



Township of Gaines
Audited Financial Statements

March 31, 2020

Prepared by Taylor & Morgan, P.C.

2302 Stonebridge Drive, Bldg. D | Flint, MI 48532 | 810.230.8200
3150 Livernois Road, Suite 150 | Troy, MI 48083 | 248.688.9399
8832 Blakeney Professional Drive, Suite 107 | Charlotte, NC 28277 | 704.926.7570

www.tmcpa.com

TOWNSHIP OF GAINES

GENESEE COUNTY

STATE OF MICHIGAN

TOWNSHIP BOARD MEMBERS

Paul Fortino
Supervisor

Michael Dowler
Clerk

Diane Hyrman
Treasurer

Lee Purdy
Trustee

Matthew Moros
Trustee

TOWNSHIP OF GAINES
TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet-Governmental Funds	10
Reconciliation of the Balance Sheet to the Statement of Net Position	11
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Statement of Net Position-Proprietary Funds	14
Statement of Revenues, Expenditures and Changes in Net Position-Proprietary Funds	15
Statement of Cash Flows-Proprietary Funds	16
Statement of Fiduciary Net Position	17
Notes to the Basic Financial Statements	18-30
Required Supplemental Information:	
Budgetary Comparison Schedule-General Fund	31
Budgetary Comparison Schedule-Waste and Refuse Fund	32
Notes to the Required Supplemental Information	33

Independent Auditor's Report

August 13, 2020

Township Board
Township of Gaines
Genesee County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Gaines as of and for the year ended March 31, 2020, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessment, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

FLINT, MI OFFICE

G-2302 STONEBRIDGE DR., BUILDING D,
FLINT, MICHIGAN 48532
OFFICE # (810) 230-8200 FAX # (810) 230-8203

CHARLOTTE, NC OFFICE

1213 W. MOOREHEAD ST., 5th FLOOR
CHARLOTTE, NC 28208
OFFICE # (704) 926-7570 FAX # (810) 230-8203

TROY, MI OFFICE

3150 LIVERNOIS RD., SUITE 175
TROY, MI 48083
OFFICE # (248) 688-9399 FAX # (248) 688-9397

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Gaines as of March 31, 2020 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.

Other Matters

Required Supplementary Information

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

Sincerely,

Taylor & Morgan, P.C.

Taylor & Morgan, P.C.
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Township of Gaines
Management's Discussion and Analysis
For the Year Ended March 31, 2020**

As management of the Township of Gaines (the "Township"), we offer readers this narrative overview and analysis of the financial activities for the fiscal year ended March 31, 2020. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2020.

- Property taxes make up approximately 16 percent of the Township's General Fund revenue. Since 2012, revenue from property taxes has increased 9.7 percent due to increasing property values.
- State-shared revenue (the Township's allocation of state sales tax collections) makes up approximately 57 percent of the Township's General Fund revenue. This revenue has been a stable funding source for the Township for many years and this trend is expected to continue in 2020.
- The Township is increasing its General Fund fund balance by \$103,304.

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 the Township of Gaines as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing governmental services.

The fund financial statements present a short-term view; they tell us how the taxpayer's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about the activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the Township, assets exceeded liabilities and deferred inflows of resources by \$5,366,595 at the close of the most recent fiscal year.

**Township of Gaines
Management's Discussion and Analysis
For the Year Ended March 31, 2020**

Township's Net Position

The following table shows, in condensed format, the net position of the Governmental Activities as of the current date and compared to the prior year:

	<u>Governmental Activities</u>			
	March 31, <u>2020</u>	March 31, <u>2019</u>	<u>Change</u>	<u>Percent Change</u>
Assets				
Current and other assets:				
Cash and investments:				
Cash and cash equivalents	\$ 1,803,996	\$ 1,648,252	\$ 155,744	9.5%
Investments	56,897	72,911	(16,014)	(22.0)
Receivables	373,367	596,958	(223,591)	(37.5)
Capital assets (net)	<u>641,912</u>	<u>715,653</u>	<u>(73,741)</u>	(10.3)
Total assets	2,876,172	3,033,774	(157,602)	(5.2)
Liabilities				
Current liabilities	6,942	7,112	(170)	(2.4)
Noncurrent liabilities:				
Due within one year	40,704	39,479	1,225	3.1
Due in more than one year	<u>-</u>	<u>40,704</u>	<u>(40,704)</u>	(100.0)
Total liabilities	47,646	87,295	(39,649)	(45.4)
Deferred Inflows of Resources	<u>55,058</u>	<u>86,458</u>	<u>(31,400)</u>	(36.3)
Net Position				
Net investment in capital assets	641,912	715,653	(73,741)	(10.3)
Restricted	680,584	727,002	(46,418)	(6.4)
Unrestricted	<u>1,450,972</u>	<u>1,417,366</u>	<u>33,606</u>	2.4
Total net position	<u>\$ 2,773,468</u>	<u>\$ 2,860,021</u>	<u>\$ (86,553)</u>	(3.0)%

**Township of Gaines
Management's Discussion and Analysis
For the Year Ended March 31, 2020**

Business-type Activities – Water and Waste Funds

	March 31, <u>2020</u>	March 31, <u>2019</u>	<u>Change</u>	<u>Percent Change</u>
Assets				
Current and other assets:				
Cash and investments:				
Cash and cash equivalents	\$ 555,011	\$ 439,141	\$ 115,870	26.4%
Investments	888,475	1,007,894	(119,419)	(11.8)
Receivables	43,793	52,698	(8,905)	(16.9)
Capital assets (net)	<u>1,214,787</u>	<u>1,237,682</u>	<u>(22,895)</u>	(1.8)
Total assets	2,702,066	2,737,415	(35,349)	(1.3)
Liabilities				
Current liabilities	<u>108,939</u>	<u>205,832</u>	<u>(96,893)</u>	(47.1)
Total liabilities	108,939	205,832	(96,893)	(47.1)
Net Position				
Net investment in capital assets	1,214,787	1,237,682	(22,895)	(1.8)
Unrestricted	<u>1,378,340</u>	<u>1,293,901</u>	<u>84,439</u>	6.5
Total net position	<u>\$ 2,593,127</u>	<u>\$ 2,531,583</u>	<u>\$ 61,544</u>	2.4%

Total governmental net position decreased 3 percent from a year ago – decreasing from \$2,860,021 to \$2,773,468.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations, increased \$33,606 for the governmental activities. This represents an increase of approximately 2.4 percent. The current level of unrestricted net position for our governmental activities stands at \$1,450,972, or about 102 percent of expenditures.

The Township's business-type activities consist of the Water and Waste Funds. Both water and sewage services are purchased from Genesee County, Michigan.

The net position of business-type activities increased 2.4 percent from a year ago - increasing from \$2,531,583 to \$2,593,127.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations, increased \$84,439 for the Water and Waste Funds. This represents an increase of 6.5 percent. The current level of unrestricted net position for the Water and Waste Funds is \$1,378,340.

**Township of Gaines
Management's Discussion and Analysis
For the Year Ended March 31, 2020**

Township's Changes in Net Position

	<u>Governmental Activities</u>			
	March 31, <u>2020</u>	March 31, <u>2019</u>	<u>Change</u>	<u>Percent Change</u>
Revenue				
Program revenue:				
Charges for services	\$ 370,833	\$ 392,879	\$ (22,046)	(5.6)%
Operating grants	11,815	13,200	(1,385)	(10.4)
Capital grants	1,280	5,800	(4,520)	(77.9)
General revenue:				
Taxes	298,675	343,811	(45,136)	(13.1)
Intergovernmental	584,577	556,330	28,247	5.1
Investment earnings	5,477	3,132	2,345	74.9
Other revenue	<u>69,379</u>	<u>55,474</u>	<u>13,905</u>	25.1
Total revenue	1,342,036	1,370,626	(28,590)	(2.1)
Expenses				
General government	313,483	362,386	(48,903)	(13.5)
Public safety	402,228	391,453	10,775	2.8
Public works	707,034	672,919	34,115	5.1
Other	<u>5,844</u>	<u>9,639</u>	<u>(3,795)</u>	(39.4)
Total expenses	<u>1,428,589</u>	<u>1,436,397</u>	<u>(7,808)</u>	(0.5)
Change in Net Position	<u>\$ (86,553)</u>	<u>\$ (65,771)</u>	<u>\$ (20,782)</u>	(31.6)%

	<u>Business-type Activities – Water and Waste Funds</u>			
	March 31, <u>2020</u>	March 31, <u>2019</u>	<u>Change</u>	<u>Percent Change</u>
Revenue				
Program revenue:				
Charges for services	\$ 547,661	\$ 599,079	\$ (51,418)	(8.6)%
General revenue:				
Investment earnings	<u>33,469</u>	<u>32,731</u>	<u>738</u>	2.3
Total revenue	581,130	631,810	(50,680)	(8.0)
Expenses	<u>519,586</u>	<u>520,027</u>	<u>(441)</u>	.08
Change in Net Position	<u>\$ 61,544</u>	<u>\$ 111,783</u>	<u>\$ (50,239)</u>	(44.9)%

The Township's total governmental revenue had a 2.1 percent decrease of \$28,590. A major contributing factor to this decrease includes the elimination of the police millage of \$84,928.

Expenditures decreased \$7,808 during the year. This decrease is attributed to overall prudent spending in all departments.

**Township of Gaines
Management's Discussion and Analysis
For the Year Ended March 31, 2020**

The Township's business-type activities experienced a decrease in total revenue of 8.6%. This was mainly due to a decrease in tap in fees of \$39,423.

The Township of Gaines' Funds

Our analysis of the Township's major funds follows the government-wide financial statements. The fund financial statements provide detailed information about individual funds, not the Township as a whole. The Township's major funds consist of the General Fund, Waste and Refuse Fund, Capital Projects Fund, and Water and Waste Funds.

For the year ended March 31, 2020, governmental funds revenue exceeded its expenditures, increasing fund balance by \$56,886. This increase was a combination of a \$103,304 increase in the General Fund, an \$11,169 decrease in the Waste and Refuse Fund, and a \$35,249 decrease in the Capital Projects Fund. The increase in the General Fund was primarily due to prudent budgeting and spending.

General Fund Budgetary Highlights

General Fund actual revenue of \$1,013,640 exceeded budgeted revenue of \$946,750 by \$66,890. This variance is attributed to an overall conservative approach to the budgeted revenue line items.

General Fund actual expenditures of \$910,336 were less than budgeted expenditures of \$957,937 by \$47,601. This favorable budget variance was due to overall conservative spending habits in all of the departments.

Capital Assets and Debt Administration

At the end of fiscal year 2020, the Township had \$641,912 in governmental activities and \$1,214,787 in business-type activities for a total \$1,856,699 invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines (see Note 10). 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 Genesee County Road Commission (along with the responsibility to maintain them).

During the 2011-2012 fiscal year, the Township entered into an agreement with Genesee County to replace seven large culverts located within the Township. The County issued bonds to complete the project and is passing 25% of the cost onto the Township in the form of an installment loan requiring annual payments through 2020. The total principal and interest balance to be paid on the loan as of March 31, 2020 was \$26,675 and will be paid out of the Capital Projects Fund during the fiscal year ended March 31, 2021.

Economic Factors and Next Year's Budgets and Rates

The Township approved a budget surplus of \$28,628 for the year ending March 31, 2020 with revenues totaling \$964,720 and expenditures of \$936,092. This was completed without the .5 mill Police Millage that expired November 2018. Without police funding, there will be additional pressure on the budget to maintain the current level of Police services. In addition, the moving of the Road Maintenance projects for the 2019-2020 fiscal year from the General Fund to the Road Improvement Fund aided in the budget surplus. The Township also has continued to increase road maintenance for 2020-2021. With additional road funding coming from the State of Michigan, Genesee County Road Commission is distributing this additional funding through its 50/50 program. This in turn has increased our amount of funding required to match Genesee County.

Contacting the Township of Gaines Management

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

BASIC FINANCIAL STATEMENTS

TOWNSHIP OF GAINES
GOVERNMENT-WIDE STATEMENT OF NET POSITION
MARCH 31, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,803,996	\$ 555,011	\$ 2,359,007
Investments	56,897	888,475	945,372
Due from other funds	105,832	-	105,832
Receivables, net of allowance for uncollectible accts	267,535	43,793	311,328
Capital assets, net of accumulated depreciation	641,912	1,214,787	1,856,699
Total assets	2,876,172	2,702,066	5,578,238
Liabilities			
Accounts payable	6,942	3,107	10,049
Due to other funds	-	105,832	105,832
Current portion of bond principal	40,704	-	40,704
Total liabilities	47,646	108,939	156,585
Deferred inflow of resources			
Property taxes levied for the following year	55,058	-	55,058
Total deferred inflow of resources	55,058	-	55,058
Invested in capital assets, net of related debt	641,912	1,214,787	1,856,699
Restricted for Waste and Refuse	380,174	-	380,174
Restricted for Capital Projects	-	-	-
Unrestricted	1,751,382	1,378,340	3,129,722
Total net position	\$ 2,773,468	\$ 2,593,127	\$ 5,366,595

The notes to the financial statements
are an integral part of this statement.

TOWNSHIP OF GAINES
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2020

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Functions/Programs:							
Primary government							
General government	\$ 313,483	\$ 47,535	\$ -	\$ -	\$ (265,948)	\$ -	\$ (265,948)
Public safety	402,228	-	1,280	11,815	(389,133)	-	(389,133)
Public works	707,034	323,298	-	-	(383,736)	-	(383,736)
Other	5,844	-	-	-	(5,844)	-	(5,844)
Total governmental activities	1,428,589	370,833	1,280	11,815	(1,044,661)	-	(1,044,661)
Business-type activities							
Water and waste	519,586	547,661	-	-	-	28,075	28,075
Total primary government	\$ 1,948,175	\$ 918,494	\$ 1,280	\$ 11,815	(1,044,661)	28,075	(1,016,586)
General revenues							
Property tax					232,921	-	232,921
Special assessments					65,754	-	65,754
State-shared revenues					584,577	-	584,577
Investment earnings					5,477	33,469	38,946
Franchise fees					54,496	-	54,496
Miscellaneous					14,883	-	14,883
Total general revenues					958,108	33,469	991,577
Change in net position					(86,553)	61,544	(25,009)
Net position - beginning of year					2,860,021	2,531,583	5,391,604
Net position - end of year					\$ 2,773,468	\$ 2,593,127	\$ 5,366,595

**TOWNSHIP OF GAINES
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2020**

	General	Special Revenue Waste and Refuse Fund	Capital Projects	Total Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 1,123,412	\$ 380,174	\$ 300,410	\$ 1,803,996
Investments	56,897	-	-	56,897
Receivables				
Accounts receivable	9,311	-	-	9,311
Delinquent taxes	22,959	19,887	5,017	47,863
Special assessments	117,374	-	-	117,374
Due from other funds	105,832	-	-	105,832
Due from other governments	92,987	-	-	92,987
 Total assets	 \$ 1,528,772	 \$ 400,061	 \$ 305,427	 \$ 2,234,260
 <u>Liabilities</u>				
Accounts payable	\$ 6,942	\$ -	\$ -	\$ 6,942
 Total liabilities	 6,942	 -	 -	 6,942
 <u>Deferred Inflow of Resources</u>				
Property taxes levied for following year	55,058	-	-	55,058
Unavailable revenue	140,333	19,887	5,017	165,237
 Total deferred inflow of resources	 195,391	 19,887	 5,017	 220,295
 <u>Fund Equity</u>				
Restricted for Waste and Refuse	-	380,174	-	380,174
Restricted for Capital Projects	-	-	300,410	300,410
Assigned	413,942	-	-	413,942
Unassigned	912,497	-	-	912,497
 Total fund equity	 1,326,439	 380,174	 300,410	 2,007,023
 Total liabilities and fund equity	 \$ 1,528,772	 \$ 400,061	 \$ 305,427	 \$ 2,234,260

The notes to the financial statements are an integral part of this statement.

TOWNSHIP OF GAINES
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
MARCH 31, 2020

Total governmental fund balances	\$	2,007,023
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets	\$	2,089,130
Accumulated depreciation		<u>(1,447,218)</u>
		641,912
Deferred revenue for special assessment receivables are reported as liabilities in the governmental funds and as revenue or other financing sources in the statement of activities.		
		117,374
Bonded debt is reported as a liability in the statement of net position when the debt is incurred and as an expenditure in the governmental funds as the debt payments are made.		
		(40,704)
Revenue for delinquent taxes collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds.		
		<u>47,863</u>
Total net position - governmental activities	\$	<u><u>2,773,468</u></u>

TOWNSHIP OF GAINES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2020

	General	Special Revenue Waste and Refuse Fund	Capital Projects	Total Governmental Funds
Revenues				
Taxes	\$ 157,453	\$ -	\$ -	\$ 157,453
Special assessments	61,528	323,298	114,021	498,847
Fees and permits	102,031	-	-	102,031
Intergovernmental	584,577	-	-	584,577
Administrative services	74,850	-	-	74,850
Grant income	3,095	-	-	3,095
Fire contract	10,000	-	-	10,000
Interest	5,307	85	85	5,477
Miscellaneous	14,799	84	-	14,883
	<u>1,013,640</u>	<u>323,467</u>	<u>114,106</u>	<u>1,451,213</u>
Total revenues				
Expenditures				
General government	328,183	-	-	328,183
Public works	223,043	334,636	149,355	707,034
Fire protection	177,270	-	-	177,270
Police protection	175,996	-	-	175,996
Other	5,844	-	-	5,844
	<u>910,336</u>	<u>334,636</u>	<u>149,355</u>	<u>1,394,327</u>
Total expenditures				
Excess/(deficiency) of revenues ove/(under) expenditures	103,304	(11,169)	(35,249)	56,886
Fund balance - beginning of year	<u>1,223,135</u>	<u>391,343</u>	<u>335,659</u>	<u>1,950,137</u>
Fund balance - end of year	<u>\$ 1,326,439</u>	<u>\$ 380,174</u>	<u>\$ 300,410</u>	<u>\$ 2,007,023</u>

The notes to the financial statements
are an integral part of this statement.

TOWNSHIP OF GAINES
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2020

Total net change in fund balances - governmental funds	\$	56,886
Amounts reported for governmental activities in the statement of activities are different because:		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.</p>		
Capital outlay	\$	23,239
Depreciation expense		<u>(96,980)</u>
		(73,741)
<p>Governmental funds report payments received on special assessment districts as revenue when received. However, in the statement of activities, these revenues are recorded when they are earned.</p>		
		(109,795)
<p>Repayment of bond principal is an expenditure in the governmental funds, but not in the statement activities (where it reduces long-term debt).</p>		
		39,479
<p>Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end.</p>		
		<u>618</u>
Change in net position of governmental activities	\$	<u><u>(86,553)</u></u>

**TOWNSHIP OF GAINES
STATEMENT OF NET POSITION
PROPRIETARY FUNDS-WATER AND WASTE FUNDS
MARCH 31, 2020**

	<u>Usage</u>	<u>Tap in</u>	<u>Total</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 344,901	\$ 210,110	\$ 555,011
Investments	418,658	469,817	888,475
Accounts receivable	43,793	-	43,793
Property and equipment - net	-	1,214,787	1,214,787
	<hr/>	<hr/>	<hr/>
Total assets	807,352	1,894,714	2,702,066
<u>Liabilities</u>			
Accounts payable	3,107	-	3,107
Due to other funds	105,832	-	105,832
	<hr/>	<hr/>	<hr/>
Total liabilities	108,939	-	108,939
<u>Net Position</u>			
Invested in capital assets	-	1,214,787	1,214,787
Unassigned	698,413	679,927	1,378,340
	<hr/>	<hr/>	<hr/>
Total net position	\$ <u>698,413</u>	\$ <u>1,894,714</u>	\$ <u>2,593,127</u>

TOWNSHIP OF GAINES
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS-WATER AND WASTE FUNDS
FOR THE YEAR ENDED MARCH 31, 2020

	<u>Usage</u>	<u>Tap in</u>	<u>Total</u>
Operating revenues			
Charges for services	\$ 547,661	\$ -	\$ 547,661
Total operating revenues	547,661	-	547,661
Operating expenses			
Depreciation	-	22,895	22,895
Pump maintenance	39,590	-	39,590
County sewer charges	121,695	-	121,695
County water charges	327,942	-	327,942
Other fees	7,464	-	7,464
Total operating expenses	496,691	22,895	519,586
Operating income/(loss)	50,970	(22,895)	28,075
Non-operating revenues/(expenses)			
Interest income	15,865	17,604	33,469
Total non-operating revenues/(expenses)	15,865	17,604	33,469
Change in net position	66,835	(5,291)	61,544
Net position - beginning of year	631,578	1,900,005	2,531,583
Net position - end of year	\$ 698,413	\$ 1,894,714	\$ 2,593,127

The notes to the financial statements are an integral part of this statement.

**TOWNSHIP OF GAINES
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS-WATER AND WASTE FUND
FOR THE YEAR ENDED MARCH 31, 2020**

	Usage	Tap in	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 556,566	\$ -	\$ 556,566
Payments to suppliers	(493,584)	-	(493,584)
Net cash provided/(used) by operating activities	62,982	-	62,982
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments to/from other funds	(100,000)	-	(100,000)
Bond obligation payments to county	-	-	-
Net cash provided/(used) by capital and related financing activities	(100,000)	-	(100,000)
CASH FLOWS FROM INVESTING ACTIVITIES			
Sales of Investments	133,422	19,082	152,504
Interest received	275	109	384
Net cash provided/(used) by investing activities	133,697	19,191	152,888
Net increase/(decrease) in cash and cash equivalents	96,679	19,191	115,870
Cash and cash equivalents - beginning of year	248,222	190,919	439,141
Cash and cash equivalents - end of year	\$ 344,901	\$ 210,110	\$ 555,011
Reconciliation of Operating Income/(Loss) to Net Cash Provided/(Used) by Operating Activities			
Operating income	\$ 50,970	\$ (22,895)	\$ 28,075
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	-	22,895	22,895
Decrease/(Increase) in accounts receivable	8,905	-	8,905
(Decrease)/Increase in accounts payable	3,107	-	3,107
Net cash provided/(used) by operating activities	\$ 62,982	\$ -	\$ 62,982

The notes to the financial statements are an integral part of this statement.

TOWNSHIP OF GAINES
STATEMENT OF FIDUCIARY NET POSITION
MARCH 31, 2020

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and cash equivalents	\$ <u>6,670</u>
Total assets	\$ <u><u>6,670</u></u>
<u>Liabilities</u>	
Due to other governmental units	\$ <u>6,670</u>
Total liabilities	\$ <u><u>6,670</u></u>

The notes to the financial statements are an integral part to this statement.

NOTES TO FINANCIAL STATEMENTS

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Gaines (the "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

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government." A fundamental characteristic of a primary government is that its members are selected by the people in a general election. In addition to having an elected board, a primary government must be both a legally separate and a fiscally independent entity. Thus, Gaines Township qualifies as the "primary government" for financial reporting purposes. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is a legally separate entity for which the primary government is financially accountable. The basic criterion of financial accountability is: the primary government is accountable for and able to impose its will upon the potential component unit. The Township has no component units.

Fund Accounting

The Township accounts for its various activities in several different funds in order to demonstrate accountability for how we have spent certain resources; separate funds allow us to show the particular expenditures for which specific revenue was used. The various funds are aggregated into three broad fund types:

Governmental Funds

Governmental funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service funds, capital projects funds, and permanent funds. The Township reports the following funds as "major" governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. It includes Waste and Refuse activities as well as capital projects of the Township.
- The Waste and Refuse Special Revenue Fund accounts for special assessments that are restricted for sanitation services.
- The Capital Projects Fund accounts for special assessments and other revenue that is restricted for capital asset and infrastructure improvements.

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(continued)

Proprietary Funds

Proprietary funds include enterprise funds (which provide goods or services to users in exchange for charges or fees) and internal service funds (which provide goods or services to other funds of the Township). The Township reports the following funds as “major” enterprise funds:

- The Water and Waste-Usage Fund accounts for the cost of collection and treating of waste waters.
- The Water and Waste-Tap In Fund accounts for tap in fees received, depreciation of water and sewer lines and payments of bonded debt.

Fiduciary Funds

Fiduciary funds include amounts held in a fiduciary capacity for others. These amounts will not be used to operate our government’s programs. Activities that are reported as fiduciary include the following fund:

- The Tax Collection Fund, which collects taxes on behalf of all the taxing authorities (State, County, School District, Township, and the other various smaller authorities) and remits the taxes to each authority.

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenue is not recognized until it is collected, or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the Township considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, capital-type special assessments will be collected over a 5-year period; receivables have been recorded for these, along with a “deferred inflow of resources”.

Proprietary funds and fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred regardless of the timing of the related cash flows.

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(continued)

Interfund Activity

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Furthermore, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfer in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

Report Presentation

Government accounting principles require that financial reports include two different perspectives—the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. 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. The statements also present a schedule reconciling these amounts to the modified accrual based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (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 properly excluded from program revenue are reported as general revenue.

For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions concerned.

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

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(continued)

Property tax revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed. Unpaid property taxes become a lien on the property on March 1 of the second year following the year of the levy.

The Township's 2019 ad valorem tax is levied and collectible on December 1, 2019, and is recognized as revenue in the year ended March 31, 2020, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2019 taxable valuation of the Gaines Township is \$193,546,676, on which the ad valorem tax levy consisted of .8177 mills for operating purposes. This resulted in \$157,453 of revenue, which was recognized in the General Fund.

The township bills and collects its own property taxes and also taxes for the school districts of Swartz Creek, Linden, and Durand, and for Genesee County. Collection on all taxes and remittance of them to the various taxing jurisdictions are accounted for in the tax collections fund. Township property tax revenues are recognized when levied.

Specific Balances and Transactions

Cash and cash equivalents – The Township has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of 3 months or less when acquired.

Investments - Certificates of deposit with a maturity date of greater than three months at the time of purchase are recorded as investments on the financial statements. Investments are stated at fair value.

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

Capital assets – Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Land improvements	10 to 20 years
Sewer system	50 to 75 years
Building and building improvements	25 to 40 years
Vehicles	5 to 10 years
Machinery and equipment	5 to 10 years

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(continued)

Long-term Obligations-In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method; bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as an "other financing source", as well as bond premiums and discounts. The General Fund is generally used to liquidate governmental long-term debt.

Deferred Outflows of Resources-In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Township does not have any deferred outflows of resources.

Deferred Inflows of Resources-In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Township has three types of items that qualify for reporting in this category:

- Unavailable revenue represents special assessments and delinquent taxes not received within sixty days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Unavailable revenue is only reported in the governmental funds balance sheet.
- Property taxes levied for the following year represent special assessments and property taxes collected by the Township prior to year end but are used to fund the future year's operations. Property taxes levied for the following year are reported in the governmental funds and the government-wide statements.
- Bond interest represents an interest subsidy received on the 2010 Recovery Zone Bond. The total amount of the subsidy is amortized and recognized as an inflow of resources in the period the amounts become available. Bond interest is reported in the government-wide statements.

Net Position

Net position of the Township is classified in three components. Net investment in capital assets-net of related debt consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position is further classified as expendable or nonexpendable. Expendable restricted net position has been limited for use by donors and as held in trust for debt service and self-insured professional liability. Nonexpendable restricted net position has been restricted by donors to be maintained in perpetuity. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(continued)

Net Position Flow Assumption

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

Fund Balance Flow Assumption

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

Fund Balance Policies

In the fund financial statements, governmental funds report the following components of fund balance:

- Non-spendable: Amounts that are not in spendable form or are legally or contractually required to be maintained intact.
- Restricted: Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose.
- Committed: Amounts that have been formally set aside by the Township for use for specific purposes. Commitments are made and can be rescinded only via resolutions of the Township board.
- Assigned: Intent to spend resources on specific purposes expressed by the governing body. Assignments must be authorized by resolution and approved by the governing body. The Township has the following fund equity balances assigned at March 31, 2020:

Fire Depreciation	\$ 88,753
Police Depreciation	24,570
Building and Site	<u>300,619</u>
Total Assigned Fund Equity	<u>\$413,942</u>

- Unassigned: Amounts that do not fall into any other category above. This is the residual classification in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-(continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Proprietary Funds Operating Classification

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Water and Sewer Funds are charges to customers for sales and services. The Water and Sewer Funds also recognize as operating revenue the portion of tap in fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Upcoming Accounting Pronouncements

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The Township is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement were originally effective for the Township's financial statements for the year ending March 31, 2020, but were extended to March 31, 2021 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves the accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Township is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement were originally effective for the Township's financial statements for the year ending March 31, 2021, but were extended to March 31, 2022 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*.

In January 2020, the GASB issued Statement No. 92, Omnibus 2020. This statement addresses eight unrelated practice issues and technical inconsistencies in authoritative literature. The standard addresses leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The standard has various effective dates. The Authority does not believe this pronouncement will have a significant impact on its financial statements but is still making a full evaluation.

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020**

NOTE 2 – DEPOSITS AND INVESTMENTS

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

The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Township's deposits and investment policies are in accordance with the statutory authority.

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity.

At year end, the Township had the following investments and maturities:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted- average Maturity (Years)</u>
Negotiable certificates of deposit	\$ 100,445	.03
Negotiable certificates of deposit	239,188	.10
Negotiable certificates of deposit	98,813	.05
Negotiable certificates of deposit	100,592	.07
Negotiable certificates of deposit	102,239	.22
Negotiable certificates of deposit	102,543	.28
Negotiable certificates of deposit	100,976	.49
Negotiable certificates of deposit	99,576	.50
Total	<u>\$ 945,372</u>	

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020**

NOTE 2 – DEPOSITS AND INVESTMENTS-(continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Negotiable certificates of deposit	\$ 100,445	A	DBRS
Negotiable certificates of deposit	239,188	N/A	N/A
Negotiable certificates of deposit	99,813	N/A	N/A
Negotiable certificates of deposit	100,592	AA	DBRS
Negotiable certificates of deposit	102,239	N/A	N/A
Negotiable certificates of deposit	102,543	N/A	N/A
Negotiable certificates of deposit	100,976	N/A	N/A
Negotiable certificates of deposit	<u>99,576</u>	N/A	N/A
Total	<u>\$ 945,372</u>		

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At March 31, 2020, the Township had \$2,191,202 of its deposit balances (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Concentration of Credit Risk

The Township places no limit on the amount it may invest in any one issuer.

NOTE 3-FAIR VALUE MEASUREMENT

The Township categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

In instances whereby inputs used to measure fair value fall into different levels in the above hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Township's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

As of March 31, 2020 the Township had negotiable certificates of deposit of \$945,372 that were valued using quoted market prices (Level 1 inputs).

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020**

NOTE 4 – SPECIAL ASSESSMENT RECEIVABLES

As of March 31, 2020, the following special assessments for paving projects were still outstanding:

Baldwin Road	\$ 16,454
Oakwood Subdivision	<u>100,920</u>
Total	<u>\$ 117,374</u>

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivable and payable balances as of March 31, 2020 are as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$105,832	\$ -
Water & Sewer Usage	-	<u>105,832</u>
Total	<u>\$105,832</u>	<u>\$105,832</u>

These balances are the result of transfers made between the General Fund and the Water and Sewer Usage fund.

NOTE 6 - DEFERRED INFLOWS OF RESOURCES

At the end of the current fiscal year, the various components of deferred inflows of resources are as follows:

	<u>Governmental Funds</u>	<u>Governmental Activities</u>
Property taxes levied for the following year	\$ 55,058	\$ 55,058
Unavailable revenue	<u>165,237</u>	-
Total deferred inflows	<u>\$ 220,295</u>	<u>\$ 55,058</u>

NOTE 7 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors, and omissions and employee injuries (workers compensation). The Township has purchased commercial insurance for all its insurance needs.

NOTE 8 - PENSION PLAN

The Township has a qualified, contributory defined contribution pension plan covering elected officials and eligible employees. Eligible employees are those who work 40 hours per week on a regular basis. Burnham & Flower Insurance Group administers the plan, which was adopted by the Township board on March 6, 1991. Under the plan, the Township's contribution amounts to 10% of all eligible employees' annual compensation. Compensation is defined as the basic annual rate of pay in effect at the beginning of the plan year. For the year ended March 31, 2020, actual Township contributions totaled \$9,492. Participant plan contributions begin immediately

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020**

with no waiting period for vesting. The plan is referred to as a money purchase pension plan and is not insured by the Pension Benefit Guaranty Corporation (PBGC).

NOTE 9 - BUILDING AND SIMILAR FEES

Michigan Department of Treasury Local Audit Letter 2000-6 states that local units can retain compliance with P.A. 245 of 1999, Statewide Construction Code Act, by accounting for building department revenues in the General Fund only as long as the local unit's fee structure is not intended to recover the full cost of the enforcing agency, and the local unit has the ability to track the full costs and revenues of this activity without creating a separate fund. The Township of Gaines complies with these provisions, and therefore, the building department activity is recorded in the General Fund.

Building department revenues and expenditures for the year ended March 31, 2020 are as follows:

Revenues	\$54,496
Expenditures	\$30,456

The expenditures listed above include only direct costs for the building department; an allocation for occupancy, insurance and other indirect costs is not included. It is management's opinion that, were the indirect costs included, building department revenues would not recover the full cost of the activity.

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020**

NOTE 10 - CAPITAL ASSETS

Summary of capital asset transactions of the primary government:

	Balance <u>April 1, 2019</u>	<u>Additions</u>	Disposals and <u>Adjustments</u>	Balance <u>March 31, 2019</u>
Governmental activities				
Land & improvements	\$ 19,775	\$ -	\$ -	\$ 19,775
Buildings & additions	449,558	-	-	449,558
Furniture & equipment	448,854	23,239	-	472,093
Fire trucks & other vehicles	<u>1,147,704</u>	<u>-</u>	<u>-</u>	<u>1,147,704</u>
Subtotal	2,065,891	23,239	-	2,089,130
Accumulated Depreciation:				
Buildings & additions	266,422	16,383	-	282,805
Furniture & equipment	338,182	23,415	-	361,597
Fire trucks & other vehicles	<u>745,634</u>	<u>57,182</u>	<u>-</u>	<u>802,816</u>
Subtotal	<u>1,350,238</u>	<u>96,980</u>	<u>-</u>	<u>1,447,218</u>
Governmental activities net capital assets	<u>\$ 715,653</u>	<u>\$ (73,741)</u>	<u>\$ -</u>	<u>\$ 641,912</u>
 Business-type activities				
Water and Sewer system	<u>\$ 1,717,130</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,717,130</u>
Subtotal	1,717,130	-	-	1,717,130
Accumulated Depreciation:				
Water and Sewer system	<u>479,448</u>	<u>22,895</u>	<u>-</u>	<u>502,343</u>
Subtotal	<u>479,448</u>	<u>22,895</u>	<u>-</u>	<u>502,343</u>
Business-type activities net capital assets	<u>\$ 1,237,682</u>	<u>\$ (22,895)</u>	<u>\$ -</u>	<u>\$ 1,214,787</u>

Depreciation expense was charged to programs of the primary government as follows:

Government activities	
General Government	\$ 24,779
Public Safety	<u>72,201</u>
Total governmental activities	<u>\$ 96,980</u>
 Business-type activities	
Sewer	<u>\$ 22,895</u>
Total business-type activities	<u>\$ 22,895</u>

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020**

NOTE 11 – LONG-TERM DEBT

The following is a summary of long-term debt outstanding of the Township for the year ended March 31, 2020:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One year</u>
Governmental activities					
2010 Recovery Zone Bond					
4.34% due 8/1/2020	\$ 80,183	\$ -	\$ (39,479)	\$ 40,704	\$ 40,704

Annual debt service requirements to maturity for this bond is as follows:

	<u>Governmental Activities</u>		
<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Subsidy</u>
March 31, 2021	\$ 40,704	\$ 1,768	\$ (15,797)

The 2010 Recovery Zone Bonds are a result of an agreement with Genesee County for replacement of seven large culverts located within the Township. The Recovery Zone Bonds are part of the Build America Bonds that entitle the issuer to a 45% interest subsidy which has been passed onto Gaines Township. The remaining principal and interest to be paid on the bonds is \$81,758 and will be paid out of the Capital Projects Fund.

NOTE 12 – SUBSEQUENT EVENTS

Management has reviewed subsequent events through August 13, 2020, which is the date the financial statements were available to be issued.

The United States and the State of Michigan declared a state of emergency in March 2020 due to the global coronavirus disease 2019 (COVID-19) pandemic. The financial impact of COVID-19 will impact subsequent periods of the Township. The impact on the Township's future operating costs, revenue, investment income, and any recovery from emergency funding, either federal or state, cannot be estimated at this time.

REQUIRED SUPPLEMENTAL INFORMATION

**TOWNSHIP OF GAINES
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2020**

	Budgeted Amounts		Actual	Variance
	Original	Final		Over/(Under) Final Budget
Revenues				
Taxes	\$ 155,000	\$ 155,000	\$ 157,453	\$ 2,453
Special assessments	72,800	72,800	61,528	(11,272)
Fees and permits	80,500	80,500	102,031	21,531
Intergovernmental	557,000	557,000	584,577	27,577
Administrative fees	58,000	58,000	74,850	16,850
Grant income	6,850	6,850	3,095	(3,755)
Public service contracts	10,000	10,000	10,000	-
Interest	800	800	5,307	4,507
Miscellaneous	5,800	5,800	14,799	8,999
Total revenues	946,750	946,750	1,013,640	66,890
Expenditures				
General government				
Legislative	9,270	9,270	3,889	5,381
Supervisor	20,925	20,925	20,911	14
Accounting	17,000	17,000	16,400	600
Clerk	36,925	36,925	35,376	1,549
Board of review	2,275	2,275	1,350	925
Treasurer	50,025	50,025	46,549	3,476
Assessing	43,675	43,675	42,701	974
Elections	500	10,900	12,313	(1,413)
Other general government costs	148,275	153,175	148,694	4,481
Public safety				
Police department	174,000	174,000	175,996	(1,996)
Fire department	170,960	182,310	177,270	5,040
Public works	258,200	242,900	223,043	19,857
Other				
Planning commission	12,940	12,940	4,555	8,385
Zoning board of appeals	1,617	1,617	1,289	328
Total expenditures	946,587	957,937	910,336	47,601
Excess of revenues over (under) expenditures and other financing sources (uses)	163	(11,187)	103,304	114,491
Fund balance - beginning of year, restated	<u>1,223,135</u>	<u>1,223,135</u>	<u>1,223,135</u>	<u>-</u>
Fund balance - end of year	<u>\$ 1,223,298</u>	<u>\$ 1,211,948</u>	<u>\$ 1,326,439</u>	<u>\$ 114,491</u>

**TOWNSHIP OF GAINES
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE-WASTE AND REFUSE FUND
FOR THE YEAR ENDED MARCH 31, 2020**

	Budget		Actual	Variance Over/(Under) Final Budget
	Original	Final		
Revenues				
Special Assessments	\$ 320,000	\$ 320,000	\$ 323,298	\$ 3,298
Miscellaneous	150	150	84	(66)
Interest	100	100	85	(15)
Total revenues	320,250	320,250	323,467	3,217
Expenditures				
Contracted services	320,000	320,000	334,636	(14,636)
Total expenditures	320,000	320,000	334,636	(14,636)
Net change in fund balances	250	250	(11,169)	(11,419)
Fund balance - beginning of year	391,343	391,343	391,343	-
Fund balance - end of year	\$ 391,593	\$ 391,593	\$ 380,174	\$ (11,419)

TOWNSHIP OF GAINES
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
MARCH 31, 2020

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all special revenue funds. All annual appropriations lapse at fiscal year end, except for approved contracts which are appropriated on a contract (grant) length basis.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

The Township had the following budget overages:

<u>Budget item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>	<u>Variance</u>
General Fund-Elections	\$ 10,900	\$ 12,313	\$ (1,413)
General Fund-Police Department	\$ 174,000	\$ 175,996	\$ (1,996)
Waste and Refuse Fund-Contracted Services	\$ 320,000	\$ 334,636	\$ (14,636)

Budget overages are primarily related to unexpected costs related to operations.

September 18, 2020

To the Board of Trustees of
The Township of Gaines

We have audited the financial statements of Gaines Township (the Township) as of and for the year ended March 31, 2020 and have issued our report thereon dated August 13, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 4, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Internal Control Related Matters Identified in an Audit

In planning and performing our audit of the financial statements of the Township as of and for the year ended March 31, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Township of Gaines' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township of Gaines' internal control. Accordingly, we do not express an opinion on the effectiveness of Township of Gaines' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, as discussed below, we did identify a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program 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.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in the Township's internal control to be a material weakness:

FLINT, MI OFFICE

G-2302 STONEBRIDGE DR., BUILDING D,
FLINT, MICHIGAN 48532
OFFICE # (810) 230-8200 FAX # (810) 230-8203

CHARLOTTE, NC OFFICE

1213 W. MOREHEAD ST., 5th FLOOR
CHARLOTTE, NC 28208
OFFICE # (704) 926-7570 FAX # (704) 247-6433

TROY, MI OFFICE

3150 LIVERNOIS RD., SUITE 175
TROY, MI 48083
OFFICE # (248) 688-9399 FAX # (248) 688-9397

Auditor Proposed Adjustments-During the audit, we identified and proposed to Township management several adjustments to the accounting records. While not all of these adjustments were material to the financial statements, the number of adjustments necessary indicates that Township management's system of internal controls did not detect and prevent such errors. Management should examine the adjustments required as a result of the audit and assess the cost-benefit of improving internal control systems to prevent the adjustment in the future. The following adjustments were proposed and recorded by management:

- Interest income in the General Fund of \$2,119
- Adjustment to State Revenue Sharing in the General Fund of \$7,867
- Adjustment to Taxes Receivable and Deferred Inflows in the General Fund in the amount of \$1,298
- Accounts receivable for franchise fees of \$9,311 in the General Fund
- Adjustment to Taxes Receivable and Deferred Inflows in the Waste and Refuse Fund in the amount of \$1,244
- Interest income in the Water and Sewer Tap In Fund of \$17,495
- Depreciation in the Water and Sewer Tap In Fund of \$22,895
- Interest income in the Water and Sewer Usage Fund of \$15,590
- Adjustment to Accounts Receivable in the Water and Sewer Usage Fund of \$9,271
- Adjustment to Accounts Payable in the Water and Sewer Usage Fund of \$3,186
- Adjustment to Taxes Receivable and Deferred Inflows in the Capital Projects Fund of \$5,017

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 4, 2020, our responsibility, as described by professional standards, is to express an opinion as to 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. 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 our audit, we considered the internal control of the Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

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 specifically to identify such matters.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Gaines Township are described in Note 1 to the financial statements.

We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus.

All significant transactions have been recognized in the financial statements in the proper period. Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

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

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 clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 13, 2020.

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 a certain situation. If a consultation involves application of an accounting principle to the Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant Findings or Issues

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

Prior Year Comments and Recommendations

Employee Files

During our payroll testing, we noted that many of our sampled files did not include all employment forms. Many were missing completed I-9 forms and W-4 forms. We recommended that all employee files be reviewed for completeness and any missing employment forms be completed by the employee.

During the current year audit, we noted many employee files were still missing some required employment forms. We recommend that these files be reviewed and updated if necessary.

Restriction on Use

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

Taylor & Morgan, P.C.

Taylor & Morgan, P.C., CPA's
Flint, MI