



Township of Gaines
Audited Financial Statements

March 31, 2013

Prepared by Taylor & Morgan, P.C.

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TOWNSHIP OF GAINES

GENESEE COUNTY

STATE OF MICHIGAN

TOWNSHIP BOARD MEMBERS

Charles Melki
Supervisor

Michael Dowler
Clerk

Diane Hyrman
Treasurer

Charles Timmons
Trustee

Lee Purdy
Trustee

TOWNSHIP OF GAINES
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Independent Auditor's Report

June 27, 2013

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, 2013, 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.

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, 2013 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 on pages 3-6 and 26-27 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Gaines' basic financial statements. The introductory section titled management's discussion and analysis is presented for purposes of additional analysis and is not a required part of the basic financial statements. It has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2013 on our consideration of the Township of Gaines' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township of Gaines' internal control over financial reporting and compliance.

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, 2013

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, 2013. 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, 2013.

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 position as of the current date and compared to the prior year:

| | Governmental Activities <u>2013</u> | Business-type Activities <u>2013</u> | Total <u>2013</u> | Total <u>2012</u> |
|------------------------------------|---|--|----------------------|----------------------|
| Assets | \$ 2,932,118 | \$ 3,152,009 | \$ 6,084,127 | \$ 6,123,056 |
| Current and noncurrent liabilities | <u>428,894</u> | <u>857,449</u> | <u>1,286,343</u> | <u>1,382,350</u> |
| Total net positions | <u>\$ 2,503,224</u> | <u>\$ 2,294,560</u> | <u>\$ 4,797,784</u> | <u>\$ 4,740,706</u> |

The Township of Gaines' total net positions from governmental activities are \$2,503,224 and \$2,294,560 from business type activities; of these amounts, \$1,811,629 and \$1,769,682 are unrestricted.

| | <i>Governmental Activities</i> | <i>Business- type Activities</i> | <i>Total 2013</i> | <i>Total 2012</i> |
|------------------------------------|------------------------------------|--|-------------------------|----------------------------|
| Revenue | | | | |
| Program revenue: | | | | |
| Charges for services | \$ 373,246 | \$ 439,109 | \$ 812,355 | \$ 779,216 |
| Capital grants and contributions | 34,763 | - | 34,763 | 10,000 |
| Operating grants and contributions | 10,000 | - | 10,000 | 10,000 |
| General revenue: | | | | |
| Property taxes | 193,732 | - | 193,732 | 196,415 |
| Special assessments | 42,134 | - | 42,134 | 969 |
| State-shared revenue | 473,874 | - | 473,874 | 476,133 |
| Interest | 928 | 6,663 | 7,591 | 40,766 |
| Franchise fees and other revenue | <u>75,012</u> | <u>-</u> | <u>75,012</u> | <u>42,768</u> |
| Total revenue | 1,203,689 | 445,772 | 1,649,461 | 1,556,267 |
| Program expenses | | | | |
| General government | 331,370 | - | 331,370 | 300,357 |
| Public works | 523,846 | - | 523,846 | 432,399 |
| Fire protection | 237,783 | - | 237,783 | 220,711 |
| Police protection | 58,392 | - | 58,392 | 54,532 |
| Sanitation | - | 419,272 | 419,272 | 416,329 |
| Other | <u>21,720</u> | <u>-</u> | <u>21,720</u> | <u>387,737</u> |
| Total program expenses | <u>1,173,111</u> | <u>419,272</u> | <u>1,592,383</u> | <u>1,812,065</u> |
| Change in net positions | \$ <u>30,578</u> | \$ <u>26,500</u> | \$ <u>57,078</u> | \$ <u>(255,798)</u> |

Governmental Activities

The Township of Gaines' total governmental activity revenues were \$ 1,203,689 compared to \$1,132,112 in the prior year. The increase was due to the parcels of property that were sold during the current year as well as a grant received from Genesee County Metropolitan Planning Commission to remove architectural barriers.

Governmental activity expenditures of \$1,173,111 were recorded for the year. This decline of \$222,625 from the prior year is due to the Culvert replacements that occurred during 2011-2012 and an increase in road maintenance expenditures during 2012-2013.

Business Type Activities

The Township also provides municipal water and sanitary sewer to some residents. The Water and Waste Fund accounts for this activity. In the fiscal year ended March 31, 2013, the increases in water charges from the county were passed onto the users, creating a small increase in net position.

Township of Gaines' Governmental 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, 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) **Fire Fund**

The Fire Department Fund is funded through the General Fund.

c) **Waste and Refuse Fund**

Gaines Township has a special assessment to pay for township-wide sanitation services.

d) **Capital Projects Fund**

Special Assessments were created and spread over ten years for the paving of Van Vleet Road, Morrish Road and Baldwin Road. 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.

Capital Assets

At the end of fiscal year 2013, the Township had \$691,595 in governmental activities and \$1,375,052 in business-type activities for a total \$2,066,647 invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines (see Note 7). 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).

Long-term Debt

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 to be paid on the loan at March 31, 2013 was \$232,264 and will be paid out of the Capital Projects Fund.

The Township also has a note payable of \$850,174 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 POSITION
MARCH 31, 2013

| | Primary Government | | |
|---|----------------------------|-----------------------------|------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Assets | | | |
| Cash and cash equivalents | \$ 1,272,415 | \$ 554,243 | \$ 1,826,658 |
| Investments | 467,771 | 1,179,396 | 1,647,167 |
| Receivables (net) | 471,000 | 43,318 | 514,318 |
| Prepaid expenses | 29,337 | - | 29,337 |
| Capital assets (net) | 691,595 | 1,375,052 | 2,066,647 |
| Total assets | 2,932,118 | 3,152,009 | 6,084,127 |
| Liabilities | | | |
| Accounts payable | 3,835 | 7,275 | 11,110 |
| Deferred bond Interest | 126,362 | - | 126,362 |
| Current portion of bond principal | 34,582 | - | 34,582 |
| Noncurrent liabilities: | | | |
| Due in more than one year | 264,115 | 850,174 | 1,114,289 |
| Total liabilities | 428,894 | 857,449 | 1,286,343 |
| Invested in capital assets, net of related debt | 691,595 | 524,878 | 1,216,473 |
| Unrestricted | 1,811,629 | 1,769,682 | 3,581,311 |
| Total net position | \$ 2,503,224 | \$ 2,294,560 | \$ 4,797,784 |

TOWNSHIP OF GAINES
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2013

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Position | | |
|--------------------------------------|---------------------|----------------------|----------------------------------|------------------------------------|---|--------------------------|---------------------|
| | Expenses | Charges for Services | Capital Grants and Contributions | Operating Grants and Contributions | Governmental Activities | Business-Type Activities | Totals |
| Functions/Programs: | | | | | | | |
| Primary government | | | | | | | |
| General government | \$ 331,370 | \$ 28,792 | \$ 34,763 | \$ - | \$ (267,815) | \$ - | \$ (267,815) |
| Public works | 523,846 | 344,454 | - | - | (179,392) | - | (179,392) |
| Fire protection | 237,783 | - | - | 10,000 | (227,783) | - | (227,783) |
| Police protection | 58,392 | - | - | - | (58,392) | - | (58,392) |
| Other | 21,720 | - | - | - | (21,720) | - | (21,720) |
| Total governmental activities | 1,173,111 | 373,246 | 34,763 | 10,000 | (755,102) | - | (755,102) |
| Business-type activities | | | | | | | |
| Water and waste | 419,272 | 439,109 | - | - | - | 19,837 | 19,837 |
| Total primary government | \$ 1,592,383 | \$ 812,355 | \$ 34,763 | \$ 10,000 | (755,102) | 19,837 | (735,265) |
| General revenues | | | | | | | |
| Property tax | | | | | 193,732 | - | 193,732 |
| Special assessments | | | | | 42,134 | - | 42,134 |
| State-shared revenues | | | | | 473,874 | - | 473,874 |
| Unrestricted investment earnings | | | | | 928 | 6,663 | 7,591 |
| Franchise fees | | | | | 35,539 | - | 35,539 |
| Miscellaneous | | | | | 39,473 | - | 39,473 |
| Total general revenues | | | | | 785,680 | 6,663 | 792,343 |
| Change in net position | | | | | 30,578 | 26,500 | 57,078 |
| Net position - beginning of year | | | | | 2,472,646 | 2,268,060 | 4,740,706 |
| Net position - end of year | | | | | \$ 2,503,224 | \$ 2,294,560 | \$ 4,797,784 |

**TOWNSHIP OF GAINES
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2013**

| | <u>General</u> | <u>Special Revenue</u> | <u>Capital Projects</u> | <u>Total Governmental Funds</u> |
|---|---------------------|----------------------------|-----------------------------|---|
| <u>Assets</u> | | | | |
| Cash and cash equivalents | \$ 735,001 | \$ 296,189 | \$ 241,225 | \$ 1,272,415 |
| Investments | 367,337 | - | 100,434 | 467,771 |
| Receivables | | | | |
| Delinquent taxes | 10,442 | 21,279 | 8,030 | 39,751 |
| Franchise fees | 8,066 | - | - | 8,066 |
| Special assessments | 224,604 | - | - | 224,604 |
| Prepaid expenses | - | 29,337 | - | 29,337 |
| Due from other governments | <u>72,217</u> | <u>-</u> | <u>-</u> | <u>72,217</u> |
| Total assets | <u>\$ 1,417,667</u> | <u>\$ 346,805</u> | <u>\$ 349,689</u> | <u>\$ 2,114,161</u> |
| <u>Liabilities and Fund Equity</u> | | | | |
| <u>Liabilities</u> | | | | |
| Accounts payable | \$ 3,835 | \$ - | \$ - | \$ 3,835 |
| Deferred revenue | <u>224,604</u> | <u>-</u> | <u>-</u> | <u>224,604</u> |
| Total liabilities | 228,439 | - | - | 228,439 |
| <u>Fund Equity</u> | | | | |
| Non-Spendable | - | 29,337 | - | 29,337 |
| Restricted | - | 317,468 | 349,689 | 667,157 |
| Assigned | 408,657 | - | - | 408,657 |
| Unassigned | <u>780,571</u> | <u>-</u> | <u>-</u> | <u>780,571</u> |
| Total fund equity | <u>1,189,228</u> | <u>346,805</u> | <u>349,689</u> | <u>1,885,722</u> |
| Total liabilities and fund equity | <u>\$ 1,417,667</u> | <u>\$ 346,805</u> | <u>\$ 349,689</u> | <u>\$ 2,114,161</u> |

**TOWNSHIP OF GAINES
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
MARCH 31, 2013**

| | | |
|--|----|-------------------------|
| Total governmental fund balances | \$ | 1,846,378 |
| <p>Amounts reported for governmental activities in the statement of net position are different because:</p> | | |
| <p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.</p> | | |
| Cost of capital assets | \$ | 1,746,571 |
| Accumulated depreciation | | <u>(1,054,976)</u> |
| | | 691,595 |
| <p>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.</p> | | |
| | | 224,604 |
| <p>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.</p> | | |
| | | <u>(298,697)</u> |
| Total net position - governmental activities | \$ | <u><u>2,463,880</u></u> |

TOWNSHIP OF GAINES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2013

| | <u>General</u> | <u>Special Revenue</u> | <u>Capital Projects</u> | <u>Total Governmental Funds</u> |
|--|---------------------|----------------------------|-----------------------------|---|
| Revenues | | | | |
| Taxes | \$ 145,321 | \$ - | \$ - | \$ 145,321 |
| Special assessments | - | 344,172 | 83,232 | 427,404 |
| Fees and permits | 64,331 | - | - | 64,331 |
| Intergovernmental | 473,874 | - | - | 473,874 |
| Administrative services | 48,411 | - | - | 48,411 |
| Grant Income | 34,763 | - | - | 34,763 |
| Fire contract | 10,000 | - | - | 10,000 |
| Interest | (949) | 176 | 356 | (417) |
| Miscellaneous | 39,473 | 282 | - | 39,755 |
| | <u>815,224</u> | <u>344,630</u> | <u>83,588</u> | <u>1,243,442</u> |
| Total revenues | | | | |
| Expenditures | | | | |
| General government | 324,422 | - | - | 324,422 |
| Public works | 180,567 | 343,279 | - | 523,846 |
| Fire protection | 156,526 | - | - | 156,526 |
| Police protection | 55,082 | - | - | 55,082 |
| Other | 3,135 | - | 44,244 | 47,379 |
| Capital outlay | 9,866 | - | - | 9,866 |
| | <u>729,598</u> | <u>343,279</u> | <u>44,244</u> | <u>1,117,121</u> |
| Total expenditures | | | | |
| Excess/(deficiency) of revenues over/(under) expenditures | 85,626 | 1,351 | 39,344 | 126,321 |
| Fund balance - beginning of year | <u>1,103,602</u> | <u>345,454</u> | <u>310,345</u> | <u>1,759,401</u> |
| Fund balance - end of year | <u>\$ 1,189,228</u> | <u>\$ 346,805</u> | <u>\$ 349,689</u> | <u>\$ 1,885,722</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, 2013

| | | |
|---|----|----------|
| Total net change in fund balances - governmental funds | \$ | 126,321 |
| <p>Amounts reported for governmental activities in the statement of activities are different because:</p> | | |
| <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.</p> | | |
| Capital outlay | \$ | 2,593 |
| Depreciation expense | | (88,922) |
| | | (86,329) |
| <p>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.</p> | | |
| | | (41,098) |
| <p>Governmental funds report bond payments as an expenditure. However, in the statement of activities, these payments are recorded as a decrease to the liability.</p> | | |
| | | 34,277 |
| Change in net position of governmental activities | \$ | 30,578 |

**TOWNSHIP OF GAINES
STATEMENT OF NET POSITION
BUSINESS-TYPE ACTIVITIES-WATER AND WASTE FUND
MARCH 31, 2013**

Assets

| | | |
|------------------------------|----|------------------|
| Cash and cash equivalents | \$ | 554,243 |
| Investments | | 1,179,396 |
| Accounts receivable | | 43,318 |
| Property and equipment - net | | <u>1,375,052</u> |

Total assets 3,152,009

Liabilities

| | | |
|---------------------------|--|----------------|
| Accounts payable | | 7,275 |
| Noncurrent liabilities: | | |
| Due in more than one year | | <u>850,174</u> |

Total liabilities 857,449

Net Position

| | | |
|----------------------------|--|------------------|
| Invested in capital assets | | 524,878 |
| Unassigned | | <u>1,769,682</u> |

Total net position \$ 2,294,560

TOWNSHIP OF GAINES
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
BUSINESS-TYPE ACTIVITIES-WATER AND WASTE FUND
FOR THE YEAR ENDED MARCH 31, 2013

| | | |
|---|----|-----------|
| Operating revenues | | |
| Charges for services | \$ | 439,109 |
| Total operating revenues | | 439,109 |
| | | |
| Operating expenses | | |
| Depreciation | | 22,895 |
| Pump maintenance | | 38,733 |
| County sewer charges | | 110,574 |
| County water charges | | 209,850 |
| Total operating expenses | | 382,052 |
| Operating income/(loss) | | 57,057 |
| | | |
| Non-operating revenues/(expenses) | | |
| Interest expense | | (37,220) |
| Interest income | | 6,663 |
| Total non-operating revenues/(expenses) | | (30,557) |
| Change in net position | | 26,500 |
| Net position - beginning of year | | 2,268,060 |
| Net position - end of year | \$ | 2,294,560 |

**TOWNSHIP OF GAINES
STATEMENT OF CASH FLOWS
BUSINESS-TYPE ACTIVITIES-WATER AND WASTE FUND
FOR THE YEAR ENDED MARCH 31, 2013**

| | |
|--|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from customers | \$ 427,562 |
| Payments to suppliers | <u>(359,157)</u> |
| Net cash provided/(used) by operating activities | 68,405 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Bond obligation payments to county | <u>(81,644)</u> |
| Net cash provided/(used) by capital and related financing activities | (81,644) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchase of investment | (300,000) |
| Interest received | <u>1,020</u> |
| Net cash provided/(used) by investing activities | <u>(298,980)</u> |
| Net increase/(decrease) in cash and cash equivalents | (312,219) |
| Cash and cash equivalents - beginning of year | <u>866,462</u> |
| Cash and cash equivalents - end of year | \$ <u><u>554,243</u></u> |
| Reconciliation of Operating Income/(Loss) to Net Cash Provided/(Used) by Operating Activities | |
| Operating income | \$ 57,057 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation expense | 22,895 |
| Increase in accounts receivable | <u>(11,546)</u> |
| Net cash provided/(used) by operating activities | \$ <u><u>68,406</u></u> |

TOWNSHIP OF GAINES
STATEMENT OF FIDUCIARY NET POSITION
MARCH 31, 2013

| | <u>Agency Funds</u> |
|---------------------------------|-------------------------|
| <u>Assets</u> | |
| Cash and cash equivalents | \$ <u>1</u> |
| Total assets | \$ <u><u>1</u></u> |
| <u>Liabilities</u> | |
| Due to other governmental units | \$ <u>1</u> |
| Total liabilities | \$ <u><u>1</u></u> |

NOTES TO FINANCIAL STATEMENTS

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013**

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 Position and the Statement of Activities) 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 position is available, restricted resources are applied first.

TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013

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

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, 2013

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

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, 2012, and is recognized as revenue in the year ended March 31, 2013, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2012 taxable valuation of the Gaines Township is \$162,693,589, 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 fund 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, 2013**

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

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 – The Township Board adopts a budget each year that includes the appropriation of fund equity. Fund equity is reported in the governmental funds in the following categories:

- Non-spendable fund equity represents assets that are not available in spendable form and are not expected to be converted to cash. The Special Revenue Fund reported non-spendable fund equity of \$29,337 for the year ended March 31, 2013.
- Restricted fund equity is reported separately to show legal constraints and debt covenants and legislation that limits the Township’s ability to use those net assets for day to day operations. The Township restricts fund balance in the Capital Projects Fund to reflect the stated restrictions in the tax levies that represent this fund’s main source of revenue. The Township also restricts fund balance in the special revenue Waste and Refuse Fund for special assessments that are restricted for sanitation services.
- Committed fund equity represents constrained amounts imposed by board resolution. The Township had no amounts committed at March 31, 2013.
- Assigned fund equity represents amounts intended to be used for specific purposes by the Township board, or the official authorized by the governing body. Residual amounts in governmental funds other than the General Fund are also assigned. The Township has the following fund equity balances assigned at March 31, 2013:

| | |
|-----------------------------|------------------|
| Fire Department | \$192,657 |
| Building and Site | 215,000 |
| Police Department | <u>1,000</u> |
| Total Unreserved-designated | <u>\$408,657</u> |

- Unassigned fund equity is reported only in the General Fund and represents the remaining fund equity after non-spendable, restrictions and assignments have been made.

When an expense is incurred for purposes for which committed, assigned or unassigned amounts are available, committed resources are applied first, then assigned before utilizing unassigned fund equity.

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.

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013**

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

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> |
|--------------------------------------|-----------------------------|---------------------------|
| Waste and Refuse Fund-Contracted Svs | \$ 331,614 | \$ 343,279 |

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.

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013**

NOTE 3 – CASH AND INVESTMENTS-(continued)

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, 2013, the Township had \$1,274,799 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.

NOTE 4 – SPECIAL ASSESSMENT RECEIVABLES

As of March 31, 2013, the following special assessments for paving projects were still outstanding:

| | |
|----------------|-------------------|
| Baldwin Road | \$ 156,375 |
| Morrish Road | 30,915 |
| Van Vleet Road | <u>37,314</u> |
| Total | <u>\$ 224,604</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, 2013, actual Township contributions totaled \$8,858. 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, 2013**

NOTE 7 - CAPITAL ASSETS

Summary of capital asset transactions of the primary government:

| | Balance <u>April 1, 2012</u> | <u>Additions</u> | Disposals and <u>Adjustments</u> | Balance <u>March 31, 2013</u> |
|--|---------------------------------|--------------------|-------------------------------------|----------------------------------|
| Governmental activities | | | | |
| Land & improvements | \$ 19,775 | \$ | \$ | \$ 19,775 |
| Buildings & additions | 423,547 | | | 423,547 |
| Furniture & equipment | 468,793 | 2,593 | | 471,386 |
| Fire trucks & other vehicles | <u>831,863</u> | <u> </u> | <u> </u> | <u>831,863</u> |
| Subtotal | 1,743,978 | 2,593 | | 1,746,571 |
| Accumulated Depreciation: | | | | |
| Buildings & additions | 189,194 | 9,125 | | 198,319 |
| Furniture & equipment | 323,263 | 40,296 | | 363,559 |
| Fire trucks & other vehicles | <u>451,004</u> | <u>42,094</u> | <u> </u> | <u>493,098</u> |
| Subtotal | <u>963,461</u> | <u>91,515</u> | <u> </u> | <u>1,054,976</u> |
| Governmental activities net capital assets | <u>\$ 780,517</u> | <u>\$ (88,922)</u> | <u>\$</u> | <u>\$ 691,595</u> |
| Business-type activities | | | | |
| Water and Sewer system | <u>\$ 1,717,130</u> | <u>\$</u> | <u>\$</u> | <u>\$ 1,717,130</u> |
| Subtotal | 1,717,130 | | | 1,717,130 |
| Accumulated Depreciation: | | | | |
| Water and Sewer system | <u>319,183</u> | <u>22,895</u> | <u> </u> | <u>342,078</u> |
| Subtotal | <u>319,183</u> | <u>22,895</u> | <u> </u> | <u>342,078</u> |
| Business-type activities net capital assets | <u>\$ 1,397,947</u> | <u>\$ (22,895)</u> | <u>\$</u> | <u>\$ 1,375,052</u> |

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

| | |
|-------------------------------------|------------------|
| Government activities | |
| General Government | \$ 10,258 |
| Fire Protection | <u>81,257</u> |
| Total governmental activities | <u>\$ 91,515</u> |
| Business-type activities | |
| Sewer | \$ 22,895 |
| Total business-type activities | <u>\$ 22,895</u> |

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013**

NOTE 8 – LONG-TERM DEBT

The following is a summary of long-term debt outstanding of the Township for the year ended March 31, 2013:

| | <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 | \$ 332,974 | \$ - | \$ (34,277) | \$ 298,697 | \$ 34,582 |
| Business-type activities | | | | | |
| 2006 General obligations | | | | | |
| 4.0%-4.35% due 11/1/26 | \$ 894,598 | \$ - | \$ (44,424) | \$ 850,174 | \$ - |

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> | | | | | |
| 2014 | \$ 34,583 | \$ 12,963 | \$ (15,795) | \$ - | \$ 17,683 |
| 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 | 37,643 | 6,787 | (15,795) | 59,735 | 25,555 |
| 2019-2023 | 118,744 | 10,400 | (47,387) | 393,270 | 66,555 |
| 2024-2026 | - | - | - | 244,496 | 70,150 |
| Total | <u>\$ 298,697</u> | <u>\$ 59,929</u> | <u>\$ (126,362)</u> | <u>\$ 850,174</u> | <u>\$ 276,569</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 \$232,264 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 \$1,126,743.

The principal payment of \$44,424 due April 1, 2013 was paid in February 2013; therefore there is no current portion due for the year ended March 31, 2013.

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013**

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, 2013 are as follows:

| | |
|--------------|----------|
| Revenues | \$25,936 |
| Expenditures | \$24,684 |

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 June 27, 2013, 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, 2013

| | Budgeted Amounts | | Actual | Variance |
|--|---------------------|---------------------|---------------------|------------------------------|
| | Original | Final | | Over/(Under) Final Budget |
| Revenues | | | | |
| Taxes | \$ 143,000 | \$ 143,000 | \$ 145,321 | \$ 2,321 |
| Special assessments | - | - | - | - |
| Fees and permits | 52,200 | 52,200 | 64,331 | 12,131 |
| Intergovernmental | 455,500 | 455,500 | 473,874 | 18,374 |
| Administrative fees | 48,000 | 48,000 | 48,411 | 411 |
| Grant Income | 39,464 | 39,464 | 34,763 | (4,701) |
| Fire contract | 10,000 | 10,000 | 10,000 | - |
| Interest | 7,000 | 7,000 | (949) | (7,949) |
| Miscellaneous | 4,000 | 34,558 | 39,473 | 4,915 |
| Total revenues | 759,164 | 789,722 | 815,224 | 25,502 |
| Expenditures | | | | |
| General government | | | | |
| Trustees | 2,520 | 2,520 | 2,615 | (95) |
| Supervisor | 19,425 | 24,425 | 21,411 | 3,014 |
| Assessor | 32,700 | 32,700 | 31,500 | 1,200 |
| Elections | 6,000 | 9,100 | 13,147 | (4,047) |
| Clerk | 30,673 | 30,673 | 31,904 | (1,231) |
| Board of review | 2,200 | 2,200 | 1,240 | 960 |
| Treasurer | 28,225 | 28,225 | 28,666 | (441) |
| Building department | 26,000 | 20,500 | 24,914 | (4,414) |
| General administration | 131,600 | 137,800 | 145,003 | (7,203) |
| Township Hall | 20,000 | 23,700 | 24,022 | (322) |
| Public works | 193,464 | 193,464 | 180,567 | 12,897 |
| Fire protection | 159,157 | 159,157 | 156,526 | 2,631 |
| Police protection | 59,100 | 59,100 | 55,082 | 4,018 |
| Other | | | | |
| Planning commission | 5,000 | 5,000 | 2,090 | 2,910 |
| Zoning board of appeals | 1,500 | 1,500 | 1,045 | 455 |
| Capital outlay | 28,600 | 28,600 | 9,866 | 18,734 |
| Total expenditures | 746,164 | 758,664 | 729,598 | 29,066 |
| Other financing sources (uses) | | | | |
| Operating transfers | - | - | - | - |
| Total other financing sources (uses) | - | - | - | - |
| Excess of revenues over (under) expenditures and other financing sources (uses) | 13,000 | 31,058 | 85,626 | 54,568 |
| Fund balance - beginning of year | 1,103,602 | 1,103,602 | 1,103,602 | - |
| Fund balance - end of year | \$ 1,116,602 | \$ 1,134,660 | \$ 1,189,228 | \$ 54,568 |

TOWNSHIP OF GAINES
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE-SPECIAL REVENUE FUND-WASTE AND REFUSE
FOR THE YEAR ENDED MARCH 31, 2013

| | Budget | | Actual | Variance Over/(Under) Final Budget |
|----------------------------------|-------------------|-------------------|-------------------|--|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 339,500 | \$ 339,500 | \$ 344,172 | \$ 4,672 |
| Miscellaneous | 150 | 150 | 282 | 132 |
| Interest | 500 | 500 | 176 | (324) |
| Total revenues | 340,150 | 340,150 | 344,630 | 4,480 |
| Expenditures | | | | |
| Contracted services | 331,614 | 331,614 | 343,279 | (11,665) |
| Total expenditures | 331,614 | 331,614 | 343,279 | (11,665) |
| Net change in fund balances | 8,536 | 8,536 | 1,351 | (7,185) |
| Fund balance - beginning of year | 345,454 | 345,454 | 345,454 | - |
| Fund balance - end of year | <u>\$ 353,990</u> | <u>\$ 353,990</u> | <u>\$ 346,805</u> | <u>\$ (7,185)</u> |

OTHER SUPPLEMENTAL INFORMATION

INDEPENDENT AUDITOR'S 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

June 27, 2013

Board of Directors
Township of Gaines
Genesee County, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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, 2013, and the related notes to the financial statements, which collectively comprise the Township of Gaines' basic financial statements, and have issued our report thereon dated June 27, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Township of Gaines' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township of Gaines' internal control. Accordingly, we do not express an opinion on the effectiveness of Township of Gaines' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organizations' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Taylor & Morgan, P.C.

TAYLOR & MORGAN, P.C.
Certified Public Accountants

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organizations' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Taylor & Morgan, P.C.

TAYLOR & MORGAN, P.C.
Certified Public Accountants

August 7, 2013

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, 2013. 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 28, 2013. 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, 2013. 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 a transfer from the investment account that was originally recorded as interest income in the amount of \$58,313 in the General Fund.
2. Recording the bond principal payment in the Water & Sewer-Tap In Fund against the liability in the amount of \$44,424.

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 1, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on 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