



Township of Gaines  
Audited Financial Statements  
March 31, 2018

*Prepared by Taylor & Morgan, P.C.*

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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  
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## Independent Auditor's Report

August 17, 2018

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, 2018, 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.

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## **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, 2018 and the respective changes in financial position and cash flows, where applicable, 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, 2018**

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, 2018. 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, 2018.

- The Township's revenue base remains stable.
- In May 2017, the Township paid the entire balance owed on the 2006 General obligation bonds.
- During July 2017, \$245k was spent on a new fire truck.

**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 cash of the Township, assets exceeded liabilities and deferred inflows of resources by \$5,315,900 at the close of the most recent fiscal year.

**Township of Gaines  
Management's Discussion and Analysis  
For the Year Ended March 31, 2018**

**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>			
	<u>March 31,</u> <u>2017</u>	<u>March 31,</u> <u>2018</u>	<u>Change</u>	<u>Percent</u> <u>Change</u>
<b>Assets</b>				
Current and other assets:				
Cash and investments:				
Cash and cash equivalents	\$ 1,553,134	\$ 1,455,063	\$ (98,071)	(6.3)%
Investments	276,667	70,835	(205,832)	(74.4)
Receivables	696,607	758,665	62,058	8.9
Other assets	51,643	27,219	(24,424)	(47.3)
Capital assets (net)	<u>545,302</u>	<u>811,171</u>	<u>265,869</u>	48.8
Total assets	3,123,353	3,122,953	(400)	0.01
<b>Liabilities</b>				
Current liabilities	1,992	6,939	4,947	248.3
Noncurrent liabilities:				
Due within one year	37,643	38,561	918	2.4
Due in more than one year	<u>118,744</u>	<u>80,183</u>	<u>(38,561)</u>	(32.5)
Total liabilities	158,379	125,683	(32,696)	20.6
<b>Deferred Inflows of Resources</b>	<u>184,948</u>	<u>101,170</u>	<u>(83,778)</u>	45.3
<b>Net Position</b>				
Net investment in capital assets	545,302	811,171	265,869	48.8
Restricted	495,809	610,153	114,344	23.1
Unrestricted	<u>1,738,915</u>	<u>1,474,776</u>	<u>(264,139)</u>	(15.2)
Total net position	<u><b>\$ 2,780,026</b></u>	<u><b>\$ 2,896,100</b></u>	<u><b>\$ 116,074</b></u>	<b>4.2</b>



**Township of Gains  
Management's Discussion and Analysis  
For the Year Ended March 31, 2018**

Business-type Activities – Water and Waste Funds

	March 31, <u>2017</u>	March 31, <u>2018</u>	<u>Change</u>	<u>Percent Change</u>
<b>Assets</b>				
Current and other assets:				
Cash and investments:				
Cash and cash equivalents	\$ 477,370	\$ 210,773	\$ (266,597)	(55.8)%
Investments	1,206,129	1,106,121	(100,008)	(8.3)
Receivables	45,403	48,161	2,758	6.1
Capital assets (net)	<u>1,283,472</u>	<u>1,260,577</u>	<u>(22,895)</u>	(1.8)
Total assets	3,012,374	2,625,632	(386,742)	(12.8)
<b>Liabilities</b>				
Current liabilities	-	205,832	205,832	100.0
Noncurrent liabilities:				
Due within one year	60,245	-	(60,245)	(100.0)
Due in more than one year	<u>584,602</u>	<u>-</u>	<u>(584,602)</u>	(100.0)
Total liabilities	644,847	205,832	(439,015)	(68.1)
<b>Net Position</b>				
Net investment in capital assets	638,625	1,260,577	621,952	97.4
Unrestricted	<u>1,728,902</u>	<u>1,159,223</u>	<u>(569,679)</u>	(33.0)
Total net position	<u>\$ 2,367,527</u>	<u>\$ 2,419,800</u>	<u>\$ 52,273</u>	2.2%

Total governmental net position increased approximately 4 percent from a year ago – increasing from \$2,780,026 to \$2,896,100. In contrast, there was an approximate 2 percent decrease in net position during the previous year ended March 31, 2017.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations, decreased \$264,139 for the governmental activities. This represents a decrease of approximately 15 percent. The current level of unrestricted net position for our governmental activities stands at \$1,474,776, or about 112 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 percent from a year ago - increasing from \$2,367,527 to \$2,419,800.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations, decreased \$569,679 for the Water and Waste Funds. This represents a decrease of 34 percent. The current level of unrestricted net position for the Water and Waste Funds is \$1,159,223.

**Township of Gaines  
Management's Discussion and Analysis  
For the Year Ended March 31, 2018**

**Township's Changes in Net Position**

	<u>Governmental Activities</u>			
	March 31, <u>2017</u>	March 31, <u>2018</u>	<u>Change</u>	<u>Percent Change</u>
<b>Revenue</b>				
Program revenue:				
Charges for services	\$ 384,713	\$ 367,752	\$ (16,961)	(4.4)%
Operating grants	10,000	10,948	948	9.5
Capital grants	14,194	3,290	(10,904)	(76.8)
General revenue:				
Taxes	301,777	446,811	145,034	48.1
Intergovernmental	511,384	540,958	29,574	5.8
Investment earnings	1,554	570	(984)	(63.3)
Other revenue	<u>62,847</u>	<u>62,435</u>	<u>(412)</u>	(0.7)
Total revenue	1,286,469	1,432,764	146,295	11.4
<b>Expenses</b>				
General government	308,261	298,305	(9,956)	(3.2)
Public safety	327,292	415,779	88,487	27.0
Public works	587,326	584,986	(2,340)	(0.4)
Other	<u>43,317</u>	<u>17,620</u>	<u>(25,697)</u>	(59.3)
Total expenses	<u>1,266,196</u>	<u>1,316,690</u>	<u>50,494</u>	4.0
<b>Change in Net Position</b>	<b><u>\$ 20,273</u></b>	<b><u>\$ 116,074</u></b>	<b><u>\$ 95,801</u></b>	<b>473.6%</b>

	<u>Business-type Activities – Water and Waste Funds</u>			
	March 31, <u>2017</u>	March 31, <u>2018</u>	<u>Change</u>	<u>Percent Change</u>
<b>Revenue</b>				
Program revenue:				
Charges for services	\$ 549,343	\$ 561,826	\$ 12,843	2.3%
General revenue:				
Investment earnings	<u>4,733</u>	<u>1,196</u>	<u>(3,537)</u>	(74.7)
Total revenue	554,076	563,022	8,946	1.6
<b>Expenses</b>	<u>519,448</u>	<u>510,749</u>	<u>(8,699)</u>	(1.7)
<b>Change in Net Position</b>	<b><u>\$ 34,628</u></b>	<b><u>\$ 52,273</u></b>	<b><u>\$ 17,645</u></b>	<b>51.0%</b>

The Township's total governmental revenue had an 11.4 percent increase of \$146,295. A major contributing factor to this increase includes the special assessment for mosquito control of \$132,538.

Expenditures increased \$50,494 during the year. This increase was due to an addition to the police department staff and an overall increase in depreciation.

**Township of Gaines  
Management's Discussion and Analysis  
For the Year Ended March 31, 2018**

During the year ended March 31, 2018, the Township passed on the increases in water rates from Genesee County, Michigan to our customers. There were no increases to the sewer rates. The Township is anticipating more increases from Genesee County and will likely need to pass these additional fees onto the residents.

**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, 2018, governmental funds revenue was less than its expenditures, decreasing the fund balance by \$65,755. This decrease was a combination of a \$180,099 decrease in the General Fund, a \$2,942 increase in the Waste and Refuse Fund, and a \$111,402 increase in the Capital Projects Fund. The decrease in the General Fund was primarily related to the capital outlay expenditures made during the year such as the fire rescue equipment, vehicle and accounting software.

**General Fund Budgetary Highlights**

General Fund actual revenue of \$1,092,402 exceeded budgeted revenue of \$1,047,242 by \$45,160. This variance is attributed to an overall conservative approach to the budgeted revenue line items.

General Fund actual expenditures of \$1,272,501 were less than budgeted expenditures of \$1,359,593 by \$87,092. 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 2017, the Township had \$811,172 in governmental activities and \$1,260,577 in business-type activities for a total \$2,071,749 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, 2018 was \$81,758 and will be paid out of the Capital Projects Fund over the next three years.

The Township also had a note payable of \$644,847 related to an agreement with Genesee County for the Western Trunk Extension of the County's sanitary sewage disposal system. On May 18, 2017, these bonds were paid in full by the Township.

**Economic Factors and Next Year's Budgets and Rates**

The Township approved a budget for the year ending March 31, 2019 with the anticipation that revenues would not be increasing. Revenue estimates were very conservative which resulted in a budget with expenditures exceeding revenues by \$152,516. The hiring of a code enforcement officer for the 2018-2019 fiscal year is planned to continue Gaines Township's efforts in advancing the compliance of out zoned community. Capital improvements for the next fiscal year include a new phone system for the township offices and public safety departments of Fire and Police.

**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, 2018**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 1,455,063	\$ 210,773	\$ 1,665,836
Investments	70,835	1,106,121	1,176,956
Due from other funds	205,832	-	205,832
Receivables (net)	552,833	48,161	600,994
Prepaid expenses	27,219	-	27,219
Capital assets (net)	811,171	1,260,577	2,071,748
 Total assets	 3,122,953	 2,625,632	 5,748,585
<b>Liabilities</b>			
Accounts payable	6,939	-	6,939
Due to other funds	-	205,832	205,832
Current portion of bond principal	38,561	-	38,561
Noncurrent liabilities:			
Due in more than one year	80,183	-	80,183
 Total liabilities	 125,683	 205,832	 331,515
<b>Deferred inflow of resources</b>			
Property taxes levied for the following year	53,783	-	53,783
Bond interest	47,387	-	47,387
 Total deferred inflow of resources	 101,170	 -	 101,170
Invested in capital assets, net of related debt	811,171	1,260,577	2,071,748
Restricted	610,153	-	610,153
Unrestricted	1,474,776	1,159,223	2,633,999
 Total net position	 \$ 2,896,100	 \$ 2,419,800	 \$ 5,315,900

**TOWNSHIP OF GAINES**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED MARCH 31, 2018**

	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
<b>Functions/Programs:</b>							
<b>Primary government</b>							
General government	\$ 298,305	\$ 45,982	\$ 1,815	\$ -	\$ (250,508)	\$ -	\$ (250,508)
Public safety	415,779	-	1,475	10,948	(403,356)	-	(403,356)
Public works	584,986	321,770	-	-	(263,216)	-	(263,216)
Other	17,620	-	-	-	(17,620)	-	(17,620)
Total governmental activities	1,316,690	367,752	3,290	10,948	(934,700)	-	(934,700)
Business-type activities							
Water and waste	510,749	561,826	-	-	-	51,077	51,077
Total primary government	<u>\$ 1,827,439</u>	<u>\$ 929,578</u>	<u>\$ 3,290</u>	<u>\$ 10,948</u>	<u>(934,700)</u>	<u>51,077</u>	<u>(883,623)</u>
<b>General revenues</b>							
Property tax					290,147	-	290,147
Special assessments					156,664	-	156,664
State-shared revenues					540,958	-	540,958
Investment earnings					570	1,196	1,766
Franchise fees					44,294	-	44,294
Miscellaneous					18,141	-	18,141
Total general revenues					<u>1,050,774</u>	<u>1,196</u>	<u>1,051,970</u>
Change in net position					116,074	52,273	168,347
Net position - beginning of year					<u>2,780,026</u>	<u>2,367,527</u>	<u>5,147,553</u>
Net position - end of year					<u>\$ 2,896,100</u>	<u>\$ 2,419,800</u>	<u>\$ 5,315,900</u>

**TOWNSHIP OF GAINES  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
MARCH 31, 2018**

	General	Special Revenue	Capital Projects	Total Governmental Funds
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 844,910	\$ 368,457	\$ 241,696	\$ 1,455,063
Investments	70,835	-	-	70,835
Receivables				
Delinquent taxes	21,635	21,161	3,513	46,309
Special assessments	375,944	-	-	375,944
Prepaid expenses	-	27,219	-	27,219
Due from other funds	205,832	-	-	205,832
Due from other governments	83,193	-	-	83,193
Total assets	\$ 1,602,349	\$ 416,837	\$ 245,209	\$ 2,264,395
 <b><u>Liabilities</u></b>				
Accounts payable	\$ 6,939	\$ -	\$ -	\$ 6,939
Due to other funds	-	-	-	-
Total liabilities	6,939	-	-	6,939
 <b><u>Deferred Inflow of Resources</u></b>				
Property taxes levied for following year	53,783	-	-	53,783
Unavailable revenue	397,579	21,161	3,513	422,253
Total deferred inflow of resources	451,362	21,161	3,513	476,036
 <b><u>Fund Equity</u></b>				
Non-Spendable	-	27,219	-	27,219
Restricted	-	368,457	241,696	610,153
Assigned	509,226	-	-	509,226
Unassigned	634,822	-	-	634,822
Total fund equity	1,144,048	395,676	241,696	1,781,420
Total liabilities and fund equity	\$ 1,602,349	\$ 416,837	\$ 245,209	\$ 2,264,395

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, 2018**

Total governmental fund balances	\$	1,781,420
Amounts reported for governmental activities in the statement of net position are different because:		
Bond interest subsidy is reported as a receivable in the statement of net position, but reported in the governmental funds when earned.		47,387
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets	\$ 2,057,456	
Accumulated depreciation	<u>(1,246,285)</u>	811,171
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.		375,944
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.		46,309
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.		(118,744)
Deferred bond interest is reported as a liability in the statement of net position, but reported in the governmental funds when earned.		<u>(47,387)</u>
Total net position - governmental activities	\$	<u><u>2,896,100</u></u>



**TOWNSHIP OF GAINES**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2018**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 241,725	\$ -	\$ -	\$ 241,725
Special assessments	134,556	321,770	140,006	596,332
Fees and permits	90,276	-	-	90,276
Intergovernmental	540,958	-	-	540,958
Administrative services	52,207	-	-	52,207
Grant income	4,238	-	-	4,238
Fire contract	10,000	-	-	10,000
Interest	433	90	47	570
Miscellaneous	18,009	132	-	18,141
	<u>1,092,402</u>	<u>321,992</u>	<u>140,053</u>	<u>1,554,447</u>
Total revenues	1,092,402	321,992	140,053	1,554,447
Expenditures				
General government	279,710	-	-	279,710
Public works	274,928	319,050	28,651	622,629
Fire protection	175,494	-	-	175,494
Police protection	158,422	-	-	158,422
Other	9,196	-	-	9,196
Capital outlay	374,751	-	-	374,751
	<u>1,272,501</u>	<u>319,050</u>	<u>28,651</u>	<u>1,620,202</u>
Total expenditures	1,272,501	319,050	28,651	1,620,202
Excess/(deficiency) of revenues ove/(under) expenditures	<u>(180,099)</u>	<u>2,942</u>	<u>111,402</u>	<u>(65,755)</u>
Excess of revenues over (under) expenditures and other financing sources (uses)	(180,099)	2,942	111,402	(65,755)
Fund balance - beginning of year	<u>1,324,147</u>	<u>392,734</u>	<u>130,294</u>	<u>1,847,175</u>
Fund balance - end of year	<u>\$ 1,144,048</u>	<u>\$ 395,676</u>	<u>\$ 241,696</u>	<u>\$ 1,781,420</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, 2018**

Total net change in fund balances - governmental funds \$ (65,755)

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

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.

Capital outlay	\$	366,327	
Depreciation expense		<u>(100,457)</u>	265,870

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. (117,898)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement activities (where it reduces long-term debt). 37,643

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. (3,785)

Change in net position of governmental activities \$ 116,075

**TOWNSHIP OF GAINES**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS-WATER AND WASTE FUNDS**  
**MARCH 31, 2018**

	<u>Usage</u>	<u>Tap in</u>	<u>Total</u>
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 190,002	\$ 20,771	\$ 210,773
Investments	521,215	584,906	1,106,121
Accounts receivable	48,161	-	48,161
Property and equipment - net	<u>-</u>	<u>1,260,577</u>	<u>1,260,577</u>
Total assets	759,378	1,866,254	2,625,632
<b><u>Liabilities</u></b>			
Due to other funds	<u>205,832</u>	<u>-</u>	<u>205,832</u>
Total liabilities	205,832	-	205,832
<b><u>Net Position</u></b>			
Invested in capital assets	-	1,260,577	1,260,577
Unassigned	<u>553,546</u>	<u>605,677</u>	<u>1,159,223</u>
Total net position	<u>\$ 553,546</u>	<u>\$ 1,866,254</u>	<u>\$ 2,419,800</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, 2018**

	<u>Usage</u>	<u>Tap in</u>	<u>Total</u>
Operating revenues			
Charges for services	\$ 544,697	\$ 17,129	\$ 561,826
Total operating revenues	544,697	17,129	561,826
Operating expenses			
Depreciation	-	22,895	22,895
Pump maintenance	32,518	-	32,518
County sewer charges	126,993	-	126,993
County water charges	323,749	-	323,749
Total operating expenses	483,260	22,895	506,155
Operating income/(loss)	61,437	(5,766)	55,671
Non-operating revenues/(expenses)			
Interest expense	-	(4,594)	(4,594)
Interest income	1,178	18	1,196
Transfers from/(to) other funds	(399,433)	399,433	-
Total non-operating revenues/(expenses)	(398,255)	394,857	(3,398)
Change in net position	(336,818)	389,091	52,273
Net position - beginning of year	890,364	1,477,163	2,367,527
Net position - end of year	\$ 553,546	\$ 1,866,254	\$ 2,419,800

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, 2018**

	<u>Usage</u>	<u>Tap in</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 541,939	\$ 17,129	\$ 559,068
Payments to suppliers	<u>(483,260)</u>	<u>-</u>	<u>(483,260)</u>
Net cash provided/(used) by operating activities	58,679	17,129	75,808
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Payments to/from other funds	(193,601)	399,433	205,832
Bond obligation payments to county	<u>-</u>	<u>(649,433)</u>	<u>(649,433)</u>
Net cash provided/(used) by capital and related financing activities	(193,601)	(250,000)	(443,601)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sales of investments	100,000	-	100,000
Interest received	<u>1,178</u>	<u>18</u>	<u>1,196</u>
Net cash provided/(used) by investing activities	<u>101,178</u>	<u>18</u>	<u>101,196</u>
Net increase/(decrease) in cash and cash equivalents	(33,744)	(232,853)	(266,597)
Cash and cash equivalents - beginning of year	<u>223,746</u>	<u>253,624</u>	<u>477,370</u>
Cash and cash equivalents - end of year	\$ <u><u>190,002</u></u>	\$ <u><u>20,771</u></u>	\$ <u><u>210,773</u></u>
<b>Reconciliation of Operating Income/(Loss) to Net Cash Provided/(Used) by Operating Activities</b>			
Operating income	\$ 61,437	\$ (5,766)	\$ 55,671
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	-	22,895	22,895
Decrease/(Increase) in accounts receivable	(2,758)	-	(2,758)
(Decrease)/Increase in accounts payable	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided/(used) by operating activities	\$ <u><u>58,679</u></u>	\$ <u><u>17,129</u></u>	\$ <u><u>75,808</u></u>

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

**TOWNSHIP OF GAINES**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**MARCH 31, 2018**

	<u>Agency Funds</u>
<b><u>Assets</u></b>	
Cash and cash equivalents	\$ <u>2,059</u>
Total assets	\$ <u><u>2,059</u></u>
<b><u>Liabilities</u></b>	
Due to other governmental units	\$ <u>2,059</u>
Total liabilities	\$ <u><u>2,059</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, 2018**

**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.

**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 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, 2018**

**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, 2018**

**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, 2018**

**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 2017 ad valorem tax is levied and collectible on December 1, 2017, and is recognized as revenue in the year ended March 31, 2018, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2017 taxable valuation of the Gaines Township is \$176,963,868, on which the ad valorem tax levy consisted of .8334 mills for operating purposes and .4931 mills for police operations. This resulted in \$241,725 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, 2018**

**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, 2018**

**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, 2018:

Fire Depreciation	\$ 55,907
Police Depreciation	803
Building and Site	300,000
Assigned for 18-19 Budget	<u>152,516</u>
Total Assigned Fund Equity	<u>\$509,226</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, 2018**

**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 are effective for the Township's financial statements for the year ending March 31, 2020.

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 are effective for the Township's financial statements for the year ending March 31, 2021.

**TOWNSHIP OF GAINES  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2018**

**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	\$ 100,000	.31
Negotiable certificates of deposit	99,071	.35
Negotiable certificates of deposit	99,503	.74
Negotiable certificates of deposit	98,452	1.63
Negotiable certificates of deposit	97,191	1.69
Negotiable certificates of deposit	99,870	2.08
Negotiable certificates of deposit	236,120	2.41
Negotiable certificates of deposit	98,428	2.65
U.S. Government Bonds	<u>242,505</u>	3.4
Total	<u>\$1,171,140</u>	

**TOWNSHIP OF GAINES  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2018**

**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	\$ 100,000	A3	Moody's
Negotiable certificates of deposit	99,071	N/A	N/A
Negotiable certificates of deposit	99,503	N/A	N/A
Negotiable certificates of deposit	98,452	N/A	N/A
Negotiable certificates of deposit	97,191	N/A	N/A
Negotiable certificates of deposit	99,870	Aa1	Moody's
Negotiable certificates of deposit	236,120	N/A	N/A
Negotiable certificates of deposit	98,428	Aa1	Moody's
U.S. Government Bonds	<u>242,505</u>	AAA	Moody's
Total	<u>\$1,171,140</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, 2018, the Township had \$1,506,897 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, 2018, the Township had negotiable certificates of deposit of \$928,635 that were valued using quoted market prices (Level 1 inputs).



**TOWNSHIP OF GAINES  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2018**

**NOTE 4 – SPECIAL ASSESSMENT RECEIVABLES**

As of March 31, 2018, the following special assessments for paving projects were still outstanding:

Baldwin Road	\$ 51,840
Oakwood Subdivision	<u>324,104</u>
Total	<u>\$ 375,944</u>

**NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

Interfund receivable and payable balances as of March 31, 2018 are as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$205,832	\$ -
Water & Sewer Usage	<u>-</u>	<u>205,832</u>
Total	<u>\$205,832</u>	<u>\$205,832</u>

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

During the fiscal year ended March 31, 2018, the Water and Waste-Usage Fund transferred \$399,433 to the Water and Waste-Tap In Fund for the purpose of paying off the 2006 general obligation bonds.

**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	\$ 53,783	\$ 53,783
Unavailable revenue	422,253	-
Bond interest	<u>-</u>	<u>47,387</u>
Total deferred inflows	<u>\$ 476,036</u>	<u>\$ 101,170</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.

**TOWNSHIP OF GAINES  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2018**

**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 will amount 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, 2018, actual Township contributions totaled \$9,111. Participant plan contributions begin immediately 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, 2018 are as follows:

Revenues	\$43,902
Expenditures	\$25,204

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, 2018**

**NOTE 10 - CAPITAL ASSETS**

Summary of capital asset transactions of the primary government:

	Balance <u>April 1, 2017</u>	<u>Additions</u>	Disposals and <u>Adjustments</u>	Balance <u>March 31, 2018</u>
<b>Governmental activities</b>				
Land & improvements	\$ 19,775	\$ -	\$ -	\$ 19,775
Buildings & additions	449,558	-	-	449,558
Furniture & equipment	365,562	74,858	-	440,420
Fire trucks & other vehicles	<u>893,235</u>	<u>291,469</u>	<u>(37,000)</u>	<u>1,147,704</u>
Subtotal	1,728,130	366,327	(37,000)	2,057,457
Accumulated Depreciation:				
Buildings & additions	233,596	16,443	-	250,039
Furniture & equipment	287,669	27,743	-	315,412
Fire trucks & other vehicles	<u>661,563</u>	<u>56,271</u>	<u>(37,000)</u>	<u>680,834</u>
Subtotal	<u>1,182,828</u>	<u>100,457</u>	<u>(37,000)</u>	<u>1,246,285</u>
Governmental activities net capital assets	<u>\$ 545,302</u>	<u>\$ 265,870</u>	<u>\$ -</u>	<u>\$ 811,172</u>
 <b>Business-type activities</b>				
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>433,658</u>	<u>22,895</u>	<u>-</u>	<u>456,553</u>
Subtotal	<u>433,658</u>	<u>22,895</u>	<u>-</u>	<u>456,553</u>
Business-type activities net capital assets	<u>\$ 1,283,472</u>	<u>\$ (22,895)</u>	<u>\$ -</u>	<u>\$ 1,260,577</u>

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

<b>Government activities</b>	
General Government	\$ 18,595
Public Safety	<u>81,862</u>
Total governmental activities	<u>\$ 100,457</u>
 <b>Business-type activities</b>	
Sewer	<u>\$ 22,895</u>
Total business-type activities	<u>\$ 22,895</u>

**TOWNSHIP OF GAINES  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2018**

**NOTE 11 – LONG-TERM DEBT**

The following is a summary of long-term debt outstanding of the Township for the year ended March 31, 2018:

	<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	\$ 156,387	\$ -	\$ (37,643)	\$ 118,744	\$ 38,561
Business-type activities					
2006 General obligations					
4.0%-4.35% due 11/1/26	\$ 644,847	\$ -	\$ (644,847)	\$ -	\$ -

Annual debt service requirements to maturity for these bonds are as follows:

Year Ending	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Subsidy</u>
<u>March 31,</u>			
2019	\$ 38,561	\$ 5,153	\$ (15,795)
2020	39,479	3,480	(15,795)
2021	40,704	1,768	(15,797)
Total	<u>\$ 118,744</u>	<u>\$ 10,401</u>	<u>\$ (47,387)</u>

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.

The 2006 general obligation bonds are a result of an agreement with Genesee County for the Western Trunk Extension of the County's Sewage Disposal System running through Gaines Township. The Township has pledged substantially all revenue of the water and sewer fund, net of operating expenses, to repay the obligations. Proceeds from the County bonds provided financing for the construction of the Western Trunk extension. On May 18, 2017, a check in the amount of \$649,433 was written to Genesee County to satisfy the entire liability of these bonds.

**NOTE 12 – SUBSEQUENT EVENTS**

Management has reviewed subsequent events through August 17, 2018, which is the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTAL INFORMATION**

**TOWNSHIP OF GAINES**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE-GENERAL FUND**  
**FOR THE YEAR ENDED MARCH 31, 2018**

	Budgeted Amounts		Actual	Variance
	Original	Final		Over/(Under) Final Budget
<b>Revenues</b>				
Taxes	\$ 225,000	\$ 225,000	\$ 241,725	\$ 16,725
Special assessments	133,250	133,250	134,556	1,306
Fees and permits	61,900	61,900	90,276	28,376
Intergovernmental	501,000	501,000	540,958	39,958
Administrative fees	48,500	48,500	52,207	3,707
Grant income	66,092	66,092	4,238	(61,854)
Public service contracts	10,000	10,000	10,000	-
Interest	500	500	433	(67)
Miscellaneous	1,000	1,000	18,009	17,009
<b>Total revenues</b>	<b>1,047,242</b>	<b>1,047,242</b>	<b>1,092,402</b>	<b>45,160</b>
<b>Expenditures</b>				
General government				
Legislative	9,000	9,537	8,360	1,177
Chief executive	19,425	20,175	19,425	750
Financial and tax administration	136,150	139,716	126,692	13,024
Elections	12,000	7,500	7,458	42
General government	134,900	116,875	117,775	(900)
Building department	20,000	24,500	25,204	(704)
Code enforcement	-	7,865	7,675	190
Public safety				
Police department	176,184	160,419	158,422	1,997
Fire department	167,660	185,885	175,494	10,391
Public works	350,500	250,575	242,049	8,526
Other				
Planning commission	4,300	18,650	8,151	10,499
Zoning board of appeals	16,500	1,539	1,045	494
Capital outlay	332,592	416,357	374,751	41,606
<b>Total expenditures</b>	<b>1,379,211</b>	<b>1,359,593</b>	<b>1,272,501</b>	<b>87,092</b>
Excess of revenues over (under) expenditures and other financing sources (uses)	(331,969)	(312,351)	(180,099)	132,252
Fund balance - beginning of year	1,324,147	1,324,147	1,324,147	-
Fund balance - end of year	\$ <u>992,178</u>	\$ <u>1,011,796</u>	\$ <u>1,144,048</u>	\$ <u>132,252</u>

**TOWNSHIP OF GAINES  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE-WASTE AND REFUSE FUND  
FOR THE YEAR ENDED MARCH 31, 2018**

	<u>Budget</u>		<u>Actual</u>	<u>Variance Over/(Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special Assessments	\$ 346,000	\$ 346,000	\$ 321,770	\$ (24,230)
Miscellaneous	150	150	132	(18)
Interest	100	100	90	(10)
Total revenues	<u>346,250</u>	<u>346,250</u>	<u>321,992</u>	<u>(24,258)</u>
Expenditures				
Contracted services	320,000	320,000	319,050	950
Refunds	-	266	-	266
Total expenditures	<u>320,000</u>	<u>320,266</u>	<u>319,050</u>	<u>1,216</u>
Net change in fund balances	26,250	25,984	2,942	(23,042)
Fund balance - beginning of year	<u>392,734</u>	<u>392,734</u>	<u>392,734</u>	<u>-</u>
Fund balance - end of year	<u>\$ 418,984</u>	<u>\$ 418,718</u>	<u>\$ 395,676</u>	<u>\$ (23,042)</u>

**TOWNSHIP OF GAINES  
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION  
MARCH 31, 2018**

**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-General Government	\$ 116,875	\$ 117,775	\$ (900)
General Fund-Building Department	\$ 24,500	\$ 25,204	\$ (704)

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