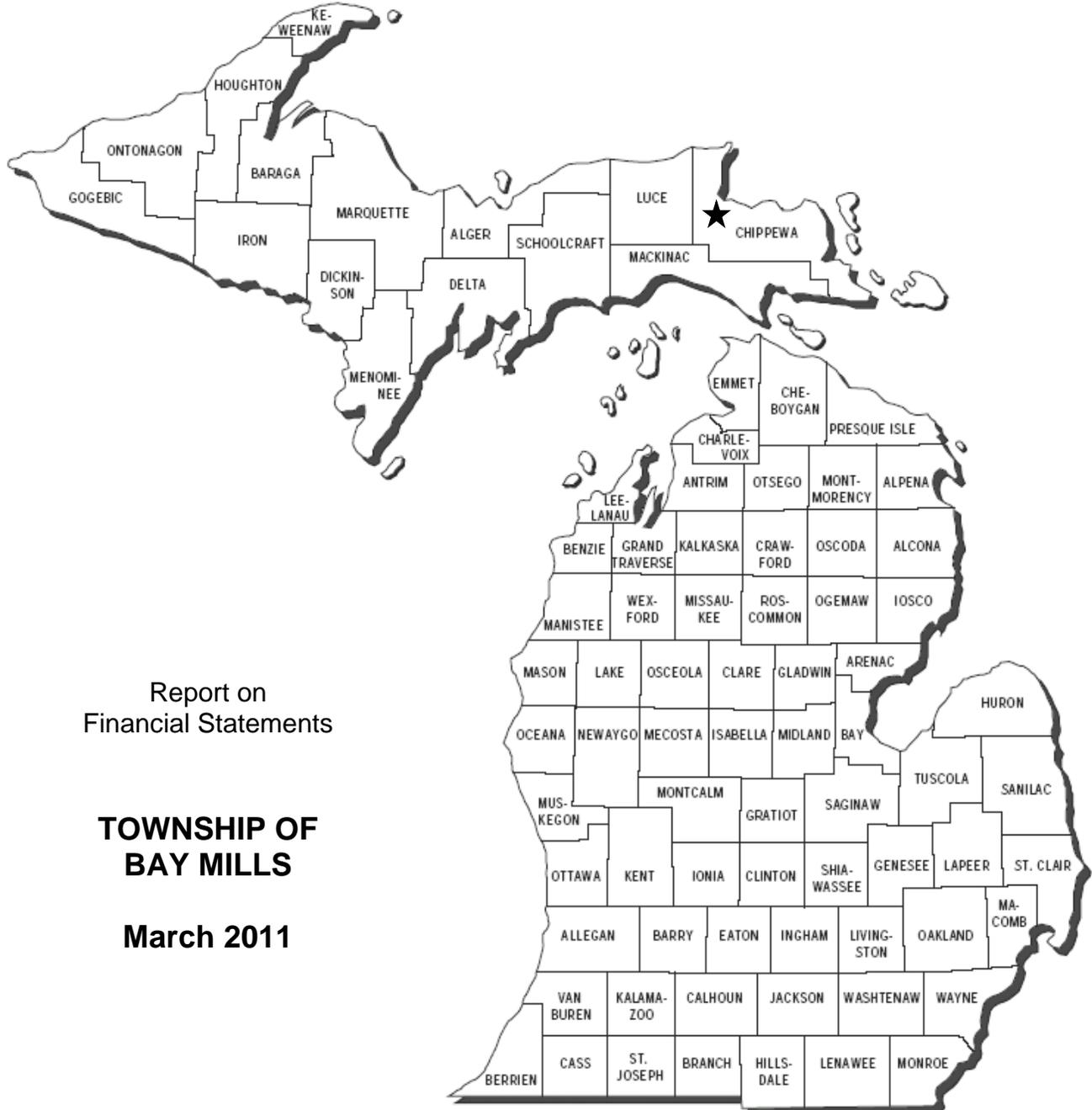


STATE OF MICHIGAN

Rick Snyder, Governor

DEPARTMENT OF TREASURY

Andy Dillon, State Treasurer



Report on
Financial Statements

**TOWNSHIP OF
BAY MILLS**

March 2011

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY
TOWNSHIP BOARD

Roger Graham
Supervisor

Mary Swendsen
Clerk

Kathi Chartrand
Treasurer

Raymond Baker
Trustee

Daniel Wilcox
Trustee

TOWNSHIP POPULATION—2010
1,477

TAXABLE VALUATION--2010
\$49,074,911



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

January 15, 2013

Township Board
Township of Bay Mills
14740 West Lakeshore Drive
Brimley, Michigan 49715

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying financial statements of the governmental activities and each major fund of Bay Mills Township, Chippewa County, Michigan, as of and for the fiscal year ended March 31, 2011, which collectively comprise Bay Mills Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Bay Mills Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Bay Mills Township, as of March 31, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 15, 2013 on our consideration of Bay Mills Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Budgetary Comparisons for Major Funds on pages 1 through 4 and 21 through 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bay Mills Township's basic financial statements. The general fund detail schedule of revenues and expenditures (Exhibits I and J) are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

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BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended March 31, 2011**

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of Bay Mills Township, as a whole, and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

The Township as a Whole

The net assets increased approximately 9% or \$92,535 from \$1,068,837 in 2010 to \$1,161,372 for the fiscal year ended March 31, 2011. The investment in capital assets-net of related debt decreased by \$748, the restricted net assets decreased by \$7,251 and the unrestricted net assets increased by \$100,534.

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specified purpose stipulated in the legislation. All assets as such (except for assets invested in capital assets-net or related debt) are considered restricted.

The following table shows the changes of the net assets as of the current year to the prior audited year:

	<u>Governmental Activities 2010</u>	<u>Governmental Activities 2011</u>	<u>Difference</u>	<u>Percent</u>
Current and Other Assets	\$ 695,569	\$ 772,764	\$ 77,195	11%
Capital Assets	<u>398,022</u>	<u>397,274</u>	<u>(748)</u>	<u>0%</u>
Total Assets	<u>1,093,591</u>	<u>1,170,038</u>	<u>76,447</u>	<u>7%</u>
Liabilities	<u>24,754</u>	<u>8,666</u>	<u>(16,088)</u>	<u>-65%</u>
Total Liabilities	<u>24,754</u>	<u>8,666</u>	<u>(16,088)</u>	<u>-65%</u>
Net Assets				
Invested in Capital Assets	398,022	397,274	(748)	0%
Restricted	15,498	8,247	(7,251)	-47%
Unrestricted (Deficit)	<u>655,317</u>	<u>755,851</u>	<u>100,534</u>	<u>15%</u>
Total Net Assets	<u>\$ 1,068,837</u>	<u>\$ 1,161,372</u>	<u>\$ 92,535</u>	<u>9%</u>

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended March 31, 2011**

Governmental Activities

The Township's total governmental revenues decreased by approximately \$73,545 or 16.71%, primarily due to the decrease in operating grants and contributions.

Expenses decreased by \$59,172 or 17.76 % from the prior year. This was primarily the result of less road projects and a reduction in expenditures for public safety in fiscal year 2011.

In a condensed format, the table below shows a comparison of the net assets as of the current year to the last audited year.

	<u>Governmental Activities</u> <u>2010</u>	<u>Governmental Activities</u> <u>2011</u>	<u>Favorable (Unfavorable) Difference</u>	<u>Percent</u>
Program Revenues				
Charges for Services	\$ 10,661	\$ 7,153	\$ (3,508)	-32.90%
Operating Grants and Contributions	235,419	173,933	(61,486)	-26.12%
General Revenues				
Property Taxes	47,839	96,378	48,539	101.46%
State-Shared Revenues	99,692	80,950	(18,742)	-18.80%
Unrestricted Investment Earnings	8,056	7,034	(1,022)	-12.69%
Other Revenue	<u>38,490</u>	<u>1,164</u>	<u>(37,326)</u>	<u>-96.98%</u>
Total Revenues	<u>440,157</u>	<u>366,612</u>	<u>(73,545)</u>	<u>-16.71%</u>
Program Expenses				
General Government	129,640	155,900	26,260	20.26%
Public Safety	108,287	75,745	(32,542)	-30.05%
Public Works	35,916	2,699	(33,217)	-92.49%
Community and Economic Development	7,193	11,255	4,062	56.47%
Recreation and Culture	12,631	2,632	(9,999)	-79.16%
Other	<u>39,582</u>	<u>25,846</u>	<u>65,428</u>	<u>165.30%</u>
Total Expenses	<u>333,249</u>	<u>274,077</u>	<u>(59,172)</u>	<u>-17.76%</u>
Change in Net Assets	<u>\$ 106,908</u>	<u>\$ 92,535</u>	<u>\$ (14,373)</u>	<u>-13.44%</u>
Net Assets (Ending)	<u>\$ 1,068,837</u>	<u>\$ 1,161,372</u>	<u>\$ 92,535</u>	<u>8.66%</u>

The Township's Funds

Our analysis of the Township's major funds is listed in the audit report, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millage. The Township's major funds for 2011 include the General Fund and the Fire Fund.

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended March 31, 2011**

The General Fund pays for most of the Township's governmental services. The most significant are for general government services, which incurred expenses of \$155,900; and public works of \$75,745 in fiscal year 2011. The general government is partially supported by an operating millage and State Revenue Sharing. The fire department, which had the majority of capital outlay is operated with contributions from other local units.

The Township's total governmental operating revenues decreased by \$43,545 or 10.62 percent. Expenditures decreased \$106,805 or 28.1 percent primarily due to no road projects, less public safety expenditures, and less capital outlay in fiscal year 2011.

	Governmental Funds <u>2010</u>	Governmental Funds <u>2011</u>	Favorable (Unfavorable) Difference	Percent
Revenues				
Taxes and Penalties	\$ 47,839	\$ 96,378	\$ 48,539	101.46%
Federal Grants	5,900	5,544	(356)	-6.03%
State Grants	122,668	88,840	(33,828)	-27.58%
Contributions From Local Units	176,543	160,499	(16,044)	-9.09%
Charges for Services	10,661	7,153	(3,508)	-32.90%
Interest and Rentals	8,056	7,034	(1,022)	-12.69%
Other Revenue	<u>38,490</u>	<u>1,164</u>	<u>(37,326)</u>	<u>-96.98%</u>
Total Revenues	<u>410,157</u>	<u>366,612</u>	<u>(43,545)</u>	<u>-10.62%</u>
Program Expenses				
General Government	114,090	136,869	22,779	19.97%
Public Safety	54,200	22,431	(31,769)	-58.61%
Public Works	35,916	2,699	(33,217)	-92.49%
Recreation and Culture	12,631	2,632	(9,999)	-79.16%
Community and Economic Development	7,193	11,255	4,062	56.47%
Other	39,582	25,846	(13,736)	-34.70%
Capital Outlay	<u>116,522</u>	<u>71,597</u>	<u>(44,925)</u>	<u>-38.55%</u>
Total Expenses	<u>380,134</u>	<u>273,329</u>	<u>(106,805)</u>	<u>-28.10%</u>
Excess of Revenues Over Expenditures	<u>30,023</u>	<u>93,283</u>	<u>63,260</u>	<u>210.71%</u>
Beginning Fund Balance	<u>640,792</u>	<u>670,815</u>	<u>30,023</u>	<u>4.69%</u>
Ending Fund Balance	<u>\$ 670,815</u>	<u>\$ 764,098</u>	<u>\$ 93,283</u>	<u>13.91%</u>

General Fund Budgetary Highlights

Over the course of the fiscal year, Bay Mills Township did not amend the budget to take into account events during the year. The revenue budget was not amended and the actual revenues were \$39,127 more than the final budget. The most significant differences were in the taxes other than property, which were received. The expenditure budget was not amended during 2011. The actual expenditures were \$80,557 less than the final budget.

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended March 31, 2011**

Capital Asset and Debt Administration

At the end of fiscal year ended March 31, 2011, the Township had \$397,274 invested in a broad range of capital assets, including buildings, fire and office equipment, land, and vehicles. In addition, the Township has invested significantly in roads within the Township. These assets are not reported in the Township's financial statements because of Michigan law, which makes these roads the property of the Chippewa County Road Commission (along with the responsibility to maintain them).

	<u>Governmental Activities</u>	
	<u>03/31/10</u>	<u>03/31/11</u>
Capital Assets Not Being Depreciated		
Land	<u>\$ 105,492</u>	<u>\$ 149,972</u>
Subtotal	<u>105,492</u>	<u>149,972</u>
Capital Assets Being Depreciated		
Buildings and Building Improvements	119,199	122,419
Machinery and Equipment	121,191	140,233
Fire Vehicles and Equipment	<u>708,754</u>	<u>713,609</u>
Total	<u>949,144</u>	<u>976,261</u>
Less Accumulated Depreciation	656,614	728,959
Net Capital Assets Being Depreciated	<u>292,530</u>	<u>247,302</u>
Total Net Capital Assets	<u>\$ 398,022</u>	<u>\$ 397,274</u>

During fiscal year 2011, the Township purchased new equipment in the amount of \$27,117 and landscaped a small parcel of land in amount of \$44,480 for the Township as well as some recreational projects. Depreciation during the year amounted to \$72,345.

The Township had no long-term debt as of the end of the fiscal year.

Economic Factors and Next Year's Budgets and Rates

In the upcoming year, the Township will continue to try and keep all other expenses at a minimum due to increasing costs and decreasing revenues.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's Office: 14740 West Lakeshore Drive, Brimley, Michigan 49715.

**BAY MILLS TOWNSHIP--CHIPPEWA COUNTY
GOVERNMENT-WIDE STATEMENT
OF NET ASSETS
March 31, 2011**

EXHIBIT A

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current Assets	
Cash	\$ 753,193
Due From Other Funds	3,398
Due From Other Units	3,725
Due From State	<u>12,448</u>
Total Current Assets	<u>772,764</u>
Noncurrent Assets	
Capital Assets--Net of Accumulated Depreciation	<u>397,274</u>
Total Noncurrent Assets	<u>397,274</u>
Total Assets	<u><u>\$1,170,038</u></u>
<u>LIABILITIES AND NET ASSETS</u>	
Current Liabilities	
Accounts Payable	\$ 4,996
Accrued Liabilities	<u>3,670</u>
Total Current Liabilities	<u>8,666</u>
Total Liabilities	<u>8,666</u>
Net Assets	
Investment in Capital Assets	397,274
Restricted for	
Fire	8,247
Unrestricted	<u>755,851</u>
Total Net Assets	<u><u>\$1,161,372</u></u>

The Notes to Financial Statements are an integral part of this statement.

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended March 31, 2011

EXHIBIT B

<u>Functions/Programs</u>	<u>Expenses</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSE)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>REVENUE AND</u>
		<u>Services</u>	<u>Grants and</u>	<u>CHANGES IN</u>
			<u>Contributions</u>	<u>NET ASSETS</u>
				<u>Total</u>
Primary Government				
Governmental Activities				
General Government	\$ 155,900	\$ 5,370	\$ 166,043	\$ 15,513
Public Safety	75,745	1,783	5,723	(68,239)
Public Works	2,699	-	2,167	(532)
Community and Economic Development	11,255	-	-	(11,255)
Recreation and Culture	2,632	-	-	(2,632)
Other	25,846	-	-	(25,846)
Total Governmental Activities	<u>\$ 274,077</u>	<u>\$ 7,153</u>	<u>\$ 173,933</u>	<u>\$ (92,991)</u>
	General Revenues			
	Property Taxes			\$ 96,378
	State-Shared Revenues			80,950
	Unrestricted Investment Earnings			7,034
	Other			1,164
	Total General Revenues--Special Items and Transfers			<u>185,526</u>
	Change in Net Assets			92,535
	Net Assets--Beginning			<u>1,068,837</u>
	Net Assets--Ending			<u>\$ 1,161,372</u>

The Notes to Financial Statements are an integral part of this statement.

**BAY MILLS TOWNSHIP--CHIPPEWA COUNTY
BALANCE SHEET-GOVERNMENTAL FUNDS
AND RECONCILIATION TO THE
STATEMENT OF NET ASSETS
March 31, 2011**

EXHIBIT C

	<u>General</u>	<u>SPECIAL REVENUE FUND Fire</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash	\$ 744,270	\$ 8,923	\$ 753,193
Due From Other Funds	3,827	-	3,827
Delinquent Taxes Receivable	3,725	-	3,725
Due From State	12,448	-	12,448
 Total Assets	 <u>\$ 764,270</u>	 <u>\$ 8,923</u>	 <u>\$ 773,193</u>
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities			
Accounts Payable	\$ 4,749	\$ 247	\$ 4,996
Due to Other Funds	-	429	429
Accrued Liabilities	3,670	-	3,670
 Total Liabilities	 <u>8,419</u>	 <u>676</u>	 <u>9,095</u>
Fund Balance			
Restricted for			
Fire Services	-	8,247	8,247
Unassigned	755,851	-	755,851
 Total Fund Balance	 <u>755,851</u>	 <u>8,247</u>	 <u>764,098</u>
 Total Liabilities and Fund Equity	 <u>\$ 764,270</u>	 <u>\$ 8,923</u>	 <u>\$ 773,193</u>
 Fund Balances--Total Governmental Funds			 \$ 764,098

Amounts reported for governmental activities in the Statement of Net Assets are different because:

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

397,274

Net Assets of Governmental Activities

\$ 1,161,372

The Notes to Financial Statements are an integral part of this statement.

**BAY MILLS TOWNSHIP--CHIPPEWA COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES--GOVERNMENTAL FUNDS AND
RECONCILIATION TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended March 31, 2011**

EXHIBIT D

	<u>General</u>	<u>SPECIAL REVENUE FUND Fire</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes and Penalties	\$ 83,022	\$ 13,356	\$ 96,378
Federal Grants	5,544	-	5,544
State Grants	83,117	5,723	88,840
Contributions From Local Units	160,499	-	160,499
Charges for Services	7,153	-	7,153
Interest and Rentals	6,977	57	7,034
Other Revenue	265	899	1,164
	<u>346,577</u>	<u>20,035</u>	<u>366,612</u>
Total Revenues			
Expenditures			
Current			
General Government	136,869	-	136,869
Public Safety	-	22,431	22,431
Public Works	2,699	-	2,699
Community and Economic Development	11,255	-	11,255
Recreation and Culture	2,632	-	2,632
Other	25,846	-	25,846
Capital Outlay	66,742	4,855	71,597
	<u>246,043</u>	<u>27,286</u>	<u>273,329</u>
Total Expenditures			
Excess of Revenues Over (Under) Expenditures	100,534	(7,251)	93,283
Fund Balance--April 1, 2010	<u>655,317</u>	<u>15,498</u>	<u>670,815</u>
Fund Balance--March 31, 2011	<u>\$755,851</u>	<u>\$ 8,247</u>	<u>\$764,098</u>
Net Change in Fund Balances			\$ 93,283

Amounts reported for governmental activities in the Statement of Activities are different because:

 Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation. (748)

Change in Net Assets of Governmental Activities \$ 92,535

The Notes to Financial Statements are an integral part of this statement.

**BAY MILLS TOWNSHIP
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
March 31, 2011**

EXHIBIT E

	<u>Agency Funds</u>	<u>Pension Trust Fund</u>
<u>ASSETS</u>		
Cash	\$ 3,398	\$ -
Investments With Fiscal Agents	<u>-</u>	<u>53,430</u>
Total Assets	<u>\$ 3,398</u>	<u>53,430</u>
<u>LIABILITIES</u>		
Liabilities		
Due to Other Funds	<u>\$ 3,398</u>	
Total Liabilities	<u>\$ 3,398</u>	<u>-</u>
<u>NET ASSETS</u>		
Held in Trust for Pension Benefits		<u>\$ 53,430</u>

The Notes to Financial Statements are an integral part of this statement.

**BAY MILLS TOWNSHIP--CHIPPEWA COUNTY
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
For the Fiscal Year Ended March 31, 2011**

EXHIBIT F

	<u>Pension Trust Fund</u>
<u>ADDITIONS</u>	
Contributions Employer	<u>\$ 1,336</u>
Total Contributions	<u>1,336</u>
Investment Income Gain (Loss)	<u>7,015</u>
Total Investment Income	<u>7,015</u>
Total Additions	<u>8,351</u>
<u>DEDUCTIONS</u>	
Charges	(745)
Withdrawals	<u>(1,911)</u>
Total Deductions	<u>(2,656)</u>
Change in Net Assets	5,695
Net Assets--Beginning of the Year	<u>47,735</u>
Net Assets--End of the Year	<u><u>\$ 53,430</u></u>

The Notes to Financial Statements are an integral part of this statement.

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2011

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

Bay Mills Township is located in Chippewa County and provides services to approximately 1,477 residents in many areas including public safety, highways and streets, general administrative services, and community enrichment and development. The Township is a general law Township and is governed by a 5-member board elected by the citizens of the Township. The Board consists of the supervisor, clerk, treasurer and two trustees, all of whom reside in the community.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present 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.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the Township. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is 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 revenue. Indirect expenses are not allocated to a specific function or activity.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2011

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Revenues are recognized in the accounting period in which they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, intergovernmental revenue, charges for services 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.

The Township reports the following major governmental funds:

The General Fund 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.

The Fire Fund accounts for the Township millage revenue that is reserved for the operation of the fire department.

Additionally, the Township reports the following fund type:

Agency Funds--These funds account for assets held on behalf of outside parties, including other governments.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2011

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bank Deposits and Investments

Cash is considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition. Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value. Earnings from investments are allocated to numerous funds as required by Federal regulations, State statutes, and local ordinances.

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Capital Assets

Capital assets which include property, plant and equipment are reported in the governmental column in the government-wide financial statements. The Township does not have a capitalization policy, but for audit purposes, capital assets are defined 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 cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Building	20 to 40 years
Equipment	3 to 10 years
Vehicles	5 to 10 years

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2011

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classifications

In the fund financial statements, governmental funds report the following components of fund balance which comprise a hierarchy based on the extent the Township is bound to honor constraints on specific purposes for which those funds can be spent.

Restricted fund balance category includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers or through enabling legislation.

The Township reports the following restricted fund balances:

- Fire Fund--accounts for special voted property tax millage collected for the purpose of fire protection and emergency services.

Unassigned fund balance category includes 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 Township Board.

Bay Mills Township does not have a formal minimum fund balance policy.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The annual budget is prepared by the Township clerk and treasurer and adopted by the Township Board at the annual public hearing. The Township Board approves all subsequent amendments to the budget. The General Fund and special revenue funds are under formal budgetary control. The budget has been prepared on the modified accrual basis, which is in accordance with generally accepted accounting principles. Unexpended appropriations lapse at year end. The budget has been adopted on an activity basis. Budgeted revenues and expenditures include any authorized amendments to the original budget as adopted. The budget adopted does not comply with all requirements established by Public Act 2 of 1968, as amended.

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2011

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Excess of Expenditures over Appropriation in Budgeted Funds

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

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

<u>Fund, Function and Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
General Fund			
General Government			
Treasurer	\$ 12,073	\$ 12,389	\$ (316)
Cemetery	1,000	7,879	(6,879)
Community and Economic Development			
Zoning	1,384	4,069	(2,685)

The Township will develop budgetary procedures to make amendments to expenditures prior to exceeding amounts budgeted approved by the board in the future.

NOTE C--BALANCE SHEET CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Township Treasurer to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated three banks for the deposit of Township funds. The investment policy adopted by the Board, in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Township's deposits and investment policy are in accordance with statutory authority.

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2011

NOTE C--BALANCE SHEET CASH AND INVESTMENTS (Continued)

At year end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash	\$ 753,193	\$ 3,398	\$ 756,591
Investments With Fiscal Agents	<u> </u>	<u>53,430</u>	<u>53,430</u>
Total	<u>\$ 753,193</u>	<u>\$ 56,828</u>	<u>\$ 810,021</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 756,591
Investments With Fiscal Agents	<u>53,430</u>
Total	<u>\$ 810,021</u>

The bank balance of the primary government's deposits is \$759,797, of which \$562,365 is covered by Federal depository insurance. The remaining \$197,432 is uncollateralized.

Pension Trust Fund

Michigan Compiled Laws, Section 38.1121, authorizes the Township to invest pension assets in a wide variety of investments including: stocks, bonds, certificates of deposit, real estate, and annuity contracts, obligations of a specified nature, and real or personal property. Specific limitations apply to the various investment types. The Township pension fund investments are in accordance with statutory authority.

Pension trust monies are invested in annuities, which cannot, by definition, be categorized by risk, which is in accordance with GASB Statement No. 40.

Investments Authorized by the Township's Investment Policy

The Township's investment policy only authorizes investment in all those that are authorized by law. The Township's investment policy contains provisions intended to limit the Township's exposure to interest rate risk, credit risk and concentration of credit risk.

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2011

NOTE C--BALANCE SHEET CASH AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

The Township's return on investment is of secondary importance compared to safety and liquidity objectives. Investments are selected to obtain a market average rate of return. The core of investments is limited to relatively low risk securities. However, the Township's investment policy does not address exposure to interest rate risk for deposits and investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer where the investment is 5% or greater.

The Township's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over concentration in a specific maturity, individual financial institution(s) or a specific class of securities (excluding U.S. Treasury securities and insured certificates of deposits).

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the Township's investment policy would limit, to some extent, exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law does not contain legal requirements that would limit the exposure to custodial credit risk for investments. However, the Township's investment policy does contain a safekeeping and custody section that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2011

NOTE C--BALANCE SHEET CASH AND INVESTMENTS (Continued)

investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. The Township's investment policy does not address exposure to custodial credit risk for investments.

NOTE D--PROPERTY TAXES

Property taxes are levied each December 1 on the taxable valuation of property located in the Township as of the preceding December 31. The Township's 2010 ad valorem tax was levied and collectible on December 1, 2010. It is the policy of the Township to recognize revenues from the current tax levy in the current year when the proceeds of this levy are budgeted and made available for financing of the Township operations.

The 2010 taxable valuation of the Township amounted to \$49,074,911 on which ad valorem taxes of 1.0000 mill was levied for Township operating purposes. The millage resulted in property tax revenue of \$49,075, during the fiscal year ended March 31, 2011. This amount is recognized in the General Fund financial statements as tax revenue.

Taxes Receivable--Delinquent

The taxes receivable delinquent in the General Fund of \$3,725 consist of uncollected real property taxes levied December 1, 2010, which have not been collected as of March 31, 2011. The County settled with the Township and received the delinquent taxes in May 2011.

NOTE E--INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The current interfund receivables and payables between funds are as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
General	\$ 3,827	Agency Funds	\$ 3,398
	<u>-</u>	Fire Fund	<u>429</u>
Total Primary Government	<u>\$ 3,827</u>		<u>\$ 3,827</u>

The outstanding balances between funds results mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2011

NOTE F--CAPITAL ASSETS

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

	Account Balances 04/01/10	Additions	Deductions	Account Balances 03/31/11
Capital Assets Not Being Depreciated				
Land	\$ 105,492	\$ 44,480	\$ -	\$ 149,972
Subtotal	<u>105,492</u>	<u>44,480</u>	<u>-</u>	<u>149,972</u>
Capital Assets Being Depreciated				
Buildings and Building Improvements	119,199	3,220	-	122,419
Machinery and Equipment	121,191	19,042	-	140,233
Fire Vehicles and Equipment	708,754	4,855	-	713,609
Total	<u>949,144</u>	<u>27,117</u>	<u>-</u>	<u>976,261</u>
Less Accumulated Depreciation				
Buildings	37,348	4,289	-	41,637
Machinery and Equipment	85,706	14,742	-	100,448
Fire Vehicles and Equipment	533,560	53,314	-	586,874
Total	<u>656,614</u>	<u>72,345</u>	<u>-</u>	<u>728,959</u>
Net Capital Assets Being Depreciated	<u>292,530</u>	<u>(45,228)</u>	<u>-</u>	<u>247,302</u>
Total Net Capital Assets	<u>\$ 398,022</u>	<u>\$ (748)</u>	<u>\$ -</u>	<u>\$ 397,274</u>

The depreciation expense was \$72,345 during the year. Depreciation expense was charged to programs as follows:

Governmental Activities	
General Government	\$ 19,031
Public Safety	<u>53,314</u>
Total Governmental Activities	<u>\$ 72,345</u>

NOTE G--RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Township participates in the Michigan Township Participating Plan (MTPP). The plan covers general liability, non-owned/hired automobile liability, errors and omissions, property damage, and inland marine. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended March 31, 2011

NOTE G--RISK MANAGEMENT (Continued)

The Michigan Townships Participating Plan (Plan) operates as an insurance purchasing pool for local units of government in Michigan. The Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis. Individual reserves for each participant are unavailable.

Also, the Township carries workers' compensation insurance through Accident Fund. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE H--DEFINED CONTRIBUTION PENSION PLAN

The Township adopted a non-standardized money purchase pension plan as a group flexible annuity contract to provide pension benefits with the annuity effective date as of the publication date of the Township pension ordinance. The pension plan is administered by John Hancock, under section 401 (a) of the Internal Revenue Code and is a defined contribution plan. The Township clerk is the plan trustee. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is available to the Township board, which is employees who are 18 years of age or older. All participants are 100% vested upon entry into the plan. Upon employment termination, the vested portion of the accrued benefits is available as a cash payment, or may remain in the plan until retirement.

The plan is 100% funded by the Township. Annual contributions to the plan equal 15% of the total compensation of all eligible participants. The current year covered payroll was \$39,033. The Township's obligation for covered employees (6) for the fiscal year ended March 31, 2011 totaled \$5,855. The Township was not billed nor did they pay their required annual contribution until fiscal year 2012.

Investments are valued at fair value.

NOTE I--UPCOMING REPORTING CHANGE

In March 2009, the Government Accounting Standards Board (GASB) issued statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved will be replaced with five new classifications: non-spendable, restricted, committed, assigned, and unassigned.

**BAY MILLS TOWNSHIP--CHIPPEWA COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Fiscal Year Ended March 31, 2011**

EXHIBIT G

	<u>BUDGETED AMOUNTS</u>			Variance With
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
Revenues				
Taxes and Penalties	\$ 54,000	\$ 54,000	\$ 83,022	\$ 29,022
Federal Grants	-	-	5,544	5,544
State Grants	80,000	80,000	83,117	3,117
Contributions From Local Units	159,000	159,000	160,499	1,499
Charges for Services	5,950	5,950	7,153	1,203
Interest and Rentals	6,000	6,000	6,977	977
Other Revenue	2,500	2,500	265	(2,235)
Total Revenues	<u>307,450</u>	<u>307,450</u>	<u>346,577</u>	<u>39,127</u>
Expenditures				
Current				
General Government	142,100	151,474	136,869	14,605
Public Works	58,000	58,000	2,699	55,301
Community and Economic Development	16,000	16,626	11,255	5,371
Recreation and Culture	5,000	5,000	2,632	2,368
Other	38,500	28,500	25,846	2,654
Capital Outlay	67,000	67,000	66,742	258
Total Expenditures	<u>326,600</u>	<u>326,600</u>	<u>246,043</u>	<u>80,557</u>
Excess of Revenues Over (Under) Expenditures	<u>(19,150)</u>	<u>(19,150)</u>	<u>100,534</u>	<u>119,684</u>
Fund Balance--April 1, 2010	<u>655,317</u>	<u>655,317</u>	<u>655,317</u>	<u>-</u>
Fund Balance--March 31, 2011	<u>\$ 636,167</u>	<u>\$ 636,167</u>	<u>\$ 755,851</u>	<u>\$ 119,684</u>

**BAY MILLS TOWNSHIP--CHIPPEWA COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
FIRE DEPARTMENT--MAJOR SPECIAL REVENUE FUND
For the Fiscal Year Ended March 31, 2011**

EXHIBIT H

	<u>BUDGETED AMOUNTS</u>			Variance With
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
Revenues				
Taxes	\$ 12,450	\$ 12,450	\$ 13,356	\$ 906
State Grants	5,900	5,900	5,723	(177)
Interest	-	-	57	57
Other Revenue	-	-	899	899
Total Revenues	<u>\$ 18,350</u>	<u>\$ 18,350</u>	<u>20,035</u>	<u>1,685</u>
Expenditures				
Public Safety	30,000	30,000	22,431	7,569
Capital Outlay	5,000	5,000	4,855	145
Total Expenditures	<u>35,000</u>	<u>35,000</u>	<u>27,286</u>	<u>7,714</u>
Excess of Revenues Over (Under) Expenditures	(16,650)	(16,650)	(7,251)	9,399
Fund Balance--April 1, 2010	<u>15,498</u>	<u>15,498</u>	<u>15,498</u>	<u>-</u>
Fund Balance--March 31, 2011	<u>\$ (1,152)</u>	<u>\$ (1,152)</u>	<u>\$ 8,247</u>	<u>\$ 9,399</u>

**BAY MILLS TOWNSHIP--CHIPPEWA COUNTY
STATEMENT OF REVENUES--BUDGET AND ACTUAL
GENERAL FUND**

EXHIBIT I

For the Fiscal Year Ended March 31, 2011

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Taxes and Penalties				
Current Property Taxes	\$ 47,000	\$ 47,000	\$ 45,261	\$ (1,739)
Delinquent Property Taxes	-	-	3,725	3,725
Swampland Tax	-	-	140	140
Payment in-Lieu-of Taxes	-	-	4,380	4,380
National Forest Reserve	7,000	7,000	16,983	9,983
Property Tax Administration Fees	-	-	12,533	12,533
Total Taxes and Penalties	<u>54,000</u>	<u>54,000</u>	<u>83,022</u>	<u>29,022</u>
Federal Grants				
Fish and Wildlife Refuge	-	-	5,544	5,544
Total Federal Grants	<u>-</u>	<u>-</u>	<u>5,544</u>	<u>5,544</u>
State Grants				
Revenue Sharing	80,000	80,000	80,950	950
Metro Act	-	-	2,167	2,167
Total State Grants	<u>80,000</u>	<u>80,000</u>	<u>83,117</u>	<u>3,117</u>
Contributions From Local Units				
Bay Mills Indian Community	138,000	138,000	160,499	22,499
Chippewa County	21,000	21,000	-	(21,000)
Total Contributions From Local Units	<u>159,000</u>	<u>159,000</u>	<u>160,499</u>	<u>1,499</u>
Charges for Services				
Land Splits	2,500	2,500	1,783	(717)
Cemetery	3,000	3,000	4,800	1,800
Other Charges for Services	450	450	570	120
Total Charges for Services	<u>5,950</u>	<u>5,950</u>	<u>7,153</u>	<u>1,203</u>
Interest and Rents				
Interest Earned	6,000	6,000	6,977	977
Total Interest and Rents	<u>6,000</u>	<u>6,000</u>	<u>6,977</u>	<u>977</u>
Other Revenues				
Contributions From Private Sources	-	-	200	200
Refunds and Reimbursements	2,500	2,500	65	(2,435)
Total Other Revenues	<u>2,500</u>	<u>2,500</u>	<u>265</u>	<u>(2,235)</u>
Total Revenue	<u>\$307,450</u>	<u>\$307,450</u>	<u>\$ 346,577</u>	<u>\$ 39,127</u>

**BAY MILLS TOWNSHIP--CHIPPEWA COUNTY
STATEMENT OF EXPENDITURES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Fiscal Year Ended March 31, 2011**

EXHIBIT J

	<u>BUDGETED AMOUNTS</u>			Variance With
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
General Government				
Township Board	\$ 5,500	\$ 6,181	\$ 4,909	\$ 1,272
Supervisor	9,000	10,022	8,328	1,694
Elections	3,000	3,000	2,241	759
Assessor	16,800	18,802	18,061	741
Professional Services	16,000	16,000	14,980	1,020
Clerk	9,500	10,512	8,394	2,118
Board of Review	800	800	191	609
Treasurer	11,000	12,073	12,389	(316)
Computer Processing	3,000	3,000	-	3,000
Cemetery	1,000	1,000	7,879	(6,879)
Township Hall	66,500	70,084	59,497	10,587
Total General Government	<u>142,100</u>	<u>151,474</u>	<u>136,869</u>	<u>14,605</u>
Public Works				
Street Lights	3,000	3,000	2,699	301
Road Maintenance	55,000	55,000	-	55,000
Total Public Works	<u>58,000</u>	<u>58,000</u>	<u>2,699</u>	<u>55,301</u>
Community and Economic Development				
Planning Commission	15,000	15,242	7,186	8,056
Zoning	1,000	1,384	4,069	(2,685)
Total Community and Economic Development	<u>16,000</u>	<u>16,626</u>	<u>11,255</u>	<u>5,371</u>
Recreation and Culture				
Parks and Recreation	5,000	5,000	2,132	2,868
Community Works	1,000	1,000	500	500
Total Recreation and Culture	<u>6,000</u>	<u>6,000</u>	<u>2,632</u>	<u>3,368</u>
Other				
Insurance and Bonds	25,000	25,000	24,896	104
Contingency	2,000	2,000	-	2,000
Dues and Miscellaneous	11,500	1,500	950	550
Total Other	<u>38,500</u>	<u>28,500</u>	<u>25,846</u>	<u>2,654</u>
Capital Outlay	<u>67,000</u>	<u>67,000</u>	<u>66,742</u>	<u>258</u>
Total Capital Outlay	<u>67,000</u>	<u>67,000</u>	<u>66,742</u>	<u>258</u>
Total Expenditures	<u>\$327,600</u>	<u>\$327,600</u>	<u>\$246,043</u>	<u>\$81,557</u>



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

January 15, 2013

Township Board
Township of Bay Mills
14740 West Lakeshore Drive
Brimley, Michigan 49715

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the governmental activities and each major fund of Bay Mills Township, Chippewa County, Michigan, as of and for the fiscal year ended March 31, 2011, which collectively comprise Bay Mills Township's basic financial statements and have issued our report thereon dated January 15, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Bay Mills Township is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Bay Mills Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bay Mills Township's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Bay Mills Township's internal control over financial reporting.

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 Bay Mills Township's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses, which are listed in the accompanying Schedule of Findings and Management Responses as Findings 2009-1, 2006-1, 2006-4, 2009-2, 2006-5, 2006-2, 2006-13, 2006-12 and 2006-11. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified deficiencies in internal control over financial reporting that we consider to be significant deficiencies, which are listed in the accompanying Schedule of Findings and Management Responses as Findings 2009-3, 2006-15, 2010-1, 2006-8, 2006-9 and 2009-6.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bay Mills Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Management Responses as findings 2006-3, 2006-14, 2010-2, 2006-17, 2009-7, 2009-8, 2009-9 and 2009-10.

Bay Mills Township's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Management Responses. We did not audit Bay Mills Township's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Bay Mills Township Board, management and others within the Bay Mills Township, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

January 15, 2013

Township Board
Township of Bay Mills
14740 West Lakeshore Drive
Brimley, Michigan 49715

RE: Report to Those Charged With Governance

Dear Board Members:

We have audited the financial statements of the governmental activities and each major fund of Bay Mills Township, Chippewa County, Michigan, for the fiscal year ended March 31, 2011, which collectively comprise Bay Mills Township's basic financial statements and have issued our report thereon dated January 15, 2013. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in the engagement letter dated April 10, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Bay Mills Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of obtaining reasonable assurance about whether Bay Mills Township's financial statements are free of material misstatement, we performed tests of Bay Mills Township's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures to specifically identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on May 21, 2012.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Bay Mills Township are described in Note A to the financial statements. During the fiscal year, the Bay Mills Township implemented Government Accounting Standards Board Statement (GASB) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, to enhance the usefulness of the fund balance information. The changes implemented by the Bay Mills Township are explained in Notes A and I to the financial statements. We noted no transactions entered into by Bay Mills Township during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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.

Management's estimate of depreciation is based on the straight line method in accordance with Generally Accepted Accounting Principles. We evaluated the key factors and assumptions used to develop the depreciation in determining that it is reasonable in relation to the financial statements, taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Bay Mills Township
January 15, 2013

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as 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 the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 15, 2013.

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 Bay Mills 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 Bay Mills 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.

This information is intended solely for the use of the Bay Mills Township Board and management of Bay Mills Township and is not intended to be and should not be used by anyone other than these specified parties. However, this information is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended March 31, 2011

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Listed below are material weaknesses and significant deficiencies in the internal control.

MATERIAL WEAKNESSES

General Ledger

Finding 2009-1

Condition: The Township does not maintain a complete set of accounting records including a general ledger. Our examination indicates that the Township maintains a record of receipts, disbursements, payroll and cash balances. We found the following weaknesses with the current accounting system:

1. Journal entry numbers are used by the Township to record accruals, adjustments for errors, transfers between funds, and other entries as deemed proper. The entries are posted to the receipts register. However, an original source document is not prepared to indicate that the entry is valid.
2. No balance sheet accounts, other than cash, were included in the records of the Township and these balances did not agree to bank statements at year end. Trial balances were not prepared or available.
3. The receivables and payables were not recorded.
4. Reports prepared for monthly Board meetings were from one Board meeting date to the next, not on a monthly basis.
5. Expenditure listings were not updated for voided checks.

Criteria: MCL 41.65 Section 65 states, in part: "...The Township clerk shall be responsible for the detailed accounting records of the Township utilizing the uniform chart of accounts prescribed by the state treasurer. The Township clerk shall prepare and maintain the journals and ledgers necessary to reflect the assets, liabilities, fund equities, revenues, and expenditures for each fund of the Township."

Also, the Uniform Accounting Procedures Manual issued by the Local Audit and Finance Division, Michigan Department of Treasury, requires Townships to maintain a general ledger. The general ledger is the gathering place for the Township's financial data. Properly maintained, it is a valuable tool of management. Entries in the general ledger are made from: 1) the receipts journal; 2) the disbursements journal; and 3) the journal entry form.

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2011

MATERIAL WEAKNESSES (Continued)

Effect: Failure to post the complete accounting records on a timely basis may result in the following:

1. The financial condition of the Township may not be readily determined.
2. The Township Board may not be able to make sound business decisions because it has no financial data on which to make an evaluation.
3. The Township Board may obligate more funds than are available, which is a violation of the Uniform Budgeting and Accounting Act.

Recommendation: We recommend that the Township maintain a complete set of accounting records that would include all accounts necessary to maintain a history of transactions and would become the general ledger of the Township. After setting up the proper accounts, in accordance with the Uniform Chart of Accounts, the Township should establish monthly procedures to assure that all transactions are posted and that the general ledger is in balance. The monthly general ledger should be available within ten (10) days of the close of the month. The activity in the bank must reconcile to the general ledger.

Views of Responsible Official and Planned Corrective Action:

The Township will set up the accounts in accordance with the Uniform Chart of Accounts and to ensure that the general ledger is in balance.

Preparation of Financial Statements in Accordance with Generally Accepted Accounting Principles (GAAP)

Finding 2006-1

Condition: As many small and medium sized governmental entities do, the Township has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements, fund financial statements, and notes to the financial statements as part of its external financial reporting process.

Criteria: The Township's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered to be a part of the Township's internal controls.

Recommendation: We recommend that the Board designate a responsible Township official to carefully review the draft financial statements including the notes, prior to approving them and accepting responsibility for their content and presentation.

Views of Responsible Official and Planned Corrective Action:

The Township will work on this recommendation

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2011

MATERIAL WEAKNESSES (Continued)

Cash Collection and Receipting Process

Finding 2006-4

Condition: One person is primarily responsible for opening mail, preparing receipts and making deposits with the bank and reconciling bank accounts.

Cause: The Township is relatively small in size with officers working from their homes. Therefore, there is an overall lack of segregation of duties.

Criteria: Segregation of duties requires that key duties and responsibilities be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

Recommendation: We recommend that Bay Mills Township implement monitoring where there is a lack of segregation of duties. There can be other controls in place to reduce the weaknesses associated with the lack of segregation of duties. Another person should randomly compare the sequence of receipts and the total of those receipts with the deposit slip. Another person should review the bank reconciliations after completion. There could be other controls that the Township could implement as long as another person is involved with the process being performed.

Views of Responsible Official and Planned Corrective Action:

We have improved on this weakness and will continue to work on this recommendation.

Timely Receipting of Collections

Finding 2009-2

Condition: There were numerous instances where the treasurer held on to funds after receipting them until they were deposited into the bank. There were large amounts of deposits on one day. Many of the receipts were dated by month and year only.

Criteria: The Uniform Accounting Procedures Manual for Local Units of Government in Michigan states that procedures must be adopted to ensure that all cash collected will be deposited. Deposits must be made timely.

Recommendation: We recommend that the treasurer maintain prompt and timely receipting and depositing of all funds that are for the Township.

Views of Responsible Official and Planned Corrective Action:

This has been corrected and all deposits are being made on a weekly basis.

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended March 31, 2011

MATERIAL WEAKNESSES (Continued)

Treasurer--Receipts and Deposits

Finding 2006-5

Condition: Some receipts lacked account classifications and some receipts had incorrect account numbers. Receipts did not indicate method of payment. There were instances where detail for receipts could not be produced for review to verify the source of funds. Not all receipts were indicated on the treasurer's monthly reports.

Criteria: Required procedures for cash receipts records and intact deposits of cash receipts are explained in detail in Chapter 4--Cash Receipting Procedures and Chapter 3--Bank and Investment Accounts of the Accounting Procedures Manual for Local Units of Government in Michigan-July 2007, which can be accessed on the Michigan Department of Treasury website under Local Government Services / Accounting Information / Bulletins, Manuals and Forms.

Required internal control procedures applicable to Bay Mills Township include:

1. Numerically controlled (printer pre-numbered) official receipts with the name of the local unit and the department name printed on the receipt must be issued for all collections. Official receipts may be manually written or computer generated.
2. The use of generic, store-bought receipts is strictly prohibited.
3. "Cash" or "check" as the method of payment must be indicated on the receipt.
4. The receipt must identify the individual receiving payment.
5. The receipt must allow for immediate revenue account classification in conformance with the Uniform Chart of Accounts.
6. Checks must be restrictively endorsed at the point and time of collection.
7. When possible, someone other than the person who writes receipts or posts the accounting records must be responsible to verify that collections received in the mail are properly receipted.
8. When possible, collections must be reconciled by an individual not involved in the receipting process.

All money must be deposited to financial institutions intact in a timely manner. Intact means that the deposit must include the checks and cash received for a specific numerically sequenced receipt group. Any overage and/or shortage amounts should be deposited and recorded separately along with the receipts. All voided receipts should be kept intact and maintained in sequential order along with the other receipts.

Recommendation: We recommend that the Township treasurer issue official receipts immediately upon collection and implement the aforementioned procedures. Monthly procedures should include comparing receipts written for the month with the receipts register and with bank deposits.

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2011

MATERIAL WEAKNESSES (Continued)

Views of Responsible Official and Planned Corrective Action:

The treasurer sends out numbered receipts for funds collected. We will order an official township receipt book. Deposits are made in a timely manner and receipts are compared with the bank statement at the end of the month.

Capital Asset Listing

Finding 2006-2

Condition: The Township does not maintain adequate internal controls for capital assets and a capital asset listing is not maintained in accordance with generally accepted accounting principles.

Criteria: It is the responsibility of the Township to update the capital assets listing for additions and deletions. For governmental funds, assets purchased during the year and recorded as capital outlay should equal the additions to the capital asset records. Depreciation for governmental capital assets should be recorded on the capital asset schedule. Disposals should equal the reductions to the capital asset records.

Recommendation: We recommend that the Township develop a property management system that includes all of the following steps:

- 1) An inventory of all capital assets owned by the Township should be taken and included in the permanent records of the Township and updated annually.
- 2) All assets owned by the Township should be permanently labeled in some manner such as individual tags. This will not only facilitate the inventory suggested above, but will also make it more difficult for assets of the Township to be removed or used by unauthorized personnel.
- 3) As part of the property management system, the Township should keep records on all assets which include the following information:

-Date of Acquisition	-Date of Disposal (when sold or scrapped)
-Tag Number	-Salvage Value (if any)
-Description of Property	-Life of Asset
-Original Cost of Asset	-Depreciation Method of the Asset
-Location of Asset	-Accumulated Depreciation of the Asset
- 4) Capital assets that meet the Township's capitalization policy should be included on the capital asset listing. (Refer to finding regarding the lack of a capitalization policy.)
- 5) Capital outlay/assets which are purchased under the established capitalization threshold or assets with life expectancy of less than 1 year, regardless of cost, should be classified as a supply or repairs and maintenance expenditure.

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended March 31, 2011

MATERIAL WEAKNESSES (Continued)

Developing a property management system that includes the above steps will not only facilitate the preparation of financial statements related to capital assets and provide a system of protection for the assets; it will provide an excellent record for insurance and replacement purposes as well.

Views of Responsible Official and Planned Corrective Action:

We use numbered Township labels now. Inventory has been tagged and recorded. We will work to maintain records as recommended in segment 3.

Disbursement Procedures

Finding 2006-13

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

- 1) All vendor invoices did not have administrative approval indicated on the invoice.
- 2) Account classifications were not indicated on any vendor invoices.
- 3) There were several instances of disbursements tested without supporting invoices, some of which the clerk was able to eventually provide and some which were unable to be verified.
- 4) There were invoices that were not recorded as accounts payable. Invoices should not be held to the next fiscal year. If the services were provided or goods received in the fiscal year, the expenditure should be recorded for that fiscal year.
- 5) Invoices and statements were not always matched up and stapled together.
- 6) It often appeared that the Township was paying from a statement without supporting documentation.
- 7) Credit card slips, when provided, did not include any indication of the purpose of the expenditures or who authorized the purchases.
- 8) Not all invoices were in the paid files and some were not available for review.

Criteria: The Uniform Accounting Procedures Manual states: Each local unit must establish and maintain an adequate system of internal control which includes, in part, the following:

- Appropriate documentation (supporting invoices) must be attached to check copies for all disbursements. Note: For all disbursements for which an invoice cannot be obtained (e.g., Trust and Agency Fund disbursements, internal rent payments), supporting vouchers must be attached. Vouchers must describe the payment to be made, indicate account number to be charged, and be signed by the person approving the disbursement;
- All functions (i.e., deposit, write checks, issue/send checks, reconcile account) regarding a checking account should not be performed by the same individual;
- The governing body must approve the bill list prior to releasing the checks (except for home rule cities and villages, if this authority is delegated). The governing body may pre-approve certain expenditures (typically payroll, utilities, contracts, and emergency purchases), but those expenditures must be presented to the governing body at a subsequent meeting.

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended March 31, 2011

MATERIAL WEAKNESSES (Continued)

Recommendation: We recommend the Township implement the above criteria to improve the internal controls over the cash disbursement process. The Township should focus on the following areas:

- 1) Administrative approval by the clerk must be indicated on each claim.
- 2) Account classifications be indicated on each claim.
- 3) Original documentation must be attached to a copy of the check to show the claim is adequately supported.
- 4) Council approval must be indicated on the book of bills with the initials of the responsible official. A listing by vendor, amount, the check sequence and amount authorized for payment should be listed in the board minutes. This additional requirement will increase the controls over expenditures and insures that all council members are cognizant of the exact amount approved.
- 5) Improvements should be made on recording items in accounts payable.
- 6) A standardized reimbursement request should be approved and used by all employees.
- 7) All credit card transactions should include proper documentation as indicated in the Credit Card Use Policy.

Views of Responsible Official and Planned Corrective Action:

We now have employee reimbursement forms to be filled out and submitted. The check numbers are now listed in the minutes. A list of disbursements will be attached to the minutes and the corresponding check numbers will be included in the board minutes with approval. Account classifications will be recorded on the bills and checks according to the uniform chart of accounts.

Capital Assets Not Recorded in the General Ledger

Finding 2006-12

Condition: Capital assets are not recorded in the Township's general ledger and the Township does not maintain a capital asset listing.

Criteria: According to the Accounting Procedures Manual for Local Units of Government, it is essential that the amount of capital assets be recorded within the local unit's general ledger and the general ledger must be supported by detailed subsidiary ledgers.

Recommendation: We recommend that the Township record capital assets in the general ledger and that subsidiary ledgers be maintained, and that they be reconciled to the general ledger at least annually.

Views of Responsible Official and Planned Corrective Action:

We will maintain a general ledger of our capital assets in the future.

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended March 31, 2011

MATERIAL WEAKNESSES (Continued)

Generally Accepted Accounting Principles--Treasurer and Clerk--Accruals *Finding 2006-11*

Condition: Accruals (accounts payable, delinquent taxes) were not recorded for the governmental funds prior to the audit adjustments.

Criteria: Generally Accepted Accounting Principles (GAAP) require governmental funds to be maintained on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Measurable refers to the ability to quantify the amount of the revenue in monetary terms. Current expenditures are generally recorded when the fund liability is incurred, if measurable. GAAP also requires that receivables expected to be received within 60 days and accounts payable be recorded at fiscal year end to properly match the fiscal year's revenues and expenses.

Recommendation: We recommend that the Township record accruals at the end of each fiscal year. The accruals should be reconciled to subsidiary records to support the balances in the respective accounts within the general ledger.

Views of Responsible Official and Planned Corrective Action:

The treasurer and clerk will work together to abide by the recommendations.

SIGNIFICANT DEFICIENCIES

Reconciliation of Accounting Records

Finding 2009-3

Condition: Recording errors are occurring and not being discovered because there are no reconciliations being performed.

Criteria: A comparison of the amounts recorded in the accounting records of the clerk to the records of the treasurer is not performed by the clerk.

Recommendation: We recommend that the clerk keep a complete set of accounting records based on source documentation utilizing the uniform chart of accounts prescribed by the State Treasurer. The records must be reconciled to the treasurer's records.

Views of Responsible Official and Planned Corrective Action:

We will maintain our records using the Uniform Chart of Accounts as required and the clerk and the treasurer will reconcile their records on a monthly basis.

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2011

SIGNIFICANT DEFICIENCIES (Continued)

Federal and State Income Tax Withholding

Finding 2006-15

Condition: The Township does not withhold State income tax consistently from officials and other employees, and does not require all employees to complete IRS Form W-4 - Employee's Withholding Allowance Certificate and the State of Michigan Form MI-W4 - Employee's Michigan Withholding Exemption Certificate.

Effect: The Township has a lack of supporting documentation for Federal and State income tax withholding that may be required to be deducted from employee paychecks.

Criteria: According to the IRS, Publication 15, (Circular E), Employer's Tax Guide, wages subject to Federal employment taxes generally include all pay that you give to an employee for services performed. A W-4 should be completed by each employee so that the employer can withhold the correct Federal income tax amount.

In addition, the Michigan Department of Treasury's Accounting Procedures Manual states that withholdings must be remitted timely and payroll tax returns must be filed timely. Also, all wages earned must be properly reported on the 941 as well as the W-2.

Recommendation: We recommend that the Township obtain completed Federal and State W-4 and MI-W4 forms from all current and future employees, and file a copy in each employee's personnel file. Federal and State payroll taxes must be withheld from the employee's pay and remitted to the Federal and State government, when applicable.

Views of Responsible Official and Planned Corrective Action:

We will maintain updated personal files and update Federal and State withholding forms.

Budgeting Revenues by Source

Finding 2010-1

Condition: The Township is currently budgeting revenue by source such as County or State of Michigan instead of budgeting them to the proper revenue account classifications included in the Uniform Chart of Accounts.

Criteria: There are mandatory revenue accounts that must be used if the governmental unit receives such revenue. These mandatory accounts are the revenue sources required for budgetary and financial reporting. Optional account numbers are provided within the mandatory revenue source categories if greater detail is desired.

Recommendation: We recommend that when the Township prepares the annual budget that the budget is prepared according to the revenue account classifications included in the Uniform Chart of Accounts.

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2011

SIGNIFICANT DEFICIENCIES (Continued)

Views of Responsible Official and Planned Corrective Action:

The treasurer and the clerk will put the recommendation into effect to correct this.

Budgeting Expenditures to the Activity

Finding 2006-8

Condition: The Township is currently budgeting expenditures such as dues and office supplies as separate budget activities instead of budgeting them to the activity these expenditures are directly related to.

Criteria: Expenditures that are directly related to each activity such as salaries, travel expense, office expenses, advertising, dues and subscriptions, etc., should be budgeted against this activity rather than as a separate budget activity.

Recommendation: The Township should budget and record those items that can be directly attributed to each activity to that activity.

Views of Responsible Official and Planned Corrective Action:

The treasurer and the clerk will put the recommendation into effect to correct this.

Management Controls--Monthly Financial Reports

Finding 2006-9

Condition: The treasurer provides the Township with monthly reports that do not include budgetary information. Actual revenues and expenditures are not compared to the authorized budget on a regular basis. These reports are not prepared on a true monthly basis, but cover the period from one Board meeting to the next.

Criteria: Budget information should be included in the monthly reports so that the Board can make informed decisions. These reports will assist the Board in determining whether the financial activity of the various funds is within the adopted budgets. The Michigan Accounting Procedures Manual for Local Units of Governments require periodic reports be presented to the governing body.

Recommendation: We recommend that the treasurer add the budget information to the monthly reports and that the reports be prepared for actual monthly periods.

Views of Responsible Official and Planned Corrective Action:

The treasurer will fulfill this recommendation on all monthly financial reports.

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2011

SIGNIFICANT DEFICIENCIES (Continued)

Centralized Management of Grant Documents

Finding 2009-6

Condition: There was no centralized location/management of grant related documents within the Township. During grant related test work, there were fire department grant documents that were not readily available or were unable to be located entirely.

Criteria: Federal and State grantor agencies require grants to be monitored by the local government that receives them.

Recommendation: We recommend that the Township have a centralized area where grant documents are monitored and maintained.

Views of Responsible Official and Planned Corrective Action:

All records of grants received will be kept in the office at the Township hall.

STATUTORY NONCOMPLIANCE

Uniform Chart of Accounts

Finding 2006-3

Condition: The Township uses descriptions without account numbers to post accounting records which does not conform to the requirements of the Uniform Chart of Accounts.

Criteria: MCL 141.421 Section 1 states: "The state treasurer shall prescribe uniform charts of accounts for all local units of similar size, function, or service designed to fulfill the requirements of good accounting practices relating to general government... The official who by law or charter is charged with the responsibility for the financial affairs of the local unit shall insure that the local unit accounts are maintained and kept in accordance with the chart of accounts. The state treasurer may also publish standard operating procedures and forms for the guidance of local units in establishing and maintaining uniform accounting."

Recommendation: We recommend that the Township clerk assign fund, activity, and account numbers to all funds and accounts in accordance with the Uniform Chart of Accounts.

Views of Responsible Official and Planned Corrective Action:

The Township clerk will implement this recommendation and follow the Uniform Chart of Accounts.

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2011

STATUTORY NONCOMPLIANCE (Continued)

Adoption of Township General Appropriation Act

Finding 2006-14

Condition: The General Appropriation Acts (budgets) were not prepared in accordance with Public Act 2 of 1968, as amended.

Criteria: MCL 141.435 Section 15 states:

- (1) The recommended budget shall include at least the following:
 - (a) Expenditure data for the most recently completed fiscal year and estimated expenditures for the current fiscal year.
 - (b) An estimate of the expenditure amounts required to conduct, in the ensuing fiscal year, the government of the local unit, including its budgetary centers.
 - (c) Revenue data for the most recently completed fiscal year and estimated revenues for the current fiscal year.
 - (d) An estimate of the revenues, by source of revenue, to be raised or received by the local unit in the ensuing fiscal year.
 - (e) The amount of surplus or deficit that has accumulated from prior fiscal years, together with an estimate of the amount of surplus or deficit expected in the current fiscal year.

The inclusion of the amount of an authorized debt obligation to fund a deficit shall be sufficient to satisfy the requirement of funding the amount of a deficit estimated under this subdivision.
 - (f) An estimate of the amounts needed for deficiency, contingent, or emergency purposes.
 - (g) Other data relating to fiscal conditions that the chief administrative officer considers to be useful in considering the financial needs of the local unit.
- (2) The total estimated expenditures, including an accrued deficit, in the budget shall not exceed the total estimated revenues, including an available unappropriated surplus and the proceeds from bonds or other obligations issued under the fiscal stabilization act or the balance of the principal of these bonds or other obligations.

MCL 141.436 Section 16 states:

- (1) Unless another method for adopting a budget is provided by a charter provision in effect on April 1, 1980, the legislative body of each local unit shall pass a general appropriations act for all funds except trust or agency, internal service, enterprise, debt service or capital project funds for which the legislative body may pass a special appropriation act.
- (2) The general appropriations act shall set forth the total number of mills of ad valorem property taxes to be levied and the purposes for which that millage is to be levied. The amendatory act that added this subsection shall be known and may be cited as "the truth in budgeting act."

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended March 31, 2011

STATUTORY NONCOMPLIANCE (Continued)

- (3) The general appropriations act shall set forth the amounts appropriated by the legislative body to defray the expenditures and meet the liabilities of the local unit for the ensuing fiscal year, and shall set forth a statement of estimated revenues, by source, in each fund for the ensuing fiscal year.
- (4) The general appropriations act shall be consistent with the uniform chart of accounts prescribed by the state treasurer or, for local school districts and intermediate school districts prescribed by the state board of education.

MCL 141.438 Section 18 (3) states: "Except as otherwise provided in section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body. The chief administrative officer, an administrative officer, or an employee of the local unit shall not apply or divert money of the local unit for purposes inconsistent with those specified in the appropriations of the legislative body."

Directive: We direct the Township to comply with the above statutory budgeting requirements. The Township Board should take appropriate action to ensure that the budget is balanced and adopted in a timely manner as required by law and make budget amendments as needed throughout the year.

Views of Responsible Official and Planned Corrective Action:

We will comply with the statutory budgeting requirements.

General Appropriation Act

Finding 2010-2

Condition: The Board adopted a deficit budget in the Special Revenue Fire Fund.

Criteria: Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for General and Special Revenue Funds. Section 15 of the Act also provides the following:

- Actual expenditures for the most recently completed fiscal year;
- Estimated expenditures for the current fiscal year (to be arrived at by using actual expenditures to date and estimating expenditures to the end of the fiscal year);
- Actual revenue for the most recently completed fiscal year;
- Estimated revenue for the current fiscal year (to be arrived at by using actual revenue to date and estimating revenue to the end of the fiscal year);
- An estimate of the revenue in the next fiscal year;
- Beginning and ending fund balance for each year;
- An estimate of the amounts needed for deficiency, contingent, or emergency purposes;
- Other data relating to fiscal conditions that the chief administrative officer considers to be useful in considering the financial needs of the local unit.

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended March 31, 2011

STATUTORY NONCOMPLIANCE (Continued)

The total estimated expenditures in the budget (including an accrued deficit), shall not exceed the total estimated revenues (including an available unappropriated surplus), the proceeds from bonds or other obligations issued under the fiscal stabilization act, or the balance of the principal of these bonds or other obligations.

Recommendation: We recommend that a balanced budget be prepared in accordance with Public Act 2 of 1968, as amended, and a copy of the budget be included in the minutes. The budget should include beginning fund balance, revenues, expenditures, ending fund balance, and not create a deficit position for the fund.

Views of Responsible Official and Planned Corrective Action:

We will comply with the statutory budgeting requirements.

Budget Violations--Expenditures in Excess of Appropriations

Finding 2006-17

Condition: Our examination of procedures used by the Township to adopt and maintain operating budgets for the Township's 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 2011 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level by the Township. As detailed below, actual 2011 expenditures exceeded the Township's approved budget allocations for several General Fund and Special Revenue Fund activities.

During the fiscal year ended March 31, 2011, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund and Special Revenue Funds as follows:

<u>Fund, Function and Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
General Fund			
General Government			
Treasurer	\$ 12,073	\$ 12,389	\$ (316)
Cemetery	1,000	7,879	(6,879)
Community and Economic Development			
Zoning	1,384	4,069	(2,685)

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

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended March 31, 2011

STATUTORY NONCOMPLIANCE (Continued)

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

Views of Responsible Official and Planned Corrective Action:

We will not exceed amounts budgeted and make amendments before the expenditures occur.

Social Security Number Privacy Policy

Finding 2009-7

Condition: Bay Mills Township has not adopted a Social Security Number Privacy Policy.

Criteria: According to the Social Security Privacy Act, PA 454 of 2004, MCL 455.84, Section 4, subsection 1, beginning January 1, 2006, a person in the ordinary course of business who obtains or retains information about one or more social security numbers must create a policy that does at least all of the following:

- (a) Ensures to the extent practicable the confidentiality of the social security numbers.
- (b) Prohibits unlawful disclosure of the social security numbers.
- (c) Limits who has access to information or documents that contain the social security numbers.
- (d) Describes how to properly dispose of documents that contain the social security numbers.
- (e) Establishes penalties for violation of the privacy policy.

Section 4, subsection 2, requires a person that creates a privacy policy under subsection 1 shall publish the privacy policy in an employee handbook, in a procedures manual, or in one or more similar documents, which may be made available electronically.

Directive: We direct Bay Mills Township to adopt a Social Security Number Privacy Policy implementing at least the minimum protections and procedures listed above.

Views of Responsible Official and Planned Corrective Action:

The Township will adopt a social security number privacy policy in accordance with the statute.

OTHER MATTERS

Conflict of Interest Policy, Code of Ethics Policy

Finding 2009-8

Condition: Bay Mills Township has not adopted a Conflict of Interest Policy or a Code of Ethics Policy.

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended March 31, 2011

STATUTORY NONCOMPLIANCE (Continued)

Criteria: According to the Michigan Department of Treasury's Accounting Procedures Manual for Local Units of Government in Michigan, each local unit should adopt a policy which generally addresses the following aspects:

- General prohibition against entering into any business relationships that would put an employee or official into conflict with their obligations to the local unit of government.
- Requirement to disclose any personal transactions, in excess of a dollar threshold, entered into with any vendor that also does business with the local unit.
- Disclosure or prohibition of gifts received from vendors in excess of a dollar threshold.
- Explicit expectation that in the performance of their duties, the employee/official will work in the best interest of the local unit.
- An explicit expectation that all information provided will be truthful and complete.

This policy should also support the identification and disclosure of related party transactions.

Directive: We direct Bay Mills Township to adopt a Conflict of Interest Policy implementing at least the minimum protections and procedures listed above. We also direct the Township to adopt a Code of Ethics Policy.

Views of Responsible Official and Planned Corrective Action:

The treasurer and the clerk will ensure that these two policies are adopted by the Township Board.

Capital Assets Capitalization Policy

Finding 2009-9

Condition: Bay Mills Township has not adopted a Capitalization Policy for Capital Assets.

Criteria: According to the Michigan Department of Treasury's Accounting Procedures Manual for Local Units of Government in Michigan, each local unit is required to have a written capital asset policy that addresses asset capitalization and asset retirement/sale practices (setting a dollar threshold and perhaps a useful life threshold).

Recommendation: We recommend that Bay Mills Township adopt a Capital Asset Capitalization Policy implementing the requirements of the Accounting Procedures Manual for Local Units of Government in Michigan.

Views of Responsible Official and Planned Corrective Action:

We will follow this recommendation to adopt a Capital Asset Policy.

Electronic Transactions of Public Funds

Finding 2009-10

Condition: The Bay Mills Township has not adopted an Electronic Funds Policy.

BAY MILLS TOWNSHIP--CHIPPEWA COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended March 31, 2011

OTHER MATTERS (Continued)

Criteria: According to MCL 124.303: “A local unit shall not be a party to an Automated Clearing House (ACH) arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the Electronic Transaction Officer (ETO) of the local unit has presented a written ACH policy to the governing body. The ACH policy shall include all of the following:

- (a) That an officer or employee designated by the treasurer or ETO is responsible for the local unit's ACH agreements, including payment approval, accounting, reporting, and generally for overseeing compliance with the ACH policy.
- (b) That the officer or employee responsible for disbursement of funds shall submit to the local unit documentation detailing the goods or services purchased, the cost of the goods or services, the date of the payment, and the department levels serviced by payment. This report can be contained in the electronic general ledger software system of the local unit or in a separate report to the governing body of the local unit.
- (c) A system of internal accounting controls to monitor the use of ACH transactions made by the local unit.
- (d) The approval of ACH invoices before payment.
- (e) Any other matters the treasurer or ETO considers necessary.”

Recommendation: We recommend the Township adopt a resolution to authorize electronic transactions and to adopt a policy that includes the above mentioned items.

Views of Responsible Official and Planned Corrective Action:

We will ensure to have the Township Board adopt this policy.