revenues



The following chart summarizes the expenses of the Township for the most recent fiscal year-end.

Governmental Activities Expenses



Financial Analysis of Governmental Funds

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

Governmental Funds - The focus of the Township's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Township itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Township's Board.

The general fund is the chief operating fund of the Township. At the end of the current fiscal year, unassigned fund balance was \$638,425 and total fund balance of the general fund was \$704,921, an increase of \$35,758 from the prior fiscal year. As a measure of the general fund's liquidity, it may be useful to compare unassigned and total fund balance to total general fund expenditures. Unassigned fund balance and total fund balance represent approximately 90.6% and 100.0% of total general fund expenditures, respectively. Explanations for the changes in the general fund were mentioned in an earlier section of this report.

The road fund, a major fund, had an increase in fund balance of \$97,787 from the prior fiscal year, bringing the ending restricted balance to \$405,102. Property taxes remained relatively consistent; however, the Township had experienced a significant decrease in expenditures related to road improvements.

The capital projects fund, a capital projects fund, contained the activity for the issuance of the Township's installment purchase financing agreement and payment of the ambulance barn construction. The net change in fund balance for the year was \$0 for an ending balance of \$0.

General Fund Budgetary Highlights

Original budget compared to final budget. There were no significant amendments to the original estimated revenues or the original budgeted appropriations. Other minor amendments to the original budgeted appropriations were made to more accurately allocate costs.

Final budget compared to actual results. The Township had the following expenditures in excess of the amounts appropriated during the year ended June 30, 2023:

Function/Department	Final Budget	Actual Amount	Negative Variance
<i>General Government</i>			
Township Board	\$ 99,389	\$ 107,844	\$ (8,455)
Elections	7,600	11,261	(3,661)
Treasurer	32,775	40,306	(7,531)
<i>Public Safety</i>			
Fire Protection	61,975	92,782	(30,807)
<i>Health and Welfare</i>			
Ambulance	-	4,704	(4,704)
<i>Community and Economic Development</i>			
Pantry	-	3,821	(3,821)
<i>Debt Service</i>	-	122,978	(122,978)

Capital Assets and Debt Administration

Capital Assets

The Township's investment in capital assets (construction in progress, land and improvements, buildings and improvements, and machinery and equipment) for its governmental activities as of June 30, 2023 amounts to \$7,521,883 net of accumulated depreciation), an increase of \$1,371,482, or 22.3%, from the prior fiscal year; comprising of additions of \$1,457,345 less depreciation of \$85,863.

More detailed information about the Township's capital assets can be found in note 6.

Long-term Debt

The Township had \$1,408,000 of long-term debt as of June 30, 2023. This was an increase of \$1,408,000, consisting of debt issuance of \$1,479,859 net debt service principal payments of \$71,859.

More detailed information about the Township's capital assets can be found in note 7.

Economic Condition and Outlook

The Township continues to review all budget line items for opportunities to reduce expenditures when possible. The budget will be monitored during the year to identify any necessary amendments. In 2024, the Township plans again to use current revenues to provide essential services and to maintain the Township's financial reserves at similar levels. Property tax revenues are expected to change minimally reflecting fairly stable property values. The ongoing costs of providing essential services for the citizens of the Township will again need to be monitored in order to maintain the financial condition of the Township.

Contacting the Township

This financial report is designed to provide a general overview of the Township's finances to its citizens, customers, investors, and creditors and to demonstrate the Township's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Township of Hayes
9195 Major Douglas Sloan Road
Charlevoix, MI 49720

Basic Financial Statements

Township of Hayes
Statement of Net Position
June 30, 2023

	<u>Governmental Activities</u>
ASSETS	
<i>Current Assets</i>	
Cash and investments	\$ 1,337,538
Accounts receivable	40,659
Leases receivable	122,978
Due from other units of government	60,535
Total Current Assets	<u>1,561,710</u>
<i>Noncurrent Assets</i>	
Leases receivable, long-term	3,008,549
Capital assets not being depreciated	4,277,202
Capital assets being depreciated, net	3,244,681
Total Assets	<u>12,092,142</u>
LIABILITIES	
<i>Current Liabilities</i>	
Accounts payable	40,659
Accrued payroll and related liabilities	5,711
Unearned revenue	199,506
Current portion of long-term debt	81,318
Total Current Liabilities	<u>327,194</u>
<i>Noncurrent Liabilities</i>	
Long-term debt	1,326,682
Total Liabilities	<u>1,653,876</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred lease revenue	3,187,782
Total Deferred Inflows of Resources	<u>3,187,782</u>
NET POSITION	
Net investment in capital assets	6,113,883
<i>Restricted for:</i>	
Roads	405,102
Metro Act	66,496
<i>Unrestricted</i>	665,003
Total Net Position	<u><u>\$ 7,250,484</u></u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Hayes
Statement of Activities
For the Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					Governmental Activities
General government	\$ 354,275	\$ 16,394	--	\$ 10,000	\$ (327,881)
Public safety	92,782	--	2,790	--	(89,992)
Public works	214,471	--	7,283	--	(207,188)
Health and welfare	4,704	66,723	--	54,096	116,115
Community and economic development	59,899	10,629	7,280	--	(41,990)
Recreation and culture	128,585	--	4,668	--	(123,917)
Interest on long-term debt	51,119	--	--	--	(51,119)
Total Governmental Activities	\$ 905,835	\$ 93,746	\$ 22,021	\$ 64,096	(725,972)
General Purpose Revenues:					
		Property taxes			588,889
		Unrestricted state sources			245,367
		Interest income			6,285
		Total General Revenues			840,541
		Change in Net Position			114,569
		<i>Net Position at Beginning of Period</i>			7,135,915
		Net Position at End of Period			\$ 7,250,484

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Hayes
Balance Sheet
Governmental Funds
June 30, 2023

	<u>Special Revenue</u>		<u>Capital Projects</u>	<u>Total</u>
	<u>General</u>	<u>Road</u>	<u>Capital Projects</u>	<u>Governmental Funds</u>
ASSETS				
Cash and investments	\$ 932,436	\$ 405,102	\$ --	\$ 1,337,538
Accounts receivable	--	--	40,659	40,659
Leases receivable	3,131,527	--	--	3,131,527
Due from other units of government	60,535	--	--	60,535
<i>Total Assets</i>	<u>\$ 4,124,498</u>	<u>\$ 405,102</u>	<u>\$ 40,659</u>	<u>\$ 4,570,259</u>
LIABILITIES				
Accounts payable	\$ --	\$ --	\$ 40,659	\$ 40,659
Accrued payroll and related liabilities	5,711	--	--	5,711
Unearned revenue	199,506	--	--	199,506
<i>Total Liabilities</i>	<u>205,217</u>	<u>--</u>	<u>40,659</u>	<u>245,876</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred lease revenue	3,187,782	--	--	3,187,782
Unavailable revenue	26,578	--	--	26,578
<i>Total Liabilities and Deferred Inflows of Resources</i>	<u>3,419,577</u>	<u>--</u>	<u>40,659</u>	<u>3,460,236</u>
FUND BALANCE				
Restricted for:				
Roads	--	405,102	--	405,102
Metro Act	66,496	--	--	66,496
Unassigned	638,425	--	--	638,425
<i>Total Fund Balance</i>	<u>704,921</u>	<u>405,102</u>	<u>--</u>	<u>1,110,023</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</i>	<u>\$ 4,124,498</u>	<u>\$ 405,102</u>	<u>\$ 40,659</u>	<u>\$ 4,570,259</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Hayes
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2023

Total Fund Balance - Governmental Funds	\$ 1,110,023
General government capital assets of \$8,140,283, net of accumulated depreciation of \$618,400, are not financial resources, and accordingly are not reported in the funds.	7,521,883
Certain receivables are not available to pay for current period expenditures and, therefore, are unavailable in the funds.	26,578
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(1,408,000)
Total Net Position - Governmental Activities	\$ <u>7,250,484</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Hayes
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2023

	Special Revenue		Capital Projects		Total
	General	Road	Capital Projects		Governmental Funds
Revenues					
Property taxes	\$ 341,898	\$ 246,991	\$ --		\$ 588,889
Intergovernmental	228,625	9,273	--		237,898
Charges for services	11,454	--	--		11,454
Interest and rentals	69,472	3,536	--		73,008
Other	37,517	--	54,096		91,613
Total Revenues	688,966	259,800	54,096		1,002,862
Expenditures					
General government	294,404	--	54,096		348,500
Public safety	92,782	--	--		92,782
Public works	52,458	162,013	--		214,471
Health and welfare	4,704	--	--		4,704
Community and economic development	59,899	--	--		59,899
Recreation and culture	77,488	--	--		77,488
Capital outlay	--	--	1,428,354		1,428,354
Debt service, principal	71,859	--	--		71,859
Debt service, interest	51,119	--	--		51,119
Total Expenditures	704,713	162,013	1,482,450		2,349,176
Excess of Revenues Over (Under) Expenditures	(15,747)	97,787	(1,428,354)		(1,346,314)
Other Financing Sources (Uses)					
Proceeds from installment purchase financing agreement	--	--	1,479,859		1,479,859
Transfers in	51,505	--	--		51,505
Transfers out	--	--	(51,505)		(51,505)
Net Other Financing Sources (Uses)	51,505	--	1,428,354		1,479,859
Net Change in Fund Balance	35,758	97,787	--		133,545
Fund Balance at Beginning of Period	669,163	307,315	--		976,478
Fund Balance at End of Period	\$ 704,921	\$ 405,102	\$ --		\$ 1,110,023

The Notes to the Financial Statements are an integral part of these Financial Statements

Township of Hayes
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended June 30, 2023

Total Net Change in Fund Balances - Governmental Funds	\$ 133,545
Governmental fund report capital outlay as expenditures; however, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is represented by the amount by which capital outlay of \$1,457,345 is exceeded by depreciation expense of \$85,863.	1,371,482
Some receivables are long-term in nature and are collectible over several years. However, the current receipts are reflected as revenues on the fund statements.	17,542
Current year long-term debt principal payments on installment purchase agreements are expenditures in the fund financial statements but are reductions in long-term debt in the government-wide financial statements.	71,859
Issuance of long-term debt is reported as other financing sources in the fund financial statements but is an addition in long-term debt in the government-wide financial statements.	(1,479,859)
Changes in Net Position - Governmental Activities	\$ <u>114,569</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Custodial Fund

\$ _____

Township of Hayes
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Year Ended June 30, 2023

	<u>Custodial Fund</u>
ADDITIONS	Tax Collection
Property taxes collected for other governments	\$ 8,344,755
<i>Total Additions</i>	<u>8,344,755</u>
DEDUCTIONS	
Payment of property taxes collected for other governments	8,344,755
<i>Total Deductions</i>	<u>8,344,755</u>
<i>Net Increase (Decrease) in Net Position</i>	--
<i>Net Position at Beginning of Period</i>	--
<i>Net Position at End of Period</i>	<u>\$ --</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Notes to the Financial Statements

Township of Hayes

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The financial statements of the Township of Hayes (the “Township” or “government”) have been prepared in conformity with generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial-reporting principles. The more significant of the Township’s accounting policies are described below.

Reporting Entity

The Township is located in Charlevoix County, Michigan and provides services to approximately 2,000 residents. The Township operates under a Board of Trustees consisting of a supervisor, treasurer, clerk, and two trustees. The services rendered to residents include public safety, highways and streets, health and welfare, recreation and culture, planning and zoning, and general administrative services.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 61, *"The Financial Reporting Entity,"* these financial statements represent the Township for financial reporting purposes. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if component unit data were not included. Accordingly, there are no other governmental organizations required to be included in the financial statements of the Township.

Related Organizations

The ***Lake Charlevoix Emergency Medical Services Authority*** (the “LCEMS Authority”) was established in 2021 under Public Act 57 of 1988, in order to provide the needed financial assistance to ensure a stable and reliable ambulance service within the Township of Charlevoix, the Township of Hayes, the Township of Marion, the Township of Norwood, and the City of Charlevoix. The LCEMS Authority is an independent legal entity organized under state statute and the participating municipalities have no equity interest in the entity. The members of the LCEMS Authority’s governing board are comprised of one member from each of the participating municipalities. The LCEMS Authority determines its own budget, sets its own rates, and may issue debt in its own name. The Township is not responsible for deficits or liabilities of the LCEMS Authority; however, the Township, along with the other participating municipalities, provides support to the LCEMS Authority in the form of property taxes. Accordingly, the Township has elected to exclude the LCEMS Authority and all related note disclosures in these financial statements. The LCEMS Authority is audited separately from the Township and complete financial statements may be obtained from the LCEMS Authority at 9251 Major Douglas Sloan Road, Charlevoix, MI 49720.

The ***City of Charlevoix, Township of Hayes, Township of Charlevoix Recreational Authority*** (the “Recreational Authority”) was established in May 2004 under the provisions of Act No. 321, Public Acts of 2000, in order to operate, fund, or contract for the operation of the Charlevoix Area

Township of Hayes

Notes to the Financial Statements

Community Pool and to provide such other services and exercise such powers as are authorized by law. The participating municipalities are the City of Charlevoix, the Township of Hayes, and the Township of Charlevoix. The Recreational Authority is an independent legal entity organized under state statute and the participating municipalities have no equity interest in the entity. The members of the Recreational Authority's governing board are comprised of one member from each of the participating municipalities. The Recreational Authority determines its own budget, sets its own rates, and may issue debt in its own name. The Township is not responsible for deficits or liabilities of the Recreational Authority; however, the Township, along with the other participating municipalities, provides support to the Recreational Authority in the form of property taxes. Accordingly, the Township has elected to exclude the Recreational Authority and all related note disclosures in these financial statements. The Recreational Authority is audited separately from the Township and complete financial statements may be obtained from the Recreational Authority at 9195 Major Douglas Sloan Road, Charlevoix, MI 49720.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are

Township of Hayes

Notes to the Financial Statements

collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, state shared revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of receivables due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The Township reports the following governmental funds:

The *general fund*, which is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state distributions or grants, charges for services, interest income, and other intergovernmental revenues.

The *road fund*, a special revenue fund, accounts for activity related to road improvements within the Township. Revenues are derived primarily from property taxes, state distributions, and interest income.

The *capital projects fund*, a capital projects fund, accounts for the accumulation and disbursement of resources for the construction of Township capital projects. Revenues are derived primarily from other financing sources and interest income.

Following is a description of the fiduciary fund maintained by the Township:

The *custodial fund* accounts for the collection and payment of property tax levies.

Assets, Liabilities, Deferred Inflows of Resources, and Fund Equity

Cash and Investments

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

Statutes authorize the primary government and component units to invest in the following:

- In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.

Township of Hayes

Notes to the Financial Statements

- In certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, a saving and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
- In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- In United States government of federal agency obligation repurchase agreements.
- In banker's acceptances of United States banks.
- In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Investments are stated at fair market value.

Receivables

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. The Township reported no uncollectible amounts.

Leases Receivable

The Township acts as a lessor for leases involving the right to use Township assets. As per GASB 87, the Township recognizes a lease receivable and a deferred inflow of resources in its government-wide and governmental fund financial statements.

Initially, the lease receivable is measured at the present value of expected lease payments over the lease term. The lease receivable is subsequently reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for prepaid lease payments received at lease inception. Over the lease term, the deferred inflow of resources is recognized as revenue.

Significant estimates and judgments involved include determining the discount rate used to present value lease receipts, determining the lease term, and estimating lease receipts. The Township utilizes its estimated incremental borrowing rate as the discount rate for leases. The lease term comprises the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable consist of fixed payments from the lessee.

Township of Hayes

Notes to the Financial Statements

The Township continually monitors changes that may necessitate a remeasurement of the lease receivable. If significant changes occur, the lease receivable will be remeasured accordingly.

Capital Assets

Capital assets, which include property, plant and equipment are reported in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Contributed assets are recorded at estimated acquisition value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are also capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

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

	<u>Years</u>
Land Improvements	20
Buildings and Improvements	20 - 40
Machinery and Equipment	5 - 20

Unearned Revenues

Unearned revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

In the fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The Township employees are not provided compensated absences and, accordingly, a liability isn't reported.

Deferred Inflows of Resources

In addition to assets and liabilities, the statement of financial position or balance sheet will, when applicable, report separate sections for deferred inflows of resources. *Deferred inflows of resources*, a separate financial statement element, represents an acquisition of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an inflow of

Township of Hayes

Notes to the Financial Statements

resources (revenue) until that time.

The Township has two items that qualify for reporting in this category. The first item: a deferred inflow which arises only under a modified accrual basis of accounting. Accordingly, this item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: receivables for revenues that are not considered to be available to liquidate liabilities of the current period. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The second item: a deferred inflow related to the Township's leases receivable. This item, *deferred lease revenues*, is reported on both the statement of net position and in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

Fund Balance Policies

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 *nonspendable 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.

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. Amounts are designated by the Township Board.

Unassigned fund balance is the residual classification for the Township's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the Board. The general fund is the only fund that

Township of Hayes

Notes to the Financial Statements

reports a positive unassigned fund balance amount. In other governmental funds, the unassigned classification is used only to report a deficit.

Fund Balance Flow Assumptions

Sometimes the Township will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Net Position Flow Assumption

Sometimes the Township will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Property Tax Revenue Recognition

Property taxes are levied on July 1st and December 1st and are payable without penalty in one installment on September 14th and February 14th, respectively. The Township bills and collects its own property taxes and also collects taxes for the county and school districts within the Township. Collection of other governmental unit's taxes and remittance of them to the units are accounted for in the custodial fund. Property taxes are recognized as revenue and become available for appropriation in the year in which they are levied.

The 2022 state taxable valuation of the Township totaled \$251,603,639, on which taxes levied consisted of 0.9874 mills for operating purposes and 0.9776 mills for road improvements.

Township of Hayes

Notes to the Financial Statements

Note 2 – Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on the cash basis for all operating funds of the Township except for the custodial 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:

- Prior to June 15, the Township Board reviews 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.
- Public hearings are conducted at the Township hall to obtain public comments.
- Prior to June 30th the budget and annual appropriations act are legally adopted by the Township Board.
- Formal budget integration is employed as a management control device during the year for all budgetary funds.
- Budgetary control is exercised at the department level in the general fund, and at the total expenditure or "fund" level for the special revenue funds. Similarly, the Township's "appropriation centers" are defined at the department level in the general fund and at the total expenditure or "fund" level for the special revenue funds.
- Budget transfers between appropriation centers or changes to appropriation center totals require formal amendment by the Township Board. Budgets for the current year are carefully reviewed throughout the year for any revisions of estimates. The legislative body amends the general appropriation act as soon as it becomes apparent this action is necessary.
- All budget appropriations lapse at the end of the year.
- Budgets as presented for the governmental funds are prepared on the modified accrual basis consistent with generally accepted accounting principles.

Excess of Expenditures Over Budget

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. Budgetary control is exercised at the activity level in the general fund and the function level in other funds.

Township of Hayes

Notes to the Financial Statements

The Township had the following expenditures in excess of the amounts appropriated during the year ended June 30, 2023.

Fund/Function/Department	Final Budget	Actual Amount	Negative Variance
General Fund			
<i>General Government</i>			
Township Board	\$ 99,389	\$ 107,844	\$ (8,455)
Elections	7,600	11,261	(3,661)
Treasurer	32,775	40,306	(7,531)
<i>Public Safety</i>			
Fire Protection	61,975	92,782	(30,807)
<i>Health and Welfare</i>			
Ambulance	-	4,704	(4,704)
<i>Community and Economic Development</i>			
Pantry	-	3,821	(3,821)
<i>Debt Service</i>	-	122,978	(122,978)

The excess expenditures within the fire protection department level relate to the Township not appropriating enough funds for the costs of repairs and maintenance. While the Township had significant expenditures in excess of the amount appropriated for debt service, the Township also received \$122,978 in lease payments which are used to cover the debt service payments.

Note 3 - Deposits and Investments

Following is a reconciliation of deposit and investments balances as of June 30, 2023:

Statement of Net Position

Cash and Investments	\$ 1,337,538
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Statement of Fiduciary Net Position

Cash and Investments - Custodial Fund	5,000
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Total Cash and Investments	\$ 1,342,538
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Deposits and Investments

Checking and Savings Accounts	\$ 1,135,725
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Certificates of Deposit (Matures within 1 Year)	206,813
---	---------

Total Deposits and Investments	\$ 1,342,538
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Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the Township's deposits might not be returned. State law does not require, and the Township does not have a policy for deposit custodial credit risk. As of year-end, \$775,907 of the Township's

Township of Hayes

Notes to the Financial Statements

bank balance of \$1,342,538 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC and NCUA insurance, the Township believes it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk. Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Township's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Township's certificates of deposit of \$206,813 all mature within one year.

Note 4 - Interfund Transactions

Interfund transfers for the year ended June 30, 2023 consisted of transfers in of \$51,505 from the capital projects fund to the general fund for the reimbursement of capital outlay expended in the prior year.

Note 5 - Leases Receivable

The Township is reporting total lease receivables of \$3,131,527 and total deferred inflows of resources related to lease revenues of \$3,187,782 as of June 30, 2023. The Township received \$122,978 in lease payments from the Lake Charlevoix Emergency Medical Services Authority during the year ended June 30, 2023 resulting in reported lease revenue of \$26,788 and interest revenue of \$39,935.

Ambulance Barn Lease Agreement – On February 1, 2023, the Township entered into a 15-year lease agreement with the Lake Charlevoix Emergency Medical Services Authority (the "LCEMS Authority") in which the LCEMS Authority will lease the ambulance barn from the Township at a rate of \$10,248 per month. At the conclusion of the initial term, the lease agreement calls for an automatic renewal for an additional term of 35 years. Based on this agreement, the Township is receiving monthly payments through January 31, 2073.

Township of Hayes

Notes to the Financial Statements

Note 6 - Capital Assets

Capital asset activity for governmental activities during the year was as follows:

	Beginning Balance	Additions	Transfers	Ending Balance
Capital Assets not being Depreciated				
Land	\$ 4,277,202	\$ -	-	\$ 4,277,202
Construction in Progress	51,505	1,428,354	(1,479,859)	-
<i>Subtotal</i>	<u>4,328,707</u>	<u>1,428,354</u>	<u>(1,479,859)</u>	<u>4,277,202</u>
Capital Assets being Depreciated				
Land Improvements	1,887,776	-	-	1,887,776
Buildings and Improvements	360,146	-	1,492,784	1,852,930
Machinery and Equipment	106,309	16,066	-	122,375
<i>Subtotal</i>	<u>2,354,231</u>	<u>16,066</u>	<u>1,492,784</u>	<u>3,863,081</u>
Accumulated Depreciation				
Land Improvements	(277,053)	(73,516)	-	(350,569)
Buildings and Improvements	(169,720)	(4,522)	-	(174,242)
Machinery and Equipment	(85,764)	(7,825)	-	(93,589)
<i>Subtotal</i>	<u>(532,537)</u>	<u>(85,863)</u>	<u>-</u>	<u>(618,400)</u>
Capital Assets being Depreciated, net	<u>1,821,694</u>	<u>(69,797)</u>	<u>1,492,784</u>	<u>3,244,681</u>
Capital Assets, net	<u>\$ 6,150,401</u>	<u>\$ 1,358,557</u>	<u>\$ 12,925</u>	<u>\$ 7,521,883</u>

Depreciation expense of \$85,863 was charged to the general government (\$5,775) and recreation and cultural (\$80,088) functions of the Township.

Township of Hayes

Notes to the Financial Statements

Note 7 - Long-term Debt

Detailed Long-term Obligations Disclosures

Ambulance Barn Installment Purchase Agreement (Direct Placement) – \$1,479,859 Installment Purchase Agreement, dated July 1, 2022, for the purpose of constructing the ambulance barn to lease to the Lake Charlevoix Emergency Medical Services Authority. The agreement bears interest at 3.04% and are due in monthly installments through July 1, 2037. The full faith and credit of the Township have been pledged for the prompt payment of the principal of and interest on this agreement.

The following schedule summarizes the changes in the Township's long-term debt during the year:

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Direct Placement</i>					
Ambulance Barn Installment Purchase Agreement	\$ -	\$ 1,479,859	\$ (71,859)	\$ 1,408,000	\$ 81,318

The following schedule summarizes long-term debt annual maturities:

	Governmental Activities		
	Principal	Interest	Total
2024	\$ 81,318	\$ 41,660	\$ 122,978
2025	83,825	39,153	122,978
2026	86,409	36,569	122,978
2027	89,072	33,905	122,977
2028	91,818	31,159	122,977
2029-2033	503,334	111,554	614,888
2034-2038	472,224	29,935	502,159
Totals	\$ 1,408,000	\$ 323,935	\$ 1,731,935

Debt service payments for the installment purchase agreement are expected to be paid from the general fund.

Note 8 - Tax Abatement

The Township has entered into tax abatement agreements with local businesses under the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Tax exemption or IFT) PA198 of 1974, as amended. The IFT on a new plant and non-industrial property, such as some high-tech personal property, is computed at half the local property tax millage rate. This amounts to a reduction in property taxes of approximately 50% for those businesses. For the year ended June 30, 2023, total IFT tax abatements for the Township resulted in decreased operating revenues of \$2,045.

Township of Hayes

Notes to the Financial Statements

Note 9 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for most risks of loss to which it is exposed. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 10 - Litigation

In the normal course of its operations, the Township has become a party in various legal actions, including property tax appeals. Management of the Township is of the opinion that the outcome of such actions will not have a material effect on the financial position of the Township. Amounts reserved for losses to legal actions have not been included as a liability in the financial statements.

Note 11 - Contingencies

The Township receives financial assistance from the federal and state governments in the forms of grants and entitlements, which are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal and state regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the granting agencies. Any disallowance as a result of these audits could become a liability of the Township. As of June 30, 2023, the Township is unable to estimate what liabilities, if any, may result from such audits.

Note 12 - Subsequent Events

The Board is currently working to determine how to utilize an estimated \$199,506 of American Rescue Plan Act funds which are available to the Township for expenditure for various public safety reimbursements and infrastructure projects through 2024.

Additionally, the Township has made commitments to the Charlevoix County Road Commission for road improvements totaling \$287,592 to be expended during fiscal 2024.

Management is not aware of any other subsequent events that would have a significant impact on the financial condition of the Township.

Required Supplementary Information

Township of Hayes
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended June 30, 2023

	Budgeted Amounts			Variance Positive (Negative) Final to Actual
	Original	Final	Actual	
Revenues				
Property taxes	\$ 298,511	\$ 298,511	\$ 341,898	\$ 43,387
Intergovernmental	297,700	297,700	228,625	(69,075)
Charges for services	7,000	7,000	11,454	4,454
Interest and rentals	2,400	2,400	69,472	67,072
Other	33,587	33,587	37,517	3,930
Total Revenues	639,198	639,198	688,966	49,768
Other Financing Sources				
Transfers in	--	--	51,505	51,505
Total Revenues and Other Financing Sources	639,198	639,198	740,471	101,273
Expenditures				
General government				
Township board	99,389	99,389	107,844	(8,455)
Supervisor	32,075	32,075	32,598	(523)
Elections	7,600	7,600	11,261	(3,661)
Assessor	32,675	32,675	32,537	138
Clerk	44,275	44,275	43,099	1,176
Board of review	2,800	2,800	2,235	565
Treasurer	32,775	32,775	40,306	(7,531)
Building and grounds	52,000	52,000	20,565	31,435
Cemetery	7,200	7,200	3,959	3,241
Total general government	310,789	310,789	294,404	16,385
Public safety				
Fire protection	61,975	61,975	92,782	(30,807)
Public works				
Roads	59,200	59,200	52,458	6,742
Health and welfare				
Ambulance	--	--	4,704	(4,704)
Community and economic development				
Planning and zoning	70,200	70,200	56,078	14,122
Food pantry	--	--	3,821	(3,821)
Total community and economic development	70,200	70,200	59,899	10,301
Recreation and culture				
Parks	84,200	84,200	77,488	6,712
Debt service	--	--	122,978	(122,978)
Total Expenditures	586,364	586,364	704,713	(118,349)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	52,834	52,834	35,758	(17,076)
Net Change in Fund Balance	52,834	52,834	35,758	(17,076)
Fund Balance at Beginning of Period	669,163	669,163	669,163	--
Fund Balance at End of Period	\$ 721,997	\$ 721,997	\$ 704,921	\$ (17,076)

Township of Hayes
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Road
For the Year Ended June 30, 2023

	Budgeted Amounts			Variance Positive (Negative) Final to Actual
	Original	Final	Actual	
Revenues				
Property taxes	\$ 516,143	\$ 516,143	\$ 246,991	\$ (269,152)
Intergovernmental	--	--	9,273	9,273
Interest and rentals	350	350	3,536	3,186
Total Revenues	<u>516,493</u>	<u>516,493</u>	<u>259,800</u>	<u>(256,693)</u>
Expenditures				
Public works				
Roads	162,013	162,013	162,013	--
Total Expenditures	<u>162,013</u>	<u>162,013</u>	<u>162,013</u>	<u>--</u>
Excess (Deficiency) of Revenues				
Over Expenditures	354,480	354,480	97,787	(256,693)
Net Change in Fund Balance	<u>354,480</u>	<u>354,480</u>	<u>97,787</u>	<u>(256,693)</u>
Fund Balance at Beginning of Period	307,315	307,315	307,315	--
Fund Balance at End of Period	<u>\$ 661,795</u>	<u>\$ 661,795</u>	<u>\$ 405,102</u>	<u>\$ (256,693)</u>

December 29, 2023

To the Members of the Township Board of Trustees
Township of Hayes
Charlevoix, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Hayes (the "Township") for the year ended June 30, 2023. 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 letter to you dated December 22, 2023. 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 the 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 2023. We noted no transactions entered into by the Township 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 Township's financial statements was:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some future economic benefit.

We evaluated the key factors and assumptions used above in determining that they are 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 one difficulty in dealing with management in performing and completing our audit: delays based on the condition of the books and records.

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. Some of the misstatements were material to the financial statements. Proposed adjusting journal entries were provided to and recorded by management.

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 December 29, 2023.

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 Township'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 Township'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

We applied certain limited procedures to management's discussion and analysis and the budgetary comparison schedules, which are 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.

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township as of and for the year ended June 30, 2023, 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) to determine the 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 Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township'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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we have identified deficiencies in internal control that we consider to be material weaknesses.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Township's financial statements will not be prevented, or detected and corrected, on a timely basis.

Material Weaknesses:

We consider the following deficiencies to be material weaknesses:

Material Weakness - 2023-001 - Material Audit Adjustments and Financial Statement Preparation (Repeat Finding)

Criteria: All governmental units in Michigan are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the management. The preparation of financial statements in accordance with GAAP requires internal controls over both: 1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and 2) reporting government-wide and fund financial statements, including the related notes to the financial statements (i.e., external financial reporting).

Condition: We identified and proposed material audit adjustments that management reviewed and approved. We also assisted management with preparing the basic financial statements and the related footnotes.

As is the case with many small and medium-sized governmental units, the Township has historically relied on its independent external auditor to assist with the preparation of the financial statements, the related notes, and the management's discussion and analysis as part of its external financial reporting process. Accordingly, the Township's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditor, who cannot, by definition, be considered part of the Township's internal controls. Having the auditor draft the annual financial statements is allowable under current auditing standards and ethical guidelines and may be the most efficient and effective method for preparation of the Township's financial statements. However, when an entity (on its own) lacks the ability to produce financial statements that conform to GAAP, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses. This is a repeat finding.

Cause: This condition was caused by the Township's decision to outsource the preparation of its annual financial statements to the external auditor rather than incur the costs of obtaining the necessary training and expertise required for the Township to perform this task internally because outsourcing the task is considered more cost effective.

Effect: The Township's accounting records were initially misstated by amounts material to the financial statements. In addition, the Township lacks complete internal controls over the preparation of its financial statements in accordance with GAAP, and, instead, relies, at least in part, on assistance from its external auditor for assistance with this task.

Recommendation: We recommend that management continue to monitor the relative costs and benefits of securing the internal or other external resources necessary to develop material adjustments and prepare a draft of the Township's annual financial statements versus contracting with its auditor for these services.

Management Response: Management has made an ongoing evaluation of the respective costs and benefits of obtaining internal or external resources, specifically for the preparation of financial statements, and has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so. Management will continue to review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Material Weakness - 2023-002 - Segregation of Incompatible Duties (Repeat Finding)

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the Township. A key element of internal control is the segregation of incompatible duties within the accounting function.

Condition/Finding: The Township has accounting functions which are performed by the same individual and are not subject to a documented independent review and approval. These areas include journal entries, cash reconciliations, and accounts payable transactions.

Cause: This condition is a result of the limited size of the Township's accounting staff.

Effect: As a result of this condition, the Township is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected and corrected by management on a timely basis.

Recommendation: While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

Management's Response: As a result of limited staffing, we cannot accomplish the desired segregation of duties. Management staff will provide increased oversight and review of operations to help correct errors and to deter inappropriate actions and potential fraud.

Material Weakness - 2023-003 – Lack of Monitoring (Repeat Finding)

Criteria: The Standards for Internal Control for the Federal Government (which is a good general standard for all types of municipalities) defines internal control as “an integral part of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.”

It further defines the monitoring of internal control as assessing the quality of performance over time and ensuring that the findings of audits and other reviews are promptly resolved. Internal control should generally be designed to ensure that ongoing monitoring occurs during normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other related tasks.

Condition/Finding: The Township Board of Trustees has not been able to properly monitor the financial condition, or compliance with regulations and laws, due to the condition of the Township's general ledger.

Cause: This condition is a result of the following:

- Cash isn't being reconciled properly within the accounting software and was misstated by material amounts prior to the audit.
- State revenue and tax deposits were incorrectly posted resulting in overstated revenue totals.
- Journal entries were incorrectly posted providing misleading and inaccurate revenue and expenditure totals.
- Credit card purchases and purchases with gift cards were not properly reviewed and reconciled.
- Payroll tax liabilities were not paid in accordance with the balances due leading to tax notices and tax refunds from taxing agencies throughout the year.

Effect: The failure to monitor the Township's activities may lead to misappropriation of funds and the inability of the Board to determine its overall financial condition.

Recommendation: We recommend that the Board review these findings and not only implement policies and procedures related to the Township's internal control structure, but also monitor and oversee the activities of the Township.

Management's Response: The Township will review and revise its internal policies and procedures to ensure that key activities are being reconciled timely, and, that the Board of Trustees is provided with monthly reports to review and verify the financial condition of the Township and that the Township is compliant with pertinent regulations.

Material Weakness - 2023-004 - Disbursement Procedures (Repeat Finding)

Criteria: Chapter 5 of the Michigan Department of Treasury's Uniform Accounting Procedures Manual states: "Each local unit must establish and maintain an adequate system of internal control for cash disbursements." The manual provides requirements for documentation and procedures surrounding cash disbursements. Several recommendations in this finding can be found in that manual.

Condition/Finding: We noted the following weaknesses during the testing of the internal controls over the cash disbursement process:

- 23% of invoices tested were missing administrative approval
- 15% of disbursements tested were missing appropriate supporting documentation
- 24% of disbursement tested were improperly classified in the general ledger (requiring proposed adjusting journal entries)

- All ACH and credit card payments were lacking receipts or suitable supporting documentation for the activity, including ACH payments (unable to determine source of the costs)

Cause: The Township's internal controls weren't suitably designed in accordance with the Michigan Department of Treasury's requirements for recordkeeping, authorization, and classification of disbursements, including ACH and credit card payments.

Effect: The failure to monitor the Township's activities may lead to misappropriation of funds and the inability of the Board to determine its overall financial condition.

Recommendation: We recommend that the Township develop and implement policies and procedures that will ensure all documentation is properly maintained and reviewed to strengthen the internal control policies of the Township. Examples of good policy and procedures are as follows:

- Require signed approval of all invoices by the appropriate administrative personnel before payment is issued
- Require external supporting documentation (invoices) before processing of payments
- Use a template as a reference for loading check stock into the printer. Check stock should be kept in numerical order and correspond to check numbers within the accounting system
- Limit access of check stock by securing within a safe when not in use
- Unpaid vendor invoices should be kept in a separate file, vendor invoice numbers should be checked against previous payment within the accounting software to avoid duplicate payments
- Mark checks as voided and place in a separate file for voided checks. Once a check is voided this should be recorded as a voided check with the Township's accounting software
- The Township should retain a copy of each check stub and file it with the corresponding vendor invoices paid on that check. This documentation should be filed with each vendor's file
- The Township should organize vendor files in a consistent and logical manner (i.e., alphabetically by vendor name, numerically by check number)
- The Township should consistently use vouchers to record accounts, approvals and describe payment amounts. This should be done based on each disbursement. The voucher should be attached to the corresponding check stub and invoices

Management's Response: The Township is in the process of implementing new policies and procedures. Management will sign off on every voucher for payment. There will be two signatures on the checks with both signees reviewing the documentation and the check, including credit card receipt and supporting documentation for ACH transactions. The person responsible for accounts payables at the time will review every invoice for prior amounts.

Material Weakness - 2023-005 - Timely Bank Reconciliation (Repeat Finding)

Criteria: The APM states "all bank accounts must be reconciled to the local unit accounting records monthly and should then be reviewed by the appropriate supervisory personnel. Bank statements and reconciliations must be retained for audit purposes."

Condition/Finding: Bank accounts are not being reconciled and independently review in a timely fashion.

Cause: This condition is due to the Township's negligence in fulfilling its responsibilities.

Effect: Failure to reconcile the bank statements created an incomplete general ledger and led to an over or understatement of cash balances and a corresponding over or understatement of revenues and/or expenditures. The Township Board of Trustees was not aware of the true financial status of any of the Township's funds and; therefore, could not make any sound financial decisions. The financial condition of the Township may not have been readily determined.

1. The Township Board of Trustees may not have been able to make sound business decisions because it had a lack of financial data on which to make an evaluation.
2. The Township Board may have obligated more funds than were available, which is a violation of the Uniform Budgeting and Accounting Act.

Recommendation: We recommend that the Township Board of Trustees prepare, approve, and institute a reconciliation process that ensures bank reconciliations are performed monthly and reviewed by a Board member. We further recommend that the bank statements and all related documents be maintained for seven years in accordance with the Records Retentions Act of Michigan.

Management's Response: Management staff will improve processes in order to ensure that all bank accounts of the Township are reconciled and independently reviewed in a timely manner.

Statutory Noncompliance:

Our examination revealed the following instances of noncompliance with State statutes:

Statutory Noncompliance - 2023-006 – Failure to File Reports - F-65 and Audit Reports (Repeat Finding)

Criteria: MCL 141.427 Every county, city, village, and township must file an Annual Local Unit Fiscal Report (Form F-65) with the State Treasurer in accordance with PA (PA) 71 of 1919, PA 2 of 1968 and PA 275 of 1980. The Form F-65 must be received by the Michigan Department of Treasury within six months after the end of the local unit's fiscal year and must be filed annually regardless of the filing requirements for an audit. Failure to timely file Form F-65 may cause the unit's State Revenue Sharing money to be withheld (MCL 141.921).

Condition/Finding: For fiscal year 2022, the Township failed to file the annual audit report and Annual Local Unit Fiscal Report (F-65 Report) timely with the Michigan Department of Treasury.

Cause: This condition is a result of the Township's lack of accounting information and supporting documentation as well as the Township's negligence in fulfilling its responsibilities.

Effect: The effect of this finding is that the Township is out of compliance with Treasury.

Directive: We direct that the Township file the required reports. The Michigan Department of Treasury is requiring annual audits until these deficiencies are rectified starting after fiscal year 2022. A copy of the audit report shall be filed with the State Treasurer within six months after the end of the fiscal year of a local unit.

Management's Response: The Township Board of Trustees has engaged a CPA firm and is in the process of submitting all required audit reports and F-65 reports by January 2, 2024.

Statutory Noncompliance - 2023-007 - Expenditures in Excess of Appropriations (Repeat Finding)

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Section 17 of Public Act 2 of 1968.

Condition/Finding: Our examination of procedures used by the Township to adopt and maintain operating budgets for budgetary funds revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act. The Township's 2023 General Appropriations Act (budget) provided for expenditures of the General fund and Special Revenue funds to be controlled at the activity level. As detailed below, actual 2023 expenditures exceeded the

Township Board of Trustees' approved budget allocations for several general fund activities.

Fund/Function/Department	Final Budget	Actual Amount	Negative Variance
General Fund			
<i>General Government</i>			
Township Board	\$ 99,389	\$ 107,844	\$ (8,455)
Elections	7,600	11,261	(3,661)
Treasurer	32,775	40,306	(7,531)
<i>Public Safety</i>			
Fire Protection	61,975	92,782	(30,807)
<i>Health and Welfare</i>			
Ambulance	-	4,704	(4,704)
<i>Community and Economic Development</i>			
Pantry	-	3,821	(3,821)
<i>Debt Service</i>			
	-	122,978	(122,978)

Cause: The Township Board of Trustees did not have meaningful financial statements to review during the year and, accordingly, didn't amend the budget sufficiently to avoid the overages.

Effect: The effect of this finding is that the Township is out of compliance with State statute.

Directive: We direct the Township to develop budgetary control procedures which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.

Management's Response: The Township will do quarterly budget amendments, using reliable financial statements, and more as needed to ensure that the expenditures are not in excess of the final budget.

Comments and Recommendations:

During our audit, we became aware of certain other matters that are opportunities for strengthening internal control and/or improving operating efficiency. This section summarizes our comments and recommendations regarding those matters. These items are not included with the material weaknesses or statutory noncompliance matters listed above, nor do they affect our report dated December 29, 2023 on the financial statements of the Township.

The following items represent our recommendations and considerations for further improvement:

Accounting Software

The Township currently uses two sets of QuickBooks (one for the Township and one for the Township Road Fund) as the records for the Township along with written accounting ledgers. These written ledgers limit the ability of the Board to monitor and assess the financial condition of the Township during the year. In addition, QuickBooks does not have the capacity to separate the multiple funds of the Township, as is required with government fund accounting. As a result, it is difficult to keep various funds separate and cross postings or “one-sided entries” can occur.

We experienced difficulties in reconciling fund balances and beginning asset and liability balances. We noted that there are multiple years of activity that has not cleared within the Township’s QuickBooks. Additionally, the written accounting ledgers for the tax collection fund (and bank account) and food pantry bank account do not reconcile with the Township’s QuickBooks. This resulted in numerous additional hours required in order to reconcile the accounts.

Multiple accounting software solutions are available that would vastly improve internal controls and monitoring at the Township. We recommend that the Township research and select the accounting software that best meets its financial reporting needs, and that the software be implemented for 2024. Advantages of accounting software include:

- One data file can be shared by all system users (rather than maintaining separate sets of records).
- Cash can be pooled and tracked separately (reducing the Township’s bank accounts from nine to two or three) reducing administrative effort to reconcile cash. This too would eliminate the need to transfer funds and record journal entries moving cash from bank account to bank account (it is worth noting that these Township prepared journal entries were a primary source of errors requiring material audit adjustments).
- Monthly budget to actual reports, summarized by fund and department, can be provided to Board of Trustees allowing and improved understanding of how the Township is performing compared to the original budget adopted by Board of Trustees.
- Compliance with the Uniform Budget Act, F-65, and CVTRS reporting requirements, and the Department of Treasury Chart of Accounts is more likely to be achieved using real-time information provided by an accounting system.
- Detailed reconciliation reports can be system generated proving that cash is reconciled, and that revenues and expenditures are properly stated.
- Independent review can be achieved by having multiple members of the Board of Trustees review and sign off on cash reconciliation reports, check registers, and cash receipt reports.

- Recording transactions into the accounting software reduces the risk of transaction being coded to an incorrect line item.
- Significant amount of time can be saved with system generated reports, printing of payables checks, and automated transaction entry.

Payroll Tax Liability Reconciliation

We noted during our audit that the payroll tax liability accounts in the general ledger were unreconciled after each set of monthly payments. This led to multiple tax notices showing balances due or, in some cases, refunds due from the taxing agencies. We recommend the Township adopt a process that requires payroll tax liabilities to be fully reconciled in the general ledger after each payment.

Credit Card Activity Reconciliation

The Township uses one credit card with a credit line of \$3,500. During our audit, we noted that credit card purchases were not properly reviewed or reconciled within QuickBooks and lacked receipts or suitable supporting documentation for the activity. We recommend the Township to adopt a credit card use policy that requires credit cards to be fully reconciled in the general ledger prior to payment along with requiring receipts or suitable supporting documentation for each purchase.

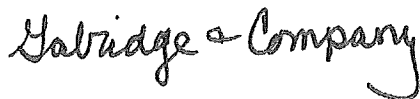
Township's Response to Findings

The Township's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Restriction on Use

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

Very truly yours,



Gabridge & Company, PLC
Traverse City, MI

