



Township of Gaines  
Audited Financial Statements

March 31, 2012

*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

Charles Timmons  
Trustee

Lee Purdy  
Trustee

TOWNSHIP OF GAINES  
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## Independent Auditor's Report

July 16, 2012

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, 2012, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-5 and 25-26 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**

**Management's Discussion and Analysis**  
**Year Ended March 31, 2012**

Our discussion and analysis of the Township of Gaines' financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2012. 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, 2012.

In light of continuing State budget problems, and constant threat(s) to take away all revenue sharing, the Township continues to exercise tighter controls over all expenditures.

**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.

**The Township of Gaines as a Whole**

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

	Governmental Activities <u>2012</u>	Business-type Activities <u>2012</u>	Total <u>2012</u>	Total <u>2011</u>
Assets	\$ 2,953,123	\$ 3,169,933	\$ 6,123,056	\$ 6,471,683
Current and long-term liabilities	<u>480,477</u>	<u>901,873</u>	<u>1,382,350</u>	<u>1,475,179</u>
Total net assets	<u>\$ 2,472,646</u>	<u>\$ 2,268,060</u>	<u>\$ 4,740,706</u>	<u>\$ 4,996,504</u>

The Township of Gaines' net assets from governmental activities are \$2,742,646 and \$2,268,060 from business type activities; of these amounts, \$1,692,129 and \$1,764,711 are unrestricted.

	<i>Governmental Activities</i>	<i>Business- type Activities</i>	<i>Total 2012</i>	<i>Total 2011</i>
<b>Revenue</b>				
Program revenue:				
Charges for Services	\$ 371,179	\$ 408,037	\$ 779,216	\$ 774,655
Capital grants and contributions	10,000	-	10,000	256,289
Operating grants and contributions	10,000	-	10,000	10,000
General revenue:				
Property taxes	196,415	-	196,415	214,811
Special assessments	969	-	969	22,943
State-shared revenue	476,133	-	476,133	402,421
Interest	24,648	16,118	40,766	32,431
Franchise fees and other revenue	<u>42,768</u>	<u>-</u>	<u>42,768</u>	<u>40,683</u>
Total revenue	1,132,112	424,155	1,556,267	1,754,233
<b>Program expenses</b>				
General government	300,357	-	300,357	313,973
Public works	432,399	-	432,399	461,318
Fire protection	220,711	-	220,711	213,671
Police protection	54,532	-	54,532	50,831
Sanitation	-	416,329	416,329	423,270
Other	<u>387,737</u>	<u>-</u>	<u>387,737</u>	<u>104,773</u>
Total program expenses	<u>1,395,736</u>	<u>416,329</u>	<u>1,812,065</u>	<u>1,567,836</u>
<b>Change in net assets</b>	<b>\$ <u>(263,624)</u></b>	<b>\$ <u>7,826</u></b>	<b>\$ <u>(255,798)7</u></b>	<b>\$ <u>186,397</u></b>

### Governmental Activities

The Township of Gaines' total governmental activity revenues were \$ 1,132,112 compared to \$1,328,060 in the prior year. The decrease was due in large part to a grant that was received during the 2010/11 fiscal year for the purchase of a new fire truck in the amount of \$237,500 and a grant received for building and sidewalk improvements in the amount of \$17,089. Although, there was a decline in property tax revenue during the fiscal year, state revenue sharing increased approximately \$74,000.

Governmental activity expenditures of \$1,395,736 were recorded for the year.

### Business Type Activities

The Township also provides municipal water and sanitary sewer to some residents. In the fiscal year ended March 31, 2012, the increases in water charges from the county were passed onto the users, creating a small increase in net assets.

## **Township of Gaines Funds**

The fund financial statements provide detailed information about the most significant funds, not the Township of Gaines as a whole. The Township Board of Trustees creates funds to help manage money for specific purposes as well as show accountability for certain activities: Fire, Police, Water, Sewer, and Garbage.

a) **General Fund**

Functions relating to the general governmental activities of the Township, which are financed by property tax levies and by distribution of State revenues from fees charged for various municipal activities and services are recorded in the General Fund. The day-to-day operation expenses for the Police and Fire Departments are also paid out of the General Fund.

b) **Police Fund**

The Police Department Fund is funded through the General Fund.

c) **Fire Fund**

The Fire Department Fund is funded through the General Fund.

d) **Garbage Fund**

Gaines Township has a special assessment to pay for township-wide garbage collection.

e) **Township of Gaines**

Special Assessments were created and spread over ten years for the paving of Reid Road, Van Vleet Road, Morrish Road and Baldwin Road. The Reid Road Special Assessment began in 2002 with a balance of \$219,728. The Van Vleet Road Special Assessment began in 2004 with a balance of \$266,709. The Morrish Road Special Assessment began in 2005 with a balance of \$138,749. The Baldwin Road Special Assessment began in 2007 with a balance of \$405,175.

## **Long-term Debt**

During the current 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 to be paid on the loan at March 31, 2012 was \$265,196 and will be paid out of the Capital Projects Fund.

The Township also has a note payable of \$894,567 related to an agreement with Genesee County for the Western Trunk Extension of the County's sanitary sewage disposal system. The note payable is backed by the full faith and credit of the Township and is expected to be paid in full in 2027.

## **General Fund Budgetary Highlights**

Over the course of the year, the Township Board monitors and amends the budget to account for unanticipated events during the year. Prudent budgeting and continued monitoring of all expenditures reduced the effect of these State cuts. As a whole the township, with prudent budgeting and continued monitoring of all expenditures, is in great financial health.

## **Economic Factors and Next Years Budgets and Rates**

As this budget year closes, there are a number of factors that will influence next year's budget.

## **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 ASSETS**  
**MARCH 31, 2012**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 1,091,975	\$ 866,462	\$ 1,958,437
Investments	525,734	845,980	1,371,714
Receivables (net)	#REF!	59,544	#REF!
Prepaid expenses	28,667	-	28,667
Capital assets (net)	780,517	1,397,947	2,178,464
Total assets	#REF!	3,169,933	#REF!
<b>Liabilities</b>			
Accounts payable	5,346	7,275	12,621
Deferred Bond Interest	142,157	-	142,157
Current portion of bond principal	34,277	-	34,277
Noncurrent liabilities:			
Due in more than one year	298,697	894,598	1,193,295
Total liabilities	480,477	901,873	1,382,350
Invested in capital assets, net of related debt	780,517	503,349	1,283,866
Unrestricted	1,692,129	1,764,711	3,456,840
Total net assets	\$ #REF!	\$ 2,268,060	\$ #REF!

**TOWNSHIP OF GAINES**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED MARCH 31, 2012**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	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	\$ 300,357	\$ 31,477	\$ 10,000	\$ -	\$ (258,880)	\$ -	\$ (258,880)
Public works	432,399	339,702	-	-	(92,697)	-	(92,697)
Fire protection	220,711	-	-	10,000	(210,711)	-	(210,711)
Police protection	54,532	-	-	-	(54,532)	-	(54,532)
Other	387,737	-	-	-	(387,737)	-	(387,737)
<b>Total governmental activities</b>	<b>1,395,736</b>	<b>371,179</b>	<b>10,000</b>	<b>10,000</b>	<b>(1,004,557)</b>	<b>-</b>	<b>(1,004,557)</b>
<b>Business-type activities</b>							
Water and waste	416,329	408,037	-	-	-	(8,292)	(8,292)
<b>Total primary government</b>	<b>\$ 1,812,065</b>	<b>\$ 779,216</b>	<b>\$ 10,000</b>	<b>\$ 10,000</b>	<b>(1,004,557)</b>	<b>(8,292)</b>	<b>(1,012,849)</b>
<b>General revenues</b>							
Property tax					196,415	-	196,415
Special assessments					969	-	969
State-shared revenues					476,133	-	476,133
Unrestricted investment earnings					24,648	16,118	40,766
Franchise fees					32,838	-	32,838
Miscellaneous					9,930	-	9,930
<b>Total general revenues</b>					<b>740,933</b>	<b>16,118</b>	<b>757,051</b>
Change in net assets					(263,624)	7,826	(255,798)
Net assets - beginning of year					2,736,270	2,260,234	4,996,504
Net assets - end of year					<b>\$ 2,472,646</b>	<b>\$ 2,268,060</b>	<b>\$ 4,740,706</b>

**TOWNSHIP OF GAINES  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
MARCH 31, 2012**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 588,249	\$ 293,615	\$ 210,111	\$ 1,091,975
Investments	425,500	-	100,234	525,734
Receivables				
Delinquent taxes	11,811	23,172	-	34,983
Interest	2,575	-	-	2,575
Franchise fees	6,772	-	-	6,772
Special assessments	265,702	-	-	265,702
Prepaid expenses	-	28,667	-	28,667
Due from other governments	74,041	-	-	74,041
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	\$ <u>1,374,650</u>	\$ <u>345,454</u>	\$ <u>310,345</u>	\$ <u>2,030,449</u>
 <b><u>Liabilities and Fund Equity</u></b>				
<b><u>Liabilities</u></b>				
Accounts payable	\$ 5,346	\$ -	\$ -	\$ 5,346
Deferred revenue	265,702	-	-	265,702
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	271,048	-	-	271,048
 <b><u>Fund Equity</u></b>				
Fund equity				
Unreserved - designated	372,657	-	-	372,657
Unreserved - undesignated	730,945	345,454	-	1,076,399
Reserved for capital projects	-	-	310,345	310,345
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund equity	1,103,602	345,454	310,345	1,759,401
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund equity	\$ <u>1,374,650</u>	\$ <u>345,454</u>	\$ <u>310,345</u>	\$ <u>2,030,449</u>

**TOWNSHIP OF GAINES  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
MARCH 31, 2012**

Total governmental fund balances	\$	1,759,401
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets	\$ 1,743,978	
Accumulated depreciation	<u>(963,461)</u>	780,517
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.		
		265,702
Bonded debt is reported as a liability in the statement of net assets when the debt is incurred and as an expenditure in the governmental funds as the debt payments are made.		
		<u>(332,974)</u>
Total net assets - governmental activities	\$	<u><u>2,472,646</u></u>

**TOWNSHIP OF GAINES**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2012**

	General	Special Revenue	Capital Projects	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$ 143,490	\$ -	\$ -	\$ 143,490
Special assessments	14,948	339,456	64,500	418,904
Fees and permits	64,315	-	-	64,315
Intergovernmental	476,133	-	-	476,133
Administrative services	52,925	-	-	52,925
Grant Income	10,000	-	-	10,000
Fire contract	10,000	-	-	10,000
Interest	8,035	362	456	8,853
Miscellaneous	12,103	246	-	12,349
<b>Total revenues</b>	<b>791,949</b>	<b>340,064</b>	<b>64,956</b>	<b>1,196,969</b>
<b>Expenditures</b>				
General government	290,016	-	-	290,016
Public works	97,969	334,430	-	432,399
Fire protection	137,252	-	-	137,252
Police protection	54,532	-	-	54,532
Other	2,090	-	-	2,090
Capital outlay	49,662	-	404,378	454,040
<b>Total expenditures</b>	<b>631,521</b>	<b>334,430</b>	<b>404,378</b>	<b>1,370,329</b>
Excess/(deficiency) of revenues over/(under) expenditures	160,428	5,634	(339,422)	(173,360)
<b>Other financing sources/(uses)</b>				
Bond Proceeds	-	-	-	-
<b>Total other financing sources/(uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess of revenues over/(under) expenditures and other financing sources/(uses)	160,428	5,634	(339,422)	(173,360)
Fund balance - beginning of year	943,174	339,820	649,767	1,932,761
Fund balance - end of year	<u>\$ 1,103,602</u>	<u>\$ 345,454</u>	<u>\$ 310,345</u>	<u>\$ 1,759,401</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, 2012**

Total net change in fund balances - governmental funds	\$	(173,360)
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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	\$	49,912	
Depreciation expense		<u>(93,800)</u>	(43,888)

Governmental funds report payments received on special assessments as revenue when received. However, in the statement of activities, these revenues are recorded when they are earned. (80,652)

Governmental funds report bond payments as an other financing use. However, in the statement of activities, these proceeds are recorded as a decrease to the liability. 34,276

Change in net assets of governmental activities	\$	<u><u>(263,624)</u></u>
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**TOWNSHIP OF GAINES  
STATEMENT OF NET ASSETS  
BUSINESS-TYPE ACTIVITIES-WATER AND WASTE FUND  
MARCH 31, 2012**

**Assets**

Cash and cash equivalents	\$ 866,462
Investments	845,980
Receivables:	
Accounts	31,771
Interest	27,773
Property and equipment - net	<u>1,397,947</u>
Total assets	3,169,933

**Liabilities**

Accounts payable	7,275
Noncurrent liabilities:	
Due in more than one year	<u>894,598</u>
Total liabilities	901,873

**Net Assets**

Invested in capital assets	503,349
Unrestricted net assets	<u>1,764,711</u>
Total net assets	<u>\$ 2,268,060</u>

**TOWNSHIP OF GAINES**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**BUSINESS-TYPE ACTIVITIES-WATER AND WASTE FUND**  
**FOR THE YEAR ENDED MARCH 31, 2012**

Operating revenues		
Charges for services	\$	<u>408,037</u>
Total operating revenues		408,037
Operating expenses		
Depreciation		22,895
Pump maintenance		36,605
County sewer charges		113,755
County water charges		199,304
Transportation fees		<u>4,850</u>
Total operating expenses		<u>377,409</u>
Operating income/(loss)		30,628
Non-operating revenues/(expenses)		
Interest expense		(38,920)
Interest income		<u>16,118</u>
Total non-operating revenues/(expenses)		<u>(22,802)</u>
Change in net assets		7,826
Net assets - beginning of year		<u>2,260,234</u>
Net assets - end of year	\$	<u><u>2,268,060</u></u>

**TOWNSHIP OF GAINES  
STATEMENT OF CASH FLOWS  
BUSINESS-TYPE ACTIVITIES-WATER AND WASTE FUND  
FOR THE YEAR ENDED MARCH 31, 2012**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 398,659
Payments to suppliers	<u>(354,514)</u>
Net cash provided/(used) by operating activities	44,145
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Bond obligation payments to county	<u>(81,811)</u>
Net cash provided/(used) by capital and related financing activities	(81,811)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Sale of investments	400,000
Interest received	<u>3,844</u>
Net cash provided/(used) by investing activities	<u>403,844</u>
Net increase/(decrease) in cash and cash equivalents	366,178
Cash and cash equivalents - beginning of year	<u>500,284</u>
Cash and cash equivalents - end of year	<u>\$ 866,462</u>
<b>Reconciliation of Operating Income/(Loss) to Net Cash Provided/(Used) by Operating Activities</b>	
Operating income	\$ 30,628
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	22,895
Increase in accounts receivable	(9,378)
Increase in accounts payable	<u>-</u>
Net cash provided/(used) by operating activities	<u>\$ 44,145</u>

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

**TOWNSHIP OF GAINES**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**MARCH 31, 2012**

	<u>Agency Funds</u>
<b><u>Assets</u></b>	
Cash and cash equivalents	\$ <u>22</u>
Total assets	\$ <u><u>22</u></u>
<b><u>Liabilities</u></b>	
Due to other governmental units	\$ <u>22</u>
Total liabilities	\$ <u><u>22</u></u>

## **NOTES TO FINANCIAL STATEMENTS**

**TOWNSHIP OF GAINES  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2012**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Township of Gaines 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:

**Government-wide and fund financial statements**

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, normally supported by taxes and inter-governmental revenue, are reported separately from business-type activities which rely, to a significant extent, on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment 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.

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.

**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.

**Measurement focus, basis of accounting and financial statement presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

**TOWNSHIP OF GAINES**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

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

Those revenues susceptible to accrual are property taxes, special assessments, licenses, interest revenue, and charges for services. Sales taxes collected and held by the State at year-end on behalf of the government also are recognized as revenue. Fines, permits, and fee revenues are not susceptible to accrual, because generally, they are not measurable until received in cash.

The Township reports the following 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.
- 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.

The Township reports the following major proprietary funds:

- The Water and Waste Fund accounts for the cost of collection and treating of waste waters.

Additionally, the Township reports the following:

*Agency Funds* – The Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

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

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

**TOWNSHIP OF GAINES**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2012**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sewage disposal. The Water and Waste Fund also recognizes tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Connection fees intended to recover the cost of the infrastructure are recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sewage disposal, operations and maintenance, general and administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Property tax revenue**

Property taxes are levied on each July 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.

The Township's 2010 ad valorem tax is levied and collectible on July 1, 2011, and is recognized as revenue in the year ended March 31, 2012, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2011 taxable valuation of the Gaines Township is \$172,608,459, on which the ad valorem tax levy consisted of .8451 mills for operating purposes. 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.

**Assets, liabilities and net assets or equity**

*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.

*Receivables and payables* – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

*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.

**TOWNSHIP OF GAINES  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2012**

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

*Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Gaines Township has the following fund balance designations as of March 31, 2011:

Fire Depreciation	\$172,657
Building and Site	<u>200,000</u>
Total Unreserved-designated	<u>\$372,657</u>

**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.

**Comparative data**

Comparative data is not included in the Township's financial statements.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary information**

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. In the body of the financial statements, the Township's actual and budgeted expenditures for the period have been shown as adopted by function on a modified accrual basis.

**Excess of expenditures over appropriations in budgeted funds**

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

<u>Budget item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>
General Fund-Board of Review	\$ 2,200	\$ 2,491
General Fund-Building Dept	\$ 24,000	\$ 25,049
General Fund-Capital Outlay	\$ 47,155	\$ 49,662
Waste and Refuse Fund-Contracted Svs	\$ 320,000	\$ 334,430

**TOWNSHIP OF GAINES  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2012**

**NOTE 3 – CASH 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 local unit is allowed to invest in bonds, securities and other 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 authorized all of the investments allowable under Michigan law and is in accordance with statutory authority.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Township's policy provides that to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities and are invested primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, defined as 5% or more of the Township's total investments. U.S. government securities and 2a7-like investment pools are excluded from these restrictions.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits this exposure by mandating that the Township's investments in commercial paper and corporate bonds be limited to those with a prime rating or better issued by nationally recognized statistical rating organizations (NRSROs).

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Township's deposits may not be returned or the Township will not be able to recover collateral securities, if any, in the possession of an outside party. At March 31, 2012, the Township had \$1,524,441 of its deposit balances uninsured and uncollateralized.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. This risk is minimized by the Township through limiting investments to those of a prime or better rating and pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Township is not authorized to invest in investments that would be subject to this type of risk.

**TOWNSHIP OF GAINES  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2012**

**NOTE 4 – SPECIAL ASSESSMENT RECEIVABLES**

As of March 31, 2012, the following special assessments for paving projects were still outstanding:

Baldwin Road	\$ 181,991
Morrish Road	40,785
Van Vleet Road	<u>42,926</u>
Total	<u>\$ 265,702</u>

**NOTE 5 - RISK MANAGEMENT**

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

**NOTE 6 - 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, not including overtime pay, bonuses, and commissions. For the fiscal year ended March 31, 2012, actual Township contributions totaled \$9,593. 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).

**TOWNSHIP OF GAINES  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2012**

**NOTE 7 - CAPITAL ASSETS**

Summary of capital asset transactions of the primary government:

	Balance <u>April 1, 2011</u>	<u>Additions</u>	Disposals and <u>Adjustments</u>	Balance <u>March 31, 2012</u>
<b>Governmental activities</b>				
Land & improvements	\$ 19,775	\$	\$	\$ 19,775
Buildings & additions	420,232	3,315		423,547
Furniture & equipment	455,295	13,498		468,793
Fire trucks & other vehicles	<u>798,764</u>	<u>33,099</u>		<u>831,863</u>
Subtotal	1,694,066	49,912		1,743,978
Accumulated Depreciation:				
Buildings & additions	180,194	9,000		189,194
Furniture & equipment	279,681	43,582		323,263
Fire trucks & other vehicles	<u>409,786</u>	<u>41,218</u>		<u>451,004</u>
Subtotal	<u>869,661</u>	<u>93,800</u>		<u>963,461</u>
Governmental activities net capital assets	<u>\$ 824,405</u>	<u>\$ (43,888)</u>	<u>\$</u>	<u>\$ 780,517</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>296,288</u>	<u>22,895</u>		<u>319,183</u>
Subtotal	<u>296,288</u>	<u>22,895</u>		<u>319,183</u>
Business-type activities net capital assets	<u>\$ 1,420,842</u>	<u>\$ (22,895)</u>	<u>\$</u>	<u>\$ 1,397,947</u>

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

<b>Government activities</b>	
General Government	\$ 10,341
Fire Protection	<u>83,459</u>
Total governmental activities	<u>\$ 93,800</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, 2012**

**NOTE 8 – LONG-TERM DEBT**

The following is a summary of long-term debt outstanding of the Township for the year ended March 31, 2012:

	<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	\$ 367,250	\$ -	\$ 34,276	\$ 332,974	\$ 34,277
Business-type activities					
2006 General obligations					
4.0%-4.35% due 11/1/26	\$ 937,459	\$ -	\$ (42,861)	\$ 894,598	\$ -

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

Year Ending	<u>Governmental Activities</u>			<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Subsidy</u>	<u>Principal</u>	<u>Interest</u>
<u>March 31,</u>					
2013	\$ 34,277	\$ 14,451	\$ (15,795)	\$ -	\$ 18,571
2014	34,583	12,963	(15,795)	44,424	36,254
2015	35,195	11,463	(15,795)	47,487	34,416
2016	35,807	9,935	(15,795)	50,551	32,255
2017	36,725	8,381	(15,795)	54,635	29,955
2018-2022	156,386	17,187	(63,182)	323,270	133,406
2023-2027	-	-	-	374,200	28,854
Total	<u>\$ 332,973</u>	<u>\$ 74,380</u>	<u>\$ (142,157)</u>	<u>\$ 894,567</u>	<u>\$ 313,711</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 \$265,196 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. The remaining principal and interest to be paid on the bonds is \$1,208,278.

The principal payment of \$42,892 due April 1, 2012 was paid in February 2011; therefore there is no current portion due for the year ended March 31, 2012.

**TOWNSHIP OF GAINES  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2012**

**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, 2012 are as follows:

Revenues	\$24,512
Expenditures	\$24,385

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.

**NOTE 10 – SUBSEQUENT EVENTS**

Management has reviewed subsequent events through the date of the auditor's report, 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, 2012**

	Budgeted Amounts		Actual	Variance
	Original	Final		Over/(Under) Final Budget
Revenues				
Taxes	\$ 153,000	\$ 153,000	\$ 143,490	\$ (9,510)
Special assessments	-	-	14,948	14,948
Fees and permits	66,500	59,570	64,315	4,745
Intergovernmental	385,000	385,000	476,133	91,133
Administrative fees	52,000	52,000	52,925	925
Grant Income	-	-	10,000	10,000
Fire contract	10,000	10,000	10,000	-
Interest	20,000	8,330	8,035	(295)
Miscellaneous	4,000	4,000	12,103	8,103
<b>Total revenues</b>	<b>690,500</b>	<b>671,900</b>	<b>791,949</b>	<b>120,049</b>
Expenditures				
General government				
Trustees	2,520	2,520	2,505	15
Supervisor	19,425	19,425	19,425	-
Assessor	32,700	32,700	31,521	1,179
Elections	2,000	3,300	3,299	1
Clerk	28,925	32,925	32,581	344
Board of review	2,200	2,200	2,491	(291)
Treasurer	26,225	29,225	28,936	289
Building department	26,000	24,000	25,049	(1,049)
General administration	131,600	123,650	123,626	24
Township Hall	23,000	24,650	20,583	4,067
Public works	134,000	120,400	97,969	22,431
Fire protection	144,150	144,150	137,252	6,898
Police protection	59,100	59,100	54,532	4,568
Other				
Planning commission	5,000	5,000	2,090	2,910
Zoning board of appeals	1,500	1,500	-	1,500
Capital outlay	52,155	47,155	49,662	(2,507)
<b>Total expenditures</b>	<b>690,500</b>	<b>671,900</b>	<b>631,521</b>	<b>40,379</b>
Other financing sources (uses)				
Operating transfers	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess of revenues over (under) expenditures and other financing sources (uses)	-	-	160,428	160,428
Fund balance - beginning of year	943,174	943,174	943,174	-
Fund balance - end of year	\$ 943,174	\$ 943,174	\$ 1,103,602	\$ 160,428

**TOWNSHIP OF GAINES**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE-SPECIAL REVENUE FUND-WASTE AND REFUSE**  
**FOR THE YEAR ENDED MARCH 31, 2012**

	Budget		Actual	Variance Over/(Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 325,000	\$ 325,000	\$ 339,456	\$ 14,456
Miscellaneous	50	50	246	196
Interest	500	500	362	(138)
Total revenues	325,550	325,550	340,064	14,514
Expenditures				
Contracted services	320,000	320,000	334,430	(14,430)
Total expenditures	320,000	320,000	334,430	(14,430)
Net change in fund balances	5,550	5,550	5,634	84
Fund balance - beginning of year	339,820	339,820	339,820	-
Fund balance - end of year	<u>\$ 345,370</u>	<u>\$ 345,370</u>	<u>\$ 345,454</u>	<u>\$ 84</u>

**OTHER SUPPLEMENTAL INFORMATION**

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

July 16, 2012

Township Board  
Township of Gaines  
Genesee County, Michigan

We have audited the 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, 2012, which collectively comprise the Township of Gaines' basic financial statements and have issued our report dated July 16, 2012. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Township of Gaines is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Township of Gaines' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Township of Gaines' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Township of Gaines' internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township of Gaines' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted other matters that we reported to the management of the Township of Gaines in a separate letter dated August 1, 2012.

This report is intended for the information and use of the management and of the members of the board of the Township of Gaines and not intended to be and should not be used by anyone other than these specified parties .

*Taylor & Morgan P.C.*

TAYLOR & MORGAN, P.C.  
Certified Public Accountants

August 1, 2012

To the Board of Trustees of  
The Township of Gaines

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Gaines Township (the Township) for the year ended March 31, 2012. 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 29, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Gaines Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended March 31, 2012. 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 our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following audit adjustments were material to the financial statements:

1. Recording State Revenue Sharing received after year end as a Due from Other Governmental Unit in the amount of \$74,041 in the General Fund.
2. Recording the expenditure for the Culvert project in the Capital Projects Fund in the amount of \$367,250.
3. Recording the bond principal payment in the Water & Sewer-Tap In Fund against the liability in the amount of \$42,861.

### *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 July 16, 2012.

### *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.

### *Other Audit Findings or Issues*

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

### Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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.

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

*Taylor & Morgan, P.C.*

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